

## 1

Student: \_\_\_\_\_

1. The key economic concept that serves as the basis for the study of economics is:
  - A. inflation.
  - B. unemployment.
  - C. money.
  - D. scarcity.
2. As a consequence of the condition of scarcity:
  - A. there is never enough of anything.
  - B. production has to be centrally planned.
  - C. things which are plentiful have relatively high prices.
  - D. individuals and communities have to make choices among alternatives.
3. In every economic system, choices must be made because resources are:
  - A. infinite, but economic wants are finite.
  - B. finite, but economic wants are insatiable.
  - C. unlimited, but economic wants are limited.
  - D. limited, and so are economic wants.
4. Opportunity cost is best defined as:
  - A. marginal cost minus marginal benefit.
  - B. the time spent on an economic activity.
  - C. the value of the best foregone alternative.
  - D. the money cost of an economic decision.
5. Tammie makes \$150 a day as a bank clerk. She takes off two days of work without pay to fly to another city to attend the concert of her favourite music group. The cost of transportation for the trip is \$250. The cost of the concert ticket is \$50. The opportunity cost of Tammie's trip to the concert is:
  - A. \$300.
  - B. \$450.
  - C. \$500.
  - D. \$600.
6. When a provincial government chooses to build more roads, the required resources are no longer available for spending on public education. This dilemma illustrates the concept of:
  - A. marginal analysis.
  - B. full employment.
  - C. full production.
  - D. opportunity cost.
7. Specialization and trade are beneficial to society because:
  - A. the output of economic goods may be increased with no increase in resources.
  - B. scarce resources are utilized more efficiently.
  - C. a division of labour lowers prices for products.
  - D. all of these are correct.
8. When economists describe "a market," they mean:
  - A. a place where stocks and bonds are traded.
  - B. information networks that allow individuals to keep in touch with each other.
  - C. a hypothetical place where the production of goods and services takes place.
  - D. a mechanism which coordinates actions of consumers and producers to establish equilibrium prices and quantities.
9. The institution that coordinates actions of consumers and producers to establish prices for goods and services is known as:
  - A. a market.
  - B. a monopoly.
  - C. an economic system.
  - D. consumer sovereignty.
10. A major argument for economic growth is that it:
  - A. creates an equal distribution of income.
  - B. protects common property resources.
  - C. leads to a higher standard of living.
  - D. reduces the amount of taxation.

11. One of the basic economic defences of economic growth rests on the conclusion that:

- A. growth makes workers less obsolete and more secure in employment.
- B. growth reduces the cost of "common property" resources to society.
- C. growth makes the gap between unlimited wants and scarce resources less acute.
- D. a growth-oriented society confers a "work and look to the future" attitude on the members of society.

12. Concern about the general level of prices in an economy is primarily a concern about the economic goal of:

- A. economic efficiency.
- B. economic security.
- C. price-level stability.
- D. equity.

13. Assume that a tradeoff exists in the short run between inflation and unemployment. This relationship means that:

- A. a low rate of unemployment causes a low rate of inflation.
- B. a high rate of inflation causes a low rate of unemployment.
- C. less unemployment can be achieved with more inflation.
- D. less unemployment can be achieved with less inflation.

14. The study of economics is primarily concerned with:

- A. keeping private businesses from losing money.
- B. demonstrating that capitalistic economies are superior to socialistic economies.
- C. choices which are made in seeking to use scarce resources efficiently.
- D. determining the most equitable distribution of society's output.

15. The assertion that "There is no free lunch" means:

- A. there are always tradeoffs between economic goals.
- B. all production involves the use of scarce resources and thus the sacrifice of alternative goods.
- C. marginal analysis is not used in economic reasoning.
- D. choices do not need be made if behaviour is rational.

16. The study of economics exists because:

- A. government interferes with the efficient allocation of scarce resources.
- B. resources are scarce in relation to human material wants.
- C. the market system is an obstacle to the efficient use of plentiful resources to satisfy constrained wants.
- D. resources are overly abundant as compared to wants; thus, an allocation problem exists.

17. Economics may best be defined as:

- A. the interaction between macro and micro considerations.
- B. the study of the behaviour of people and institutions in the production, distribution, and consumption of scarce goods.
- C. the empirical testing of value judgments through the use of induction and deduction.
- D. the use of policy to refute facts and hypotheses.

18. Purposeful behaviour suggests that:

- A. everyone will make identical choices.
- B. resource availability exceeds material wants.
- C. individuals will make different choices because their information and constraints differ.
- D. an individual's economic goals cannot involve tradeoffs.

19. "Consumers spend their incomes to get the maximum benefit or satisfaction from the goods and services they purchase." This is a reflection of:

- A. resource scarcity and the necessity of choice.
- B. purposeful behaviour.
- C. marginal costs which exceed marginal benefits.
- D. the tradeoff problem which exists between competing goals.

20. The "economic perspective" refers to:

- A. macroeconomic phenomena, but not microeconomic phenomena.
- B. microeconomic phenomena, but not macroeconomic phenomena.
- C. the making of rational decisions in a context of marginal costs and marginal benefits.
- D. unlimited resources in a context of limited material wants.

21. The "economic perspective" entails:

- A. rational behaviour by individuals and institutions.
- B. a comparison of marginal benefits and marginal costs in decision making.
- C. the altering of behaviour when marginal benefits and marginal costs change.
- D. all of these.

22. The economic perspective used in customer decision making at fast-food restaurants is reflected in:

- A. customers selecting the shortest line.
- B. customers leaving rather than waiting if all lines are long.

- C. all customer lines tending to be of equal length.
- D. all of these.

23. How is the economic perspective reflected in lines for fast food?

- A. Customers select the shortest line because they have perfect information.
- B. Customers select the shortest line because they believe it will reduce their time cost of obtaining food.
- C. Lines will typically be of unequal length because of the inefficiencies in counter service.
- D. The set of food choices is often too complex for most customers and thus creates long lines.

24. From an economic perspective, when consumers leave a fast-food restaurant because the lines to be served are too long, they have concluded that the:

- A. marginal cost of waiting is less than the marginal benefit of being served.
- B. marginal cost of waiting is greater than the marginal benefit of being served.
- C. management is exhibiting irrational behaviour by not maximizing profits.
- D. management is making an assumption that other things are equal.

25. Consumers might leave a fast-food restaurant without being served because:

- A. they are misinformed about the marginal cost and marginal benefits of the food being served.
- B. they conclude that the marginal cost (monetary plus time costs) exceeds the marginal benefit.
- C. the environment is not conducive to a rational choice.
- D. the lines waiting for service are not of equal length.

26. At fast-food restaurants:

- A. consumers enjoy complete and accurate information.
- B. decisions are usually made by trial and error.
- C. decisions entail comparisons of marginal costs and marginal benefits.
- D. benefits always exceed costs.

27. Economics involves "marginal analysis" because:

- A. most decisions involve changes in the status quo.
- B. marginal benefits always exceed marginal costs.
- C. marginal costs always exceed marginal benefits.
- D. much economic behaviour is irrational.

28. You should decide to go to a movie:

- A. if the marginal cost of the movie exceeds its marginal benefit.
- B. if the marginal benefit of the movie exceeds its marginal cost.
- C. if your income will allow you to buy a ticket.
- D. because movies are inherently good products.

29. Marginal costs exist because:

- A. the decision to produce more of some product means the sacrifice of other products.
- B. wants are scarce relative to resources.
- C. households and businesses make rational decisions.
- D. most decisions do not involve sacrifices or tradeoffs.

30. Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact:

- A. is an example of irrational behaviour.
- B. implies that reading should be taught through phonics rather than the whole language method.
- C. contradicts the economic perspective.
- D. implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.

31. The process of developing hypotheses, testing them against facts, and using the results to construct theories is called:

- A. opportunity cost calculation.
- B. the scientific method.
- C. marginal analysis.
- D. microeconomics.

32. A "hypothesis" is:

- A. a fundamental truth which all economists accept.
- B. a tentative, untested principle.
- C. the same as a normative statement.
- D. always the result of induction.

33. From the perspective of economists, which term provides the highest degree of confidence for explaining economic behaviour?

- A. an economic principle or a law
- B. a fact

- C. a hypothesis
- D. an assumption

34. In constructing models, economists:

- A. make simplifying assumptions.
- B. include all available information.
- C. must use mathematical equations.
- D. attempt to duplicate the real world.

35. Economic models:

- A. are of limited use because they cannot be tested empirically.
- B. are limited to variables which are directly related to one another.
- C. emphasize basic economic relationships by abstracting from the complexities of the real world.
- D. are unrealistic and therefore of no practical consequence.

36. An economic model is:

- A. a value judgment.
- B. a fact.
- C. built using theory.
- D. built on correlations.

37. The term "ceteris paribus" means:

- A. that if event A precedes event B, A has caused B.
- B. that economics deals with facts, not values.
- C. other things equal.
- D. prosperity inevitably follows recession.

38. Suppose an economist says that "Other things equal, the lower the price of bananas, the greater the amount of bananas purchased." This statement indicates that:

- A. the quantity of bananas purchased determines the price of bananas.
- B. all factors other than the price of bananas (for example, consumer tastes and incomes) are assumed to be constant.
- C. economists can conduct controlled laboratory experiments.
- D. one cannot generalize about the relationship between the price of bananas and the quantity purchased.

39. The term "other things equal" means that:

- A. the associated statement is normative.
- B. many variables affect the variable under consideration.
- C. a number of relevant variables are assumed to be constant.
- D. when variable X increases so does related variable Y.

40. The basic purpose of the "other things equal" assumption is to:

- A. allow one to reason about the relationship between variables X and Y without the intrusion of variable Z.
- B. allow one to focus upon micro variables by ignoring macro variables.
- C. allow one to focus upon macro variables by ignoring micro variables.
- D. determine whether X causes Y or vice versa.

41. Microeconomics is concerned with:

- A. the aggregate or total levels of income, employment, and output.
- B. a detailed examination of specific economic units which comprise the economic system.
- C. the concealing of detailed information about specific segments of the economy.
- D. the establishing of an overall view of the operation of the economic system.

42. Microeconomics:

- A. is concerned with the aggregate or total levels of income, employment, and output.
- B. is not concerned with details, but only with the overall "big picture" of the economy.
- C. is concerned with individual economic units and specific markets.
- D. describes the aggregate flows of output and income.

43. Which of the following is a microeconomic statement?

- A. The real domestic output increased by 2.5 percent last year.
- B. Unemployment was 8.3 percent of the labour force last year.
- C. The price of personal computers declined last year.
- D. The general price level increased by 4 percent last year.

44. Macroeconomics approaches the study of economics from the viewpoint of:

- A. the entire economy.
- B. governmental units.
- C. the operation of specific product and resource markets.
- D. individual firms.

45. Which of the following is associated with macroeconomics?

- A. an examination of the incomes of the University of Toronto Business School graduates
- B. an empirical investigation of the general price level and unemployment rates in the 1990s
- C. a study of the trend of pecan prices since World War II
- D. a case study of pricing and production in the textbook industry

46. The problems of aggregate inflation and unemployment are:

- A. major topics of macroeconomics.
- B. not relevant to the Canadian economy.
- C. major topics of microeconomics.
- D. peculiar to socialistic economies.

47. Which of the following statements pertains to macroeconomics?

- A. Because the minimum wage was raised, Mrs. Beepath decided to enter the labour force.
- B. A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.
- C. The national productivity rate grew by 1.4 percent last year.
- D. The Pumpkin Center Chartered Bank increased its interest rate on consumer loans by 1 percent.

48. Macroeconomics can best be described as the:

- A. analysis of how a consumer tries to spend income.
- B. study of the large aggregates of the economy or the economy as a whole.
- C. analysis of how firms attempt to maximize their profits.
- D. study of how supply and demand determine prices in individual markets.

49. Which of the following is a macroeconomic statement?

- A. The gross profits of all Canadian businesses were \$50 billion last year.
- B. The price of beef declined by 3 percent last year.
- C. General Motors' profits increased in 1998.
- D. The productivity of steelworkers increased by 1 percent in 1998.

50. A positive statement is one which is:

- A. derived by induction.
- B. derived by deduction.
- C. subjective and is based on a value judgment.
- D. objective and is based on facts.

51. Which of the following is a positive statement?

- A. The humidity is too high today.
- B. It is too hot to jog today.
- C. The temperature is 30 degrees today.
- D. I enjoy summer evenings when it cools off.

52. A positive statement is concerned with:

- A. some goal which is desirable to society.
- B. what should be.
- C. what is.
- D. the formulation of economic policy.

53. A normative statement is one which:

- A. is based on the law of averages.
- B. pertains only to microeconomics.
- C. pertains only to macroeconomics.
- D. is based upon value judgments.

54. Which of the following is a normative statement?

- A. The temperature is high today.
- B. The humidity is high today.
- C. It is too hot to play tennis today.
- D. It will cool off later this evening.

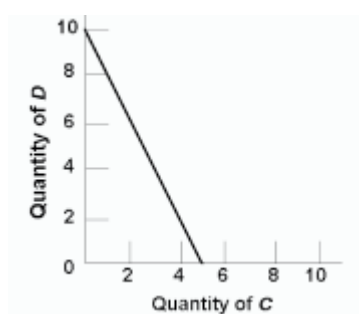
55. Normative statements are concerned with:

- A. facts and theories.
- B. what ought to be.
- C. what is.
- D. rational choice involving costs and benefits.

56. Most of the disagreement among economists involves:

- A. facts.
- B. theories.
- C. positive statements.
- D. normative statements.

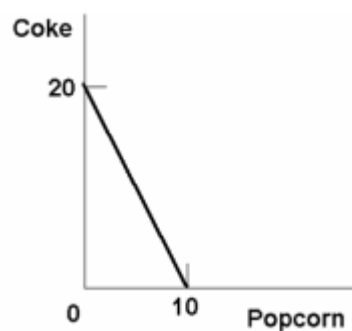
57. "Economics is concerned with using scarce productive resources efficiently in attempting to satisfy society's material wants." This statement is:
- positive, but incorrect.
  - positive and correct.
  - normative, but incorrect.
  - normative and correct.
58. Ben says that "An increase in the tax on beer will raise its price." Holly argues that "Taxes should be increased on beer because college students drink too much." We can conclude that:
- Ben's statement is normative, but Holly's is positive.
  - Holly's statement is normative, but Ben's is positive.
  - Both statements are normative.
  - Both statements are positive.
59. The individuals and society both face an economic problem. This problem arises from the fact that:
- wants are limited but the resources are not.
  - resources are scarce relative to individual's wants.
  - individuals and institutions behave only in their self-interest.
  - both wants and resources are unlimited.
60. The individual's limited income problem:
- persists only because countries have failed to achieve continuous full employment.
  - exists because material wants are limited.
  - has been solved in all industrialized nations.
  - has been eliminated in affluent societies such as Canada and the United States.
61. When the economist says that material wants are insatiable, this means that:
- economic resources are valuable only because they can be used to produce consumer goods.
  - economic resources—land, labour, capital, and entrepreneurial ability—are scarce.
  - these wants are virtually unlimited and therefore incapable of complete satisfaction.
  - the structure of consumer demand varies from time to time and from country to country.
62. As used in economics, the notion of scarce resources means that:
- mineral deposits are only available in finite amounts.
  - resources are not so plentiful that all individuals' material wants can be fulfilled.
  - some resources are free while others have price tags on them.
  - the quantities available of some resources exceed the demand for them.
63. The budget line shows:
- the amount of product A which a consumer is willing to give up to obtain one more unit of product B.
  - all possible combinations of two goods which can be purchased, given money income and the prices of the goods.
  - all equilibrium points on an indifference map.
  - all possible combinations of two goods which yield the same level of utility to the consumer.
64. The price ratio of the two products is the:
- marginal rate of substitution.
  - slope of the budget line.
  - point of tangency for equilibrium.
  - elasticity of demand for the two products.
65. Refer to the budget line shown in the diagram below. If the consumer's money income is \$20, the:



- prices of C and D cannot be determined.
- price of C is \$2 and the price of D is \$4.
- consumer can obtain a combination of 5 units of both C and D.
- price of C is \$4 and the price of D is \$2.

66.

Refer to the diagram below, suppose you have a money income of \$10 all of which you spend on Coke and boxes of popcorn. The prices of Coke and popcorn respectively are:



- A. \$.50 and \$1.00.
- B. \$1.00 and \$.50.
- C. \$1.00 and \$2.00.
- D. \$.40 and \$.50.

67. In moving along a given budget line:

- A. the prices of both products and money income are assumed to be constant.
- B. each point on the line will be equally satisfactory to consumers.
- C. money income varies, but the prices of the two goods are constant.
- D. the prices of both products are assumed to vary, but money income is constant.

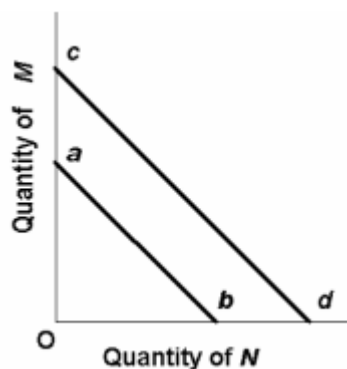
68. In drawing a budget line it is assumed that:

- A. consumer preferences are fixed.
- B. the prices of the two products are variable.
- C. money income is fixed.
- D. consumer willingness to substitute between the two products is fixed.

69. Any combination of goods lying outside of the budget line:

- A. implies that the consumer is not spending all of his income.
- B. yields less utility than any point on the budget line.
- C. yields less utility than any point inside the budget line.
- D. is unattainable, given the consumer's income.

70. The budget line shift from cd to ab in the below figure is consistent with:



- A. decreases in the prices of both M and N.
- B. an increase in the price of M and a decrease in the price of N.
- C. a decrease in money income.
- D. an increase in money income.

71. A leftward shift of a consumer's budget line to a position parallel with the original one could indicate that the:

- A. price of one product has decreased in relation to the other.
- B. prices of both products have decreased in the same proportion.
- C. marginal utilities derived from both products have decreased.
- D. consumer's money income has increased but the prices of both products have increased proportionately more.

72. Which of the following statements is not correct?

- A. A reduction in money income will shift the budget line to the right.
- B. A reduction in money income accompanied by an increase in product prices will necessarily shift the budget line to the left.
- C. An increase in product prices will shift the budget line to the left.
- D. An increase in money income will shift the budget line to the right.

73. The society must also make choices under conditions of scarcity. This problem arises from the fact that:

- A. Society's wants are limited but the resources are not.
- B. resources are scarce relative to society's wants.
- C. societies behave only in their self-interest.
- D. society's wants and resources are both unlimited.

74. The fundamental problem of economics is:

- A. to establish a democratic political framework for the provision of social goods and services.
- B. the establishment of prices which accurately reflect the relative scarcities of products and resources.
- C. the scarcity of productive resources relative to material wants.
- D. to achieve a more equitable distribution of money income in order to mitigate poverty.

75. Economic resources are also called:

- A. free gifts of nature.
- B. consumption goods.
- C. units of money capital.
- D. factors of production.

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

- A. money, as such, is not productive.
- B. idle money balances do not earn interest income.
- C. the terms of trade can be determined in non-monetary terms.
- D. money is a free gift of nature.

77. Which of the following is real capital?

- A. a pair of stockings
- B. a dump truck
- C. a savings account
- D. a share of Nortel stock

78. The main function of the entrepreneur is to:

- A. make routine pricing decisions.
- B. innovate.
- C. purchase capital.
- D. create market demand.

79. The following production possibilities table represents an economy which is producing two products, tanks and autos. Refer to the table, in moving from possibility C to D, the cost of a tank in terms of autos is:

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

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

(The following economy produces two products.)

Production Possibilities Table

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

80. Refer to the above table. A change from possibility C to B means that:

- A. 1 unit of steel is given up to get 75 units of wheat.
- B. 2 units of steel are given up to get 75 units of wheat.
- C. 1 unit of steel is given up to get 15 more units of wheat.
- D. 2 units of steel are given up to get 15 more units of wheat.

81. Refer to the above table. In moving from possibility C to D, the cost of a unit of steel in terms of a unit of wheat is:

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

82. Refer to the above table. A change from possibility B to C means that:

- A. 10 units of wheat are given up to get one more unit of steel.
- B. 15 units of wheat are given up to get one more unit of steel.
- C. 15 units of wheat are equal to one unit of steel.
- D. 75 units of wheat are equal to one unit of steel.

83. The production possibilities curve represents which of the following?

- A. the amount of goods attainable with variable resources
- B. the maximum amount of goods attainable with variable resources
- C. maximum combinations of goods attainable with fixed resources
- D. the amount of goods attainable if prices decline

84. The production possibilities curve represents:

- A. the maximum amount of labour and capital available for production.



- B. combinations of goods and services among which consumers are indifferent.
- C. maximum combinations of products available with fixed resources and technology.
- D. the maximum rate of growth of capital and labour in an economy.

85. The construction of a production possibilities curve assumes:

- A. the quantities of all resources are fixed.
- B. technology is fixed.
- C. full employment and full production are being realized.
- D. all of these.

86. Assume an economy is operating at some point on its production possibilities curve which shows civilian and military goods. If the output of military goods is increased, the output of civilian goods:

- A. will remain unchanged.
- B. may be either increased or decreased.
- C. must be decreased.
- D. must also be increased.

87. The production possibilities curve shows:

- A. the various combinations of two goods which can be produced when society uses its scarce resources efficiently.
- B. the minimum outputs of two goods which will sustain a society.
- C. the various combinations of two goods which can be produced when some resources are unemployed.
- D. the ideal, but unattainable, combinations of two goods which would maximize consumer satisfactions.

88. The negative slope of the production possibilities curve is a graphical way of indicating that:

- A. any economy "can have its cake and eat it too."
- B. to produce more of one product we must accept less of another.
- C. the principle of increasing opportunity costs does not apply to the economy as a whole.
- D. consumers buy more when prices are low than they do when prices are high.

89. If an economy is operating on its production possibilities curve for consumer goods and capital goods, this means that:

- A. it is impossible to produce more consumer goods.
- B. resources cannot be reallocated between the two goods.
- C. it is impossible to produce more capital goods.
- D. more consumer goods can only be produced at the cost of fewer capital goods.

90. In drawing a production possibilities curve we hold constant:

- A. the money supply.
- B. the consumer price index.
- C. both technology and resource supplies
- D. resource supplies only.

91. The production possibilities curve tells us:

- A. what specific combinations of two products is most desired by society.
- B. that costs do not change as society varies its output.
- C. costs are irrelevant in a society which has fixed resources.
- D. what combinations of two goods can be produced with society's available resources.

92. When an economy is operating with maximum efficiency, the production of more of commodity A will mean the production of less of commodity B because:

- A. of the law of decreasing opportunity costs.
- B. material wants are insatiable.
- C. resources are limited.
- D. resources are not specialized and are imperfectly shiftable.

93. The production possibilities curve:

- A. shows all of those levels of production which are consistent with a stable price level.
- B. indicates that any combination of goods lying outside the curve is economically inefficient.
- C. is a frontier between all combinations of two goods which can be produced and those combinations which cannot be produced.
- D. shows all of those combinations of two goods which are most preferred by society.

94. The production possibilities curve illustrates the basic principle that:

- A. the production of more of any one good will in time require smaller and smaller sacrifices of other goods.
- B. an economy will automatically seek that level of output at which all of its resources are employed.
- C. if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
- D. an economy's capacity to produce increases in proportion to its population size.

95. A production possibilities curve illustrates:

- A. scarcity.
- B. market prices.
- C. consumer preferences.
- D. the distribution of income.

96. A production possibilities curve shows:

- A. that resources are unlimited.
- B. that people prefer one of the goods more than the other.
- C. the maximum amounts of two goods which can be produced assuming the full and efficient use of available resources.
- D. combinations of capital and labour necessary to produce specific levels of output.

97. In drawing the production possibilities curve we assume that:

- A. technology is fixed.
- B. unemployment exists.
- C. economic resources are unlimited.
- D. wants are limited.

98. Which of the following is assumed in constructing a typical production possibilities curve?

- A. the economy is using its resources inefficiently.
- B. resources are perfectly shiftable among alternative uses.
- C. production technology is fixed.
- D. the economy is engaging in international trade.

99. Which of the following is not correct? A typical production possibilities curve:

- A. indicates how much of two products a society can produce.
- B. reveals how much each additional unit of one product will cost in terms of the other product.
- C. specifies how much of each product society should produce.
- D. indicates that to produce more of one product society must give up larger and larger amounts of the other product.

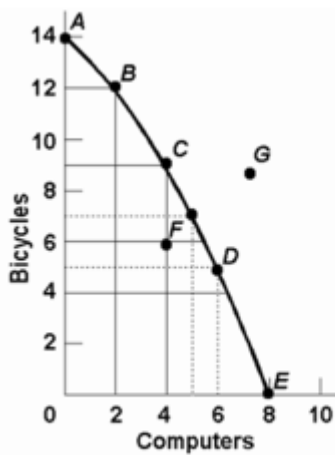
100. Which one of the following statements is correct?

- A. Relative scarcity is no longer a central notion in economics because we are in an age of abundance.
- B. Most production possibilities curves are convex as viewed from the origin.
- C. The production possibilities curve shows society's preferences for consumer goods relative to capital goods.
- D. The central concept underlying the production possibilities curve is that of limited resources.

101. The typical production possibilities curve is:

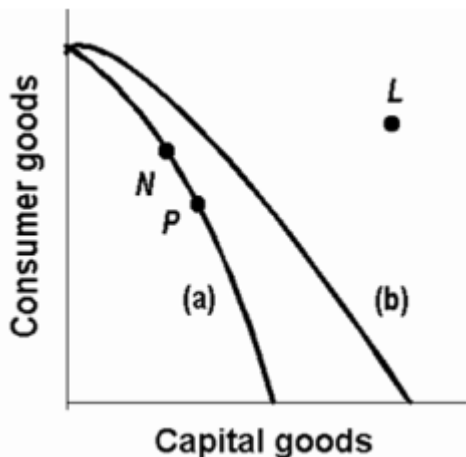
- A. an upward sloping line which is concave to the origin.
- B. a downward sloping line which is convex to the origin.
- C. a downward sloping line which is concave to the origin.
- D. a straight upward sloping line.

102. Refer to the diagram below. Points A, B, C, D, and E show:



- A. that the opportunity cost of bicycles increases, while that of computers is constant.
- B. combinations of bicycles and computers which society can produce by using its resources efficiently.
- C. that the opportunity cost of computers increases, while that of bicycles is constant.
- D. that society's demand for computers is greater than its demand for bicycles.

103. Refer to the following production possibilities curves. Curve (a) is the current curve for the economy. Given production possibilities curve (a), the combination of capital and consumer goods indicated by point L:



- A. would entail substantial unemployment.
- B. would entail an inefficient use of society's resources.

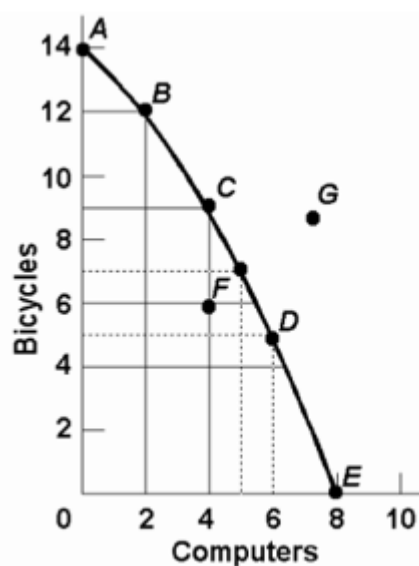
- C. is beyond the productive capacity of this society.
- D. suggests the productive capacity of the system is declining.

104. A point on the frontier of the production possibilities curve is:

- A. attainable and the economy is efficient.
- B. attainable, but the economy is inefficient.
- C. unattainable, but the economy is inefficient.
- D. unattainable and the economy is efficient.

105. A point inside the production possibilities curve is:

- A. attainable and the economy is efficient.
- B. attainable, but the economy is inefficient.
- C. unattainable, but the economy is inefficient.
- D. unattainable and the economy is efficient.



106. Refer to the above diagram. The combination of computers and bicycles shown by point G is:

- A. attainable, but too costly.
- B. unattainable, given currently available resources and technology.
- C. attainable, but involves unemployment.
- D. irrelevant because it is inconsistent with consumer preferences.

107. Refer to the above diagram. The combination of computers and bicycles shown by point F:

- A. is unattainable, given currently available resources and technology.
- B. is attainable, but entails economic inefficiency.
- C. is irrelevant because it is inconsistent with consumer preferences.
- D. suggests that opportunity costs are constant.

108. Refer to the above diagram. If society is currently producing the combination of bicycles and computers shown by point D, the production of 2 more units of bicycles:

- A. cannot be realized because resources are fully employed.
- B. will cost 1 unit of computers.
- C. will cost 2 units of computers.
- D. will cause some resources to become unemployed.

109. Refer to the above diagram. The movement down the production possibilities curve from point A to point E suggests that the production of:

- A. computers, but not bicycles, is subject to increasing opportunity costs.
- B. bicycles, but not computers, is subject to increasing opportunity costs.
- C. both bicycles and computers is subject to constant opportunity costs.
- D. both bicycles and computers is subject to increasing opportunity costs.

110. The slope of the typical production possibilities curve:

- A. is positive.
- B. increases as one moves southeast along the curve.
- C. is constant as one moves down the curve.
- D. decreases as one moves southeast along the curve.

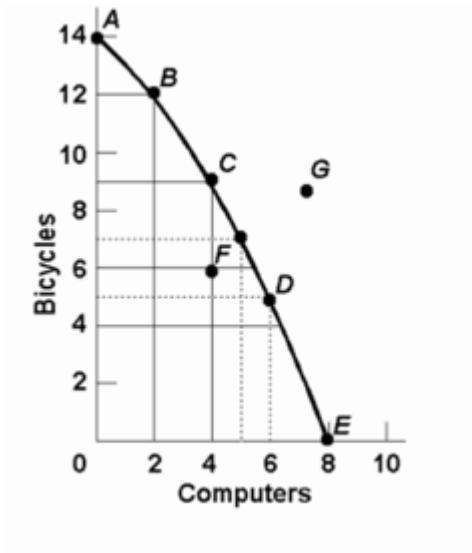
111. The production possibilities curve has:

- A. a positive slope which increases as we move along it from left to right.
- B. a negative slope which increases as we move along it from left to right.
- C. a negative slope which decreases as we move along it from left to right.
- D. a negative slope which is constant as we move along it from left to right.

112. The law of increasing opportunity costs states that:

- A. if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of other goods to do so.
- B. the sum of the costs of producing a particular good cannot rise above the current market price of that good.
- C. if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative

- amount.
- D. if the prices of all the resources devoted to the production of goods increase, the cost of producing any particular good will increase at the same rate.



113. Refer to the above diagram. This production possibilities curve is:
- A. convex to the origin because opportunity costs are constant.
  - B. linear because opportunity costs are constant.
  - C. concave to the origin because of increasing opportunity costs.
  - D. convex to the origin because of increasing opportunity costs.
114. Refer to the above diagram. If society is currently producing 9 units of bicycles and 4 units of computers and it now decides to increase computer output to 6, the cost:
- A. will be 4 units of bicycles.
  - B. will be 2 units of bicycles.
  - C. will be zero because unemployed resources are available.
  - D. of doing so cannot be determined from the information given.
115. The concept of opportunity cost:
- A. is irrelevant in socialistic economies because of central planning.
  - B. suggests that the use of resources in any particular line of production means that alternative outputs must be forgone.
  - C. is irrelevant if the production possibilities curve is shifting to the right.
  - D. suggests that insatiable wants can be fulfilled.
116. Which of the following is not an illustration of the idea of opportunity cost?
- A. A growing economy can produce more consumer goods and more capital goods at the same time.
  - B. If I buy a pizza, I will not be able to afford a movie.
  - C. Resources devoted to consumer goods production are not available for capital goods production.
  - D. The land a Manitoba farmer plants in wheat is not available for corn production.
117. Opportunity costs is best defined as:
- A. the monetary price of any productive resource.
  - B. the amount of labour which must be used to produce one unit of any product.
  - C. the ratio of the prices of imported goods to the prices of exported goods.
  - D. the amount of one product which must be given up to produce one more unit of another product.

Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina						
Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

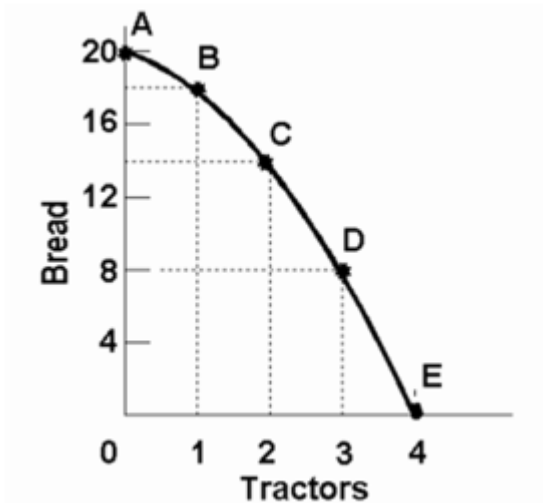
South Cantina						
Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

118. Refer to the above tables. If South Cantina is producing at production alternative D, the opportunity cost of the third unit of capital goods is:
- A. 3 units of consumer goods.
  - B. 4 units of consumer goods.
  - C. 5 units of consumer goods.
  - D. 6 units of consumer goods.
119. Refer to the above tables. If North Cantina is producing at production alternative B, the opportunity cost of the eleventh unit of consumer will be:
- A. 10 units of capital goods.
  - B.

- $\frac{1}{4}$  of a unit of capital goods.
- C. 8 units of capital goods.
- D.  $\frac{1}{8}$  of a unit of capital goods.

120. Refer to the above tables. The opportunity cost of the fifth unit of capital goods:

- A. is higher in North Cantina than in South Cantina.
- B. is the same in North Cantina and South Cantina.
- C. is lower in North Cantina than in South Cantina.
- D. cannot be determined from the information provided.



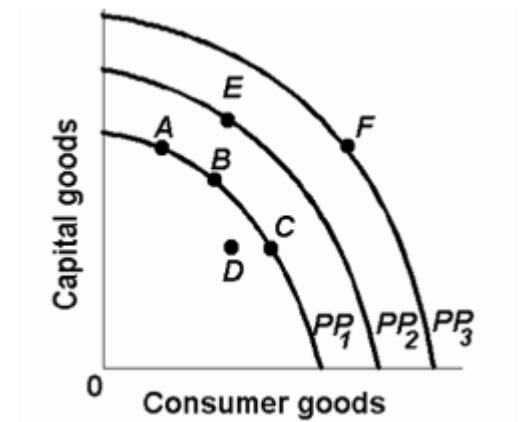
121. Refer to the above diagram. Starting at point A, the opportunity cost of producing each successive unit of tractors is:

- A. a constant 2 units of bread.
- B. 2, 4, 6, and 8 units of bread.
- C. 8, 6, 4, and 2 units of bread.
- D. the reciprocal of the output of tractors.

122. Refer to the above diagram. Starting at point E, the production of successive units of bread will cost:

- A. a constant 8 units of tractors.
- B. a constant 6 units of tractors.
- C.  $\frac{1}{8}$ ,  $\frac{1}{6}$ ,  $\frac{1}{4}$ , and  $\frac{1}{2}$  units of tractors.
- D.  $\frac{1}{2}$ ,  $\frac{1}{4}$ ,  $\frac{1}{6}$ , and  $\frac{1}{8}$  units of tractors.

123. Refer to the diagram below. The concept of opportunity cost is best represented by the:



- A. shift of the production possibilities curve from PP<sub>1</sub> to PP<sub>2</sub>.
- B. move from B on PP<sub>1</sub> to E on PP<sub>2</sub>.
- C. move from B on PP<sub>1</sub> to C on PP<sub>1</sub>.
- D. move from D inside PP<sub>1</sub> to B on PP<sub>1</sub>.

124. The fact that the slope of the production possibilities curve becomes steeper as we move down along the curve indicates that:

- A. the principle of increasing opportunity costs is relevant.
- B. society's resources are limited.
- C. the opportunity cost of producing each product is constant.
- D. resources are perfectly shiftable between alternative uses.

Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

125. Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:

- A. 4 units of capital goods.
- B. 2 units of capital goods.
- C. 3 units of capital goods.
- D.  $\frac{1}{3}$  of a unit of capital goods.

126. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:

- A. the amount of consumer goods which must be sacrificed to get more capital goods diminishes beyond a point.
- B. larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
- C. the production possibilities data would graph as a straight downsloping line.
- D. the economy's resources are presumed to be scarce.

127. Refer to the table below. In moving from possibility A to F, the cost of a unit of steel in terms of a unit of wheat:

(The following economy produces two products.)  
Production Possibilities

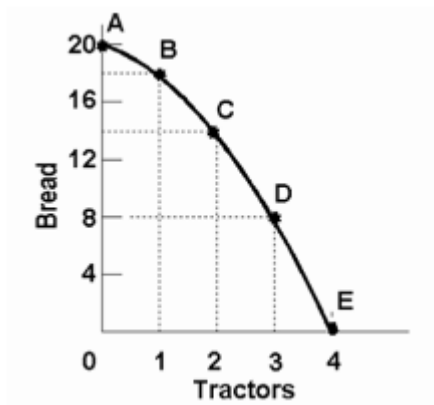
Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

- A. increases.
- B. decreases.
- C. remains constant.
- D. increases from A to B, and decreases from B to F.

128. A typical concave production possibilities curve implies:

- A. that economic resources are scarce.
- B. that society must choose among various attainable combinations of goods.
- C. increasing opportunity costs.
- D. all of these.

129. Refer to the diagram below. This production possibilities curve is constructed such that:



- A. resources are presumed to be perfectly shiftable as between bread and tractors.
- B. the opportunity cost of bread diminishes as more bread is produced.
- C. the opportunity cost of tractors diminishes as more bread is produced.
- D. the opportunity cost of both bread and tractors in terms of each other increases as more of each is produced.

130. The law of increasing opportunity costs exists because:

- A. resources are not equally efficient in producing various goods.
- B. the value of the dollar has diminished historically because of persistent inflation.
- C. wage rates invariably rise as the economy approaches full employment.
- D. consumers tend to value any good more highly when they have little of it.

131. The law of increasing opportunity costs is reflected in a production possibilities curve which is:

- A. an upward sloping straight line.
- B. a downward sloping straight line.
- C. concave to the origin.
- D. convex to the origin.

The production possibilities curve below shows the hypothetical relationship between the production of capital goods and consumer goods in an economy.

Production Alternatives					
Products	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumer goods	22	18	13	7	0

132. Refer to the above table. What is the opportunity cost of producing the third unit of capital goods?

- A. 4 units of consumer goods
- B. 5 units of consumer goods
- C. 6 units of consumer goods
- D. 7 units of consumer goods

133. Refer to the above table. What is the total opportunity cost of producing two units of capital goods?

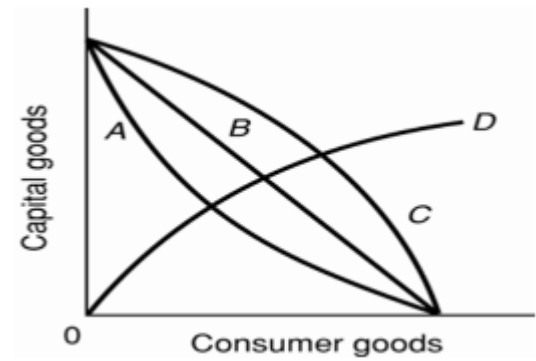
- A. 4 units of consumer goods
- B. 5 units of consumer goods
- C. 9 units of consumer goods
- D. 13 units of consumer goods

134. Refer to the above table. What is the opportunity cost of producing the fourth unit of capital goods?

- A. 6 units of consumer goods
- B. 7 units of consumer goods
- C. 15 units of consumer goods
- D. 22 units of consumer goods

135. Refer to the above table. What is the total opportunity cost of producing three units of capital goods?

- A. 6 units of consumer goods
- B. 7 units of consumer goods
- C. 15 units of consumer goods
- D. 22 units of consumer goods



136. Refer to the above diagram. As it relates to production possibilities analysis, the law of increasing opportunity cost is reflected in curve:

- A. A.
- B. B.
- C. C.
- D. D.

137. Refer to the above diagram. Curve B is a:

- A. production possibilities curve indicating constant opportunity costs.
- B. production possibilities curve indicating increasing opportunity costs.
- C. demand curve indicating that the quantity of consumer goods demanded increases as the price of capital falls.
- D. technology frontier curve.

138. If the production possibilities curve is a straight line:

- A. the two products will sell at the same market prices.
- B. economic resources are perfectly shiftable between the production of the two products.
- C. the two products are equally important to consumers.
- D. equal quantities of the two products will be produced at each possible point on the curve.

139. A nation's production possibilities curve is "bowed out" from the origin because:

- A. resources are not equally efficient in producing every good.
- B. the originator of the idea drew it this way and modern economists follow this convention.
- C. resources are scarce.
- D. wants are virtually unlimited.

140. If the production possibilities curve were a straight downsloping line, this would suggest that:

- A. resources are perfectly shiftable between the production of these two goods.
- B. it is possible to produce more of both products.
- C. both products are equally capable of satisfying consumer wants.
- D. the two products have identical prices.

141. Refer to the diagram below. The concave shape of each production possibilities curve indicates that:



- A. resources are perfectly substitutable.
- B. wants are virtually unlimited.
- C. prices are constant.
- D. resources are not equally suited for alternative uses.

142. The marginal benefit curve is:

- A. upward sloping because of increasing marginal opportunity costs.
- B. upward sloping because successive units of a specific product yield less and less extra utility.

- C. downward sloping because of increasing marginal opportunity costs.
- D. downward sloping because successive units of a specific product yield less and less extra utility.

143. The marginal cost curve is:

- A. upsloping because of increasing marginal opportunity costs.
- B. upsloping because successive units of a specific product yield less and less extra utility.
- C. downsloping because of increasing marginal opportunity costs.
- D. downsloping because successive units of a specific product yield less and less extra utility.

144. The output of compact disc players should be:

- A. reduced if marginal benefits exceed marginal costs.
- B. reduced if marginal costs exceed marginal benefits.
- C. increased if marginal costs exceed marginal benefits.
- D. reduced to zero if their unit costs exceed the unit costs of alternative products.

145. If the output of product X is such that marginal benefit equals marginal cost:

- A. the correct amount of resources is being allocated to X's production.
- B. the value of producing X and the value of producing alternative products with available resources is the same.
- C. there can be no net gain to society by allocating either more or less resources to producing X.
- D. all of these are true.



146. Refer to the above diagram for athletic shoes. The optimal output of shoes:

- A. is  $Q_1$ .
- B. is  $Q_2$ .
- C. is  $Q_3$ .
- D. is greater than  $Q_3$ .

147. Refer to the above diagram for athletic shoes. If the current output of shoes is  $Q_1$ , then:

- A. society would consider additional units of shoes to be more valuable than alternative products.
- B. society would consider additional units of shoes to be less valuable than alternative products.
- C. society would experience a net loss by producing more shoes.
- D. resources are being allocated efficiently to the production of shoes.

148. Refer to the above diagram for athletic shoes. If the current output of shoes is  $Q_3$ , then:

- A. resources are being allocated efficiently to the production of shoes.
- B. society would consider additional units of shoes to be more valuable than alternative products.
- C. society would consider additional units of shoes to be less valuable than alternative products.
- D. society would experience a net gain by producing more shoes.

Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

149. Refer to the above table. As compared to production alternative D, the choice of alternative C would:

- A. tend to generate a more rapid growth rate.
- B. be unattainable.
- C. entail unemployment.
- D. tend to generate a slower growth rate.

150. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:

- A. is irrelevant because the economy is capable of producing a larger total output.
- B. will result in the maximum rate of growth available to this economy.
- C. would involve an inefficient use of the economy's scarce resources.
- D. is unobtainable in this economy.

151. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:

- A. achieve economic growth.
- B. use its resources more efficiently than the data in the table now indicate.
- C. allocate its available resources most efficiently among alternative uses.
- D. achieve the full employment of available resources.



Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

South Cantina Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

152. Refer to the above tables. Suppose that North Cantina is producing 2 units of capital goods and 17 units of consumer goods while South Cantina is producing 2 units of capital goods and 21 units of consumer goods. We can conclude that:
- A. North Cantina is fully and efficiently using its resources, but South Cantina is not.  
B. South Cantina is fully and efficiently using its resources, but North Cantina is not.  
C. neither South Cantina nor North Cantina are fully and efficiently using their resources.  
D. both South Cantina and North Cantina are fully and efficiently using their resources.
153. Refer to the above tables. Suppose that resources in North Cantina and South Cantina are identical in quantity and quality. We can conclude that:
- A. South Cantina has better technology than North Cantina in producing both capital and consumer goods.  
B. North Cantina has better technology than South Cantina in producing both capital and consumer goods.  
C. North Cantina is growing more rapidly than South Cantina.  
D. North Cantina has better technology than South Cantina in producing consumer goods.
154. Refer to the table below. According to the production possibilities schedule for the economy which produces two products , a combination of four tanks and 650 autos is:

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

- A. attainable, but involves an efficient use of society's resources.  
B. attainable, but would not be in the best interests of a strong national defence.  
C. not attainable because it is not listed in the schedule.  
D. not attainable because society does not have sufficient resources to produce this combination.
155. Assume that a change in government policy results in the increased production of both consumer goods and investment goods. It can be concluded that:
- A. the economy was suffering from unemployment and/or the inefficient use of resources before the policy change.  
B. the economy's production possibilities curve has been shifted to the left as a result of the policy decision.  
C. this economy's production possibilities curve is convex (bowed inward) as viewed from the origin.  
D. the law of increasing opportunity costs does not apply in this society.
156. Refer to the diagram. This economy will experience unemployment if it produces at point:



- A. A.  
B. B.  
C. C.  
D. D.



157. Refer to the above production possibilities curve. At the onset of World War II Canada had large amounts of idle human and property resources. Its economic adjustment from peacetime to wartime can best be described by the movement from point:
- A. c to point b.  
B. b to point c.  
C. a to point b.  
D. c to point d.

158. Refer to the above production possibilities curve. At the onset of World War II the Soviet Union was already at full employment. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A. c to point b.
- B. b to point c.
- C. a to point b.
- D. c to point d.

159. Any point inside the production possibilities curve indicates:

- A. the realization of allocative efficiency.
- B. that resources are imperfectly shiftable among alternative uses.
- C. the presence of inflationary pressures.
- D. that more output could be produced with available resources.

160. Unemployment and/or productive inefficiencies:

- A. cause the production possibilities curve to shift outward.
- B. can exist at any point on a production possibilities curve.
- C. can both be illustrated by a point outside the production possibilities curve.
- D. can both be illustrated by a point inside the production possibilities curve.

161. A point inside a production possibilities curve may indicate:

- A. unemployment.
- B. the inefficient use of resources.
- C. failure to use the best available technology.
- D. all of these.

162. Assume an economy is incurring unemployment and failing to realize least-cost production. The immediate effect of resolving these problems will be to:

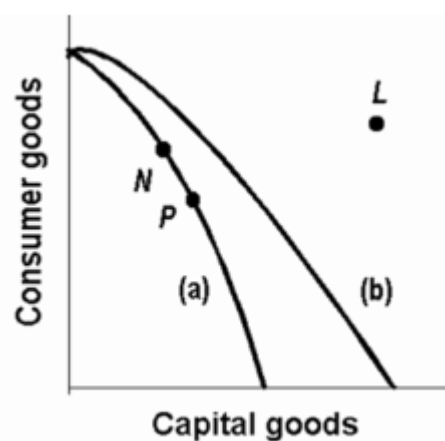
- A. move the level of actual output closer to the economy's production possibilities curve.
- B. create a less equal distribution of income.
- C. shift its production possibilities curve to the left.
- D. shift its production possibilities curve to the right.

163. If an economy is operating inside its production possibilities curve for consumer goods and capital goods, this means that it:

- A. can only produce more consumer goods by producing fewer capital goods.
- B. can only produce more capital goods by producing fewer consumer goods.
- C. can produce more of both consumer goods and capital goods by using its resources more efficiently.
- D. must improve its technology to produce more output.

164. Which of the following will not require an outward shift of the production possibilities curve?

- A. an upgrading of the quality of a nation's human resources
- B. the reduction of unemployment
- C. an increase in the quantity of a society's labour force
- D. the improvement of a society's technological knowledge



165. Refer to the above production possibilities curves. Curve (a) is the current curve for the economy. The movement from curve (a) to curve (b) suggests:

- A. a movement from unemployment to full employment.
- B. an improvement in capital goods technology but not in consumer goods technology.
- C. an improvement in consumer goods technology but not in capital goods technology.
- D. a decline in the total output of this society.

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

- A. allow it to achieve more rapid economic growth than would the choice of point N.
- B. entail a slower rate of economic growth than would the choice of point N.
- C. entail the same rate of growth as would the choice of point N.
- D. be unobtainable because it exceeds the productive capacity of the economy.

167. The basic difference between consumer goods and capital goods is that

- A. consumer goods are produced in the private sector and capital goods are produced in the public sector.

- B. an economy that commits a relatively large proportion of its resources to capital goods must accept a lower growth rate.
- C. the production of capital goods is not subject to the law of increasing opportunity costs.
- D. consumer goods satisfy wants directly while capital goods satisfy wants indirectly.

168. Which of the following would be most likely to shift the production possibilities curve to the right?

- A. a sudden and substantial expansion of consumer wants
- B. an improvement in the literacy level and general level of education
- C. a decline in the size of the population and labour force
- D. shifting resources from butter to gun production

169. Which of the following will not shift a nation's production possibilities curve?

- A. the acquisition of more education and training by its labour force
- B. the widespread application of irrigation to its agricultural land
- C. an increase in the rate of unemployment
- D. the discovery of new super-conductivity materials which makes manufacturing more efficient

170. Which of the following will shift the production possibilities curve to the right?

- A. an increase in the unemployment rate from 6 to 8 percent
- B. a decline in the efficiency with which the present labour force is allocated
- C. a decrease in the unemployment rate from 8 to 6 percent
- D. a technological advance which allows farmers to produce more output from given inputs

171. Other things equal, which of the following would shift an economy's production possibilities curve to the left?

- A. the discovery of a low-cost means of generating and storing solar energy
- B. the entrance of more women into the labour force
- C. a law requiring mandatory retirement from the labour force at age 55
- D. an increase in the proportion of total output which consists of capital or investment goods



172. Refer to the above diagram. An improvement in technology will:

- A. shift the production possibilities curve from  $PP_1$  to  $PP_2$ .
- B. shift the production possibilities curve from  $PP_2$  to  $PP_1$ .
- C. move the economy from A to C along  $PP_1$ .
- D. move the economy from A, B, or C on  $PP_1$  to D.

173. Refer to the above diagram. Which one of the following would shift the production possibilities curve from  $PP_1$  to  $PP_2$ ?

- A. immigration of skilled workers into the economy
- B. worsening of the AIDS epidemic
- C. an increase in consumer prices
- D. a reduction in the age of retirement

174. Which situation would most likely shift the production possibilities curve for a nation in an outward direction?

- A. a decrease in the quality of products
- B. an increase in the supply of resources
- C. a decrease in the state of technology
- D. an increase in the amount of discrimination

175. Which situation would most likely cause a nation's production possibilities curve to shift inward?

- A. the construction of more capital goods
- B. a decrease in discrimination based on race
- C. an increase in the number of skilled immigrant workers
- D. the destruction from bombing and warfare in a losing military conflict

176. All of the following could immediately or eventually lead to an inward shift of a nation's production possibilities curve, except:

- A. an increase in the amount of discrimination.
- B. a decline in the birth rate.
- C. an increase in the average skill level of all occupational groups.
- D. depletion and reduced availability of major energy resources.

177. Some agricultural sub-Saharan nations of Africa have over-farmed and overgrazed their land to the extent that significant portions of it have turned into desert. This suggests that:

- A. the concavity of the production possibilities curves of such nations has increased.
- B. the production possibilities curves of such nations have shifted inward.
- C. the production possibilities curves of such nations have shifted outward.
- D. these nations are operating at some point outside of their production possibilities curves.

178. Which of the following statements, if any, is correct for a nation which is producing only consumption and capital goods?

- A. Other things equal, the more consumer goods a nation produces, the greater will be its future growth rate.
- B. Other things equal, the more capital goods a nation produces, the greater will be its future growth rate.
- C. There is no general relationship between the current division of output between consumer and capital goods and the future growth rate.
- D. None of these statements is correct.

179. In recent years Germany has been investing a larger proportion of its domestic output than has Canada. As a result, we would expect:

- A. a higher rate of growth of domestic output in Germany than in Canada.
- B. greater rightward shifts in Germany's production possibilities curve as compared to Canada.
- C. that in the long run living standards would rise more rapidly in Germany than in Canada.
- D. all of these to happen.

180. Deltonia produces both consumer and capital goods. If it reduces the percentage of its output devoted to capital goods, then:

- A. its rate of growth will tend to decline.
- B. its production possibilities curve will necessarily shift to the left.
- C. it must also reduce the percentage of its output devoted to consumer goods.
- D. its rate of growth will tend to increase.

181. Refer to the diagram below. Other things equal, this economy will achieve the most rapid rate of growth if:

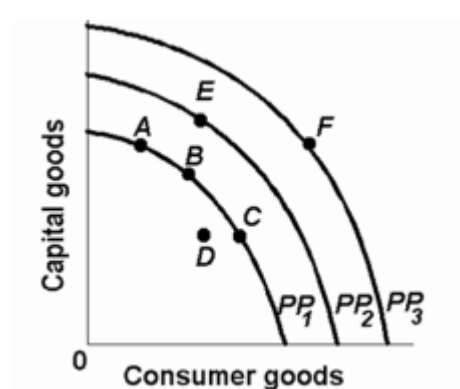


- A. the ratio of capital to consumer goods is minimized.
- B. it chooses point C.
- C. it chooses point B.
- D. it chooses point A.

182. The future location of the economy's production possibilities curve will be affected by:

- A. the current division of domestic output between consumption and capital goods.
- B. the rate of technological progress.
- C. the growth of the economy's supplies of resources.
- D. all of these.

183. Refer to the diagram. Which of the following positions relative to  $PP_1$  would be the most likely to result in a future production possibilities curve of  $PP_3$ , rather than  $PP_2$ ?



- A. A.
- B. B.
- C. C.
- D. D.

184. Through specialization and international trade a nation:

- A. can achieve some combination of goods lying outside its production possibilities curve.
- B. can move from a high consumption-low investment to a high investment-low consumption point on its production possibilities curve.
- C. will achieve some combination of goods lying within its production possibilities curve.
- D. will cause its production possibilities curve to shift leftward.

185. A country can achieve some combination of goods outside its production possibilities curve by:

- A. idling some of its resources.

- B. specializing and engaging in international trade.
- C. buying the debt (bonds and stocks) of foreign nations.
- D. producing more consumption goods and fewer capital goods.

186. The "fallacy of composition" states that:

- A. because economic systems are comprised of so many diverse economic units economic laws are necessarily inexact.
- B. the anticipation of a particular event can affect the nature or composition of that event when it occurs.
- C. what is true for the individual must necessarily be true for the group.
- D. because event A precedes event B, A is necessarily the cause of B.

187. The safest way for an individual to leave a burning theatre is to run for the nearest exit; it is therefore also the best means of escape for a large audience. This illustrates the:

- A. "after this, therefore because of this" fallacy.
- B. correlation fallacy.
- C. fallacy of composition.
- D. fallacy of limited decisions.

188. Which of the following has to do with the notion that generalizations that apply to individuals are also always valid for a group?

- A. the law of large numbers
- B. the law of averages
- C. the fallacy of composition
- D. the post hoc, ergo propter hoc fallacy

189. The "fallacy of composition" states that:

- A. generalizations relevant to microeconomics never pertain to macroeconomics.
- B. expectations give rise to self-fulfilling prophecies.
- C. generalizations pertaining to individuals always pertain to the group.
- D. quantifiable economic goals are always incompatible with one another.

190. "If you leave a football game at the end of the third quarter, you will avoid traffic and get home more quickly. Therefore, everyone should leave the game early." This illustrates the:

- A. moral hazard problem.
- B. adverse selection problem.
- C. fallacy of limited decisions.
- D. fallacy of composition.

191. The fallacy of composition is essentially the error of:

- A. omitting relevant variables in constructing a model.
- B. reasoning from the general to the particular.
- C. confusing cause and effect in economic relationships.
- D. generalizing from the particular to the general.

192. What pitfall to objective thinking is reflected in a person's view that oil companies are price-gouging the consumer?

- A. definition
- B. post hoc fallacy
- C. loaded terminology
- D. confusing correlation and causation

193. What pitfall to objective thinking is reflected when a person states that "capitalists don't care about workers and greedy individuals"?

- A. abstraction
- B. loaded terminology
- C. the fallacy of composition
- D. confusing correlation and causation

194. Which is an example of "loaded terminology"?

- A. tentative hypothesis
- B. market forces
- C. creeping socialism
- D. entrepreneurial functions

195. What pitfall to economic thinking is reflected in the following statement? "Free trade agreements only lead to the exporting of Canadian jobs to other countries."

- A. definition
- B. loaded terminology
- C. the fallacy of composition
- D. abstraction

196. The "after this, therefore because of this" fallacy states that:

- A. positive statements are always followed by normative judgments.
- B. positive statements can never be proven true or false.
- C. if one acts on one's expectations, those expectations will always be fulfilled.

D. cause and effect can be determined merely by observing the sequence of events.

197. Which of the following best illustrates the post hoc, ergo propter hoc fallacy?

- A. Because it was 30 degrees today, I worked up a sweat playing tennis.
- B. I took the day off work to go to the beach and that's why it rained.
- C. Because it rained at the football game, my new sweater got wet.
- D. Because I have studied diligently this semester, my grade average has improved.

198. The "after this, therefore because of this" fallacy states that:

- A. because event A precedes event B, A is necessarily the cause of B.
- B. the very attempt to accomplish a certain objective may create conditions which prohibit the achievement of that goal.
- C. events may drastically alter plans; one's intentions and actual accomplishments may differ considerably.
- D. generalizations which are accurate at the level of microeconomics may be inaccurate at the level of macroeconomics.

199. Which of the following has to do with the problem of distinguishing cause and effect in economic reasoning?

- A. the law of large numbers
- B. the law of averages
- C. the post hoc fallacy
- D. the fallacy of composition

200. The post hoc fallacy and the correlation problem both relate to:

- A. the calculation of marginal costs and marginal benefits of any economic activity.
- B. the issue of determining causation.
- C. the frequent inability of households and businesses to behave rationally.
- D. the tradeoff problem associated with competing goals.

201. If variables X and Y are positively correlated, this means that:

- A. X is the cause of Y.
- B. Y is the cause of X.
- C. causation necessarily exists, but we don't know whether X or Y is the cause.
- D. causation may or may not exist between X and Y.

202. Purposeful behaviour implies that everyone will make identical choices.

True False

203. Rational individuals may make different choices because their information and circumstances differ.

True False

204. Certain inherently desirable products such as education and health care should be produced so long as resources are available.

True False

205. Marginal analysis means that decision-makers compare the extra benefits with the extra costs of a specific choice.

True False

206. Choices entail marginal costs because resources are scarce.

True False

207. If economic theories are solidly based on relevant facts, then there can be no question as to the character of appropriate economic policy.

True False

208. The fact that economic generalizations are abstract renders them impractical and useless.

True False

209. Macroeconomics explains the behaviour of individual households and business firms; microeconomics is concerned with the behaviour of aggregates or the economy as a whole.

True False

210. Positive statements are expressions of value judgments.

True False

211. Normative statements are expressions of facts.

True False

212. Individuals face an economic problem but not the society.

True False

213. The entrepreneur's sole function is to combine other resources (land, labour, and capital) in the production of some good or service.

True    False

214. Products and services are scarce because resources are scarce.

True    False

215. The process by which capital goods are accumulated is known as investment.

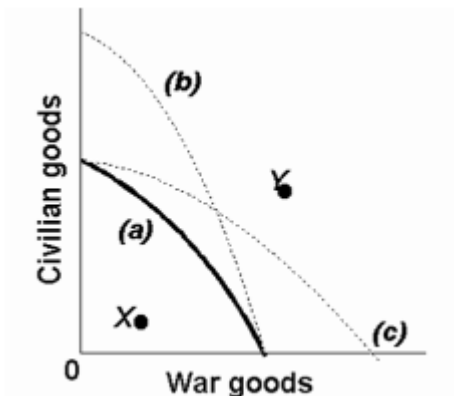
True    False

216. The production possibilities curve shows various combinations of two products which an economy can produce when achieving full employment and productive efficiency.

True    False

217. An economy will always operate at some point on its production possibilities curve.

True    False



218. Refer to the above production possibilities curves. Given production possibilities curve (a), point Y indicates that society is failing to use available resources efficiently.

True    False

219. Refer to the above production possibilities curves. The movement from curve (a) to curve (b) implies an increase in the quantity and/or quality of society's productive resources.

True    False

220. Refer to the above production possibilities curves. Given production possibilities curve (a), the combination of civilian and war goods indicated by point X is unattainable to this economy.

True    False

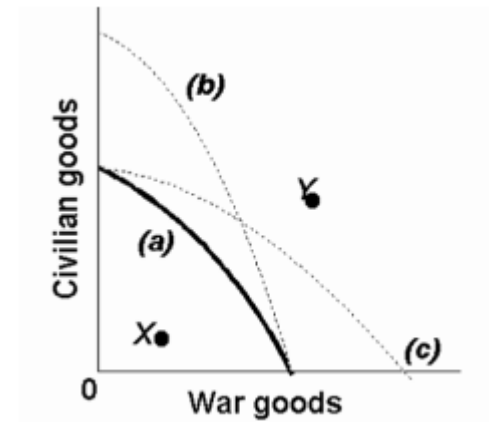
221. An economy cannot produce at a point outside of its production possibilities curve because human material wants are insatiable.

True    False

222. Although sleeping in on a work day or school day has an opportunity cost, sleeping late on the weekend does not.

True    False

223. Refer to the production possibilities curves. The movement from curve (a) to curve (c) indicates an improvement in civilian goods technology but not in war goods technology.



True    False

224. The present choice of position on the production possibilities curve will not influence the future location of the curve.

True    False

225. Economists:

- A. always put the independent variable on the horizontal axis and the dependent variable on the vertical axis.
- B. always put the dependent variable on the horizontal axis and the independent variable on the vertical axis.
- C. are somewhat arbitrary in assigning independent and dependent variables to the horizontal and vertical axes.

D. measure the slope of a line differently than do mathematicians.

226. If we say that two variables are directly related, this means that:

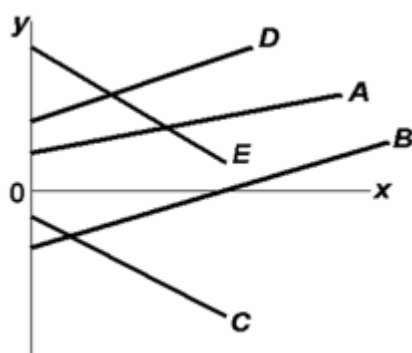
- A. the relationship between the two is purely random.
- B. an increase in one variable is associated with a decrease in the other variable.
- C. an increase in one variable is associated with an increase in the other variable.
- D. the two graph as a downsloping line.

227. If we say that two variables are inversely related, this means that:

- A. the two graph as an upsloping line.
- B. an increase in one variable is associated with a decrease in the other.
- C. an increase in one variable is associated with an increase in the other.
- D. the resulting relationship can be portrayed by a straight line parallel to the horizontal axis.

228. Which of the following statements is correct?

- A. The value of the independent variable is determined by the value of the dependent variable.
- B. The value of the dependent variable is determined by the value of the independent variable.
- C. The dependent variable designates the "cause" and the independent variable the "effect."
- D. Dependent variables graph as upsloping lines; independent variables graph as downward sloping lines.



229. Refer to the above diagram. Which line(s) show(s) a positive relationship between  $x$  and  $y$ ?

- A. A only
- B. both A and D
- C. A, B, and D
- D. both C and E

230. Refer to the above diagram. Which line(s) show(s) a negative relationship between  $x$  and  $y$ ?

- A. A only
- B. both A and D
- C. A, B, and D
- D. both C and E

231. Refer to the above diagram. Which line(s) show(s) a positive vertical intercept?

- A. A and D only
- B. B and C only
- C. A, D, and E
- D. A, D, and B

232. Refer to the above diagram. Which line(s) show(s) a negative vertical intercept?

- A. C only
- B. both C and E
- C. B, C, and E
- D. both B and C

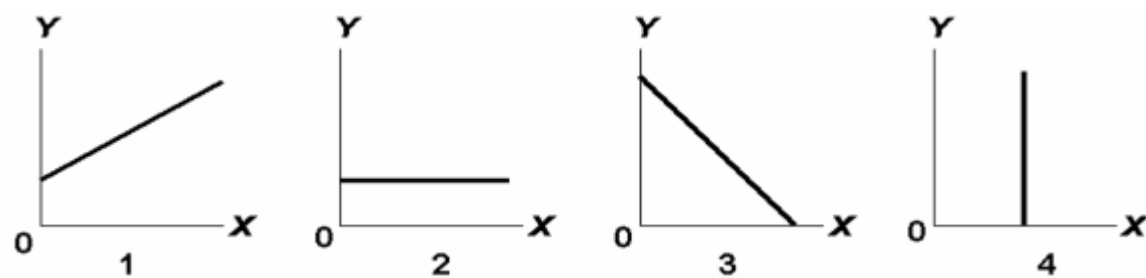
233. If two variables are inversely related, then as the value of one variable:

- A. increases, the value of the other may either increase or decrease.
- B. decreases, the value of the other decreases.
- C. increases, the value of the other decreases.
- D. increases, the value of the other increases.

234. If a positive relationship exists between  $x$  and  $y$ :

- A. an increase in  $x$  will cause  $y$  to decrease.
- B. a decrease in  $x$  will cause  $y$  to increase.
- C. the relationship will graph as an upsloping line.
- D. the vertical intercept must be positive.





235. Answer on the basis of the relationships shown in the above four figures. The amount of Y is directly related to the amount of X in:

- A. both 1 and 3.
- B. both 1 and 2.
- C. 2 only.
- D. 1 only.

236. Answer on the basis of the relationships shown in the above four figures. The amount of Y is inversely related to the amount of X in:

- A. 2 only.
- B. both 1 and 3.
- C. 3 only.
- D. 1 only.

237. Answer on the basis of the relationships shown in the above four figures. The amount of Y is unrelated to the amount of X in:

- A. both 2 and 4.
- B. 3 only.
- C. 2 only.
- D. 1.

238. If price (P) and quantity (Q) are directly related, this means that:

- A. a change in Q will alter P, but a change in P will not alter Q.
- B. if P increases, Q will decrease.
- C. if P increases, Q will also increase.
- D. an increase in P will cause Q to change, but the direction in which Q changes cannot be predicted.

Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment so that investment would be zero. But if the interest rate were 16 percent, businesses would find it profitable to invest \$10 billion. If the interest rate were 12 percent, \$20 billion would be invested. Assume that total investment continues to increase by \$10 billion for each successive 4 percentage point decline in the interest rate.

239. Refer to the above information. Which of the following is an accurate verbal statement of the described relationship?

- A. There is no regular or dependable relationship between business investment and the interest rate.
- B. The amount of business investment is unaffected by changes in the interest rate.
- C. Investment spending by businesses varies inversely with the interest rate.
- D. Investment spending by businesses varies directly with the interest rate.

240. Refer to the above information. Using i and I to indicate the interest rate and investment (in billions of dollars) respectively, which of the following is the correct tabular presentation of the described relationship?

(A)		(B)		(C)		(D)	
i	I	i	I	i	I	i	I
20	\$50	24	\$10	20	\$0	20	\$10
16	40	20	20	16	10	16	20
12	30	16	30	12	20	12	30
8	20	12	40	8	30	8	40
4	10	8	50	4	40	4	50
0	0	4	60	0	50	0	60

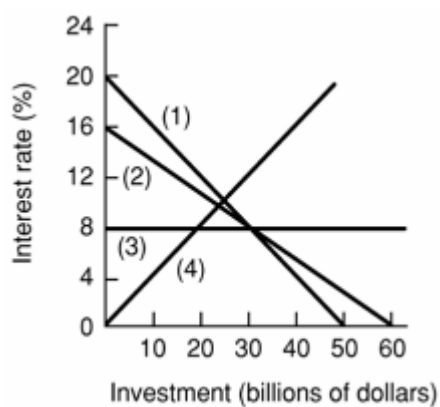
- A. column (A)
- B. column (B)
- C. column (C)
- D. column (D)

241. Refer to the above information. Which of the following correctly expresses the indicated relationship as an equation?

- A.  $i = 20 - 4I$ .
- B.  $i = 20 - .4I$ .
- C.  $i = 24 - .4I$ .
- D.  $i = 20 - 10I$ .

242.

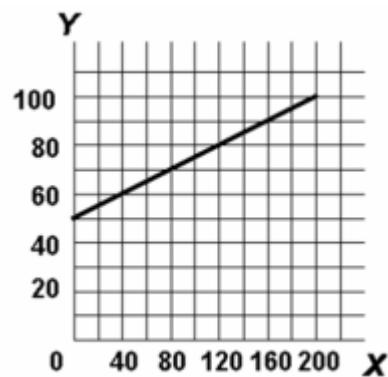
Refer to the above information, Which of the following is the correct graphical presentation of the indicated relationship?



- A. line 4
- B. line 3
- C. line 2
- D. line 1

<u>After-tax</u> <u>income</u>	<u>Consumption</u>
\$1000	\$900
2000	1800
3000	2700
4000	3600
5000	4500

243. The above data suggest that:
- A. consumption varies inversely with after-tax income.
  - B. consumption varies directly with after-tax income.
  - C. consumption and after-tax income are unrelated.
  - D. a tax increase will increase consumption.
244. The above data indicates that:
- A. consumers spend 80 percent of their after-tax incomes.
  - B. consumers spend 90 percent of their after-tax incomes.
  - C. a tax reduction will reduce consumption.
  - D. the relationship between consumption and after-tax income is random.
245. The above data suggest that:
- A. a policy of tax reduction will increase consumption.
  - B. a policy of tax increases will increase consumption.
  - C. tax changes will have no impact on consumption.
  - D. after-tax income should be lowered to increase consumption.

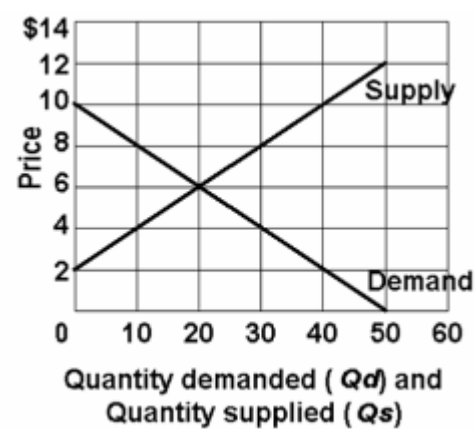


246. Refer to the above diagram. The variables X and Y are:
- A. inversely related.
  - B. directly related.
  - C. unrelated.
  - D. negatively related.
247. Refer to the above diagram. The vertical intercept:
- A. is 40.
  - B. is 50.
  - C. is 60.
  - D. cannot be determined from the information given.
248. Refer to the above diagram. The slope of the line:
- A. is  $-\frac{1}{4}$ .
  - B. is  $+\frac{1}{4}$ .
  - C. is .40.
  - D. cannot be determined from the information given.
249. Refer to the above diagram. The equation which shows the relationship between Y and X is:
- A.  $Y = 50 + \frac{1}{4} X$ .

- B.  $X = \frac{1}{4} Y$ .
- C.  $Y = .4X$ .
- D.  $Y = \frac{1}{4} X - 50$ .

250. The slope of a straight line can be determined by:

- A. comparing the absolute horizontal change to the absolute vertical change between two points on the line.
- B. comparing the absolute vertical change to the absolute horizontal change between two points on the line.
- C. taking the reciprocal of the vertical intercept.
- D. comparing the percentage vertical change to the percentage horizontal change between two points on the line.



251. Refer to the above graph. Which of the following statements is correct?

- A. Quantity demanded and quantity supplied are independent of price.
- B. Price and quantity demanded are directly related.
- C. Price and quantity supplied are directly related.
- D. Price and quantity supplied are inversely related.

252. Refer to the above graph. Which of the following schedules correctly reflects "demand"?

P	(A) Qd	P	(B) Qd	P	(C) Qd	P	(D) Qd
\$12	0	\$14	0	\$14	60	\$12	0
10	0	12	0	12	50	10	10
8	10	10	20	10	40	8	20
6	20	8	40	8	30	6	30
4	30	6	60	6	20	4	40
2	40	4	80	4	10	2	50

- A. schedule (A)
- B. schedule (B)
- C. schedule (C)
- D. schedule (D)

253. Refer to the above graph. Which of the following schedules correctly reflects "supply"?

P	(A) Qs	P	(B) Qs	P	(C) Qs	P	(D) Qs
\$12	50	\$14	50	\$12	50	\$12	0
10	30	12	40	10	40	10	0
8	10	10	30	8	30	8	10
6	0	8	20	6	20	6	20
4	0	6	10	4	10	4	30
2	0	4	0	2	0	2	40

- A. schedule (A)
- B. schedule (B)
- C. schedule (C)
- D. schedule (D)

254. Refer to the above graph. Using Qd for quantity demanded and P for price, which of the following equations correctly states the demand for this product?

- A.  $P = Qd/10$ .
- B.  $P = 50 - P/2$ .
- C.  $P = 10 - .2Qd$ .
- D.  $P = 10 - 2Qd$ .

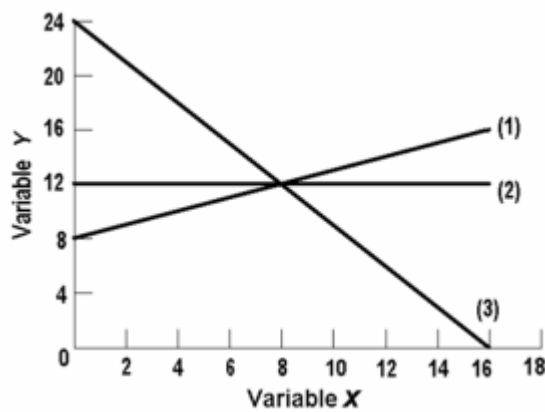
255. Refer to the above graph. Using Qs for quantity supplied and P for price, which of the following equations correctly states the supply of this product?

- A.  $P = 4 + .2Qs$ .
- B.  $P = 60/Qs$ .
- C.  $P = 10Qs - 2P$ .
- D.  $P = 2 + .2Qs$ .

256. Assume a household would consume \$100 worth of goods and services per week if its weekly income were zero and would spend an additional \$80 per week for each \$100 of additional income. Letting C represent consumption and Y represent income, the equation

which summarizes this relationship is:

- A.  $C = 80 + 100Y$ .
- B.  $C = 100 + .8Y$ .
- C.  $C = 100 + 80Y$ .
- D.  $C = 80 + .1Y$ .



257. In line (1) on the above graph, the variables x and y are:

- A. nonlinearly related.
- B. positively related.
- C. negatively related.
- D. inversely related.

258. In line (3) on the above graph, variables x and y are:

- A. directly related.
- B. negatively related.
- C. positively related.
- D. nonlinearly related.

259. The linear equation for line (1) on the above graph is:

- A.  $y = 8 + 2x$ .
- B.  $y = 8 + .5x$ .
- C.  $x = 8 + .5y$ .
- D.  $y = 8 - 2x$ .

260. The slope of line (2) on the above graph is:

- A. 0.
- B. .66.
- C. .75.
- D. 1.50.

261. The linear equation for line (3) on the above graph is:

- A.  $y = 24 - 1.5x$ .
- B.  $y = 16 - .5x$ .
- C.  $y = 24 - .66x$ .
- D.  $y = 24 - .75x$ .

262. The vertical intercept of line (2) on the above graph is:

- A. 8.
- B. 12.
- C. 16.
- D. 24.

263. If the equation  $y = 5 + 6x$  was graphed, the:

- A. slope would be -5.
- B. slope would be +5.
- C. slope would be +6.
- D. vertical intercept would be +.6.

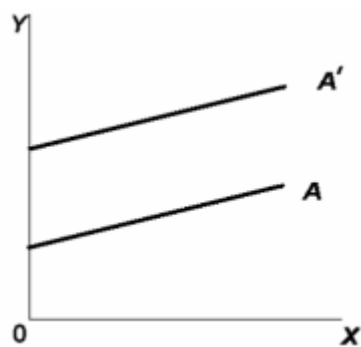
264. If the equation  $y = 15 - 4x$  was plotted, the:

- A. vertical intercept would be -4.
- B. vertical intercept would be +4.
- C. vertical intercept would be +9.
- D. slope would be -4.

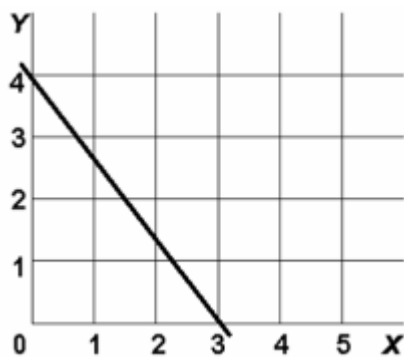
265. If the equation  $y = -10 + 2.5x$  was plotted

- A. the vertical intercept would be -10.
- B. the slope would be +2.5.
- C. it would graph as an upsloping line.
- D. all of these would be true.

266. Refer to the graph, the movement from line A to line A' represents a change in:



- A. the slope only.
- B. the intercept only.
- C. both the slope and the intercept.
- D. neither the slope nor the intercept.



267. In the above diagram variables x and y are:

- A. both dependent variables.
- B. directly related.
- C. inversely related.
- D. unrelated.

268. In the above diagram the vertical intercept and slope are:

- A. 4 and  $-1\frac{1}{3}$  respectively.
- B. 3 and  $-1\frac{1}{3}$  respectively.
- C. 3 and  $+\frac{3}{4}$  respectively.
- D. 4 and  $+\frac{3}{4}$  respectively.

269. In the above diagram the equation for this line is:

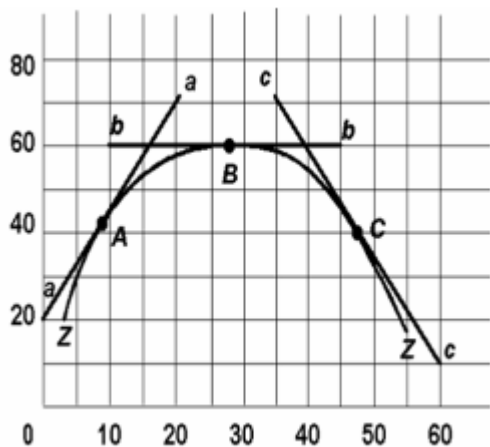
- A.  $y = 4 - 1\frac{1}{3} x$ .
- B.  $y = 3 + \frac{3}{4} x$ .
- C.  $y = 4 - \frac{3}{4} x$ .
- D.  $y = 4 + 1\frac{1}{3} x$ .

270. If we are considering the relationship between two variables and release the "other things equal" assumption, we would expect:

- A. the relationship to change from direct to inverse.
- B. the line representing that relationship on a graph to change locations.
- C. the data points representing the relationship to become more randomly scattered.
- D. the relationship to change from inverse to direct.

271. The amount of pizzas that consumers want to buy per week is reflected in the equation  $P = 15 - .02Q_d$ , where  $Q_d$  is the amount of pizzas purchased per week and P is the price of pizzas. On the basis of this information we can say that:

- A. if pizzas were free, people would consume 800 per week.
- B. more pizzas will be purchased at a high price than at a low price.
- C. if the price of pizzas is \$6, then 150 will be purchased.
- D. 50 fewer pizzas will be purchased per week for every \$1 increase in price.



272. Refer to the above diagram. The slope of curve ZZ at point B is:

- A. infinity.
- B. zero.
- C. one.
- D. none of these.

273. The slope of a line parallel to the vertical axis is:

- A. zero.
- B. one.
- C. infinite.
- D. one-half.

274. The slope of a line parallel to the horizontal axis is:

- A. zero.
- B. one.
- C. infinite.
- D. one-half.

275. The measured slope of a line:

- A. is independent of how the two variables are denominated.
- B. will be affected by how the two variables are denominated.
- C. necessarily diminishes as one moves rightward on the line.
- D. necessarily increases as one moves rightward on the line.

276. Slope of lines are especially important in economics because:

- A. they measure marginal changes.
- B. they always tell us something about profits.
- C. positive slopes are always preferred to negative slopes.
- D. they always relate to resource and output scarcity.

277. In a linear equation relating income and consumption, you know that the intercept is \$1,000 and the slope of the line is .4. If income is \$20,000, then consumption is:

- A. \$8,000.
- B. \$9,000.
- C. \$10,000.
- D. \$11,000.

278. What is a brief definition of economics? What are the conditions that give rise to this definition?

279. What are the key economic concepts that pertain to the individual?

280. What are the key economic concepts that pertain to interactions among individuals?

281. What are the key economic concepts that pertain to the economy as a whole?

282. What do economists mean when they say that "there is no free lunch"? Give another example to which this statement applies.

283. What are the three interrelated features of the economic perspective?

284. What is utility and what is its relevance to rational behaviour?

285. Use marginal analysis to explain why it is possible to "have too much of a good thing." Use education as an example.

286. What does it mean to say that theories, principles, and models are "purposeful simplifications"?

287. The distinguished economist Kenneth Boulding stated: "Theories without facts may be barren, but facts without theories are meaningless." Explain what he meant.

288. Explain the importance of the *ceteris paribus* or "other-things-equal" assumption.

289. "Bad theories are abstract and therefore unrealistic; good theories are fully realistic and fit all the facts." Evaluate.

290. "Economic models are somewhat like different types of maps." Evaluate.

291. Distinguish between microeconomics and macroeconomics.

292. Below are six statements. Indicate whether each one pertains to microeconomics (MIC) or macroeconomics (MAC).

- (a) "The inflation rate in Canada hit its lowest level in the last twenty years."
- (b) "The profits of BCE rose 20 percent during the past quarter."
- (c) "A drought has occurred in the Prairies. The prices for barley are expected to rise sharply."
- (d) "The nation's economy grew at an annual rate of 3.7 percent in the final quarter of the year."
- (e) "The trade surplus in Canada was \$4 billion last month."
- (f) "General Motors plans to spend \$800 million on a new automobile plant."

293. Give one example of a positive economic statement and one example of a normative economic statement.

294. Below are six statements. Identify whether each is a positive or normative statement.

- (a) The minimum wage should be increased so low-income workers can earn a living wage.
- (b) The unemployment rate is too high and should be reduced through government actions.
- (c) The rate of inflation was about 2 percent last year, an all time low for the past decade.
- (d) The government should take action to break up the monopoly power of Air Canada.
- (e) Interest rates should be lower in Canada so that people can afford to build a home.
- (f) The Federal government achieved a budget surplus for the first time in thirty years.

295. Identify whether each of the following is a positive or normative statement.

- (a) Should tuition fees increase, fewer students would obtain a post-secondary education.
- (b) The Prime Minister announced that Canada is the best place in the world to live.

296. "Economists are scientists and therefore should not become involved in making value judgments which policy formulation necessarily entails." Do you agree?

297. "Economics cannot be scientific because it is based upon the value judgment that 'more (output) is better'." Do you agree?

298. What was the approximate average incomes of Canadians and Liberians in 2007?

299. What is meant by the "the individual's economic problem"?

300. What variables are used to determine the individual's budget line?

301. How do income changes affect the position of the budget line?



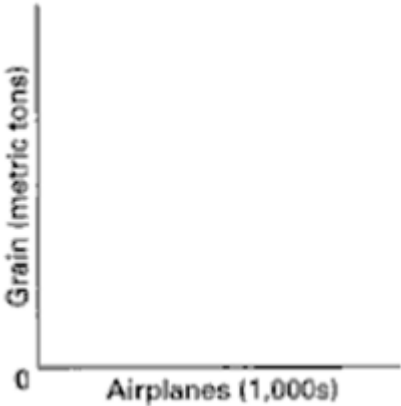
302. What do economists mean when they say that economic resources or factors of production are scarce or limited in supply?
303. What is meant by "society's economic problem"?
304. List the four resource categories and give a brief description of each.
305. What four basic functions does the entrepreneur perform for the economy?
306. Explain and evaluate: "If resources were infinitely abundant in relation to the demand for them, the economic problem would dissolve in a sea of affluence."
307. "The relative scarcity of resources makes the operation of any economy a matter of choosing between alternatives." Explain.
308. "The two cornerstones of economics are the scarcity of resources and the multiplicity of wants. True economy consists of deriving maximum want satisfaction from available resources." Explain.
309. Explain the relationship between full employment of resources and full production.
- 310.

The production possibilities table below shows the hypothetical relationship between the production of food and clothing in an economy.

- (a) What is the *marginal* opportunity cost of producing the second unit of clothing?
- (b) What is the *total* opportunity cost of producing two units of clothing?
- (c) What is the *marginal* opportunity cost of producing the third unit of clothing?
- (d) What is the *total* opportunity cost of producing three units of clothing?

<u>Combination</u>	<u>Food</u>	<u>Clothing</u>
A	0	4
B	7	3
C	13	2
D	18	1
E	22	0

311. A production possibilities table for two products, grain and airplanes, is found below. Usual assumptions regarding production possibilities are implied. Grain is measured in tons and airplanes are measured in units of 1,000.
- (a) Using the below graph construct a production possibilities curve from this information placing grain on the vertical axis and airplanes on the horizontal axis.



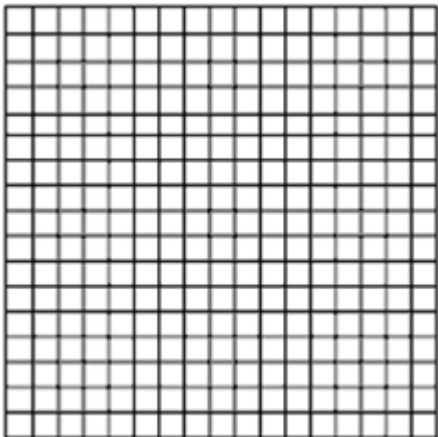
- (b) What is the opportunity cost of producing the first unit of airplanes? The marginal opportunity cost of producing the fourth unit of airplanes?

<u>Combination</u>	<u>Grain</u> (tons)	<u>Airplanes</u> (1,000s)
A	0	7
B	14	6
C	26	5
D	36	4
E	44	3
F	50	2
G	54	1
H	56	0

312. A production possibilities table for two products, corn and paper, is found below. Usual assumptions regarding production possibilities are implied. Corn is measured in tons, and paper is measured per unit.

<u>Combination</u>	<u>Corn</u>	<u>Paper</u>
A	0	6
B	18	5
C	33	4
D	45	3
E	54	2
F	60	1
G	63	0

- (a) Using the following graph construct a production possibilities curve from this information placing corn on the vertical axis and paper on the horizontal axis.



(b) What is the marginal opportunity cost of producing the first unit of paper? The marginal opportunity cost of producing the fourth unit of paper?

313. What is the economic rationale for the law of increasing costs?

314. Explain how increasing opportunity costs are reflected graphically in the production possibilities curve. How would the curve appear if opportunity costs were constant? (Answer verbally or illustrate your response with diagrams.)

315. An economy consists of five workers, who can produce either fish or fruit. The following table shows the daily output of each worker.

<u>Worker</u>	<u>Fish</u>	<u>Fruit</u>
A	10	20
B	6	10
C	8	6
D	8	4
E	10	10

- (a) Suppose one worker catches fish and four workers pick fruit. For the economy to achieve productive efficiency, which of the five workers must fish?
- (b) Does the economy achieve full employment and productive efficiency by producing 26 fish and 20 fruit?

316. An economy consists of five workers, who can produce either fish or fruit. The following table shows the daily output of each worker.

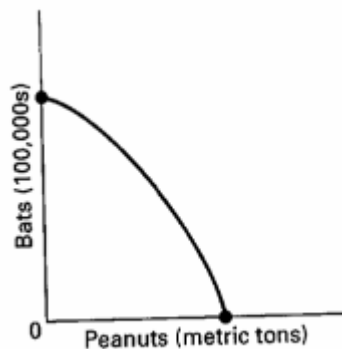
<u>Worker</u>	<u>Fish</u>	<u>Fruit</u>
A	4	4
B	6	2
C	2	1
D	8	6
E	4	1

- (a) Suppose one worker catches fish and four workers pick fruit. For the economy to achieve productive efficiency, which of the five workers must fish?
- (b) Does the economy achieve full employment and productive efficiency by producing 12 fish and 4 fruit?

317. What changes must occur for the potential total output of the economy to grow?

318.

Look at the following production possibilities curve illustrating the possibilities in Sluggerville for producing bats and/or peanuts with the existing level of resources and technology.



- (a) Show a point  $U$  that would indicate unemployed resources in Sluggerville.
- (b) Draw a new curve  $B$  that illustrates the results of improved technology in the production of bats, but no change in the production efficiency of peanuts.
- (c) Show a point  $G$  that would indicate a point that is currently unattainable in the production of peanuts and bats in Sluggerville.

319. Explain how each event affects production possibilities.

- (a) The population becomes more educated over time as the number of high school dropouts falls and the number of college graduates rises.
- (b) The unemployment rate declines from 8 to 6 percent of the labour force.
- (c) Businesses and government are unable to solve a major computer problem, thus reducing economic efficiency and national output.
- (d) Advances in telecommunications and new technology significantly contribute to economic growth over time.
- (e) The Federal government decides to allocate more resources to national defence.

320. Describe the adjustments in the production possibilities curves in each of the following situations for the Canadian economy.

- (a) the economy moves from full employment into a deep recession
- (b) the economy makes great strides in eliminating discrimination
- (c) the end of the Cold War leads to cuts in military spending
- (d) the government significantly increases spending for health and education

321. Evaluate. Since the production possibilities curve can shift outward over time, it is possible for an economy to get more of a product without incurring an opportunity cost.

322. One application of the production possibilities concept has been to explain the difference in growth patterns of a nation with a high level of investment (Alta) and an equivalent nation with a low level of investment (Zorn). Use the concept to explain why Alta's economic growth would be greater than that of Zorn over time.

323. The production possibilities curve suggests that a nation cannot live beyond its means or production potential. Explain why international trade would cause this statement to be modified.

324. List and give examples of the five pitfalls to economic thinking.

325. Below are four statements. Each of them is an example of one of the pitfalls often encountered in the study of economics. Indicate following each statement the type of pitfall involved.
- (a) "July is the month with the most ice cream sales and also the month with the most drownings. Therefore, the more ice cream people eat, the more likely they are to drown."
  - (b) "Dry weather in the county where Farmer Brown lives decreased his income because his crop was so poor. Therefore, when there is dry weather in the nation as a whole all farm incomes will suffer."
  - (c) "I have to live within my income. Therefore, governments should not be allowed to borrow money."
  - (d) "National health insurance plans are socialistic."
  - (e) "People arrive at a soccer pitch and then players come on the field. Therefore, crowds in stadiums cause soccer to be played."

326. What is the fallacy of composition? Give an economic and a non-economic example.

327. Explain what the post hoc fallacy is. Give an example.

328. Explain the difference between correlation and causation and give an example.

329. Suppose the following were facts relating years of education to average annual income of individuals. Can you conclude that years of education cause income to increase?

<u>Years of education</u>	<u>Income</u>
0–10	\$16,000
11–12	30,000
13–15	44,000
16–18	60,000
19–21	70,000
22 and over	105,000

330. Why do economists use graphs in their work?

331. In a two-dimensional graph showing the relationship between income and consumption in the economy, what is shown on the vertical axis and what is shown on the horizontal axis?

332. Define what is meant by a positive or direct relationship between two variables and describe the line graph depicting such a relationship.

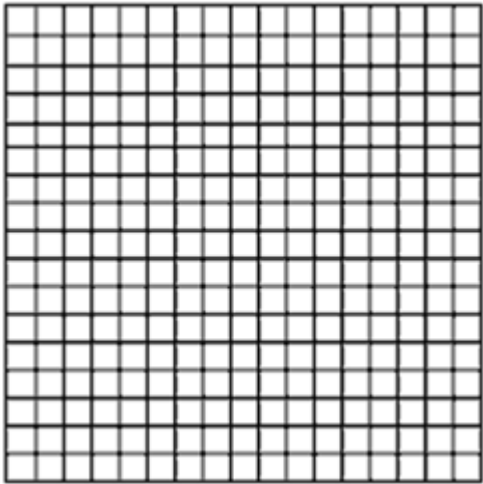
333. Define what is meant by an inverse relationship between two variables and describe the line graph depicting such a relationship.

334. Differentiate between the independent and dependent variables in an economic relationship.

335. Describe the slope of a direct and an inverse relationship.

336. Show graphically the relationships that you would expect to find between (a) student IQs and grade point averages (GPAs); (b) the price of a product and the amount consumers will purchase; (c) the temperature and the number of people at the swimming pool. Which of these are direct relationships and which are inverse? What considerations might change the expected relationships?

337. Show graphically on the below graph the expected relationship between investment spending and interest rates. Put investment expenditures on the horizontal axis and the rate of interest on the vertical axis; connect the points and label the curve "Investment demand." Describe this relationship between the rate of interest and investment expenditures. Describe the slope of the investment curve.

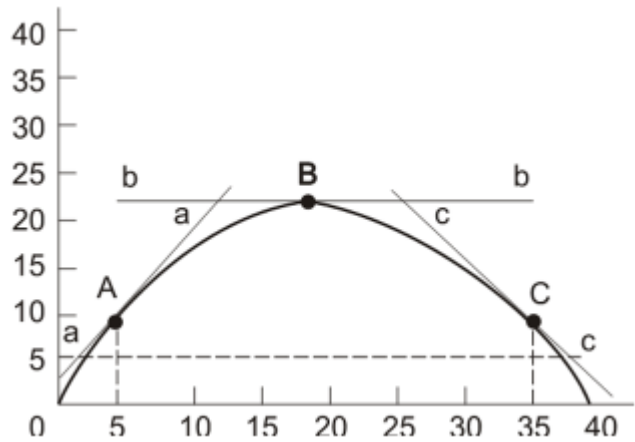


338. There are two sets of  $x, y$  points on a straight line in a two-variable graph with  $y$  on the vertical axis and  $x$  on the horizontal axis. What would be the linear equation for the line if one set of points was  $(0, 12)$  and the other set was  $(12, 36)$ ?

339. The value of the vertical intercept is \$100 and the slope is 0.8 in a linear equation for consumption (measured on the vertical axis) and disposable income (measured on the horizontal axis). If disposable income is \$1000, what is consumption? State the linear equation and show how you found the answer.

340. How do you determine the slope of a nonlinear curve? Will the slope be the same along the curve? Explain.

341. Using the below graph give the slopes of the lines tangent to the curve at points *A*, *B*, and *C*.



1 KEY

1. (p. 2) The key economic concept that serves as the basis for the study of economics is:

- A. inflation.
- B. unemployment.
- C. money.
- D.** scarcity.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
Level: Easy  
McConnell - Chapter 001 #1  
Type: Application

2. (p. 2) As a consequence of the condition of scarcity:

- A. there is never enough of anything.
- B. production has to be centrally planned.
- C. things which are plentiful have relatively high prices.
- D.** individuals and communities have to make choices among alternatives.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
Level: Easy  
McConnell - Chapter 001 #2  
Type: Application

3. (p. 2) In every economic system, choices must be made because resources are:

- A. infinite, but economic wants are finite.
- B.** finite, but economic wants are insatiable.
- C. unlimited, but economic wants are limited.
- D. limited, and so are economic wants.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
Level: Easy  
McConnell - Chapter 001 #3  
Type: Application

4. (p. 2) Opportunity cost is best defined as:

- A. marginal cost minus marginal benefit.
- B. the time spent on an economic activity.
- C.** the value of the best foregone alternative.
- D. the money cost of an economic decision.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
Level: Easy  
McConnell - Chapter 001 #4  
Type: Application

5. (p. 2) Tammie makes \$150 a day as a bank clerk. She takes off two days of work without pay to fly to another city to attend the concert of her favourite music group. The cost of transportation for the trip is \$250. The cost of the concert ticket is \$50. The opportunity cost of Tammie's trip to the concert is:

- A. \$300.
- B. \$450.
- C. \$500.
- D.** \$600.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
Level: Moderate  
McConnell - Chapter 001 #5  
Type: Calculation

6. (p. 2) When a provincial government chooses to build more roads, the required resources are no longer available for spending on public education. This dilemma illustrates the concept of:

- A. marginal analysis.
- B. full employment.
- C. full production.
- D.** opportunity cost.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
Level: Easy  
McConnell - Chapter 001 #6  
Type: Application

7. (p. 2) Specialization and trade are beneficial to society because:

- A. the output of economic goods may be increased with no increase in resources.
- B. scarce resources are utilized more efficiently.
- C. a division of labour lowers prices for products.
- D.** all of these are correct.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
Level: Easy  
McConnell - Chapter 001 #7  
Type: Application

8. (p. 2) When economists describe "a market," they mean:



- A. a place where stocks and bonds are traded.
- B. information networks that allow individuals to keep in touch with each other.
- C. a hypothetical place where the production of goods and services takes place.
- D.** a mechanism which coordinates actions of consumers and producers to establish equilibrium prices and quantities.

*Learning Objective: 1.1 Ten key concepts to retain for a life time*  
*Level: Easy*  
*McConnell - Chapter 001 #8*  
*Type: Definition*

9. (p. 2) The institution that coordinates actions of consumers and producers to establish prices for goods and services is known as:

- A.** a market.
- B. a monopoly.
- C. an economic system.
- D. consumer sovereignty.

*Learning Objective: 1.1 Ten key concepts to retain for a life time*  
*Level: Easy*  
*McConnell - Chapter 001 #9*  
*Type: Definition*

10. (p. 2) A major argument for economic growth is that it:

- A. creates an equal distribution of income.
- B. protects common property resources.
- C.** leads to a higher standard of living.
- D. reduces the amount of taxation.

*Learning Objective: 1.1 Ten key concepts to retain for a life time*  
*Level: Easy*  
*McConnell - Chapter 001 #10*  
*Type: Application*

11. (p. 2) One of the basic economic defences of economic growth rests on the conclusion that:

- A. growth makes workers less obsolete and more secure in employment.
- B. growth reduces the cost of "common property" resources to society.
- C.** growth makes the gap between unlimited wants and scarce resources less acute.
- D. a growth-oriented society confers a "work and look to the future" attitude on the members of society.

*Learning Objective: 1.1 Ten key concepts to retain for a life time*  
*Level: Moderate*  
*McConnell - Chapter 001 #11*  
*Type: Application*

12. (p. 2) Concern about the general level of prices in an economy is primarily a concern about the economic goal of:

- A. economic efficiency.
- B. economic security.
- C.** price-level stability.
- D. equity.

*Learning Objective: 1.1 Ten key concepts to retain for a life time*  
*Level: Easy*  
*McConnell - Chapter 001 #12*  
*Type: Application*

13. (p. 2) Assume that a tradeoff exists in the short run between inflation and unemployment. This relationship means that:

- A. a low rate of unemployment causes a low rate of inflation.
- B. a high rate of inflation causes a low rate of unemployment.
- C.** less unemployment can be achieved with more inflation.
- D. less unemployment can be achieved with less inflation.

*Learning Objective: 1.1 Ten key concepts to retain for a life time*  
*Level: Moderate*  
*McConnell - Chapter 001 #13*  
*Type: Application*

14. (p. 3) The study of economics is primarily concerned with:

- A. keeping private businesses from losing money.
- B. demonstrating that capitalistic economies are superior to socialistic economies.
- C.** choices which are made in seeking to use scarce resources efficiently.
- D. determining the most equitable distribution of society's output.

*Learning Objective: 1.2 The economic way of thinking*  
*Level: Easy*  
*McConnell - Chapter 001 #14*  
*Type: Definition*

15. (p. 3) The assertion that "There is no free lunch" means:

- A. there are always tradeoffs between economic goals.
- B.** all production involves the use of scarce resources and thus the sacrifice of alternative goods.
- C. marginal analysis is not used in economic reasoning.
- D. choices do not need be made if behaviour is rational.

*Learning Objective: 1.2 The economic way of thinking*  
*Level: Easy*  
*McConnell - Chapter 001 #15*  
*Type: Definition*

16. (p. 3) The study of economics exists because:

- A. government interferes with the efficient allocation of scarce resources.
- B.** resources are scarce in relation to human material wants.
- C. the market system is an obstacle to the efficient use of plentiful resources to satisfy constrained wants.
- D. resources are overly abundant as compared to wants; thus, an allocation problem exists.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #16  
 Type: Application

17. (p. 4) Economics may best be defined as:

- A. the interaction between macro and micro considerations.
- B.** the study of the behaviour of people and institutions in the production, distribution, and consumption of scarce goods.
- C. the empirical testing of value judgments through the use of induction and deduction.
- D. the use of policy to refute facts and hypotheses.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #17  
 Type: Definition

18. (p. 4) Purposeful behaviour suggests that:

- A. everyone will make identical choices.
- B. resource availability exceeds material wants.
- C.** individuals will make different choices because their information and constraints differ.
- D. an individual's economic goals cannot involve tradeoffs.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #18  
 Type: Definition

19. (p. 4) "Consumers spend their incomes to get the maximum benefit or satisfaction from the goods and services they purchase." This is a reflection of:

- A. resource scarcity and the necessity of choice.
- B.** purposeful behaviour.
- C. marginal costs which exceed marginal benefits.
- D. the tradeoff problem which exists between competing goals.

Learning Objective: 1.2 The economic way of thinking  
 Level: Moderate  
 McConnell - Chapter 001 #19  
 Type: Application

20. (p. 4) The "economic perspective" refers to:

- A. macroeconomic phenomena, but not microeconomic phenomena.
- B. microeconomic phenomena, but not macroeconomic phenomena.
- C.** the making of rational decisions in a context of marginal costs and marginal benefits.
- D. unlimited resources in a context of limited material wants.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #20  
 Type: Definition

21. (p. 4) The "economic perspective" entails:

- A. rational behaviour by individuals and institutions.
- B. a comparison of marginal benefits and marginal costs in decision making.
- C. the altering of behaviour when marginal benefits and marginal costs change.
- D.** all of these.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #21  
 Type: Application

22. (p. 4) The economic perspective used in customer decision making at fast-food restaurants is reflected in:

- A. customers selecting the shortest line.
- B. customers leaving rather than waiting if all lines are long.
- C. all customer lines tending to be of equal length.
- D.** all of these.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #22  
 Type: Application

23. (p. 4) How is the economic perspective reflected in lines for fast food?

- A. Customers select the shortest line because they have perfect information.
- B.** Customers select the shortest line because they believe it will reduce their time cost of obtaining food.
- C. Lines will typically be of unequal length because of the inefficiencies in counter service.
- D. The set of food choices is often too complex for most customers and thus creates long lines.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #23  
 Type: Application

24. (p. 4) From an economic perspective, when consumers leave a fast-food restaurant because the lines to be served are too long, they have

concluded that the:

- A. marginal cost of waiting is less than the marginal benefit of being served.
- B.** marginal cost of waiting is greater than the marginal benefit of being served.
- C. management is exhibiting irrational behaviour by not maximizing profits.
- D. management is making an assumption that other things are equal.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #24  
 Type: Application

25. (p. 4) Consumers might leave a fast-food restaurant without being served because:

- A. they are misinformed about the marginal cost and marginal benefits of the food being served.
- B.** they conclude that the marginal cost (monetary plus time costs) exceeds the marginal benefit.
- C. the environment is not conducive to a rational choice.
- D. the lines waiting for service are not of equal length.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #25  
 Type: Application

26. (p. 4) At fast-food restaurants:

- A. consumers enjoy complete and accurate information.
- B. decisions are usually made by trial and error.
- C.** decisions entail comparisons of marginal costs and marginal benefits.
- D. benefits always exceed costs.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #26  
 Type: Application

27. (p. 5) Economics involves "marginal analysis" because:

- A.** most decisions involve changes in the status quo.
- B. marginal benefits always exceed marginal costs.
- C. marginal costs always exceed marginal benefits.
- D. much economic behaviour is irrational.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #27  
 Type: Application

28. (p. 5) You should decide to go to a movie:

- A. if the marginal cost of the movie exceeds its marginal benefit.
- B.** if the marginal benefit of the movie exceeds its marginal cost.
- C. if your income will allow you to buy a ticket.
- D. because movies are inherently good products.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #28  
 Type: Application

29. (p. 5) Marginal costs exist because:

- A.** the decision to produce more of some product means the sacrifice of other products.
- B. wants are scarce relative to resources.
- C. households and businesses make rational decisions.
- D. most decisions do not involve sacrifices or tradeoffs.

Learning Objective: 1.2 The economic way of thinking  
 Level: Easy  
 McConnell - Chapter 001 #29  
 Type: Application

30. (p. 5 costs) Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact:

- A. is an example of irrational behaviour.
- B. implies that reading should be taught through phonics rather than the whole language method.
- C. contradicts the economic perspective.
- D.** implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.

Learning Objective: 1.2 The economic way of thinking  
 Level: Moderate  
 McConnell - Chapter 001 #30  
 Type: Application

31. (p. 5) The process of developing hypotheses, testing them against facts, and using the results to construct theories is called:

- A. opportunity cost calculation.
- B.** the scientific method.
- C. marginal analysis.
- D. microeconomics.

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #31  
Type: Definition

32. (p. 5) A "hypothesis" is:

- A. a fundamental truth which all economists accept.
- B.** a tentative, untested principle.
- C. the same as a normative statement.
- D. always the result of induction.

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #32  
Type: Definition

33. (p. 5) From the perspective of economists, which term provides the highest degree of confidence for explaining economic behaviour?

- A.** an economic principle or a law
- B. a fact
- C. a hypothesis
- D. an assumption

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #33  
Type: Definition

34. (p. 5) In constructing models, economists:

- A.** make simplifying assumptions.
- B. include all available information.
- C. must use mathematical equations.
- D. attempt to duplicate the real world.

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #34  
Type: Definition

35. (p. 5) Economic models:

- A. are of limited use because they cannot be tested empirically.
- B. are limited to variables which are directly related to one another.
- C.** emphasize basic economic relationships by abstracting from the complexities of the real world.
- D. are unrealistic and therefore of no practical consequence.

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #35  
Type: Definition

36. (p. 5) An economic model is:

- A. a value judgment.
- B. a fact.
- C.** built using theory.
- D. built on correlations.

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #36  
Type: Application

37. (p. 5) The term "ceteris paribus" means:

- A. that if event A precedes event B, A has caused B.
- B. that economics deals with facts, not values.
- C.** other things equal.
- D. prosperity inevitably follows recession.

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #37  
Type: Definition

38. (p. 5) Suppose an economist says that "Other things equal, the lower the price of bananas, the greater the amount of bananas purchased."  
This statement indicates that:

- A. the quantity of bananas purchased determines the price of bananas.
- B.** all factors other than the price of bananas (for example, consumer tastes and incomes) are assumed to be constant.
- C. economists can conduct controlled laboratory experiments.
- D. one cannot generalize about the relationship between the price of bananas and the quantity purchased.

Learning Objective: 1.3 Theories, principles, and models  
Level: Moderate  
McConnell - Chapter 001 #38  
Type: Application

39. (p. 5 -6) The term "other things equal" means that:

- A. the associated statement is normative.
- B. many variables affect the variable under consideration.
- C.** a number of relevant variables are assumed to be constant.

D. when variable X increases so does related variable Y.

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #39  
Type: Definition

40. (p. 5 -6) The basic purpose of the "other things equal" assumption is to:

- A. allow one to reason about the relationship between variables X and Y without the intrusion of variable Z.
- B. allow one to focus upon micro variables by ignoring macro variables.
- C. allow one to focus upon macro variables by ignoring micro variables.
- D. determine whether X causes Y or vice versa.

Learning Objective: 1.3 Theories, principles, and models  
Level: Easy  
McConnell - Chapter 001 #40  
Type: Definition

41. (p. 6) Microeconomics is concerned with:

- A. the aggregate or total levels of income, employment, and output.
- B. a detailed examination of specific economic units which comprise the economic system.
- C. the concealing of detailed information about specific segments of the economy.
- D. the establishing of an overall view of the operation of the economic system.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #41  
Type: Definition

42. (p. 6) Microeconomics:

- A. is concerned with the aggregate or total levels of income, employment, and output.
- B. is not concerned with details, but only with the overall "big picture" of the economy.
- C. is concerned with individual economic units and specific markets.
- D. describes the aggregate flows of output and income.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #42  
Type: Definition

43. (p. 6) Which of the following is a microeconomic statement?

- A. The real domestic output increased by 2.5 percent last year.
- B. Unemployment was 8.3 percent of the labour force last year.
- C. The price of personal computers declined last year.
- D. The general price level increased by 4 percent last year.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Moderate  
McConnell - Chapter 001 #43  
Type: Application

44. (p. 6) Macroeconomics approaches the study of economics from the viewpoint of:

- A. the entire economy.
- B. governmental units.
- C. the operation of specific product and resource markets.
- D. individual firms.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #44  
Type: Definition

45. (p. 6) Which of the following is associated with macroeconomics?

- A. an examination of the incomes of the University of Toronto Business School graduates
- B. an empirical investigation of the general price level and unemployment rates in the 1990s
- C. a study of the trend of pecan prices since World War II
- D. a case study of pricing and production in the textbook industry

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #45  
Type: Application

46. (p. 6) The problems of aggregate inflation and unemployment are:

- A. major topics of macroeconomics.
- B. not relevant to the Canadian economy.
- C. major topics of microeconomics.
- D. peculiar to socialistic economies.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #46  
Type: Application

47. (p. 6) Which of the following statements pertains to macroeconomics?

- A. Because the minimum wage was raised, Mrs. Beepath decided to enter the labour force.
- B. A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.



- C. The national productivity rate grew by 1.4 percent last year.
- D. The Pumpkin Center Chartered Bank increased its interest rate on consumer loans by 1 percent.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Moderate  
McConnell - Chapter 001 #47  
Type: Application

48. (p. 6) Macroeconomics can best be described as the:

- A. analysis of how a consumer tries to spend income.
- B. study of the large aggregates of the economy or the economy as a whole.
- C. analysis of how firms attempt to maximize their profits.
- D. study of how supply and demand determine prices in individual markets.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #48  
Type: Definition

49. (p. 6) Which of the following is a macroeconomic statement?

- A. The gross profits of all Canadian businesses were \$50 billion last year.
- B. The price of beef declined by 3 percent last year.
- C. General Motors' profits increased in 1998.
- D. The productivity of steelworkers increased by 1 percent in 1998.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #49  
Type: Application

50. (p. 6) A positive statement is one which is:

- A. derived by induction.
- B. derived by deduction.
- C. subjective and is based on a value judgment.
- D. objective and is based on facts.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #50  
Type: Definition

51. (p. 6) Which of the following is a positive statement?

- A. The humidity is too high today.
- B. It is too hot to jog today.
- C. The temperature is 30 degrees today.
- D. I enjoy summer evenings when it cools off.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #51  
Type: Application

52. (p. 6) A positive statement is concerned with:

- A. some goal which is desirable to society.
- B. what should be.
- C. what is.
- D. the formulation of economic policy.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #52  
Type: Definition

53. (p. 6 -7) A normative statement is one which:

- A. is based on the law of averages.
- B. pertains only to microeconomics.
- C. pertains only to macroeconomics.
- D. is based upon value judgments.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #53  
Type: Definition

54. (p. 6 -7) Which of the following is a normative statement?

- A. The temperature is high today.
- B. The humidity is high today.
- C. It is too hot to play tennis today.
- D. It will cool off later this evening.

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #54  
Type: Application

55. (p. 6 -7) Normative statements are concerned with:

- A. facts and theories.
- B.** what ought to be.
- C. what is.
- D. rational choice involving costs and benefits.

*Learning Objective: 1.4 Microeconomics and Macroeconomics*  
*Level: Easy*  
*McConnell - Chapter 001 #55*  
*Type: Definition*

56. (p. 6 -7) Most of the disagreement among economists involves:

- A. facts.
- B. theories.
- C. positive statements.
- D.** normative statements.

*Learning Objective: 1.4 Microeconomics and Macroeconomics*  
*Level: Easy*  
*McConnell - Chapter 001 #56*  
*Type: Application*

57. (p. 6 -7) "Economics is concerned with using scarce productive resources efficiently in attempting to satisfy society's material wants." This statement is:

- A. positive, but incorrect.
- B.** positive and correct.
- C. normative, but incorrect.
- D. normative and correct.

*Learning Objective: 1.4 Microeconomics and Macroeconomics*  
*Level: Easy*  
*McConnell - Chapter 001 #57*  
*Type: Application*

58. (p. 6 -7) Ben says that "An increase in the tax on beer will raise its price." Holly argues that "Taxes should be increased on beer because college students drink too much." We can conclude that:

- A. Ben's statement is normative, but Holly's is positive.
- B.** Holly's statement is normative, but Ben's is positive.
- C. Both statements are normative.
- D. Both statements are positive.

*Learning Objective: 1.4 Microeconomics and Macroeconomics*  
*Level: Moderate*  
*McConnell - Chapter 001 #58*  
*Type: Application*

59. (p. 7) The individuals and society both face an economic problem. This problem arises from the fact that:

- A. wants are limited but the resources are not.
- B.** resources are scarce relative to individual's wants.
- C. individuals and institutions behave only in their self-interest.
- D. both wants and resources are unlimited.

*Learning Objective: 1.5 The Economic problem*  
*Level: Easy*  
*McConnell - Chapter 001 #59*  
*Type: Application*

60. (p. 7) The individual's limited income problem:

- A. persists only because countries have failed to achieve continuous full employment.
- B.** exists because material wants are limited.
- C. has been solved in all industrialized nations.
- D. has been eliminated in affluent societies such as Canada and the United States.

*Learning Objective: 1.5 The Economic problem*  
*Level: Easy*  
*McConnell - Chapter 001 #60*  
*Type: Application*

61. (p. 7 -8) When the economist says that material wants are insatiable, this means that:

- A. economic resources are valuable only because they can be used to produce consumer goods.
- B. economic resources—land, labour, capital, and entrepreneurial ability—are scarce.
- C.** these wants are virtually unlimited and therefore incapable of complete satisfaction.
- D. the structure of consumer demand varies from time to time and from country to country.

*Learning Objective: 1.5 The Economic problem*  
*Level: Easy*  
*McConnell - Chapter 001 #61*  
*Type: Definition*

62. (p. 7 -8) As used in economics, the notion of scarce resources means that:

- A. mineral deposits are only available in finite amounts.
- B.** resources are not so plentiful that all individuals' material wants can be fulfilled.
- C. some resources are free while others have price tags on them.
- D. the quantities available of some resources exceed the demand for them.

*Learning Objective: 1.5 The Economic problem*  
*Level: Easy*

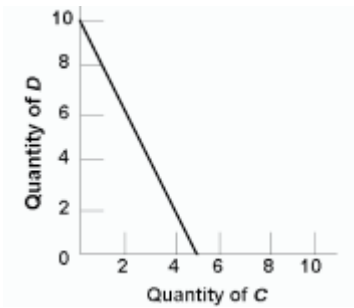
63. (p. 8) The budget line shows:
- A. the amount of product A which a consumer is willing to give up to obtain one more unit of product B.
  - B.** all possible combinations of two goods which can be purchased, given money income and the prices of the goods.
  - C. all equilibrium points on an indifference map.
  - D. all possible combinations of two goods which yield the same level of utility to the consumer.

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #63  
Type: Definition

64. (p. 8 -9) The price ratio of the two products is the:
- A. marginal rate of substitution.
  - B.** slope of the budget line.
  - C. point of tangency for equilibrium.
  - D. elasticity of demand for the two products.

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #64  
Type: Definition

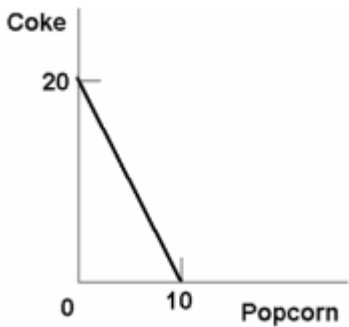
65. (p. 8 -9) Refer to the budget line shown in the diagram below. If the consumer's money income is \$20, the:



- A. prices of C and D cannot be determined.
- B. price of C is \$2 and the price of D is \$4.
- C. consumer can obtain a combination of 5 units of both C and D.
- D.** price of C is \$4 and the price of D is \$2.

Learning Objective: 1.5 The Economic problem  
Level: Difficult  
McConnell - Chapter 001 #65  
Type: Graphic

66. (p. 8 -9) Refer to the diagram below, suppose you have a money income of \$10 all of which you spend on Coke and boxes of popcorn. The prices of Coke and popcorn respectively are:



- A.** \$.50 and \$1.00.
- B. \$1.00 and \$.50.
- C. \$1.00 and \$2.00.
- D. \$.40 and \$.50.

Learning Objective: 1.5 The Economic problem  
Level: Moderate  
McConnell - Chapter 001 #66  
Type: Graphic

67. (p. 8 -9) In moving along a given budget line:

- A.** the prices of both products and money income are assumed to be constant.
- B. each point on the line will be equally satisfactory to consumers.
- C. money income varies, but the prices of the two goods are constant.
- D. the prices of both products are assumed to vary, but money income is constant.

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #67  
Type: Application

68. (p. 8 -9) In drawing a budget line it is assumed that:

- A. consumer preferences are fixed.
- B. the prices of the two products are variable.
- C.** money income is fixed.
- D. consumer willingness to substitute between the two products is fixed.



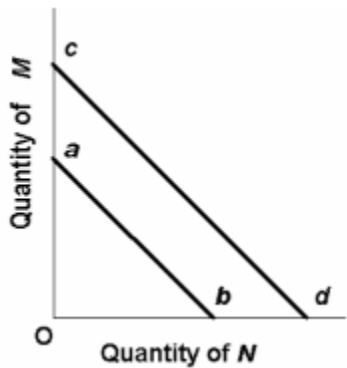
Learning Objective: 1.5 The Economic problem  
 Level: Easy  
 McConnell - Chapter 001 #68  
 Type: Application

69. (p. 8 -9) Any combination of goods lying outside of the budget line:

- A. implies that the consumer is not spending all of his income.
- B. yields less utility than any point on the budget line.
- C. yields less utility than any point inside the budget line.
- D.** is unattainable, given the consumer's income.

Learning Objective: 1.5 The Economic problem  
 Level: Easy  
 McConnell - Chapter 001 #69  
 Type: Application

70. (p. 9) The budget line shift from cd to ab in the below figure is consistent with:



- A. decreases in the prices of both M and N.
- B. an increase in the price of M and a decrease in the price of N.
- C.** a decrease in money income.
- D. an increase in money income.

Learning Objective: 1.5 The Economic problem  
 Level: Easy  
 McConnell - Chapter 001 #70  
 Type: Graphic

71. (p. 9) A leftward shift of a consumer's budget line to a position parallel with the original one could indicate that the:

- A. price of one product has decreased in relation to the other.
- B. prices of both products have decreased in the same proportion.
- C. marginal utilities derived from both products have decreased.
- D.** consumer's money income has increased but the prices of both products have increased proportionately more.

Learning Objective: 1.5 The Economic problem  
 Level: Moderate  
 McConnell - Chapter 001 #71  
 Type: Application

72. (p. 9) Which of the following statements is not correct?

- A.** A reduction in money income will shift the budget line to the right.
- B. A reduction in money income accompanied by an increase in product prices will necessarily shift the budget line to the left.
- C. An increase in product prices will shift the budget line to the left.
- D. An increase in money income will shift the budget line to the right.

Learning Objective: 1.5 The Economic problem  
 Level: Moderate  
 McConnell - Chapter 001 #72  
 Type: Application

73. (p. 10) The society must also make choices under conditions of scarcity. This problem arises from the fact that:

- A. Society's wants are limited but the resources are not.
- B.** resources are scarce relative to society's wants.
- C. societies behave only in their self-interest.
- D. society's wants and resources are both unlimited.

Learning Objective: 1.5 The Economic problem  
 Level: Easy  
 McConnell - Chapter 001 #73  
 Type: Application

74. (p. 10) The fundamental problem of economics is:

- A. to establish a democratic political framework for the provision of social goods and services.
- B. the establishment of prices which accurately reflect the relative scarcities of products and resources.
- C.** the scarcity of productive resources relative to material wants.
- D. to achieve a more equitable distribution of money income in order to mitigate poverty.

Learning Objective: 1.5 The Economic problem  
 Level: Easy  
 McConnell - Chapter 001 #74  
 Type: Application

75. (p. 10) Economic resources are also called:

- A. free gifts of nature.
- B. consumption goods.
- C. units of money capital.

D. factors of production.

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #75  
Type: Definition

76. (p. 10) Money is not considered to be an economic resource because:

- A. money, as such, is not productive.
- B. idle money balances do not earn interest income.
- C. the terms of trade can be determined in non-monetary terms.
- D. money is a free gift of nature.

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #76  
Type: Application

77. (p. 10) Which of the following is real capital?

- A. a pair of stockings
- B. a dump truck
- C. a savings account
- D. a share of Nortel stock

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #77  
Type: Definition

78. (p. 11) The main function of the entrepreneur is to:

- A. make routine pricing decisions.
- B. innovate.
- C. purchase capital.
- D. create market demand.

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #78  
Type: Definition

79. (p. 11 -12) The following production possibilities table represents an economy which is producing two products, tanks and autos. Refer to the table, in moving from possibility C to D, the cost of a tank in terms of autos is:

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

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

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #79  
Type: Calculation

(The following economy produces two products.)

Production Possibilities Table

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

McConnell - Chapter 001

80. (p. 12) Refer to the above table. A change from possibility C to B means that:

- A. 1 unit of steel is given up to get 75 units of wheat.
- B. 2 units of steel are given up to get 75 units of wheat.
- C. 1 unit of steel is given up to get 15 more units of wheat.
- D. 2 units of steel are given up to get 15 more units of wheat.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #80  
Type: Calculation

81. (p. 12) Refer to the above table. In moving from possibility C to D, the cost of a unit of steel in terms of a unit of wheat is:

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

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy

82. (p. 12) Refer to the above table. A change from possibility B to C means that:

- A. 10 units of wheat are given up to get one more unit of steel.
- B.** 15 units of wheat are given up to get one more unit of steel.
- C. 15 units of wheat are equal to one unit of steel.
- D. 75 units of wheat are equal to one unit of steel.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #82  
Type: Calculation

83. (p. 12) The production possibilities curve represents which of the following?

- A. the amount of goods attainable with variable resources
- B. the maximum amount of goods attainable with variable resources
- C.** maximum combinations of goods attainable with fixed resources
- D. the amount of goods attainable if prices decline

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #83  
Type: Definition

84. (p. 12) The production possibilities curve represents:

- A. the maximum amount of labour and capital available for production.
- B. combinations of goods and services among which consumers are indifferent.
- C.** maximum combinations of products available with fixed resources and technology.
- D. the maximum rate of growth of capital and labour in an economy.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #84  
Type: Definition

85. (p. 12) The construction of a production possibilities curve assumes:

- A. the quantities of all resources are fixed.
- B. technology is fixed.
- C. full employment and full production are being realized.
- D.** all of these.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #85  
Type: Definition

86. (p. 12) Assume an economy is operating at some point on its production possibilities curve which shows civilian and military goods. If the output of military goods is increased, the output of civilian goods:

- A. will remain unchanged.
- B. may be either increased or decreased.
- C.** must be decreased.
- D. must also be increased.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #86  
Type: Application

87. (p. 12) The production possibilities curve shows:

- A.** the various combinations of two goods which can be produced when society uses its scarce resources efficiently.
- B. the minimum outputs of two goods which will sustain a society.
- C. the various combinations of two goods which can be produced when some resources are unemployed.
- D. the ideal, but unattainable, combinations of two goods which would maximize consumer satisfactions.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #87  
Type: Definition

88. (p. 12) The negative slope of the production possibilities curve is a graphical way of indicating that:

- A. any economy "can have its cake and eat it too."
- B.** to produce more of one product we must accept less of another.
- C. the principle of increasing opportunity costs does not apply to the economy as a whole.
- D. consumers buy more when prices are low than they do when prices are high.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #88  
Type: Application

89. (p. 12) If an economy is operating on its production possibilities curve for consumer goods and capital goods, this means that:

- A. it is impossible to produce more consumer goods.
- B. resources cannot be reallocated between the two goods.
- C. it is impossible to produce more capital goods.
- D.** more consumer goods can only be produced at the cost of fewer capital goods.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs

Level: Easy  
 McConnell - Chapter 001 #89  
 Type: Application

90. (p. 12) In drawing a production possibilities curve we hold constant:

- A. the money supply.
- B. the consumer price index.
- C.** both technology and resource supplies
- D. resource supplies only.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #90  
 Type: Application

91. (p. 12) The production possibilities curve tells us:

- A. what specific combinations of two products is most desired by society.
- B. that costs do not change as society varies its output.
- C. costs are irrelevant in a society which has fixed resources.
- D.** what combinations of two goods can be produced with society's available resources.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #91  
 Type: Definition

92. (p. 12) When an economy is operating with maximum efficiency, the production of more of commodity A will mean the production of less of commodity B because:

- A. of the law of decreasing opportunity costs.
- B. material wants are insatiable.
- C.** resources are limited.
- D. resources are not specialized and are imperfectly shiftable.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #92  
 Type: Application

93. (p. 12) The production possibilities curve:

- A. shows all of those levels of production which are consistent with a stable price level.
- B. indicates that any combination of goods lying outside the curve is economically inefficient.
- C.** is a frontier between all combinations of two goods which can be produced and those combinations which cannot be produced.
- D. shows all of those combinations of two goods which are most preferred by society.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #93  
 Type: Definition

94. (p. 12) The production possibilities curve illustrates the basic principle that:

- A. the production of more of any one good will in time require smaller and smaller sacrifices of other goods.
- B. an economy will automatically seek that level of output at which all of its resources are employed.
- C.** if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
- D. an economy's capacity to produce increases in proportion to its population size.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #94  
 Type: Application

95. (p. 12) A production possibilities curve illustrates:

- A.** scarcity.
- B. market prices.
- C. consumer preferences.
- D. the distribution of income.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #95  
 Type: Application

96. (p. 12) A production possibilities curve shows:

- A. that resources are unlimited.
- B. that people prefer one of the goods more than the other.
- C.** the maximum amounts of two goods which can be produced assuming the full and efficient use of available resources.
- D. combinations of capital and labour necessary to produce specific levels of output.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #96  
 Type: Definition

97. (p. 12) In drawing the production possibilities curve we assume that:

- A.** technology is fixed.
- B. unemployment exists.
- C. economic resources are unlimited.
- D. wants are limited.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #97  
Type: Application

98. (p. 12) Which of the following is assumed in constructing a typical production possibilities curve?

- A. the economy is using its resources inefficiently.
- B. resources are perfectly shiftable among alternative uses.
- C. production technology is fixed.
- D. the economy is engaging in international trade.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #98  
Type: Definition

99. (p. 12) Which of the following is not correct? A typical production possibilities curve:

- A. indicates how much of two products a society can produce.
- B. reveals how much each additional unit of one product will cost in terms of the other product.
- C. specifies how much of each product society should produce.
- D. indicates that to produce more of one product society must give up larger and larger amounts of the other product.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #99  
Type: Definition

100. (p. 12) Which one of the following statements is correct?

- A. Relative scarcity is no longer a central notion in economics because we are in an age of abundance.
- B. Most production possibilities curves are convex as viewed from the origin.
- C. The production possibilities curve shows society's preferences for consumer goods relative to capital goods.
- D. The central concept underlying the production possibilities curve is that of limited resources.

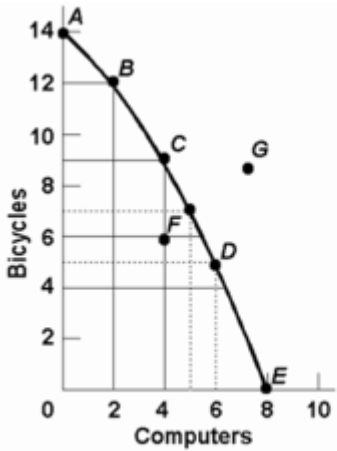
Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #100  
Type: Application

101. (p. 12) The typical production possibilities curve is:

- A. an upward sloping line which is concave to the origin.
- B. a downward sloping line which is convex to the origin.
- C. a downward sloping line which is concave to the origin.
- D. a straight upward sloping line.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #101  
Type: Definition

102. (p. 13) Refer to the diagram below. Points A, B, C, D, and E show:



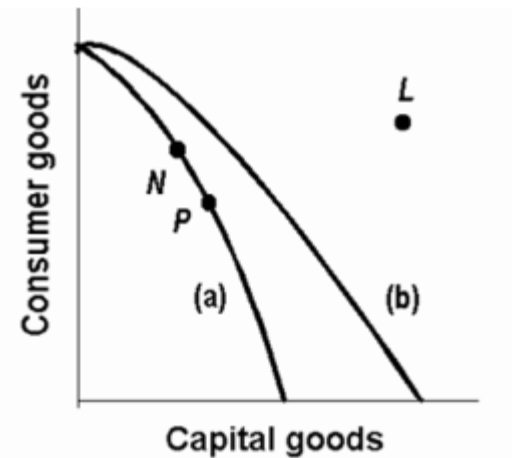
- A. that the opportunity cost of bicycles increases, while that of computers is constant.
- B. combinations of bicycles and computers which society can produce by using its resources efficiently.
- C. that the opportunity cost of computers increases, while that of bicycles is constant.
- D. that society's demand for computers is greater than its demand for bicycles.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #102  
Type: Graphic

103. (p. 13)

Refer to the following production possibilities curves. Curve (a) is the current curve for the economy. Given production possibilities curve (a), the combination of capital and consumer goods indicated by point L:





- A. would entail substantial unemployment.
- B. would entail an inefficient use of society's resources.
- C.** is beyond the productive capacity of this society.
- D. suggests the productive capacity of the system is declining.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #103  
Type: Graphic

104. (p. 13) A point on the frontier of the production possibilities curve is:

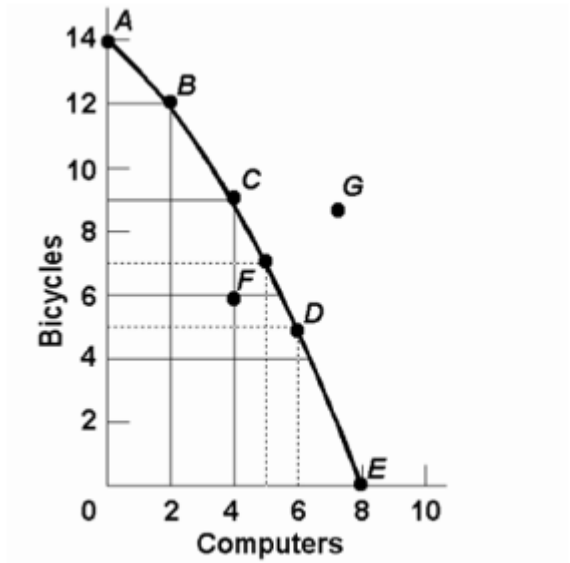
- A.** attainable and the economy is efficient.
- B. attainable, but the economy is inefficient.
- C. unattainable, but the economy is inefficient.
- D. unattainable and the economy is efficient.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #104  
Type: Definition

105. (p. 13) A point inside the production possibilities curve is:

- A. attainable and the economy is efficient.
- B.** attainable, but the economy is inefficient.
- C. unattainable, but the economy is inefficient.
- D. unattainable and the economy is efficient.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #105  
Type: Application



McConnell - Chapter 001

106. (p. 13) Refer to the above diagram. The combination of computers and bicycles shown by point G is:

- A. attainable, but too costly.
- B.** unattainable, given currently available resources and technology.
- C. attainable, but involves unemployment.
- D. irrelevant because it is inconsistent with consumer preferences.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #106  
Type: Graphic

107. (p. 13) Refer to the above diagram. The combination of computers and bicycles shown by point F:

- A. is unattainable, given currently available resources and technology.
- B.** is attainable, but entails economic inefficiency.
- C. is irrelevant because it is inconsistent with consumer preferences.
- D. suggests that opportunity costs are constant.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #107  
Type: Graphic

108. (p. 14) Refer to the above diagram. If society is currently producing the combination of bicycles and computers shown by point D, the

production of 2 more units of bicycles:

- A. cannot be realized because resources are fully employed.
- B.** will cost 1 unit of computers.
- C. will cost 2 units of computers.
- D. will cause some resources to become unemployed.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #108  
 Type: Calculation

109. (p. 14) Refer to the above diagram. The movement down the production possibilities curve from point A to point E suggests that the production of:

- A. computers, but not bicycles, is subject to increasing opportunity costs.
- B. bicycles, but not computers, is subject to increasing opportunity costs.
- C. both bicycles and computers is subject to constant opportunity costs.
- D.** both bicycles and computers is subject to increasing opportunity costs.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Moderate  
 McConnell - Chapter 001 #109  
 Type: Application

110. (p. 14) The slope of the typical production possibilities curve:

- A. is positive.
- B.** increases as one moves southeast along the curve.
- C. is constant as one moves down the curve.
- D. decreases as one moves southeast along the curve.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #110  
 Type: Application

111. (p. 14) The production possibilities curve has:

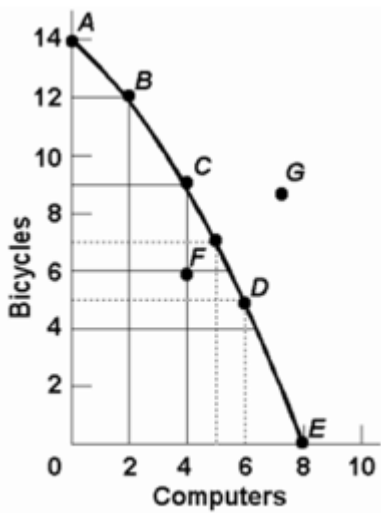
- A. a positive slope which increases as we move along it from left to right.
- B.** a negative slope which increases as we move along it from left to right.
- C. a negative slope which decreases as we move along it from left to right.
- D. a negative slope which is constant as we move along it from left to right.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #111  
 Type: Application

112. (p. 14) The law of increasing opportunity costs states that:

- A.** if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of other goods to do so.
- B. the sum of the costs of producing a particular good cannot rise above the current market price of that good.
- C. if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative amount.
- D. if the prices of all the resources devoted to the production of goods increase, the cost of producing any particular good will increase at the same rate.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Moderate  
 McConnell - Chapter 001 #112  
 Type: Definition



McConnell - Chapter 001

113. (p. 14) Refer to the above diagram. This production possibilities curve is:

- A. convex to the origin because opportunity costs are constant.
- B. linear because opportunity costs are constant.
- C.** concave to the origin because of increasing opportunity costs.
- D. convex to the origin because of increasing opportunity costs.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #113  
 Type: Graphic

114. (p. 14) Refer to the above diagram. If society is currently producing 9 units of bicycles and 4 units of computers and it now decides to increase computer output to 6, the cost:
- A. will be 4 units of bicycles.
  - B. will be 2 units of bicycles.
  - C. will be zero because unemployed resources are available.
  - D. of doing so cannot be determined from the information given.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #114  
Type: Graphic

115. (p. 14) The concept of opportunity cost:
- A. is irrelevant in socialistic economies because of central planning.
  - B. suggests that the use of resources in any particular line of production means that alternative outputs must be forgone.
  - C. is irrelevant if the production possibilities curve is shifting to the right.
  - D. suggests that insatiable wants can be fulfilled.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #115  
Type: Definition

116. (p. 14) Which of the following is not an illustration of the idea of opportunity cost?
- A. A growing economy can produce more consumer goods and more capital goods at the same time.
  - B. If I buy a pizza, I will not be able to afford a movie.
  - C. Resources devoted to consumer goods production are not available for capital goods production.
  - D. The land a Manitoba farmer plants in wheat is not available for corn production.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #116  
Type: Application

117. (p. 14) Opportunity costs is best defined as:
- A. the monetary price of any productive resource.
  - B. the amount of labour which must be used to produce one unit of any product.
  - C. the ratio of the prices of imported goods to the prices of exported goods.
  - D. the amount of one product which must be given up to produce one more unit of another product.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #117  
Type: Definition

Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina						
Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

South Cantina						
Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

McConnell - Chapter 001

118. (p. 14) Refer to the above tables. If South Cantina is producing at production alternative D, the opportunity cost of the third unit of capital goods is:
- A. 3 units of consumer goods.
  - B. 4 units of consumer goods.
  - C. 5 units of consumer goods.
  - D. 6 units of consumer goods.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #118  
Type: Calculation

119. (p. 14) Refer to the above tables. If North Cantina is producing at production alternative B, the opportunity cost of the eleventh unit of consumer will be:
- A. 10 units of capital goods.
  - B.  $\frac{1}{4}$  of a unit of capital goods.
  - C. 8 units of capital goods.
  - D.  $\frac{1}{8}$  of a unit of capital goods.

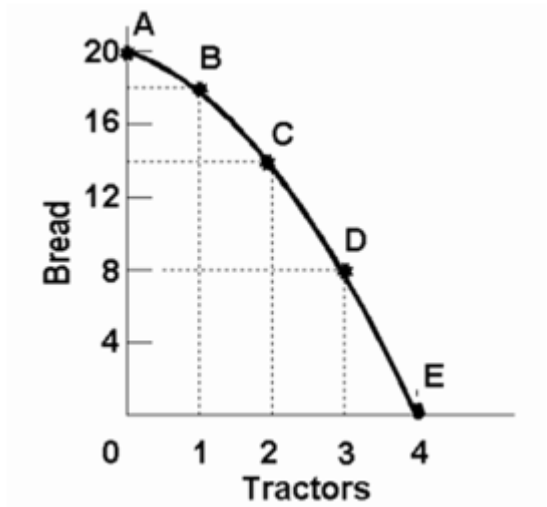
Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #119  
Type: Calculation

120. (p. 14) Refer to the above tables. The opportunity cost of the fifth unit of capital goods:



- A. is higher in North Cantina than in South Cantina.
- B. is the same in North Cantina and South Cantina.
- C. is lower in North Cantina than in South Cantina.
- D. cannot be determined from the information provided.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Moderate  
 McConnell - Chapter 001 #120  
 Type: Calculation



McConnell - Chapter 001

121. (p. 14) Refer to the above diagram. Starting at point A, the opportunity cost of producing each successive unit of tractors is:

- A. a constant 2 units of bread.
- B. 2, 4, 6, and 8 units of bread.
- C. 8, 6, 4, and 2 units of bread.
- D. the reciprocal of the output of tractors.

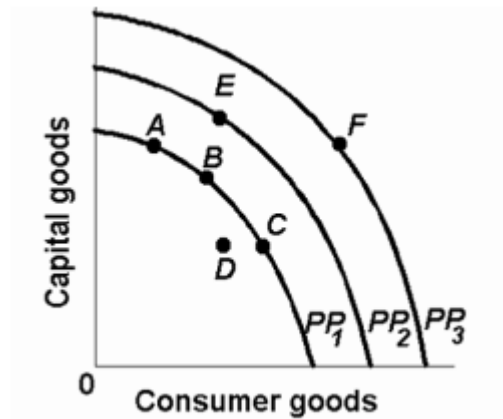
Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Moderate  
 McConnell - Chapter 001 #121  
 Type: Graphic

122. (p. 14) Refer to the above diagram. Starting at point E, the production of successive units of bread will cost:

- A. a constant 8 units of tractors.
- B. a constant 6 units of tractors.
- C.  $\frac{1}{8}$ ,  $\frac{1}{6}$ ,  $\frac{1}{4}$ , and  $\frac{1}{2}$  units of tractors.
- D.  $\frac{1}{2}$ ,  $\frac{1}{4}$ ,  $\frac{1}{6}$ , and  $\frac{1}{8}$  units of tractors.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Difficult  
 McConnell - Chapter 001 #122  
 Type: Graphic

123. (p. 14) Refer to the diagram below. The concept of opportunity cost is best represented by the:



- A. shift of the production possibilities curve from  $PP_1$  to  $PP_2$ .
- B. move from B on  $PP_1$  to E on  $PP_2$ .
- C. move from B on  $PP_1$  to C on  $PP_1$ .
- D. move from D inside  $PP_1$  to B on  $PP_1$ .

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #123  
 Type: Graphic

124. (p. 14) The fact that the slope of the production possibilities curve becomes steeper as we move down along the curve indicates that:

- A. the principle of increasing opportunity costs is relevant.
- B. society's resources are limited.
- C. the opportunity cost of producing each product is constant.
- D. resources are perfectly shiftable between alternative uses.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Moderate  
 McConnell - Chapter 001 #124  
 Type: Application

Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

McConnell - Chapter 001

125. (p. 14) Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:

- A. 4 units of capital goods.
- B. 2 units of capital goods.
- C. 3 units of capital goods.
- D.**  $\frac{1}{3}$  of a unit of capital goods.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #125  
Type: Calculation

126. (p. 14) Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:

- A. the amount of consumer goods which must be sacrificed to get more capital goods diminishes beyond a point.
- B.** larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
- C. the production possibilities data would graph as a straight downsloping line.
- D. the economy's resources are presumed to be scarce.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #126  
Type: Application

127. (p. 14) Refer to the table below. In moving from possibility A to F, the cost of a unit of steel in terms of a unit of wheat:

(The following economy produces two products.)

Production Possibilities

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

- A.** increases.
- B. decreases.
- C. remains constant.
- D. increases from A to B, and decreases from B to F.

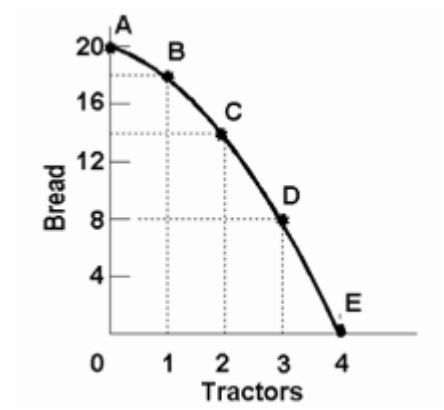
Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #127  
Type: Calculation

128. (p. 14) A typical concave production possibilities curve implies:

- A. that economic resources are scarce.
- B. that society must choose among various attainable combinations of goods.
- C. increasing opportunity costs.
- D.** all of these.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #128  
Type: Definition

129. (p. 14) Refer to the diagram below. This production possibilities curve is constructed such that:



- A. resources are presumed to be perfectly shiftable as between bread and tractors.
- B. the opportunity cost of bread diminishes as more bread is produced.
- C. the opportunity cost of tractors diminishes as more bread is produced.
- D.** the opportunity cost of both bread and tractors in terms of each other increases as more of each is produced.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #129  
Type: Graphic

130. (p. 14) The law of increasing opportunity costs exists because:

- A.** resources are not equally efficient in producing various goods.
- B. the value of the dollar has diminished historically because of persistent inflation.
- C. wage rates invariably rise as the economy approaches full employment.

D. consumers tend to value any good more highly when they have little of it.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #130  
Type: Application

131. (p. 14) The law of increasing opportunity costs is reflected in a production possibilities curve which is:

- A. an upward sloping straight line.
- B. a downward sloping straight line.
- C. concave to the origin.
- D. convex to the origin.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #131  
Type: Application

The production possibilities curve below shows the hypothetical relationship between the production of capital goods and consumer goods in an economy.

Products	Production Alternatives				
	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumer goods	22	18	13	7	0

McConnell - Chapter 001

132. (p. 14) Refer to the above table. What is the opportunity cost of producing the third unit of capital goods?

- A. 4 units of consumer goods
- B. 5 units of consumer goods
- C. 6 units of consumer goods
- D. 7 units of consumer goods

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #132  
Type: Calculation

133. (p. 14) Refer to the above table. What is the total opportunity cost of producing two units of capital goods?

- A. 4 units of consumer goods
- B. 5 units of consumer goods
- C. 9 units of consumer goods
- D. 13 units of consumer goods

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #133  
Type: Calculation

134. (p. 14) Refer to the above table. What is the opportunity cost of producing the fourth unit of capital goods?

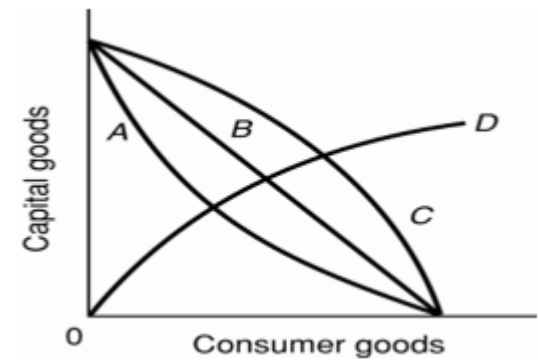
- A. 6 units of consumer goods
- B. 7 units of consumer goods
- C. 15 units of consumer goods
- D. 22 units of consumer goods

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #134  
Type: Calculation

135. (p. 14) Refer to the above table. What is the total opportunity cost of producing three units of capital goods?

- A. 6 units of consumer goods
- B. 7 units of consumer goods
- C. 15 units of consumer goods
- D. 22 units of consumer goods

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #135  
Type: Calculation



McConnell - Chapter 001

136. (p. 14) Refer to the above diagram. As it relates to production possibilities analysis, the law of increasing opportunity cost is reflected in curve:

- A. A.
- B. B.

- C. C.
- D. D.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #136  
 Type: Graphic

137. (p. 14) Refer to the above diagram. Curve B is a:

- A. production possibilities curve indicating constant opportunity costs.
- B. production possibilities curve indicating increasing opportunity costs.
- C. demand curve indicating that the quantity of consumer goods demanded increases as the price of capital falls.
- D. technology frontier curve.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Moderate  
 McConnell - Chapter 001 #137  
 Type: Graphic

138. (p. 14) If the production possibilities curve is a straight line:

- A. the two products will sell at the same market prices.
- B. economic resources are perfectly shiftable between the production of the two products.
- C. the two products are equally important to consumers.
- D. equal quantities of the two products will be produced at each possible point on the curve.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #138  
 Type: Application

139. (p. 14) A nation's production possibilities curve is "bowed out" from the origin because:

- A. resources are not equally efficient in producing every good.
- B. the originator of the idea drew it this way and modern economists follow this convention.
- C. resources are scarce.
- D. wants are virtually unlimited.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #139  
 Type: Application

140. (p. 14) If the production possibilities curve were a straight downsloping line, this would suggest that:

- A. resources are perfectly shiftable between the production of these two goods.
- B. it is possible to produce more of both products.
- C. both products are equally capable of satisfying consumer wants.
- D. the two products have identical prices.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #140  
 Type: Application

141. (p. 14) Refer to the diagram below. The concave shape of each production possibilities curve indicates that:



- A. resources are perfectly substitutable.
- B. wants are virtually unlimited.
- C. prices are constant.
- D. resources are not equally suited for alternative uses.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #141  
 Type: Graphic

142. (p. 14) The marginal benefit curve is:

- A. upward sloping because of increasing marginal opportunity costs.
- B. upward sloping because successive units of a specific product yield less and less extra utility.
- C. downward sloping because of increasing marginal opportunity costs.
- D. downward sloping because successive units of a specific product yield less and less extra utility.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
 Level: Easy  
 McConnell - Chapter 001 #142  
 Type: Definition

143. (p. 14) The marginal cost curve is:

- A. upsloping because of increasing marginal opportunity costs.
- B. upsloping because successive units of a specific product yield less and less extra utility.
- C. downsloping because of increasing marginal opportunity costs.
- D. downsloping because successive units of a specific product yield less and less extra utility.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #143  
Type: Definition

144. (p. 15) The output of compact disc players should be:

- A. reduced if marginal benefits exceed marginal costs.
- B. reduced if marginal costs exceed marginal benefits.
- C. increased if marginal costs exceed marginal benefits.
- D. reduced to zero if their unit costs exceed the unit costs of alternative products.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #144  
Type: Application

145. (p. 15) If the output of product X is such that marginal benefit equals marginal cost:

- A. the correct amount of resources is being allocated to X's production.
- B. the value of producing X and the value of producing alternative products with available resources is the same.
- C. there can be no net gain to society by allocating either more or less resources to producing X.
- D. all of these are true.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #145  
Type: Definition



McConnell - Chapter 001

146. (p. 15) Refer to the above diagram for athletic shoes. The optimal output of shoes:

- A. is Q<sub>1</sub>.
- B. is Q<sub>2</sub>.
- C. is Q<sub>3</sub>.
- D. is greater than Q<sub>3</sub>.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #146  
Type: Graphic

147. (p. 15) Refer to the above diagram for athletic shoes. If the current output of shoes is Q<sub>1</sub>, then:

- A. society would consider additional units of shoes to be more valuable than alternative products.
- B. society would consider additional units of shoes to be less valuable than alternative products.
- C. society would experience a net loss by producing more shoes.
- D. resources are being allocated efficiently to the production of shoes.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #147  
Type: Application

148. (p. 15) Refer to the above diagram for athletic shoes. If the current output of shoes is Q<sub>3</sub>, then:

- A. resources are being allocated efficiently to the production of shoes.
- B. society would consider additional units of shoes to be more valuable than alternative products.
- C. society would consider additional units of shoes to be less valuable than alternative products.
- D. society would experience a net gain by producing more shoes.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #148  
Type: Application

Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

McConnell - Chapter 001

149. (p. 16 -17) Refer to the above table. As compared to production alternative D, the choice of alternative C would:



- A. tend to generate a more rapid growth rate.
- B. be unattainable.
- C. entail unemployment.
- D. tend to generate a slower growth rate.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #149  
Type: Application

150. (p. 16 -17) Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:

- A. is irrelevant because the economy is capable of producing a larger total output.
- B. will result in the maximum rate of growth available to this economy.
- C. would involve an inefficient use of the economy's scarce resources.
- D. is unobtainable in this economy.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #150  
Type: Application

151. (p. 16 -17) Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:

- A. achieve economic growth.
- B. use its resources more efficiently than the data in the table now indicate.
- C. allocate its available resources most efficiently among alternative uses.
- D. achieve the full employment of available resources.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #151  
Type: Application

Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

South Cantina Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

McConnell - Chapter 001

152. (p. 16 -17) Refer to the above tables. Suppose that North Cantina is producing 2 units of capital goods and 17 units of consumer goods while South Cantina is producing 2 units of capital goods and 21 units of consumer goods. We can conclude that:

- A. North Cantina is fully and efficiently using its resources, but South Cantina is not.
- B. South Cantina is fully and efficiently using its resources, but North Cantina is not.
- C. neither South Cantina nor North Cantina are fully and efficiently using their resources.
- D. both South Cantina and North Cantina are fully and efficiently using their resources.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #152  
Type: Application

153. (p. 16 -17) Refer to the above tables. Suppose that resources in North Cantina and South Cantina are identical in quantity and quality. We can conclude that:

- A. South Cantina has better technology than North Cantina in producing both capital and consumer goods.
- B. North Cantina has better technology than South Cantina in producing both capital and consumer goods.
- C. North Cantina is growing more rapidly than South Cantina.
- D. North Cantina has better technology than South Cantina in producing consumer goods.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Difficult  
McConnell - Chapter 001 #153  
Type: Application

154. (p. 16 -17) Refer to the table below. According to the production possibilities schedule for the economy which produces two products , a combination of four tanks and 650 autos is:

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

- A. attainable, but involves an efficient use of society's resources.
- B. attainable, but would not be in the best interests of a strong national defence.
- C. not attainable because it is not listed in the schedule.
- D. not attainable because society does not have sufficient resources to produce this combination.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #154  
Type: Application

155. (p. 16 -17) Assume that a change in government policy results in the increased production of both consumer goods and investment goods. It can be concluded that:

- A. the economy was suffering from unemployment and/or the inefficient use of resources before the policy change.
- B. the economy's production possibilities curve has been shifted to the left as a result of the policy decision.
- C. this economy's production possibilities curve is convex (bowed inward) as viewed from the origin.
- D. the law of increasing opportunity costs does not apply in this society.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #155  
 Type: Application

156. (p. 16 -17) Refer to the diagram. This economy will experience unemployment if it produces at point:



- A. A.
- B. B.
- C. C.
- D. D.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Easy  
 McConnell - Chapter 001 #156  
 Type: Graphic



McConnell - Chapter 001

157. (p. 16 -17) Refer to the above production possibilities curve. At the onset of World War II Canada had large amounts of idle human and property resources. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A. c to point b.
- B. b to point c.
- C. a to point b.
- D. c to point d.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #157  
 Type: Graphic

158. (p. 16 -17) Refer to the above production possibilities curve. At the onset of World War II the Soviet Union was already at full employment. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A. c to point b.
- B. b to point c.
- C. a to point b.
- D. c to point d.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Easy  
 McConnell - Chapter 001 #158  
 Type: Graphic

159. (p. 16 -17) Any point inside the production possibilities curve indicates:

- A. the realization of allocative efficiency.
- B. that resources are imperfectly shiftable among alternative uses.
- C. the presence of inflationary pressures.
- D. that more output could be produced with available resources.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Easy  
 McConnell - Chapter 001 #159  
 Type: Application

160. (p. 16 -17) Unemployment and/or productive inefficiencies:

- A. cause the production possibilities curve to shift outward.
- B. can exist at any point on a production possibilities curve.
- C. can both be illustrated by a point outside the production possibilities curve.

**D.** can both be illustrated by a point inside the production possibilities curve.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Easy  
 McConnell - Chapter 001 #160  
 Type: Application

161. (p. 16 -17) A point inside a production possibilities curve may indicate:

- A. unemployment.
- B. the inefficient use of resources.
- C. failure to use the best available technology.
- D.** all of these.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Easy  
 McConnell - Chapter 001 #161  
 Type: Application

162. (p. 16 -17) Assume an economy is incurring unemployment and failing to realize least-cost production. The immediate effect of resolving these problems will be to:

- A.** move the level of actual output closer to the economy's production possibilities curve.
- B. create a less equal distribution of income.
- C. shift its production possibilities curve to the left.
- D. shift its production possibilities curve to the right.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #162  
 Type: Application

163. (p. 16 -17) If an economy is operating inside its production possibilities curve for consumer goods and capital goods, this means that it:

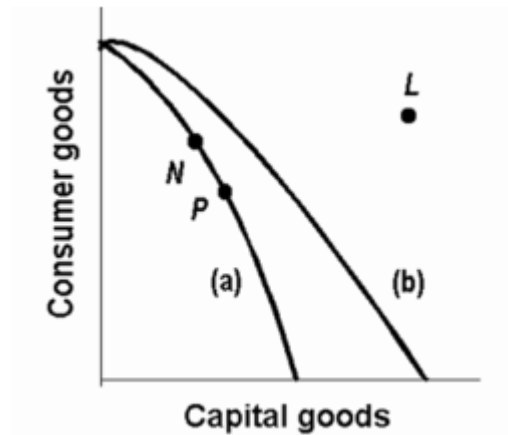
- A. can only produce more consumer goods by producing fewer capital goods.
- B. can only produce more capital goods by producing fewer consumer goods.
- C.** can produce more of both consumer goods and capital goods by using its resources more efficiently.
- D. must improve its technology to produce more output.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #163  
 Type: Application

164. (p. 16 -17) Which of the following will not require an outward shift of the production possibilities curve?

- A. an upgrading of the quality of a nation's human resources
- B.** the reduction of unemployment
- C. an increase in the quantity of a society's labour force
- D. the improvement of a society's technological knowledge

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #164  
 Type: Application



McConnell - Chapter 001

165. (p. 16 -17) Refer to the above production possibilities curves. Curve (a) is the current curve for the economy. The movement from curve (a) to curve (b) suggests:

- A. a movement from unemployment to full employment.
- B.** an improvement in capital goods technology but not in consumer goods technology.
- C. an improvement in consumer goods technology but not in capital goods technology.
- D. a decline in the total output of this society.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #165  
 Type: Application

166. (p. 16 -17) Refer to the above production possibilities curves. Curve (a) is the current curve for the economy. Other things being equal, society's current choice of point P on curve (a) will:

- A.** allow it to achieve more rapid economic growth than would the choice of point N.
- B. entail a slower rate of economic growth than would the choice of point N.
- C. entail the same rate of growth as would the choice of point N.
- D. be unobtainable because it exceeds the productive capacity of the economy.



Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #166  
 Type: Application

167. (p. 16 -17) The basic difference between consumer goods and capital goods is that

- A. consumer goods are produced in the private sector and capital goods are produced in the public sector.
- B. an economy that commits a relatively large proportion of its resources to capital goods must accept a lower growth rate.
- C. the production of capital goods is not subject to the law of increasing opportunity costs.
- D. consumer goods satisfy wants directly while capital goods satisfy wants indirectly.**

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #167  
 Type: Definition

168. (p. 16 -17) Which of the following would be most likely to shift the production possibilities curve to the right?

- A. a sudden and substantial expansion of consumer wants
- B. an improvement in the literacy level and general level of education**
- C. a decline in the size of the population and labour force
- D. shifting resources from butter to gun production

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #168  
 Type: Application

169. (p. 16 -17) Which of the following will not shift a nation's production possibilities curve?

- A. the acquisition of more education and training by its labour force
- B. the widespread application of irrigation to its agricultural land
- C. an increase in the rate of unemployment**
- D. the discovery of new super-conductivity materials which makes manufacturing more efficient

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #169  
 Type: Application

170. (p. 16 -17) Which of the following will shift the production possibilities curve to the right?

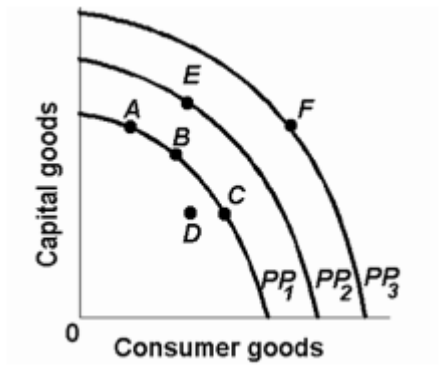
- A. an increase in the unemployment rate from 6 to 8 percent
- B. a decline in the efficiency with which the present labour force is allocated
- C. a decrease in the unemployment rate from 8 to 6 percent
- D. a technological advance which allows farmers to produce more output from given inputs**

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #170  
 Type: Application

171. (p. 16 -17) Other things equal, which of the following would shift an economy's production possibilities curve to the left?

- A. the discovery of a low-cost means of generating and storing solar energy
- B. the entrance of more women into the labour force
- C. a law requiring mandatory retirement from the labour force at age 55**
- D. an increase in the proportion of total output which consists of capital or investment goods

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #171  
 Type: Application



McConnell - Chapter 001

172. (p. 16 -17) Refer to the above diagram. An improvement in technology will:

- A. shift the production possibilities curve from PP<sub>1</sub> to PP<sub>2</sub>.**
- B. shift the production possibilities curve from PP<sub>2</sub> to PP<sub>1</sub>.
- C. move the economy from A to C along PP<sub>1</sub>.
- D. move the economy from A, B, or C on PP<sub>1</sub> to D.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Easy  
 McConnell - Chapter 001 #172  
 Type: Graphic

173. (p. 16

-17) Refer to the above diagram. Which one of the following would shift the production possibilities curve from PP<sub>1</sub> to PP<sub>2</sub>?

- A. immigration of skilled workers into the economy
- B. worsening of the AIDS epidemic
- C. an increase in consumer prices
- D. a reduction in the age of retirement

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #173  
Type: Graphic

174. (p. 16 -17) Which situation would most likely shift the production possibilities curve for a nation in an outward direction?

- A. a decrease in the quality of products
- B. an increase in the supply of resources
- C. a decrease in the state of technology
- D. an increase in the amount of discrimination

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #174  
Type: Application

175. (p. 16 -17) Which situation would most likely cause a nation's production possibilities curve to shift inward?

- A. the construction of more capital goods
- B. a decrease in discrimination based on race
- C. an increase in the number of skilled immigrant workers
- D. the destruction from bombing and warfare in a losing military conflict

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #175  
Type: Application

176. (p. 16 -17) All of the following could immediately or eventually lead to an inward shift of a nation's production possibilities curve, except:

- A. an increase in the amount of discrimination.
- B. a decline in the birth rate.
- C. an increase in the average skill level of all occupational groups.
- D. depletion and reduced availability of major energy resources.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #176  
Type: Application

177. (p. 16 -17) Some agricultural sub-Saharan nations of Africa have over-farmed and overgrazed their land to the extent that significant portions of it have turned into desert. This suggests that:

- A. the concavity of the production possibilities curves of such nations has increased.
- B. the production possibilities curves of such nations have shifted inward.
- C. the production possibilities curves of such nations have shifted outward.
- D. these nations are operating at some point outside of their production possibilities curves.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #177  
Type: Application

178. (p. 18) Which of the following statements, if any, is correct for a nation which is producing only consumption and capital goods?

- A. Other things equal, the more consumer goods a nation produces, the greater will be its future growth rate.
- B. Other things equal, the more capital goods a nation produces, the greater will be its future growth rate.
- C. There is no general relationship between the current division of output between consumer and capital goods and the future growth rate.
- D. None of these statements is correct.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Easy  
McConnell - Chapter 001 #178  
Type: Application

179. (p. 18) In recent years Germany has been investing a larger proportion of its domestic output than has Canada. As a result, we would expect:

- A. a higher rate of growth of domestic output in Germany than in Canada.
- B. greater rightward shifts in Germany's production possibilities curve as compared to Canada.
- C. that in the long run living standards would rise more rapidly in Germany than in Canada.
- D. all of these to happen.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
Level: Moderate  
McConnell - Chapter 001 #179  
Type: Application

180. (p. 18) Deltonia produces both consumer and capital goods. If it reduces the percentage of its output devoted to capital goods, then:

- A. its rate of growth will tend to decline.
- B. its production possibilities curve will necessarily shift to the left.
- C. it must also reduce the percentage of its output devoted to consumer goods.
- D. its rate of growth will tend to increase.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #180  
 Type: Application

181. (p. 18) Refer to the diagram below. Other things equal, this economy will achieve the most rapid rate of growth if:



- A. the ratio of capital to consumer goods is minimized.
- B. it chooses point C.
- C. it chooses point B.
- D. it chooses point A.**

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Easy  
 McConnell - Chapter 001 #181  
 Type: Graphic

182. (p. 18) The future location of the economy's production possibilities curve will be affected by:

- A. the current division of domestic output between consumption and capital goods.
- B. the rate of technological progress.
- C. the growth of the economy's supplies of resources.
- D. all of these.**

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #182  
 Type: Application

183. (p. 18) Refer to the diagram. Which of the following positions relative to  $PP_1$  would be the most likely to result in a future production possibilities curve of  $PP_3$ , rather than  $PP_2$ ?



- A. A.**
- B. B.
- C. C.
- D. D.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #183  
 Type: Graphic

184. (p. 19) Through specialization and international trade a nation:

- A. can achieve some combination of goods lying outside its production possibilities curve.**
- B. can move from a high consumption-low investment to a high investment-low consumption point on its production possibilities curve.
- C. will achieve some combination of goods lying within its production possibilities curve.
- D. will cause its production possibilities curve to shift leftward.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Moderate  
 McConnell - Chapter 001 #184  
 Type: Application

185. (p. 19) A country can achieve some combination of goods outside its production possibilities curve by:

- A. idling some of its resources.
- B. specializing and engaging in international trade.**
- C. buying the debt (bonds and stocks) of foreign nations.
- D. producing more consumption goods and fewer capital goods.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
 Level: Easy  
 McConnell - Chapter 001 #185  
 Type: Application

186. (p. 20) The "fallacy of composition" states that:

- A. because economic systems are comprised of so many diverse economic units economic laws are necessarily inexact.
- B. the anticipation of a particular event can affect the nature or composition of that event when it occurs.
- C.** what is true for the individual must necessarily be true for the group.
- D. because event A precedes event B, A is necessarily the cause of B.

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #186  
Type: Definition

187. (p. 20) The safest way for an individual to leave a burning theatre is to run for the nearest exit; it is therefore also the best means of escape for a large audience. This illustrates the:

- A. "after this, therefore because of this" fallacy.
- B. correlation fallacy.
- C.** fallacy of composition.
- D. fallacy of limited decisions.

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #187  
Type: Application

188. (p. 20) Which of the following has to do with the notion that generalizations that apply to individuals are also always valid for a group?

- A. the law of large numbers
- B. the law of averages
- C.** the fallacy of composition
- D. the post hoc, ergo propter hoc fallacy

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #188  
Type: Definition

189. (p. 20) The "fallacy of composition" states that:

- A. generalizations relevant to microeconomics never pertain to macroeconomics.
- B. expectations give rise to self-fulfilling prophecies.
- C.** generalizations pertaining to individuals always pertain to the group.
- D. quantifiable economic goals are always incompatible with one another.

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #189  
Type: Definition

190. (p. 20) "If you leave a football game at the end of the third quarter, you will avoid traffic and get home more quickly. Therefore, everyone should leave the game early." This illustrates the:

- A. moral hazard problem.
- B. adverse selection problem.
- C. fallacy of limited decisions.
- D.** fallacy of composition.

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #190  
Type: Application

191. (p. 20) The fallacy of composition is essentially the error of:

- A. omitting relevant variables in constructing a model.
- B. reasoning from the general to the particular.
- C. confusing cause and effect in economic relationships.
- D.** generalizing from the particular to the general.

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #191  
Type: Definition

192. (p. 20) What pitfall to objective thinking is reflected in a person's view that oil companies are price-gouging the consumer?

- A. definition
- B. post hoc fallacy
- C.** loaded terminology
- D. confusing correlation and causation

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #192  
Type: Application

193. (p. 20) What pitfall to objective thinking is reflected when a person states that "capitalists don't care about workers and greedy individuals"?

- A. abstraction
- B.** loaded terminology
- C. the fallacy of composition
- D. confusing correlation and causation

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #193  
Type: Application

194. (p. 20) Which is an example of "loaded terminology"?

- A. tentative hypothesis
- B. market forces
- C. creeping socialism**
- D. entrepreneurial functions

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #194  
Type: Application

195. (p. 20) What pitfall to economic thinking is reflected in the following statement? "Free trade agreements only lead to the exporting of Canadian jobs to other countries."

- A. definition
- B. loaded terminology**
- C. the fallacy of composition
- D. abstraction

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #195  
Type: Application

196. (p. 20) The "after this, therefore because of this" fallacy states that:

- A. positive statements are always followed by normative judgments.
- B. positive statements can never be proven true or false.
- C. if one acts on one's expectations, those expectations will always be fulfilled.
- D. cause and effect can be determined merely by observing the sequence of events.**

Learning Objective: Last word  
Level: Moderate  
McConnell - Chapter 001 #196  
Type: Definition

197. (p. 20) Which of the following best illustrates the post hoc, ergo propter hoc fallacy?

- A. Because it was 30 degrees today, I worked up a sweat playing tennis.
- B. I took the day off work to go to the beach and that's why it rained.**
- C. Because it rained at the football game, my new sweater got wet.
- D. Because I have studied diligently this semester, my grade average has improved.

Learning Objective: Last word  
Level: Moderate  
McConnell - Chapter 001 #197  
Type: Application

198. (p. 20) The "after this, therefore because of this" fallacy states that:

- A. because event A precedes event B, A is necessarily the cause of B.**
- B. the very attempt to accomplish a certain objective may create conditions which prohibit the achievement of that goal.
- C. events may drastically alter plans; one's intentions and actual accomplishments may differ considerably.
- D. generalizations which are accurate at the level of microeconomics may be inaccurate at the level of macroeconomics.

Learning Objective: Last word  
Level: Moderate  
McConnell - Chapter 001 #198  
Type: Definition

199. (p. 20) Which of the following has to do with the problem of distinguishing cause and effect in economic reasoning?

- A. the law of large numbers
- B. the law of averages
- C. the post hoc fallacy**
- D. the fallacy of composition

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #199  
Type: Definition

200. (p. 20) The post hoc fallacy and the correlation problem both relate to:

- A. the calculation of marginal costs and marginal benefits of any economic activity.
- B. the issue of determining causation.**
- C. the frequent inability of households and businesses to behave rationally.
- D. the tradeoff problem associated with competing goals.

Learning Objective: Last word  
Level: Easy  
McConnell - Chapter 001 #200  
Type: Definition

201. (p. 20) If variables X and Y are positively correlated, this means that:

- A. X is the cause of Y.
- B. Y is the cause of X.
- C. causation necessarily exists, but we don't know whether X or Y is the cause.
- D. causation may or may not exist between X and Y.**

Learning Objective: Last word  
Level: Moderate  
McConnell - Chapter 001 #201

Type: Application

202. (p. 4) Purposeful behaviour implies that everyone will make identical choices.

**FALSE**

Learning Objective: 1.2 The economic way of thinking  
Level: Easy  
McConnell - Chapter 001 #202  
Type: Definition

203. (p. 4) Rational individuals may make different choices because their information and circumstances differ.

**TRUE**

Learning Objective: 1.2 The economic way of thinking  
Level: Easy  
McConnell - Chapter 001 #203  
Type: Application

204. (p. 4) Certain inherently desirable products such as education and health care should be produced so long as resources are available.

**FALSE**

Learning Objective: 1.2 The economic way of thinking  
Level: Moderate  
McConnell - Chapter 001 #204  
Type: Application

205. (p. 4 -5) Marginal analysis means that decision-makers compare the extra benefits with the extra costs of a specific choice.

**TRUE**

Learning Objective: 1.2 The economic way of thinking  
Level: Easy  
McConnell - Chapter 001 #205  
Type: Definition

206. (p. 4 -5) Choices entail marginal costs because resources are scarce.

**TRUE**

Learning Objective: 1.2 The economic way of thinking  
Level: Easy  
McConnell - Chapter 001 #206  
Type: Definition

207. (p. 5) If economic theories are solidly based on relevant facts, then there can be no question as to the character of appropriate economic policy.

**FALSE**

Level: Easy  
McConnell - Chapter 001 #207  
Type: Definition

208. (p. 5) The fact that economic generalizations are abstract renders them impractical and useless.

**FALSE**

Level: Easy  
McConnell - Chapter 001 #208  
Type: Application

209. (p. 6) Macroeconomics explains the behaviour of individual households and business firms; microeconomics is concerned with the behaviour of aggregates or the economy as a whole.

**FALSE**

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #209  
Type: Definition

210. (p. 6) Positive statements are expressions of value judgments.

**FALSE**

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #210  
Type: Definition

211. (p. 6) Normative statements are expressions of facts.

**FALSE**

Learning Objective: 1.4 Microeconomics and Macroeconomics  
Level: Easy  
McConnell - Chapter 001 #211  
Type: Definition

212. (p. 7) Individuals face an economic problem but not the society.

**FALSE**

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #212



Type: Application

213. (p. 10) The entrepreneur's sole function is to combine other resources (land, labour, and capital) in the production of some good or service.

**FALSE**

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #213  
Type: Definition

214. (p. 10) Products and services are scarce because resources are scarce.

**TRUE**

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #214  
Type: Definition

215. (p. 11) The process by which capital goods are accumulated is known as investment.

**TRUE**

Learning Objective: 1.5 The Economic problem  
Level: Easy  
McConnell - Chapter 001 #215  
Type: Definition

216. (p. 12) The production possibilities curve shows various combinations of two products which an economy can produce when achieving full employment and productive efficiency.

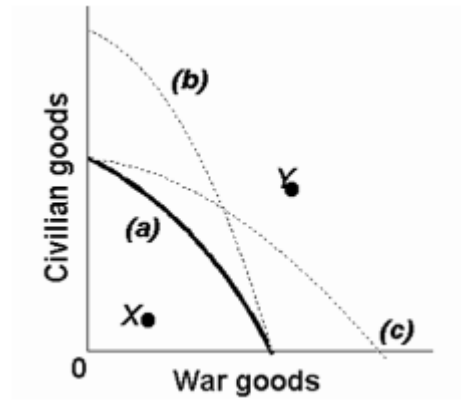
**TRUE**

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #216  
Type: Definition

217. (p. 12) An economy will always operate at some point on its production possibilities curve.

**FALSE**

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #217  
Type: Application



McConnell - Chapter 001

218. (p. 12) Refer to the above production possibilities curves. Given production possibilities curve (a), point Y indicates that society is failing to use available resources efficiently.

**FALSE**

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #218  
Type: Graphic

219. (p. 12) Refer to the above production possibilities curves. The movement from curve (a) to curve (b) implies an increase in the quantity and/or quality of society's productive resources.

**TRUE**

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Difficult  
McConnell - Chapter 001 #219  
Type: Graphic

220. (p. 12) Refer to the above production possibilities curves. Given production possibilities curve (a), the combination of civilian and war goods indicated by point X is unattainable to this economy.

**FALSE**

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Easy  
McConnell - Chapter 001 #220  
Type: Graphic

221. (p. 13) An economy cannot produce at a point outside of its production possibilities curve because human material wants are insatiable.

**FALSE**

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Moderate  
McConnell - Chapter 001 #221

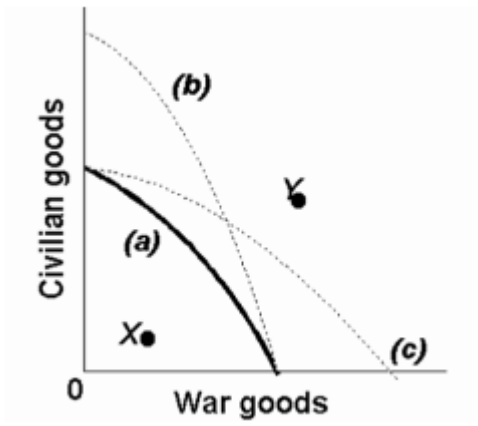
Type: Definition

222. (p. 13) Although sleeping in on a work day or school day has an opportunity cost, sleeping late on the weekend does not.

FALSE

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
Level: Difficult  
McConnell - Chapter 001 #222  
Type: Application

223. (p. 16 -17) Refer to the production possibilities curves. The movement from curve (a) to curve (c) indicates an improvement in civilian goods technology but not in war goods technology.



FALSE

Level: Moderate  
McConnell - Chapter 001 #223  
Type: Graphic

224. (p. 16 -17) The present choice of position on the production possibilities curve will not influence the future location of the curve.

FALSE

Level: Moderate  
McConnell - Chapter 001 #224  
Type: Definition

225. (p. 24 -27) Economists:

- A. always put the independent variable on the horizontal axis and the dependent variable on the vertical axis.
- B. always put the dependent variable on the horizontal axis and the independent variable on the vertical axis.
- C. are somewhat arbitrary in assigning independent and dependent variables to the horizontal and vertical axes.
- D. measure the slope of a line differently than do mathematicians.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #225  
Type: Definition

226. (p. 24 -27) If we say that two variables are directly related, this means that:

- A. the relationship between the two is purely random.
- B. an increase in one variable is associated with a decrease in the other variable.
- C. an increase in one variable is associated with an increase in the other variable.
- D. the two graph as a downsloping line.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #226  
Type: Definition

227. (p. 24 -27) If we say that two variables are inversely related, this means that:

- A. the two graph as an upsloping line.
- B. an increase in one variable is associated with a decrease in the other.
- C. an increase in one variable is associated with an increase in the other.
- D. the resulting relationship can be portrayed by a straight line parallel to the horizontal axis.

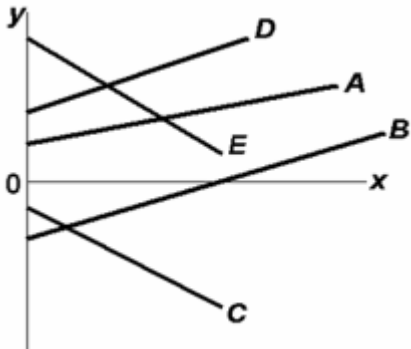
Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #227  
Type: Definition

228. (p. 24 -27) Which of the following statements is correct?

- A. The value of the independent variable is determined by the value of the dependent variable.
- B. The value of the dependent variable is determined by the value of the independent variable.
- C. The dependent variable designates the "cause" and the independent variable the "effect."
- D. Dependent variables graph as upsloping lines; independent variables graph as downward sloping lines.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #228  
Type: Definition





McConnell - Chapter 001

229. (p. 24 -27) Refer to the above diagram. Which line(s) show(s) a positive relationship between x and y?

- A. A only
- B. both A and D
- C. A, B, and D**
- D. both C and E

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #229  
Type: Graphic

230. (p. 24 -27) Refer to the above diagram. Which line(s) show(s) a negative relationship between x and y?

- A. A only
- B. both A and D
- C. A, B, and D
- D. both C and E**

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #230  
Type: Graphic

231. (p. 24 -27) Refer to the above diagram. Which line(s) show(s) a positive vertical intercept?

- A. A and D only
- B. B and C only
- C. A, D, and E**
- D. A, D, and B

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #231  
Type: Graphic

232. (p. 24 -27) Refer to the above diagram. Which line(s) show(s) a negative vertical intercept?

- A. C only
- B. both C and E
- C. B, C, and E
- D. both B and C**

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #232  
Type: Graphic

233. (p. 24 -27) If two variables are inversely related, then as the value of one variable:

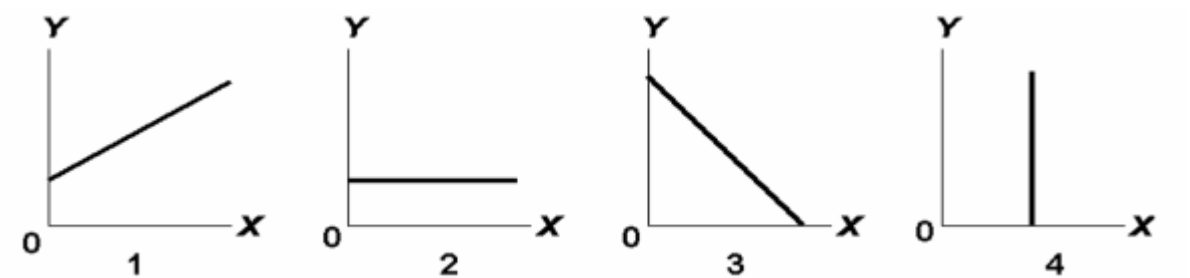
- A. increases, the value of the other may either increase or decrease.
- B. decreases, the value of the other decreases.
- C. increases, the value of the other decreases.**
- D. increases, the value of the other increases.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #233  
Type: Definition

234. (p. 24 -27) If a positive relationship exists between x and y:

- A. an increase in x will cause y to decrease.
- B. a decrease in x will cause y to increase.
- C. the relationship will graph as an upsloping line.**
- D. the vertical intercept must be positive.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #234  
Type: Definition



McConnell - Chapter 001

235. (p. 24 -27) Answer on the basis of the relationships shown in the above four figures. The amount of Y is directly related to the amount of X in:

A. both 1 and 3.  
B. both 1 and 2.  
C. 2 only.  
**D. 1 only.**

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #235  
Type: Graphic

236. (p. 24 -27) Answer on the basis of the relationships shown in the above four figures. The amount of Y is inversely related to the amount of X in:

A. 2 only.  
B. both 1 and 3.  
**C. 3 only.**  
D. 1 only.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #236  
Type: Graphic

237. (p. 24 -27) Answer on the basis of the relationships shown in the above four figures. The amount of Y is unrelated to the amount of X in:

A. both 2 and 4.  
B. 3 only.  
**C. 2 only.**  
D. 1.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #237  
Type: Graphic

238. (p. 24 -27) If price (P) and quantity (Q) are directly related, this means that:

A. a change in Q will alter P, but a change in P will not alter Q.  
B. if P increases, Q will decrease.  
**C. if P increases, Q will also increase.**  
D. an increase in P will cause Q to change, but the direction in which Q changes cannot be predicted.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #238  
Type: Definition

Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment so that investment would be zero. But if the interest rate were 16 percent, businesses would find it profitable to invest \$10 billion. If the interest rate were 12 percent, \$20 billion would be invested. Assume that total investment continues to increase by \$10 billion for each successive 4 percentage point decline in the interest rate.

McConnell - Chapter 001

239. (p. 24 -27) Refer to the above information. Which of the following is an accurate verbal statement of the described relationship?

A. There is no regular or dependable relationship between business investment and the interest rate.  
B. The amount of business investment is unaffected by changes in the interest rate.  
**C. Investment spending by businesses varies inversely with the interest rate.**  
D. Investment spending by businesses varies directly with the interest rate.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #239  
Type: Application

240. (p. 24 -27) Refer to the above information. Using i and I to indicate the interest rate and investment (in billions of dollars) respectively, which of the following is the correct tabular presentation of the described relationship?

(A)		(B)		(C)		(D)	
i	I	i	I	i	I	i	I
20	\$50	24	\$10	20	\$0	20	\$10
16	40	20	20	16	10	16	20
12	30	16	30	12	20	12	30
8	20	12	40	8	30	8	40
4	10	8	50	4	40	4	50
0	0	4	60	0	50	0	60

- A. column (A)
- B. column (B)
- C.** column (C)
- D. column (D)

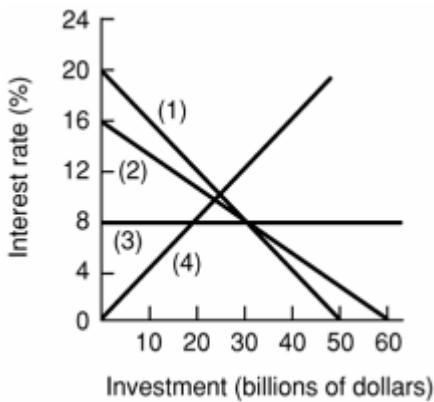
Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #240  
Type: Application

241. (p. 24 -27) Refer to the above information. Which of the following correctly expresses the indicated relationship as an equation?

- A.  $i = 20 - 4I$ .
- B.**  $i = 20 - .4I$ .
- C.  $i = 24 - .4I$ .
- D.  $i = 20 - 10I$ .

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #241  
Type: Formula

242. (p. 24 -27) Refer to the above information, Which of the following is the correct graphical presentation of the indicated relationship?



- A. line 4
- B. line 3
- C. line 2
- D.** line 1

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #242  
Type: Graphic

<u>After-tax income</u>	<u>Consumption</u>
\$1000	\$900
2000	1800
3000	2700
4000	3600
5000	4500

McConnell - Chapter 001

243. (p. 24 -27) The above data suggest that:

- A. consumption varies inversely with after-tax income.
- B.** consumption varies directly with after-tax income.
- C. consumption and after-tax income are unrelated.
- D. a tax increase will increase consumption.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #243  
Type: Graphic

244. (p. 24 -27) The above data indicates that:

- A. consumers spend 80 percent of their after-tax incomes.
- B.** consumers spend 90 percent of their after-tax incomes.
- C. a tax reduction will reduce consumption.
- D. the relationship between consumption and after-tax income is random.

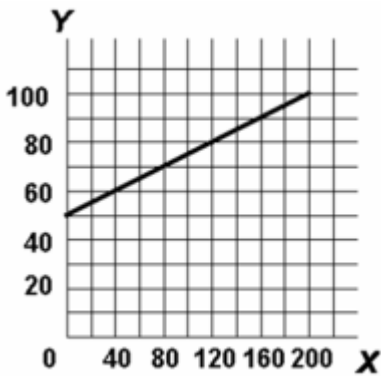
Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #244  
Type: Calculation

245. (p. 24 -27) The above data suggest that:

- A.** a policy of tax reduction will increase consumption.
- B. a policy of tax increases will increase consumption.
- C. tax changes will have no impact on consumption.
- D. after-tax income should be lowered to increase consumption.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #245

Type: Graphic



McConnell - Chapter 001

246. (p. 24 -27) Refer to the above diagram. The variables X and Y are:

- A. inversely related.
- B.** directly related.
- C. unrelated.
- D. negatively related.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #246  
Type: Graphic

247. (p. 24 -27) Refer to the above diagram. The vertical intercept:

- A. is 40.
- B.** is 50.
- C. is 60.
- D. cannot be determined from the information given.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #247  
Type: Graphic

248. (p. 24 -27) Refer to the above diagram. The slope of the line:

- A. is - 1/4.
- B.** is + 1/4.
- C. is .40.
- D. cannot be determined from the information given.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #248  
Type: Graphic

249. (p. 24 -27) Refer to the above diagram. The equation which shows the relationship between Y and X is:

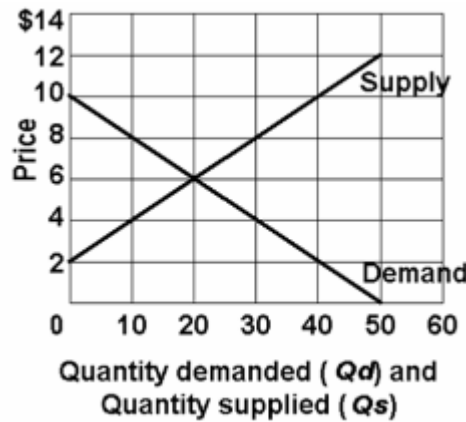
- A.**  $Y = 50 + \frac{1}{4} X$ .
- B.  $X = \frac{1}{4} Y$ .
- C.  $Y = .4X$ .
- D.  $Y = \frac{1}{4} X - 50$ .

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #249  
Type: Formula

250. (p. 24 -27) The slope of a straight line can be determined by:

- A. comparing the absolute horizontal change to the absolute vertical change between two points on the line.
- B.** comparing the absolute vertical change to the absolute horizontal change between two points on the line.
- C. taking the reciprocal of the vertical intercept.
- D. comparing the percentage vertical change to the percentage horizontal change between two points on the line.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #250  
Type: Definition



251. (p. 24 -27) Refer to the above graph. Which of the following statements is correct?

- A. Quantity demanded and quantity supplied are independent of price.
- B. Price and quantity demanded are directly related.
- C.** Price and quantity supplied are directly related.
- D. Price and quantity supplied are inversely related.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #251  
Type: Graphic

252. (p. 24 -27) Refer to the above graph. Which of the following schedules correctly reflects "demand"?

(A)		(B)		(C)		(D)	
P	Qd	P	Qd	P	Qd	P	Qd
\$12	0	\$14	0	\$14	60	\$12	0
10	0	12	0	12	50	10	10
8	10	10	20	10	40	8	20
6	20	8	40	8	30	6	30
4	30	6	60	6	20	4	40
2	40	4	80	4	10	2	50

- A.** schedule (A)
- B. schedule (B)
- C. schedule (C)
- D. schedule (D)

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #252  
Type: Graphic

253. (p. 24 -27) Refer to the above graph. Which of the following schedules correctly reflects "supply"?

(A)		(B)		(C)		(D)	
P	Qs	P	Qs	P	Qs	P	Qs
\$12	50	\$14	50	\$12	50	\$12	0
10	30	12	40	10	40	10	0
8	10	10	30	8	30	8	10
6	0	8	20	6	20	6	20
4	0	6	10	4	10	4	30
2	0	4	0	2	0	2	40

- A. schedule (A)
- B. schedule (B)
- C.** schedule (C)
- D. schedule (D)

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #253  
Type: Graphic

254. (p. 24 -27) Refer to the above graph. Using Qd for quantity demanded and P for price, which of the following equations correctly states the demand for this product?

- A.  $P = Qd/10$ .
- B.  $P = 50 - P/2$ .
- C.**  $P = 10 - .2Qd$ .
- D.  $P = 10 - 2Qd$ .

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #254  
Type: Formula

255. (p. 24 -27) Refer to the above graph. Using Qs for quantity supplied and P for price, which of the following equations correctly states the supply of this product?

- A.  $P = 4 + .2Qs$ .
- B.  $P = 60/Qs$ .
- C.  $P = 10Qs - 2P$ .
- D.**  $P = 2 + .2Qs$ .

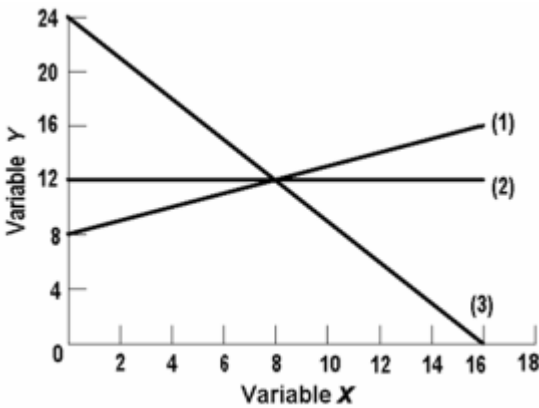
Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #255  
Type: Formula

256. (p. 24 -27) Assume a household would consume \$100 worth of goods and services per week if its weekly income were zero and would spend an additional \$80 per week for each \$100 of additional income. Letting C represent consumption and Y represent income, the equation which summarizes this relationship is:

- A.  $C = 80 + 100Y$ .
- B.**  $C = 100 + .8Y$ .
- C.  $C = 100 + 80Y$ .

D.  $C = 80 + .1Y$ .

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #256  
Type: Formula



McConnell - Chapter 001

257. (p. 24 -27) In line (1) on the above graph, the variables x and y are:

- A. nonlinearly related.
- B.** positively related.
- C. negatively related.
- D. inversely related.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #257  
Type: Graphic

258. (p. 24 -27) In line (3) on the above graph, variables x and y are:

- A. directly related.
- B.** negatively related.
- C. positively related.
- D. nonlinearly related.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #258  
Type: Graphic

259. (p. 24 -27) The linear equation for line (1) on the above graph is:

- A.  $y = 8 + 2x$ .
- B.**  $y = 8 + .5x$ .
- C.  $x = 8 + .5y$ .
- D.  $y = 8 - 2x$ .

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #259  
Type: Formula

260. (p. 24 -27) The slope of line (2) on the above graph is:

- A.** 0.
- B. .66.
- C. .75.
- D. 1.50.

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #260  
Type: Graphic

261. (p. 24 -27) The linear equation for line (3) on the above graph is:

- A.**  $y = 24 - 1.5x$ .
- B.  $y = 16 - .5x$ .
- C.  $y = 24 - .66x$ .
- D.  $y = 24 - .75x$ .

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #261  
Type: Formula

262. (p. 24 -27) The vertical intercept of line (2) on the above graph is:

- A. 8.
- B.** 12.
- C. 16.
- D. 24.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #262

Type: Graphic

263. (p. 24 -27) If the equation  $y = 5 + 6x$  was graphed, the:

- A. slope would be -5.
- B. slope would be +5.
- C.** slope would be +6.
- D. vertical intercept would be +6.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #263  
Type: Graphic

264. (p. 24 -27) If the equation  $y = 15 - 4x$  was plotted, the:

- A. vertical intercept would be -4.
- B. vertical intercept would be +4.
- C. vertical intercept would be +9.
- D.** slope would be -4.

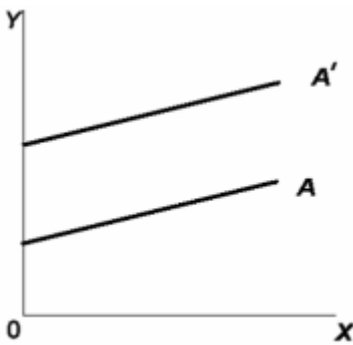
Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #264  
Type: Graphic

265. (p. 24 -27) If the equation  $y = -10 + 2.5x$  was plotted

- A. the vertical intercept would be -10.
- B. the slope would be +2.5.
- C. it would graph as an upsloping line.
- D.** all of these would be true.

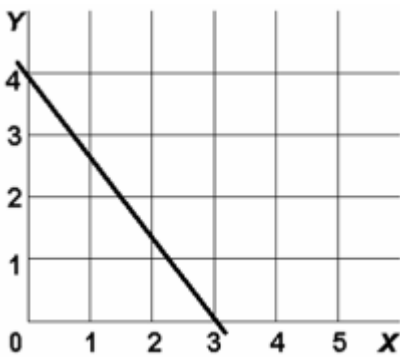
Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #265  
Type: Graphic

266. (p. 24 -27) Refer to the graph, the movement from line A to line A' represents a change in:



- A. the slope only.
- B.** the intercept only.
- C. both the slope and the intercept.
- D. neither the slope nor the intercept.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #266  
Type: Graphic



McConnell - Chapter 001

267. (p. 24 -27) In the above diagram variables x and y are:

- A. both dependent variables.
- B. directly related.
- C.** inversely related.
- D. unrelated.

Learning Objective: A1.1 Graphs and their meanings  
Level: Easy  
McConnell - Chapter 001 #267  
Type: Graphic

268. (p. 24 -27) In the above diagram the vertical intercept and slope are:

- A.** 4 and  $-1\frac{1}{3}$  respectively.



- B. 3 and  $-1\frac{1}{3}$  respectively.
- C. 3 and  $+\frac{3}{4}$  respectively.
- D. 4 and  $+\frac{3}{4}$  respectively.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #268  
Type: Graphic

269. (p. 24 -27) In the above diagram the equation for this line is:

- A.  $y = 4 - 1\frac{1}{3}x$ .
- B.  $y = 3 + \frac{3}{4}x$ .
- C.  $y = 4 - \frac{3}{4}x$ .
- D.  $y = 4 + 1\frac{1}{3}x$ .

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #269  
Type: Formula

270. (p. 24 -27) If we are considering the relationship between two variables and release the "other things equal" assumption, we would expect:

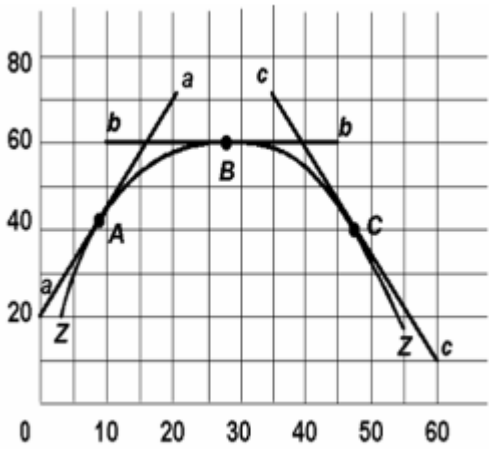
- A. the relationship to change from direct to inverse.
- B. the line representing that relationship on a graph to change locations.
- C. the data points representing the relationship to become more randomly scattered.
- D. the relationship to change from inverse to direct.

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #270  
Type: Application

271. (p. 24 -27) The amount of pizzas that consumers want to buy per week is reflected in the equation  $P = 15 - .02Q_d$ , where  $Q_d$  is the amount of pizzas purchased per week and P is the price of pizzas. On the basis of this information we can say that:

- A. if pizzas were free, people would consume 800 per week.
- B. more pizzas will be purchased at a high price than at a low price.
- C. if the price of pizzas is \$6, then 150 will be purchased.
- D. 50 fewer pizzas will be purchased per week for every \$1 increase in price.

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #271  
Type: Application



McConnell - Chapter 001

272. (p. 24 -27) Refer to the above diagram. The slope of curve ZZ at point B is:

- A. infinity.
- B. zero.
- C. one.
- D. none of these.

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #272  
Type: Graphic

273. (p. 24 -27) The slope of a line parallel to the vertical axis is:

- A. zero.
- B. one.
- C. infinite.
- D. one-half.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #273  
Type: Graphic

274. (p. 24) The slope of a line parallel to the horizontal axis is:



-27)

- A.** zero.
- B. one.
- C. infinite.
- D. one-half.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #274  
Type: Graphic

275. (p. 24 -27) The measured slope of a line:

- A. is independent of how the two variables are denominated.
- B.** will be affected by how the two variables are denominated.
- C. necessarily diminishes as one moves rightward on the line.
- D. necessarily increases as one moves rightward on the line.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #275  
Type: Application

276. (p. 24 -27) Slope of lines are especially important in economics because:

- A.** they measure marginal changes.
- B. they always tell us something about profits.
- C. positive slopes are always preferred to negative slopes.
- D. they always relate to resource and output scarcity.

Learning Objective: A1.1 Graphs and their meanings  
Level: Moderate  
McConnell - Chapter 001 #276  
Type: Application

277. (p. 24 -27) In a linear equation relating income and consumption, you know that the intercept is \$1,000 and the slope of the line is .4. If income is \$20,000, then consumption is:

- A. \$8,000.
- B.** \$9,000.
- C. \$10,000.
- D. \$11,000.

Learning Objective: A1.1 Graphs and their meanings  
Level: Difficult  
McConnell - Chapter 001 #277  
Type: Calculation

278. (p. 1 -2) What is a brief definition of economics? What are the conditions that give rise to this definition?

It is the social science concerned with the efficient use of scarce resources to achieve the maximum satisfaction of economic wants. Economic wants are many and diverse. People seek many goods and services to satisfy their wants. Society uses productive resources to produce goods and services that meet these wants. Unfortunately, the economic wants of society exceeds the productive capacity of the economy to produce the goods and services to satisfy those wants.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
McConnell - Chapter 001 #278

279. (p. 2) What are the key economic concepts that pertain to the individual?

The four key economic concepts that pertain to the individual are: (1) when individuals face scarce resources relative to their wants, they must incur tradeoffs; (2) the cost of a choice is what someone gives up for it or the opportunity cost; (3) decisions are usually made at the margin where a little more or a little less of something is chosen; and (4) choices are influenced by incentives.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
McConnell - Chapter 001 #279

280. (p. 2) What are the key economic concepts that pertain to interactions among individuals?

The three key economic concepts that pertain to interactions among individuals are: (1) individuals can make themselves better off through specialization and trade; (2) markets usually do a good job of coordinating decisions among individuals, groups, and nations; and (3) government can sometimes improve the coordinating function of markets.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
McConnell - Chapter 001 #280

281. (p. 2) What are the key economic concepts that pertain to the economy as a whole?

The three key economic concepts are: (1) the standard of living in a country depends on its production of goods and services; (2) printing of money in excess of the growth of output of goods and services will eventually lead to inflation; (3) society faces a short-run trade off between inflation and unemployment.

Learning Objective: 1.1 Ten key concepts to retain for a life time  
McConnell - Chapter 001 #281

282. (p. 3 -5) What do economists mean when they say that "there is no free lunch"? Give another example to which this statement applies.

Anything of any value that is offered for "free" still has a cost. Economists refer to this sacrifice as an opportunity cost. In this case, the resources that were used to provide the free lunch could have been put to an alternative use. The opportunity cost is the next best alternative use for those resources. As another example, consider the case of a bank that offers you a "free" sports bag to open an account at the bank.

The bag may be free to you as a new bank customer, but there is still a cost paid by the bank in the form of resources that could have been put to alternative uses.

*Learning Objective: 1.2 The economic way of thinking  
McConnell - Chapter 001 #282*

283. (p. 3 -5) What are the three interrelated features of the economic perspective?

First, economics recognizes that there is a general condition of scarcity that forces individuals and society to make choices. Human and property resources are scarce, so choices must be made about how best to use those limited resources. Second, economics assumes that private or public decision-making is based on "rational self-interest." People make rational decisions to achieve the maximum satisfaction of a goal. Consumers try to get the best value for their expenditures. Workers try to get the best job given their skills and abilities. Businesses try to maximize their profits. Elected representatives try to enact policies that best promote the national interest. Third, economics focuses on marginal analysis when making an economic decision. The marginal or "additional" costs from an economic choice are weighed against the additional benefit. If the marginal benefit outweighs the marginal costs, then a decision will be made to take the beneficial action. If the marginal cost is greater than the marginal benefit, then the action will not be taken.

*Learning Objective: 1.2 The economic way of thinking  
McConnell - Chapter 001 #283*

284. (p. 4) What is utility and what is its relevance to rational behaviour?

Utility is the satisfaction that individuals derive from consuming goods and services. The economic approach assumes that humans engage in rational behaviour, that individuals make decisions to maximize their utility.

*Learning Objective: 1.2 The economic way of thinking  
McConnell - Chapter 001 #284*

285. (p. 5) Use marginal analysis to explain why it is possible to "have too much of a good thing." Use education as an example.

This explanation is based on an evaluation of the marginal costs and marginal benefit of providing a good or service. We may want more education for our society, but at some point the marginal cost of providing additional education is greater than the marginal benefit of the additional education. We would have to give up too many other things to obtain the additional education. For example, would it make sense to provide additional education resources for everyone so that they can earn a Ph.D. degree? The answer is no. In this case, the marginal cost of these additional educational resources (for example, lost labour time or inefficient use of people's abilities) would not be worth the marginal benefit to society of having everyone earn a Ph.D. degree.

*Learning Objective: 1.2 The economic way of thinking  
McConnell - Chapter 001 #285*

286. (p. 5 -6) What does it mean to say that theories, principles, and models are "purposeful simplifications"?

Theories, principles, and models are "purposeful simplifications" means that when we study economies we find far too much complexity to make any significant gain in understanding. By assuming away unnecessary details we make it possible to gain a clearer understanding of basic economic relationships.

*Learning Objective: 1.3 Theories, principles, and models  
McConnell - Chapter 001 #286*

287. (p. 5 -6) The distinguished economist Kenneth Boulding stated: "Theories without facts may be barren, but facts without theories are meaningless." Explain what he meant.

Economic theories are generalizations about the economic behaviour of individuals and institutions. As generalizations or principles, they are abstractions and may not offer specific information about a particular issue that can be obtained from facts. Economic theories are barren in the sense that they offer a framework for thinking about the economic issue without a lot of the details about it. Having a lot of facts about an economic issue, however, is not very meaningful. Facts need to be arranged and organized if they are to have meaning and give insight into the issue. Economic theory offers that framework for organizing the factual information.

*Learning Objective: 1.3 Theories, principles, and models  
McConnell - Chapter 001 #287*

288. (p. 5 -6) Explain the importance of the *ceteris paribus* or "other-things-equal" assumption.

The real-world is "messy" so economists try to analyze changes in the variables of interest by finding ways to hold "other things constant or equal." The *ceteris paribus* assumption is made to indicate that these other variables are not changing or affecting the variables of interest. For example, the theory of consumer demand states that price and quantity demanded are inversely related; people will buy less at higher prices than they will at lower prices. But this theory assumes that other variables like tastes and income that might affect quantity demanded are not changing. Increasingly, experimental economists are attempting to test theories in laboratory environments in which *ceteris paribus* assumptions hold.

*Learning Objective: 1.3 Theories, principles, and models  
McConnell - Chapter 001 #288*

289. (p. 5 -6) "Bad theories are abstract and therefore unrealistic; good theories are fully realistic and fit all the facts." Evaluate.

While some abstract theories are bad, that certainly does not have to be true. Most good theories are generalizations or predictions about human economic behaviour and will not be true in every situation, and thus will not fit all the facts all of the time. A good theory is based on observable behaviour and will generally explain or predict correctly.

*Learning Objective: 1.3 Theories, principles, and models  
McConnell - Chapter 001 #289*

290. (p. 5 -6) "Economic models are somewhat like different types of maps." Evaluate.

Economic models are necessarily a simplification of the real world. The validity of a particular economic model should be based upon a comparison of the model's predictions to observable fact. A world atlas is not the best map to use to find out how to get to Vancouver from Charlottetown, but it will tell you where South Africa is in relation to Luxembourg. If you wanted to get to Vancouver from Charlottetown,

you'd need a road map of Canada. But a road map would not sufficiently describe the elevations if you were riding your bike and would not likely tell you how to find Main Street in Golden, B.C.. The map you use should be judged based not on its complete accuracy and detail, but on its ability to get you where you are going.

*Learning Objective: 1.3 Theories, principles, and models  
McConnell - Chapter 001 #290*

291. (p. 6) Distinguish between microeconomics and macroeconomics.

Microeconomics deals with individual economic units such as industries, firms, households, and with individual markets, particular prices, and specific goods and services. Macroeconomics, on the other hand, deals with the economy as a whole, including such major aggregates as the household, business, and governmental sectors and with totals for the economy.

*Learning Objective: 1.4 Microeconomics and Macroeconomics  
McConnell - Chapter 001 #291*

292. (p. 6) Below are six statements. Indicate whether each one pertains to microeconomics (MIC) or macroeconomics (MAC).

- (a) "The inflation rate in Canada hit its lowest level in the last twenty years."
- (b) "The profits of BCE rose 20 percent during the past quarter."
- (c) "A drought has occurred in the Prairies. The prices for barley are expected to rise sharply."
- (d) "The nation's economy grew at an annual rate of 3.7 percent in the final quarter of the year."
- (e) "The trade surplus in Canada was \$4 billion last month."
- (f) "General Motors plans to spend \$800 million on a new automobile plant."

(a), (d), and (e) are macro; (b), (c), and (f) are micro.

*Learning Objective: 1.4 Microeconomics and Macroeconomics  
McConnell - Chapter 001 #292*

293. (p. 6 -7) Give one example of a positive economic statement and one example of a normative economic statement.

A positive economic statement is any factual statement such as: "Last month there were 1.2 million workers unemployed." A normative economic statement is one which contains an opinion such as: "Many people today are too lazy to look for work and that is why the unemployment figures are so high."

*Learning Objective: 1.4 Microeconomics and Macroeconomics  
McConnell - Chapter 001 #293*

294. (p. 6 -7) Below are six statements. Identify whether each is a positive or normative statement.

- (a) The minimum wage should be increased so low-income workers can earn a living wage.
- (b) The unemployment rate is too high and should be reduced through government actions.
- (c) The rate of inflation was about 2 percent last year, an all time low for the past decade.
- (d) The government should take action to break up the monopoly power of Air Canada.
- (e) Interest rates should be lower in Canada so that people can afford to build a home.
- (f) The Federal government achieved a budget surplus for the first time in thirty years.

(a), (b), (d) and (e) are normative; and (c) and (f) are positive.

*Learning Objective: 1.4 Microeconomics and Macroeconomics  
McConnell - Chapter 001 #294*

295. (p. 6 -7) Identify whether each of the following is a positive or normative statement.

- (a) Should tuition fees increase, fewer students would obtain a post-secondary education.
- (b) The Prime Minister announced that Canada is the best place in the world to live.

Both statements are positive. Although statement (a) contains the word, "should", it is simply a cause and effect statement. Another way of expressing the same idea is "If tuition fees are increased, fewer students would obtain a post-secondary education." Statement (b) is also positive because it is concerned with facts. Although the statement is made up of a normative phrase ("best place in the world"), at its core is a factual statement regarding an announcement by the Prime Minister.

*Learning Objective: 1.4 Microeconomics and Macroeconomics  
McConnell - Chapter 001 #295*

296. (p. 6 -7) "Economists are scientists and therefore should not become involved in making value judgments which policy formulation necessarily entails." Do you agree?

It is important to distinguish between positive and normative economics. When conducting positive economic analysis, economists use objective, scientific methods to collect data and test hypotheses to arrive at economic theories and principles. However, there is a need to apply economic theories to real-world problems and this necessarily requires some value judgments or the use of normative economics. Even scientists who can experiment in laboratories have to make value judgments when they arrive at the point of applying their theories. For example, geneticists must make value judgments about the uses of genetic science.

Economists are the most knowledgeable people regarding their own theories, so they should be involved in the decisions about how to apply those theories. Of course, in a democratic society those judgments are often advisory and must be approved by elected representatives before

they are enacted.

*Learning Objective: 1.4 Microeconomics and Macroeconomics  
McConnell - Chapter 001 #296*

297. (p. 6 -7) "Economics cannot be scientific because it is based upon the value judgment that 'more (output) is better'." Do you agree?

This statement can be subjected to positive economic analysis. If you can show that this assumption is valid, i.e., that it is correct that most people believe that "more is better," then this is not a value judgment but a testable principle of economics. Where this assumption is questioned, it is a rather simple matter to test the hypothesis about whether "more is regarded as better." In other words, if people behave as if more is better, then this assumption is not a result of value judgments by economists, but rather the result of observing that this is the way humans act.

*Learning Objective: 1.4 Microeconomics and Macroeconomics  
McConnell - Chapter 001 #298*

298. (p. 7 -8) What was the approximate average incomes of Canadians and Liberians in 2007?

\$39,420 and \$150 (\$US at market exchange rates).

*Learning Objective: 1.5 The Economic problem  
McConnell - Chapter 001 #299*

299. (p. 8) What is meant by the "the individual's economic problem"?

An individual's income is limited whereas their wants are unlimited. This forces them to make choices to optimize their well-being.

*Learning Objective: 1.5 The Economic problem  
McConnell - Chapter 001 #299*

300. (p. 8 -9) What variables are used to determine the individual's budget line?

Income and the prices of the two goods will determine the position of the budget line. Income divided by the price of a good will determine the point where the budget line intersects an axis.

*Learning Objective: 1.5 The Economic problem  
McConnell - Chapter 001 #300*

301. (p. 9 -10) How do income changes affect the position of the budget line?

Increases in income causes a parallel shift outward of the budget line (without changing its slope) while decreases in income cause the budget line to shift inward.

*Learning Objective: 1.5 The Economic problem  
McConnell - Chapter 001 #301*

302. (p. 10) What do economists mean when they say that economic resources or factors of production are scarce or limited in supply?

They mean that resources are not so abundant that they may be used freely for everything everyone wants. There are not enough resources available to meet all of society's unlimited economic wants.

*Learning Objective: 1.5 The Economic problem  
McConnell - Chapter 001 #302*

303. (p. 10 -11) What is meant by "society's economic problem"?

The economic problem stems from two related facts. Economic wants are unlimited because they cannot be completely satisfied with the existing limited supply of resources available for production. Resources are said to be scarce relative to these unlimited economic wants. For this reason, people must make choices and economize on resource use.

*Learning Objective: 1.5 The Economic problem  
McConnell - Chapter 001 #303*

304. (p. 10 -11) List the four resource categories and give a brief description of each.

(a) Land: natural resources including land, forests, water and minerals.

(b) Capital: investment goods or those manufactured items used in production of other goods. Factories, tools, machinery, transportation facilities, and equipment are examples. Money is not a capital good.

(c) Labour: a broad term used to describe the physical and mental talents of men and women available to be used in producing goods and services.

(d) Entrepreneurial ability: a type of human resource, but unique from productive labour in that it refers to the person who is the driving force behind production decisions, innovation, and the one who is willing to take the risk of time, effort, reputation, and/or funds.

*Learning Objective: 1.5 The Economic problem  
McConnell - Chapter 001 #304*

305. (p. 11) What four basic functions does the entrepreneur perform for the economy?

First, the entrepreneur takes the initiative in combining resources to produce a product. In this way the entrepreneur is a catalyst for production in the economy. Second, the entrepreneur makes basic business policy decisions that set the course for the business enterprise. Third, the entrepreneur will introduce new or improved products to the market place or develop new forms of business organization. In this role, the entrepreneur serves as an innovator for the economy. Fourth, the entrepreneur bears the risk in terms of time, effort, and invested funds. A market economy has no guarantee of profits for the entrepreneurs, but it is the expectation of profit that gives incentives to the entrepreneur to bear risk.

306. (p. 10 -11) Explain and evaluate: "If resources were infinitely abundant in relation to the demand for them, the economic problem would dissolve in a sea of affluence."

If this were true, people would not have to make choices and there would be no need for economic systems to distribute the goods and services produced. In a world of abundance, people could simply help themselves to whatever they wanted.

307. (p. 10 -11) "The relative scarcity of resources makes the operation of any economy a matter of choosing between alternatives." Explain.

The fact that people cannot have as much as they want of everything requires them to make choices. There has to be some system for making these choices. For example, it may be "first come, first serve," or a system based on power with the strongest controlling the resources, or it may be a market-based system where the primary motivation is the profit incentive.

308. (p. 11 -15) "The two cornerstones of economics are the scarcity of resources and the multiplicity of wants. True economy consists of deriving maximum want satisfaction from available resources." Explain.

The first statement refers to the basic economic problem: that society's wants are unlimited relative to the limited supply of productive resources. The second part of the statement refers to the concept of efficiency, both allocative and productive. Since resources are scarce, it is desirable to achieve the most output from those available. Otherwise we waste resources and will not satisfy as many wants as we could from the resources that we have available, which would mean not achieving productive efficiency. Allocative efficiency means the maximum satisfaction of wants with these resources.

309. (p. 11 -12) Explain the relationship between full employment of resources and full production.

Full employment of resources means that none of the available resources are idle. Full production goes one step further. It means that not only are resources fully employed, they are employed efficiently in the sense that they are making their most valued contributions to the national output. If the economy fails to realize full production, then economists say our resources are underemployed.

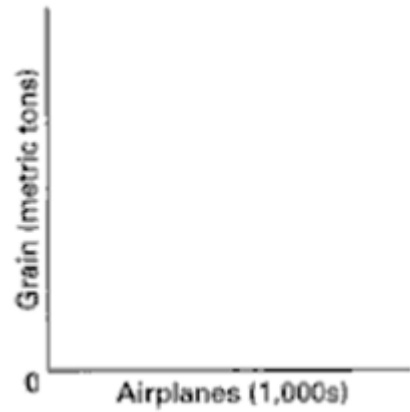
310. (p. 13) The production possibilities table below shows the hypothetical relationship between the production of food and clothing in an economy.
- (a) What is the *marginal* opportunity cost of producing the second unit of clothing?
  - (b) What is the *total* opportunity cost of producing two units of clothing?
  - (c) What is the *marginal* opportunity cost of producing the third unit of clothing?
  - (d) What is the *total* opportunity cost of producing three units of clothing?

<u>Combination</u>	<u>Food</u>	<u>Clothing</u>
A	0	4
B	7	3
C	13	2
D	18	1
E	22	0

- (a) 5 units of food ( $18 - 13 = 5$ ); (b) 9 units of food ( $22 - 13 = 9$ ); (c) 6 units of food ( $13 - 7 = 6$ ); (d) 15 units of food ( $22 - 7 = 15$ ).

311. (p. 12 -13) A production possibilities table for two products, grain and airplanes, is found below. Usual assumptions regarding production possibilities are implied. Grain is measured in tons and airplanes are measured in units of 1,000.

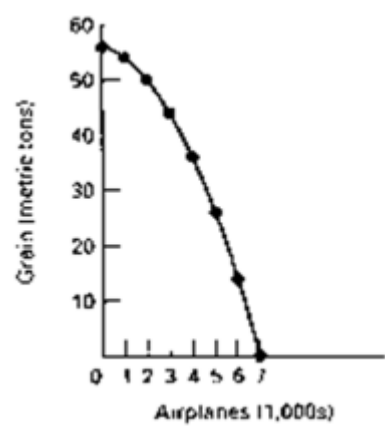
- (a) Using the below graph construct a production possibilities curve from this information placing grain on the vertical axis and airplanes on the horizontal axis.



- (b) What is the opportunity cost of producing the first unit of airplanes? The marginal opportunity cost of producing the fourth unit of airplanes?

Combination	Grain (tons)	Airplanes (1,000s)
A	0	7
B	14	6
C	26	5
D	36	4
E	44	3
F	50	2
G	54	1
H	56	0

(a) See graph below.



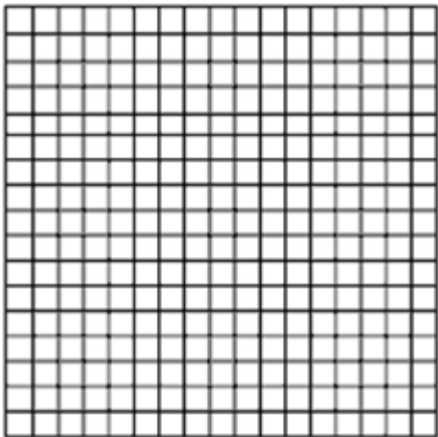
(b) Two units of grain (56–54) are sacrificed if one unit of planes is produced. When the fourth unit of planes is produced the marginal opportunity cost is eight units of grain (44–36).

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
McConnell - Chapter 001 #311

312. (p. 12 -13) A production possibilities table for two products, corn and paper, is found below. Usual assumptions regarding production possibilities are implied. Corn is measured in tons, and paper is measured per unit.

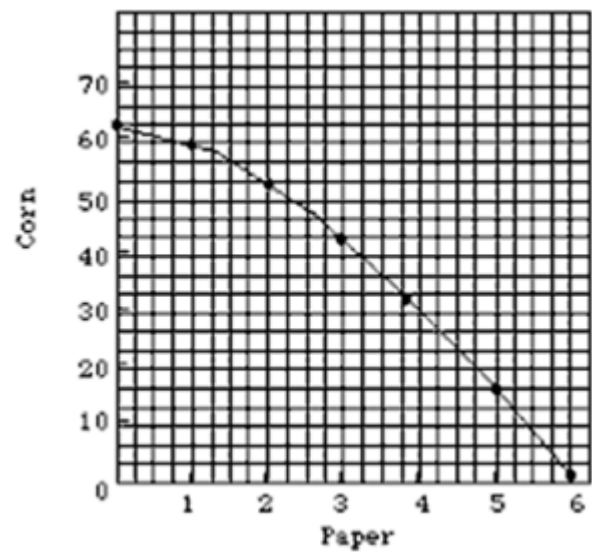
<u>Combination</u>	<u>Corn</u>	<u>Paper</u>
A	0	6
B	18	5
C	33	4
D	45	3
E	54	2
F	60	1
G	63	0

(a) Using the following graph construct a production possibilities curve from this information placing corn on the vertical axis and paper on the horizontal axis.



(b) What is the marginal opportunity cost of producing the first unit of paper? The marginal opportunity cost of producing the fourth unit of paper?

(a) See graph below.



(b) Three units of corn (63-60) are sacrificed if 1 unit of paper is produced. When the fourth unit of paper is produced the opportunity cost is 12 units of corn (45-33).

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
McConnell - Chapter 001 #312

313. (p. 14) What is the economic rationale for the law of increasing costs?

Economic resources are not completely adaptable to alternative uses. In a two-product (A and B) economy, an increase in the production of product A will cause a reduction in the quantity of product B that can be produced because resources are being reallocated from the production of B to A. That reallocation of resources is not constant and becomes increasingly costly in terms of the lost production of B. As more resources shift from the production of B to A, these resources are less and less adaptable or suitable for the production of A. The production of more and more of A entails an increasing opportunity cost in the form of less and less production of B.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
McConnell - Chapter 001 #313

314. (p. 14) Explain how increasing opportunity costs are reflected graphically in the production possibilities curve. How would the curve appear if opportunity costs were constant? (Answer verbally or illustrate your response with diagrams.)

The production possibilities curve illustrates the concept of increasing opportunity cost with its changing slope. This causes the curve to be concave toward the origin. It occurs because when society produces more and more of one product, it must give up increasing amounts of alternative products due to the fact that resources are specialized. If resources could be used equally efficiently to produce all things, opportunity costs would be constant and the production possibilities curve would be a straight line graph showing alternative production possibilities.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
McConnell - Chapter 001 #314

315. (p. 11 -14) An economy consists of five workers, who can produce either fish or fruit. The following table shows the daily output of each worker.

<u>Worker</u>	<u>Fish</u>	<u>Fruit</u>
A	10	20
B	6	10
C	8	6
D	8	4
E	10	10

(a) Suppose one worker catches fish and four workers pick fruit. For the economy to achieve productive efficiency, which of the five workers must fish?

(b) Does the economy achieve full employment and productive efficiency by producing 26 fish and 20 fruit?

(a) Productive efficiency requires that resources be used in the least costly way. To achieve productive efficiency, worker D must catch fish since this worker incurs the lowest opportunity cost. For each fish that worker D catches, .5 units of fruit are lost. The other workers face a higher opportunity cost for each fish caught. As the economy produces more fish, it must shift the workers from fruit. Initially, the opportunity cost of doing so is relatively low. However, the opportunity cost increases. This is why the production possibilities curve is concave to the origin. Although workers A and E can produce more fish than worker D, they also incur greater opportunity costs.

(b) Although the economy may be achieving full employment, it does not achieve productive efficiency. The economy can produce 26 fish and 20 fruit when fully employing workers A, C, and D in fishing and workers B and E in picking fruit. However, this allocation of resources does not achieve full production. Resources are underemployed. It is possible to produce more fish without losing any fruit by reallocating the five workers. If workers B, C, D, and E catch fish and worker A picks fruit, the economy's output is 32 fish and 20 fruit. Worker A incurs the lowest opportunity cost of all workers when picking fruit. Therefore, productive efficiency requires that worker A is allocated to picking fruit before any other worker.

Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
McConnell - Chapter 001 #315

316. (p. 11 -14) An economy consists of five workers, who can produce either fish or fruit. The following table shows the daily output of each worker.

<u>Worker</u>	<u>Fish</u>	<u>Fruit</u>
A	4	4
B	6	2
C	2	1
D	8	6
E	4	1

(a) Suppose one worker catches fish and four workers pick fruit. For the economy to achieve productive efficiency, which of the five workers must fish?

(b) Does the economy achieve full employment and productive efficiency by producing 12 fish and 4 fruit?

(a) Productive efficiency requires that resources be used in the least costly way. To achieve productive efficiency, worker E must catch fish since this worker incurs the lowest opportunity cost. For each fish that worker E catches, .25 units of fruit are lost. The other workers face a higher opportunity cost for each fish caught. As the economy produces more fish, it must shift the workers from fruit. Initially, the opportunity cost of doing so is relatively low. However, the opportunity cost increases. This is why the production possibilities curve is concave to the origin. Although workers B and D can produce more fish than worker E can, they also incur greater opportunity costs.

(b) Although the economy may be achieving full employment, it does not achieve productive efficiency. The economy can produce 12 fish and 4 fruit when fully employing workers A and D in fishing and workers B, C, and E in picking fruit. However, this allocation of resources does not achieve full production. Resources are underemployed. It is possible to produce more fish without losing any fruit by reallocating the

five workers. If workers B, C, D, and E catch fish and workers A picks fruit, the economy's output is 20 fish and 4 fruit. Worker A incurs the lowest opportunity cost of all workers when picking fruit. Therefore, productive efficiency requires that worker A is allocated to picking fruit before any other worker.

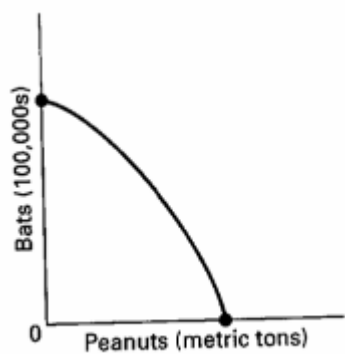
Learning Objective: 1.6 The production possibilities model and increasing opportunity costs  
McConnell - Chapter 001 #316

317. (p. 16 -18) What changes must occur for the potential total output of the economy to grow?

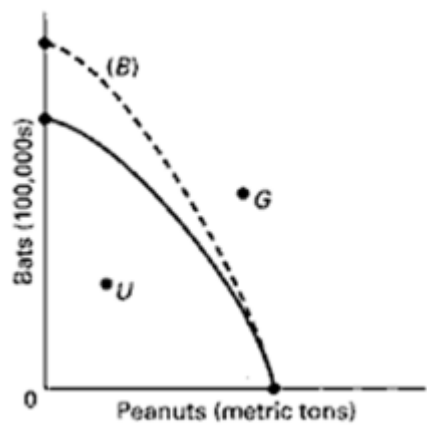
For the economy to grow there must be either an expansion of resources or an improvement in technology so that more can be produced with the existing level of resources. Both of these changes would be most desirable for rapid growth.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
McConnell - Chapter 001 #317

318. (p. 16 -18) Look at the following production possibilities curve illustrating the possibilities in Sluggerville for producing bats and/or peanuts with the existing level of resources and technology.



- (a) Show a point *U* that would indicate unemployed resources in Sluggerville.
- (b) Draw a new curve *B* that illustrates the results of improved technology in the production of bats, but no change in the production efficiency of peanuts.
- (c) Show a point *G* that would indicate a point that is currently unattainable in the production of peanuts and bats in Sluggerville.



Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
McConnell - Chapter 001 #318

319. (p. 16 -18) Explain how each event affects production possibilities.

- (a) The population becomes more educated over time as the number of high school dropouts falls and the number of college graduates rises.
  - (b) The unemployment rate declines from 8 to 6 percent of the labour force.
  - (c) Businesses and government are unable to solve a major computer problem, thus reducing economic efficiency and national output.
  - (d) Advances in telecommunications and new technology significantly contribute to economic growth over time.
  - (e) The Federal government decides to allocate more resources to national defence.
- (a) Improvements in the basic education of the labour force typically contribute to an increase in productivity. The production possibilities curve should move outward.
- (b) Unemployment means that there is inefficient use of existing resources. Production moves from a point inside the production possibilities curve toward the frontier.
- (c) The most likely answer is that the production possibilities curve shifts inward. It would also be possible that there is movement from the frontier of the production possibilities curve to an interior point. Both answers indicate that there is less economic inefficiency in the economy.
- (d) Advances in telecommunications and new technology significantly contribute to economic growth over time.
- (e) There will be movement along the existing production possibilities curve toward more defence goods at one axis from all other goods at the other axis.

Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
McConnell - Chapter 001 #319

320. (p. 16 -18) Describe the adjustments in the production possibilities curves in each of the following situations for the Canadian economy.



- (a) the economy moves from full employment into a deep recession
- (b) the economy makes great strides in eliminating discrimination
- (c) the end of the Cold War leads to cuts in military spending
- (d) the government significantly increases spending for health and education

(a) The economy begins at a point on the curve but with recession there is unemployment and the economy now operates at a point in the area inside the curve, indicating that production is less than that which is possible because some resources are not being used.

(b) Eliminating discrimination would move the economy from a point inside its production possibilities curve toward a point on the curve.

(c) If the curve is illustrating the tradeoff between private spending and government spending (or between military and consumer goods), then this should mean a movement along the curve in the direction of more private or consumer production and less military production. Government spending in general could decrease, but if that were not the case, then the government might simply shift some funds from the military to other types of government spending and the point would not necessarily move at all on a curve depicting the tradeoff between government and private spending.

(d) Movement depends on where the money is coming from. If the money comes from increased taxes or borrowing, then there is a movement along the curve away from private spending and toward public spending. If the money comes from other government programs and the curve is illustrating government versus private spending, the amount of total government production would not necessarily change, so the point could remain at the same spot on the curve.

*Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
McConnell - Chapter 001 #320*

321. (p. 16 Evaluate. Since the production possibilities curve can shift outward over time, it is possible for an economy to get more of a product without incurring an opportunity cost.

Outward shifts of the production possibilities curve occur if factor supplies increase or if technology advances. Both these changes, however, are not without cost. Increases or improvements in factor supplies involve tradeoffs. For example, a nation can increase its stock of capital by forgoing some goods for the present. Likewise, an increase in natural resources requires the use of resources for exploration and development that could have been used to produce goods for the present. Similarly, technological advancement is the result of employing resources with alternative uses in research and development.

*Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
McConnell - Chapter 001 #321*

322. (p. 18 One application of the production possibilities concept has been to explain the difference in growth patterns of a nation with a high level of investment (Alta) and an equivalent nation with a low level of investment (Zorn). Use the concept to explain why Alta's economic growth would be greater than that of Zorn over time.

The application suggests the tradeoff illustrated by a production possibilities curve with consumption spending on one axis and investment spending on the other axis. In Alta the combination of consumption and investment spending is heavily weighted toward investment. In Zorn investment spending is a smaller percentage of domestic output. If investment were measured on the vertical axis and consumption on the horizontal axis, Alta's optimal selection would be much higher on its production possibilities curve than would be the selection in Zorn. As a result of this larger proportion of income spent on investment goods, Alta's capital resource base and its economy grow more rapidly, which means its production possibilities curve shifts outward at a more rapid pace over time.

*Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
McConnell - Chapter 001 #322*

323. (p. 19) The production possibilities curve suggests that a nation cannot live beyond its means or production potential. Explain why international trade would cause this statement to be modified.

International trade allows for greater specialization and production. This activity has the effect of increasing the quantity and quality of resources, using resources more efficiently or improving output through the use of new production techniques. Thus, the gains from international specialization and trade are the equivalent of economic growth.

*Learning Objective: 1.7 Economic growth, present choices, and future possibilities  
McConnell - Chapter 001 #323*

324. (p. 20 List and give examples of the five pitfalls to economic thinking.

First, bias and preconceptions can cloud economic thinking. An example would be the belief that "the only reason people are unemployed is that they are too lazy to work." Second, economic terminology in the popular press can be slanted or emotionally loaded. Examples of loaded or slanted terms are "corporate welfare," "gouging the consumer," and "exorbitant salaries." Third, there is the problem of definition of terms. For example, the term "capital" may refer either to "capital goods" or "financial capital." Fourth, you make a mistake when you assume that what is true for the individual or part of a group is also true for the group as a whole. For example, if an individual stands up to see better at a football game, the individual is better off, but if all of the fans stand up to see better, the group is not better off. Fifth, there are two causation fallacies. You might conclude that one event causes the other simply because one preceded the other (the after this, therefore because of this causation): "I washed my car, therefore it rained." You might also confuse correlation with causation: "incomes rose and the crime rate fell, thus higher incomes reduce the crime rate."

*Learning Objective: Last word  
McConnell - Chapter 001 #324*

325. (p. 20 Below are four statements. Each of them is an example of one of the pitfalls often encountered in the study of economics. Indicate following each statement the type of pitfall involved.

- (a) "July is the month with the most ice cream sales and also the month with the most drownings. Therefore, the more ice cream people eat, the more likely they are to drown."
- (b) "Dry weather in the county where Farmer Brown lives decreased his income because his crop was so poor. Therefore, when there is dry weather in the nation as a whole all farm incomes will suffer."

- (c) "I have to live within my income. Therefore, governments should not be allowed to borrow money."
- (d) "National health insurance plans are socialistic."
- (e) "People arrive at a soccer pitch and then players come on the field. Therefore, crowds in stadiums cause soccer to be played."

- (a) Causation is confused with correlation.
- (b) This is the fallacy of composition. What is bad for one farmer is not necessarily bad for all farmers if prices rise enough to offset the decline in crop yields overall. However, dry weather in only one county would not cause an increase in agricultural prices, so Farmer Brown would suffer if his were the only dry area.
- (c) This illustrates two pitfalls. The fallacy of composition may be a factor behind this statement since governments are a collection of individuals, but the fallacy is that governments do not have limited life spans and additionally have the power to tax. This statement also illustrates biased thinking since it assumes that all borrowing is bad.
- (d) This is an example of loaded terminology designed to influence one's view of national health insurance plans.
- (e) This is the post hoc fallacy. The crowds arrived before the game so they could see the start of the game.

Learning Objective: Last word  
McConnell - Chapter 001 #325

326. (p. 20) What is the fallacy of composition? Give an economic and a non-economic example.

It is the incorrect reasoning that what is true for an individual (or part of a group) is necessarily true for the whole group. Or, what is true at the micro level of analysis may not be true at the macro level of analysis. Economic example: when an *individual* farmer produces a large crop, then the farmer should have an increased income because he or she has more output to sell. If, however, *all farmers* produce more output, then the increase in output may decrease prices and reduce farm income. Non-economic example: If a spectator at a packed basketball arena stands up, then he or she will likely see the game better. If, however, all spectators at the game stand up, then the group of spectators as a whole will not be able to see the game better.

Learning Objective: Last word  
McConnell - Chapter 001 #326

327. (p. 20) Explain what the post hoc fallacy is. Give an example.

It means "after this, therefore because of this." It is the mistaken belief that when one event precedes another, the first event is the cause of the second. An example: I washed my car today; therefore it will rain tomorrow.

Learning Objective: Last word  
McConnell - Chapter 001 #327

328. (p. 20 -21) Explain the difference between correlation and causation and give an example.

Correlation refers to a systematic and dependable association between two sets of data (two kinds of outcomes). Causation implies that there is a cause-effect relationship between two events. Correlation does not imply causation. Just because two events are related in a predictable manner does not necessarily mean that one causes the other. More must be known about the cause-effect relationship before conclusions about causation can be drawn.

For example, one could discover a positive correlation between ice-cream sales and the number of drownings. However, this does not mean that eating ice cream causes drowning, nor does it mean that more drownings cause people to buy ice cream.

Learning Objective: Last word  
McConnell - Chapter 001 #328

329. (p. 20 -21) Suppose the following were facts relating years of education to average annual income of individuals. Can you conclude that years of education cause income to increase?

<u>Years of education</u>	<u>Income</u>
0–10	\$16,000
11–12	30,000
13–15	44,000
16–18	60,000
19–21	70,000
22 and over	105,000

These facts are given and they seem to suggest that average incomes rise as years of education increase. This result is a correlation, indicating that education and income are related in a systematic and dependable way. The data cannot prove causation because there may be other factors that explain the relationship. And the causation can run the other way: higher incomes lead to more education.

Learning Objective: Last word  
McConnell - Chapter 001 #329

330. (p. 24) Why do economists use graphs in their work?

Economists use graphs to illustrate the relationship between economic variables in a visual format which often is more efficient than explaining the relationship in words. By seeing the relationship in graphical format, the reader (viewer) is able to readily describe the relationship.

Learning Objective: Appendix  
McConnell - Chapter 001 #330

331. (p. 24) In a two-dimensional graph showing the relationship between income and consumption in the economy, what is shown on the vertical axis and what is shown on the horizontal axis?

In the typical two-dimensional graph, the vertical axis measures the dependent variable, which in this case would be consumption. The horizontal axis measures the independent variable, which in this case would be income.

Learning Objective: Appendix  
McConnell - Chapter 001 #331

332. (p. 25) Define what is meant by a positive or direct relationship between two variables and describe the line graph depicting such a relationship.

A positive or direct relationship between two variables describes a situation where the two variables change in the same direction. If the first variable increases, the second variable increases; if the first decreases, the second decreases. An example would be individual income and spending. Generally, high spending is associated with high incomes and lower spending is associated with lower incomes. The line graph of a direct, positive relationship is upward sloping from left to right.

Learning Objective: Appendix  
McConnell - Chapter 001 #332

333. (p. 25) Define what is meant by an inverse relationship between two variables and describe the line graph depicting such a relationship.

An inverse relationship describes a situation where the two variables change in opposite directions. When the first variable increases, the second variable decreases and vice versa. An example would be product price and quantity demanded of the product. Other things being equal, the higher the product price, the less will be purchased. The line graph of an inverse relationship has a negative slope; that is, it is downward sloping from left to right.

Learning Objective: Appendix  
McConnell - Chapter 001 #333

334. (p. 25) Differentiate between the independent and dependent variables in an economic relationship.

The dependent variable changes as a consequence of the change in the independent variable. By specifying one variable as the dependent variable, a causal relationship is implied with changes in the independent variable causing changes in the dependent variable. The dependent variable is the "effect" or outcome.

Learning Objective: Appendix  
McConnell - Chapter 001 #334

335. (p. 26) Describe the slope of a direct and an inverse relationship.

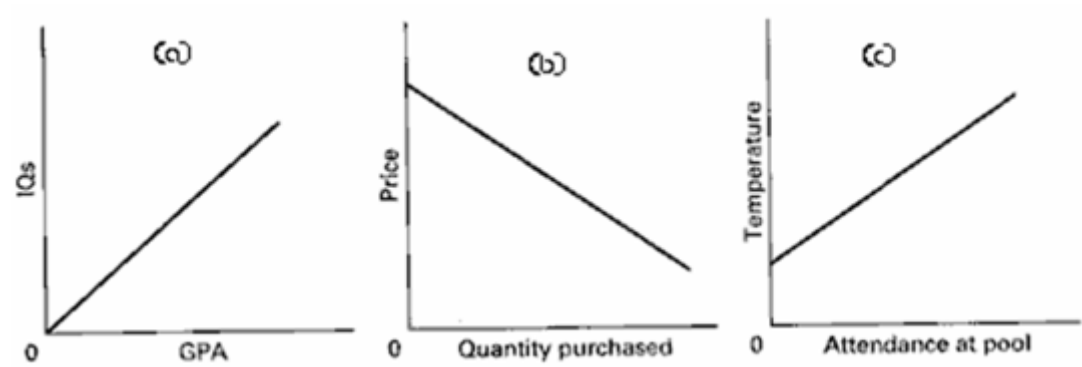
The ratio of the vertical change (the rise or fall) to the horizontal change (the run) in moving between two points on the line is called the slope of the line. The slope of an upward sloping line is positive, reflecting a direct relationship between two variables; the slope of a downward sloping line is negative, reflecting an inverse relationship.

Learning Objective: Appendix  
McConnell - Chapter 001 #335

336. (p. 25 -26) Show graphically the relationships that you would expect to find between (a) student IQs and grade point averages (GPAs); (b) the price of a product and the amount consumers will purchase; (c) the temperature and the number of people at the swimming pool. Which of these are direct relationships and which are inverse? What considerations might change the expected relationships?

The direct relationships expected are (a) IQs and grade point averages, and (c) the temperature and the number of people at the pool.

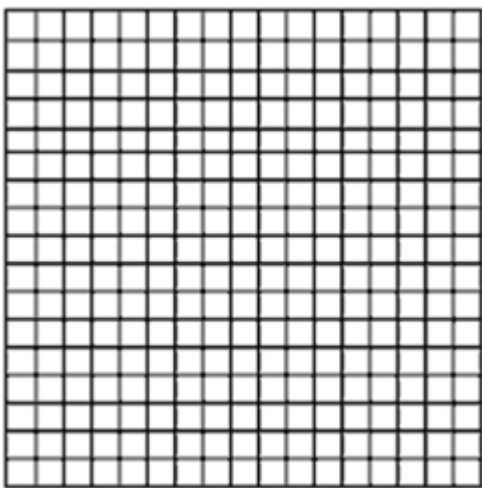
These relationships could change if external conditions were changed to affect these relationships. For example, in (a) if high IQ students were forced to take the most difficult classes, the direct relationship might disappear; in (b) if high-priced products became very fashionable and were of far superior quality, people might actually buy more when prices rose; in (c) if the number of people in the pool was limited to a low number or if air pollution alerts accompanied high temperatures, the direct relationship between temperature and pool attendance might change.



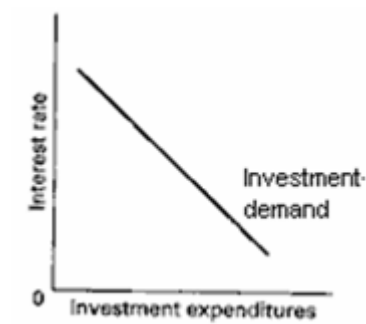
Learning Objective: Appendix  
McConnell - Chapter 001 #336

337. (p. 26)

Show graphically on the below graph the expected relationship between investment spending and interest rates. Put investment expenditures on the horizontal axis and the rate of interest on the vertical axis; connect the points and label the curve "Investment demand." Describe this relationship between the rate of interest and investment expenditures. Describe the slope of the investment curve.



The relationship between the interest rate and investment expenditures is inverse. The slope of the investment curve is downsloping or negative.



Learning Objective: Appendix  
McConnell - Chapter 001 #337

338. (p. 27) There are two sets of  $x, y$  points on a straight line in a two-variable graph with  $y$  on the vertical axis and  $x$  on the horizontal axis. What would be the linear equation for the line if one set of points was  $(0, 12)$  and the other set was  $(12, 36)$ ?

The linear equation is  $y = 12 + 2x$ .

Learning Objective: Appendix  
McConnell - Chapter 001 #338

339. (p. 27) The value of the vertical intercept is \$100 and the slope is 0.8 in a linear equation for consumption (measured on the vertical axis) and disposable income (measured on the horizontal axis). If disposable income is \$1000, what is consumption? State the linear equation and show how you found the answer.

The linear equation is consumption = \$100 + 0.8(disposable income). When disposable income is \$1000, consumption is \$900  $100 + 0.8$  (\$1000).

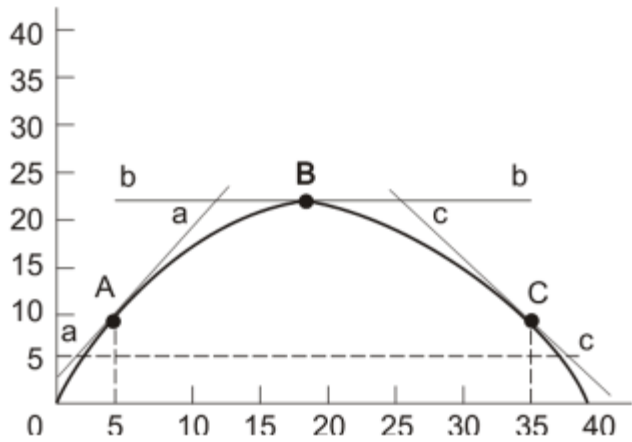
Learning Objective: Appendix  
McConnell - Chapter 001 #339

340. (p. 27 -28) How do you determine the slope of a nonlinear curve? Will the slope be the same along the curve? Explain.

The slope of a curve at any point is determined by calculating the slope of a straight line tangent to the curve at that point. The slope will change as you move along the curve. The curve has a different slope at each point.

Learning Objective: Appendix  
McConnell - Chapter 001 #340

341. (p. 27 -28) Using the below graph give the slopes of the lines tangent to the curve at points  $A, B$ , and  $C$ .



To find the slope, choose two points on the tangent line and divide the vertical distance between the two points by the horizontal distance. The tangent line  $aa$  passes through  $(5, 10)$  and  $(0, 3)$ . Therefore, the slope at point  $A$  is  $7/5$  or 1.4. The slope at point  $B$  is zero. The tangent line  $cc$  passes through  $(35, 10)$  and  $(31, 15)$ . Therefore, the slope at point  $C$  is  $-5/4$  or -1.25.

Learning Objective: Appendix  
McConnell - Chapter 001 #341

# 1 Summary

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