

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

1. Which of the following is not one of the three core economic issues that must be resolved?
  - A. How to produce the goods and services we select
  - B. What to produce with unlimited resources
  - C. Who should get the goods and services we produce
  - D. What to produce with limited resources
2. The fundamental problem of economics is:
  - A. The law of increasing opportunity costs.
  - B. The scarcity of resources relative to human wants.
  - C. How to get government to operate efficiently.
  - D. How to create employment for everyone.
3. In economics, scarcity means that:
  - A. A shortage of a particular good will cause the price to fall.
  - B. A production-possibilities curve cannot accurately represent the tradeoff between two goods.
  - C. Society's desires exceed the want-satisfying capability of the resources available to satisfy those desires.
  - D. The market mechanism has failed.
4. Given that resources are scarce:
  - A. A "free lunch" is possible but only for a limited number of people.
  - B. Opportunity costs are experienced whenever choices are made.
  - C. Poor countries must make choices but rich countries with abundant resources do not have to make choices.
  - D. Some choices involve opportunity costs while other choices do not.
5. A consequence of the economic problem of scarcity is that:
  - A. Choices have to be made about how resources are used.
  - B. There is never too much of any good or service produced.
  - C. The production of goods and services must be controlled by the government.
  - D. The production-possibilities curve is bowed outward.
6. The basic factors of production include:
  - A. Land, labor, money, and capital.
  - B. Land, labor, money, and inputs.
  - C. Labor and capital.
  - D. Land, labor, capital, and entrepreneurship.
7. Factors of production are:
  - A. Scarce in every society.
  - B. Scarce only in United States.
  - C. Scarce only in the poorest countries of the world.
  - D. Unlimited in quantity.
8. Which of the following is not a factor of production?
  - A. A psychiatrist
  - B. The \$100,000 used to start a new business
  - C. A bulldozer
  - D. Six thousand acres of farmland

9. With respect to factors of production, which of the following statements is *not* true?
- A. Factors of production are also known as resources.
  - B. In order to produce any good or service, it is necessary to have factors of production.
  - C. Factors of production include land, labor, capital, and entrepreneurship.
  - D. Only those resources that are privately owned are counted as factors of production.
10. Which of the following is the best example of land?
- A. The ethanol refined from corn
  - B. A factory that produces new goods and services
  - C. The river water used to float a riverboat casino
  - D. A barber's chair
11. Capital, as economists use the term, refers to:
- A. The money needed to start a new business.
  - B. The costs of operating a business.
  - C. Shares of stock issued by businesses.
  - D. Final goods that are used to produce other goods and services.
12. Which economist argued that free markets unleashed the "animal spirits" of entrepreneurs, propelling innovation, technology and growth?
- A. Lord Kelvin
  - B. Kenneth Olsen
  - C. Irving Fisher
  - D. Joseph Schumpeter
13. The role of the entrepreneur in an economy is to:
- A. Bring the factors of production together and assume the risk of production.
  - B. Work with government planners to determine what goods are produced.
  - C. Arrange bank financing for the owners of new businesses.
  - D. Ensure full employment of labor.
14. Economics can be defined as the study of:
- A. For whom resources are allocated to increase efficiency.
  - B. How society spends the income of individuals.
  - C. How scarce resources are allocated to best meet society's goals.
  - D. What scarce resources are used to produce goods and services.
15. Opportunity cost is:
- A. Only measured in dollars and cents.
  - B. The dollar cost to society of producing the goods.
  - C. The difficulty associated with using one good in place of another.
  - D. The alternative that must be given up in order to get something else.
16. Opportunity cost may be defined as the:
- A. Goods or services that are forgone in order to obtain something else.
  - B. Dollar prices paid for final goods and services.
  - C. Dollar cost of producing a particular product.
  - D. Difference between wholesale and retail prices.
17. The opportunity cost of studying for an economics test is:
- A. Negative, since it may improve your grade.
  - B. Zero, because you knew when you registered for the class that studying would be required.
  - C. The money you spent on tuition for the class.
  - D. The best alternative use of your time.

18. The "guns versus butter" dilemma that all nations confront is that:
- A. Guns and butter cannot be produced using the same resources.
  - B. An increase in national defense implies still more sacrifices of civilian goods and services.
  - C. An increase in national defense is only possible if we produce less butter.
  - D. Butter is scarce, while guns are not.
19. A production-possibilities curve indicates the:
- A. Combinations of goods and services an economy is actually producing.
  - B. Maximum combinations of goods and services an economy can produce given its available resources and technology.
  - C. Maximum combinations of goods and services an economy can produce given unlimited resources.
  - D. Average combinations of goods and services an economy can produce given its available resources and technology.
20. Which of the following is an assumption under which the production-possibilities curve is drawn?
- A. There is significant unemployment.
  - B. The supply of resources is fixed.
  - C. The price level is changing.
  - D. Technology is changing.
21. A point on a nation's production-possibilities curve represents:
- A. An undesirable combination of goods and services.
  - B. Combinations of production that are unattainable, given current technology and resources.
  - C. Levels of production that will cause both unemployment and inflation.
  - D. The full employment of resources to achieve a particular combination of goods and services.
22. Which of the following correctly characterizes the shape of a production-possibilities curve?
- A. A straight line indicating the law of increasing opportunity costs applies
  - B. A straight line when there is constant opportunity costs
  - C. A line that curves outward when resources are perfectly adaptable in the production of different goods
  - D. A line that curves inward when resources are perfectly adaptable in the production of different goods
23. The production-possibilities curve illustrates:
- A. The limitations that exist because of scarce resources.
  - B. That there is no limit to what an economy can produce.
  - C. That there is no limit to the level of output.
  - D. The existence of unlimited wants and resources.
24. According to the law of increasing opportunity costs:
- A. The more one is willing to pay for resources, the larger will be the possible level of production.
  - B. Increasing the production of a particular good will cause the price of the good to rise.
  - C. In order to produce additional units of a particular good, it is necessary for society to sacrifice increasingly larger amounts of alternative goods.
  - D. Only by keeping production constant can rising prices be avoided.
25. According to the law of increasing opportunity costs:
- A. Greater production leads to greater inefficiency.
  - B. Greater production means factor prices rise.
  - C. Greater production of one good requires increasingly larger sacrifices of other goods.
  - D. Higher opportunity costs induce higher output per unit of input.
26. If an economy experiences increasing opportunity costs with respect to two goods, then the production-possibilities curve between the two goods will be:
- A. Bowed outward.
  - B. A straight, downward-sloping line.
  - C. Bowed inward.
  - D. Bowed outward until the two goods are equal, and then bowed inward.

27. If the United States decides to convert automobile factories to tank production, as it did during World War II, but finds that some auto manufacturing facilities are not well suited to tank production, then:
- A. The production-possibilities curve between tanks and automobiles will appear as a straight line.
  - B. The production-possibilities curve between tanks and automobiles will shift outward.
  - C. Decreasing opportunity costs will occur with greater automobile production.
  - D. Increasing opportunity costs will occur with greater tank production.
28. If Korea is currently producing at efficiency, and it proceeds to increase the size of its military, then, as long as nothing else changes, its:
- A. Production-possibilities curve will shift outward.
  - B. Production-possibilities curve will shift inward.
  - C. Production of non-military goods will increase.
  - D. Production of non-military goods will decrease.
29. When an economy is producing efficiently it is:
- A. Producing a combination of goods and services beyond the production-possibilities curve.
  - B. Getting the most goods and services from the available resources.
  - C. Experiencing decreasing opportunity costs.
  - D. Producing equal amounts of all goods.
30. Which of the following is true when an economy is producing efficiently?
- A. The economy is producing on the production-possibilities curve.
  - B. Goods and services are being produced using the most resources.
  - C. The economy is getting the fewest goods and services from the available resources.
  - D. Everyone in the economy is happy.
31. The points on a production-possibilities curve show:
- A. Desired output.
  - B. Actual output.
  - C. Potential output.
  - D. All of the above.
32. In terms of the production-possibilities curve, inefficiency is represented by:
- A. All points on the curve.
  - B. All points outside the curve.
  - C. All points inside the curve.
  - D. A rightward shift of the curve.
33. If an economy is producing inside the production-possibilities curve, then:
- A. There is full employment of resources.
  - B. It is operating efficiently.
  - C. It can produce more of one good without giving up some of another good.
  - D. There are not enough resources available to produce more output.
34. A technological advance would best be represented by:
- A. A shift outward of the production-possibilities curve.
  - B. A shift inward of the production-possibilities curve.
  - C. A movement from inside the production-possibilities curve to a point on the production-possibilities curve.
  - D. A movement from the production-possibilities curve to a point inside the production-possibilities curve.
35. Which of the following events would allow the production-possibilities curve to shift outward?
- A. The economy's capital stock declines
  - B. More teenagers enter the labor force
  - C. Technology is lost
  - D. People begin to retire at earlier ages

36. Economic growth would best be represented by a:
- A. Shift outward of the production-possibilities curve.
  - B. Shift inward of the production-possibilities curve.
  - C. Movement from inside the production-possibilities curve to a point on the production-possibilities curve.
  - D. Movement from the production-possibilities curve to a point inside the production-possibilities curve.
37. Which of the following will cause the production-possibilities curve to shift inward?
- A. An increase in population
  - B. A decrease in the size of the labor force
  - C. A technological advance
  - D. An increase in knowledge
38. Which of the following is not a basic decision that all nations must confront?
- A. Should we have economic growth?
  - B. How should we produce goods and services?
  - C. For whom should goods and services be produced?
  - D. What goods and services should we produce?
39. In a market economy, the people who receive the goods and services that are produced are those who:
- A. Need the goods and services the most.
  - B. Have the most political power.
  - C. Want the goods and services the most.
  - D. Are willing to pay the highest price.
40. The market mechanism may best be defined as:
- A. The use of market prices and sales to signal desired output.
  - B. The use of market signals and government directives to select economic outcomes.
  - C. The process by which the production-possibilities curve shifts inward.
  - D. Price regulation by government.
41. The market mechanism:
- A. Is not a very efficient means of communicating consumer demand to the producers of goods and services.
  - B. Works through central planning by government.
  - C. Eliminates market failures created by government.
  - D. Works because prices serve as a means of communication between consumers and producers.
42. The invisible hand refers to:
- A. Intervention in the economy by the government bureaucrats we do not see and over whom we have no control.
  - B. Undiscovered natural resources.
  - C. The allocation of resources by market forces.
  - D. The person who has the responsibility to coordinate all the markets in a market economy.
43. The doctrine of laissez faire is based on the belief that:
- A. Markets are likely to do a better job of allocating resources than government directives.
  - B. Government directives are likely to do a better job of allocating resources than markets.
  - C. Government failure does not exist.
  - D. Markets result in an unfair distribution of income.
44. A city's decision to limit smoking in public areas is an example of:
- A. The invisible hand at work.
  - B. The market mechanism at work.
  - C. Market failure.
  - D. Government intervention.

45. A mixed economy:
- A. Is justified by the superiority of laissez faire over government intervention.
  - B. Utilizes both market and nonmarket signals to allocate goods and services.
  - C. Relies on the use of central planning by private firms rather than the government.
  - D. Is one that allows trade with other countries.
46. Which of the following can be used to correct market failure?
- A. The market mechanism
  - B. Laws and regulations
  - C. Laissez-faire price policies
  - D. Government failure
47. When the invisible hand does not produce optimal outcomes for the economy, there is evidence of:
- A. Market failure.
  - B. Government failure.
  - C. Macroeconomic failure.
  - D. Scarcity.
48. Government intervention may achieve a more optimal outcome than the market mechanism when addressing:
- A. Inefficient bureaucracy.
  - B. Consumption of cigarettes.
  - C. Lack of incentive to try new products or technologies.
  - D. Inefficient bureaucracy, consumption of cigarettes, and lack of incentive to try new products or technologies.
49. If market signals result in pollution beyond the optimal level then:
- A. The economy experiences government failure.
  - B. A laissez-faire approach will reduce the level of pollution.
  - C. The market mechanism has failed to achieve social efficiency.
  - D. The government is allocating resources inefficiently.
50. When government directives do not produce better economic outcomes, which of the following has occurred?
- A. Government failure
  - B. Market failure
  - C. Macroeconomic failure
  - D. Scarcity
51. Which of the following is an example of government failure?
- A. Bureaucratic delays
  - B. Required use of pollution-control technology that is obsolete
  - C. Inefficient incentives
  - D. Bureaucratic delays, required use of pollution-control technologies that are obsolete, and inefficient incentives
52. Macroeconomics focuses on the performance of:
- A. Individual consumers.
  - B. Government agencies.
  - C. The overall economy.
  - D. All of the above.
53. Which of the following is *not* a macroeconomic statement?
- A. The unemployment rate for the United States rose to 5 percent in the last quarter.
  - B. The Federal Reserve lowered interest rates at their last meeting.
  - C. Congress increased the minimum wage rate in January.
  - D. Jenny's wage rate rose and, in response, she decided to work more hours.

54. The study of microeconomic theory focuses on the:
- A. Structure and performance of markets and the operation of the price system.
  - B. Operation of the entire economy.
  - C. Role of the banking system in the economy.
  - D. Interaction of international trade and domestic production of goods and services.
55. Microeconomics is concerned with issues such as:
- A. The demand for bottled water by individuals.
  - B. The level of inflation in the economy.
  - C. Maintaining a strong level of economic growth.
  - D. All of the choices.
56. Economic models are used by economists to:
- A. Predict economic behavior.
  - B. Develop economic policies.
  - C. Explain economic behavior.
  - D. Predict economic behavior, develop economic policies, and explain economic behavior.
57. The Latin phrase "ceteris paribus" means:
- A. The production-possibilities curve never shifts.
  - B. Laissez faire.
  - C. Other things remain equal.
  - D. The invisible hand.

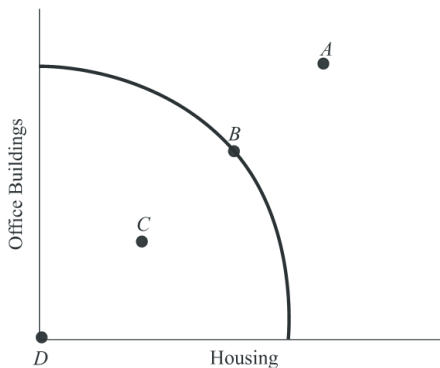


Figure 1.1 Production-possibilities curve

58. At which point is society employing some of its available technology but not all of it? (See Figure 1.1.)
- A. A
  - B. B
  - C. C
  - D. D
59. At which point is society producing the most output possible with the available resources and technology? (See Figure 1.1.)
- A. A
  - B. B
  - C. C
  - D. D
60. At which point is society producing some of each type of structure but still producing inefficiently? (See Figure 1.1.)
- A. A
  - B. B
  - C. C
  - D. D

61. At which point might society be able to produce if new resources were discovered but cannot produce at with current resources? (See Figure 1.1.)
- A. A
  - B. B
  - C. C
  - D. D

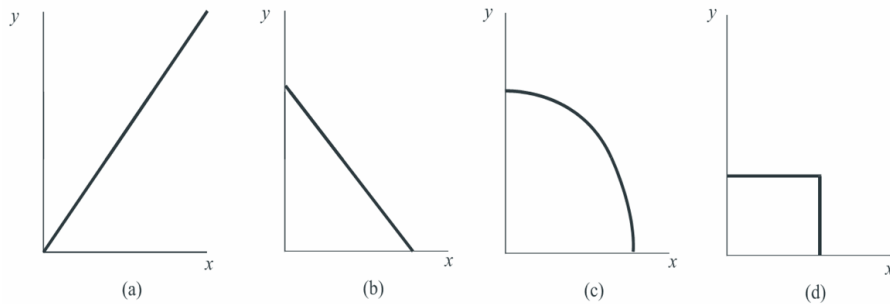


Figure 1.2 Production-possibilities curves

62. Choose the letter of the curve in Figure 1.2 that best represents a production-possibilities curve for two goods that obey the law of increasing opportunity costs.
- A. A
  - B. B
  - C. C
  - D. D
63. Choose the letter of the curve in Figure 1.2 that best represents a production-possibilities curve for two goods for which there are constant opportunity costs.
- A. A
  - B. B
  - C. C
  - D. D

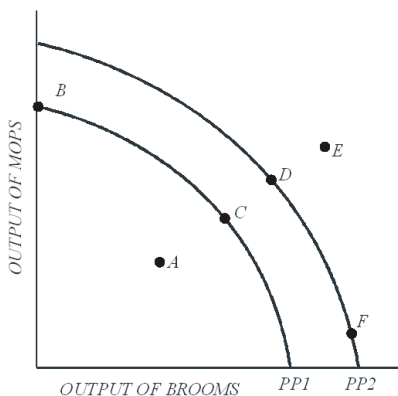


Figure 1.3

64. Using Figure 1.3, an increase in the capacity to produce can be represented by a movement from:
- A. Point A to point B.
  - B. Point A to point C.
  - C. Point B to point C.
  - D. Point C to point F.



65. Using Figure 1.3, at point A:
- There is inefficient use of available resources.
  - The available technology keeps production inside PP1.
  - All available resources are being used efficiently.
  - An increase in the production of mops would definitely require a decrease in the production of brooms.
66. Which of the following is true about the combination of mops and brooms represented by point E in Figure 1.3?
- This economy will never be able to reach point E
  - Point E is attainable if this economy uses more of its available resources
  - Point E is attainable if this economy becomes more efficient
  - Point E is attainable only if more resources become available or technological advances are made
67. An increase in the proportion of the population that is unemployed is best represented in Figure 1.3 by a movement from point:
- C to point D.
  - D to point C.
  - C to point A.
  - E to point D.
68. A movement from point F to point D in Figure 1.3 results in:
- A reallocation of resources from mop production to broom production.
  - Permanent unemployment of workers producing brooms.
  - A reallocation of resources from broom production to mop production.
  - More efficient production.
69. In Figure 1.3, a shift of the production-possibilities curve from PP1 to PP2 could be caused by:
- A decrease in the quantity of raw materials available.
  - A decline in the production skills of workers.
  - The use of improved production technology.
  - All of the above could cause the shift.

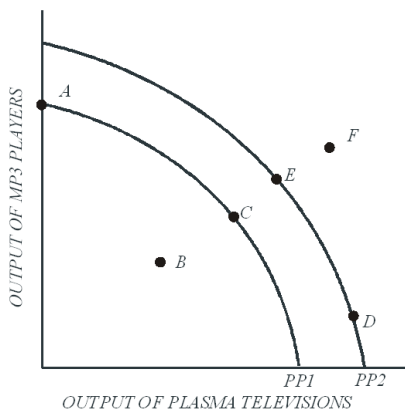


Figure 1.4

70. Using Figure 1.4, an increase in the capacity to produce can be represented by a movement from point:
- A to point B.
  - C to point E.
  - A to point C.
  - D to point E.

71. Which of the following is true about the combination of plasma televisions and MP3 players represented by point F in Figure 1.4?
- This economy will never be able to reach point F
  - Point F is attainable if this economy reduces its unemployment rate
  - Point F will be more easily attainable if the government takes control of all privately-run factories
  - Point F can possibly be reached if more economic resources become available or technology improves
72. A movement from point C to point A in Figure 1.4 results in:
- More efficient production.
  - Permanent unemployment of workers producing plasma televisions.
  - A reallocation of resources from MP3 player production to plasma television production.
  - A reallocation of resources from plasma television production to MP3 player production.
73. In Figure 1.4, a shift of the production-possibilities curve from PP1 to PP2 could be caused by:
- An increase in the unemployment rate.
  - Implementation of training programs which improve the skills of workers.
  - Better use of existing technology.
  - Tougher pollution controls for the producers of plasma televisions and MP3 players.

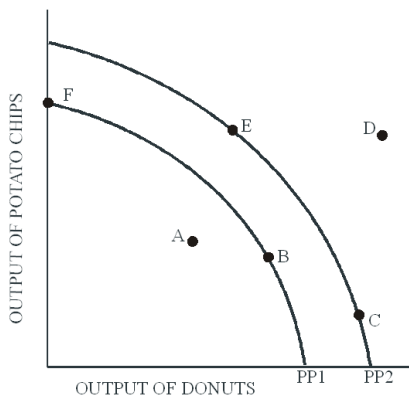


Figure 1.5

74. Using Figure 1.5, if an economy has the capacity to produce represented by PP2 then point E represents:
- A constant tradeoff between potato chips and donuts.
  - A combination of potato chips and donuts that is not attainable.
  - An efficient use of resources.
  - The unemployment of resources.
75. Using Figure 1.5, if an economy is currently producing on PP2, which of the following would shift the production-possibilities curve toward PP1?
- An increase in the quantity of labor available
  - A decrease in the amount of capital available
  - An increase in the level of unemployment
  - An advancement in technology
76. In Figure 1.5, at which of the following points would the opportunity cost of producing another donut be greatest?
- F
  - E
  - B
  - C

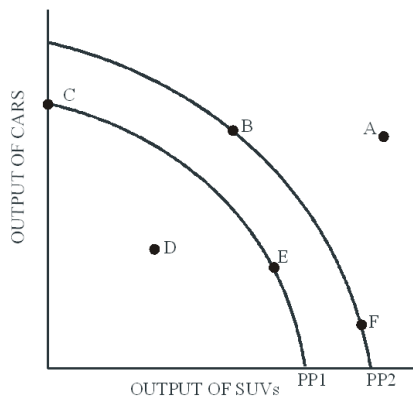


Figure 1.6

77. Using Figure 1.6, if an economy has the capacity to produce represented by PP1 then point E represents:
- A combination of cars and SUVs that is not attainable.
  - A constant tradeoff between cars and SUVs.
  - The unemployment of resources.
  - An efficient use of resources.
78. In Figure 1.6, if the opportunity cost of producing cars was zero at all levels of production, the production-possibilities curve would be best represented by a:
- Vertical straight line.
  - 45-degree line starting at the origin.
  - Horizontal straight line.
  - Circle.
79. In Figure 1.6, at which of the following points would the opportunity cost of producing one more car be the lowest?
- F
  - E
  - B
  - C
80. In Figure 1.6, at which of the following points would the opportunity cost of producing one more SUV be the highest?
- C
  - B
  - A
  - F

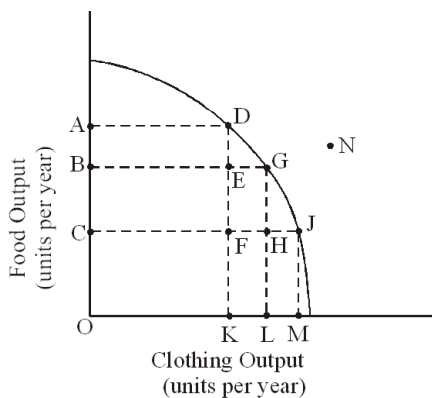


Figure 1.7

81. Refer to Figure 1.7. This economy will achieve efficiency in production at:
- A. Point D only.
  - B. Point G only.
  - C. Point J only.
  - D. Points D, G, and J.
82. Refer to Figure 1.7. The cost of producing at point G rather than point D is:
- A. OA units of food.
  - B. KL units of clothing.
  - C. AB units of food.
  - D. OL units of clothing.
83. Refer to Figure 1.7. The benefit of producing at point G rather than point D is:
- A. OA units of food.
  - B. KL units of clothing.
  - C. AB units of food.
  - D. OL units of clothing.
84. Refer to Figure 1.7. The cost of producing at point D rather than point J is:
- A. KM units of clothing.
  - B. AC units of food.
  - C. OM units of clothing.
  - D. OA units of food.
85. Refer to Figure 1.7. If this economy is currently producing at point F, then by employing more resources this economy:
- A. Can move to point D, but not points G or J.
  - B. Can move to points D, G or J.
  - C. Can move to point G, but not points D or J.
  - D. Will remain at point F.
86. Refer to Figure 1.7. Which of the following points are considered to be inefficient?
- A. D
  - B. E
  - C. G
  - D. D, G, and J
87. Refer to Figure 1.7. Which of the following points are unattainable?
- A. G
  - B. F
  - C. N
  - D. E
88. Refer to Figure 1.7. Which of the following points show unemployment of resources?
- A. H
  - B. J
  - C. N
  - D. D

Table 1.1 shows the hypothetical tradeoff between different combinations of Stealth bombers and B-1 bombers that might be produced in a year with the limited U.S. capacity, ceteris paribus. Complete the table by calculating the required opportunity costs for both the B-1 and Stealth bombers. Then answer the indicated questions.

**Table 1.1 Production possibilities for bombers**

| Combination | Number of Stealth Bombers | Opportunity cost of Stealth bombers in terms of B-1s | Number of B-1s | Opportunity cost of B-1s in terms of Stealth bombers |
|-------------|---------------------------|--|----------------|--|
| S           | 10                        |  | 0              |  |
| T           | 9                         |  | 1              |  |
| U           | 7                         |  | 2              |  |
| V           | 4                         |  | 3              |  |

**Table 1.1 Answers**

| Combination | Number of Stealth Bombers | Opportunity cost of Stealth bombers in terms of B-1s | Number of B-1s | Opportunity cost of B-1s in terms of Stealth bombers |
|-------------|---------------------------|--|----------------|--|
| S           | 10                        |  | 0              |  |
| T           | 9                         | $1 \div 1 = 1$                                       | 1              | $1 \div 1 = 1$                                       |
| U           | 7                         | $1 \div 2 = 0.5$                                     | 2              | $2 \div 1 = 2$                                       |
| V           | 4                         | $1 \div 3 = 0.33$                                    | 3              | $3 \div 1 = 3$                                       |

89. On the basis of your calculations in Table 1.1, you may infer that the law of increasing opportunity costs applies to:
  - A. Stealth bombers but not to B-1 bombers.
  - B. B-1 bombers but not to Stealth bombers.
  - C. Both B-1 bombers and Stealth bombers.
  - D. Neither B-1 bombers nor Stealth bombers.
90. On the basis of your calculations in Table 1.1, what is the opportunity cost of producing at point S rather than point T?
  - A. 1 Stealth bomber
  - B. 1 B-1 bomber
  - C. 10 Stealth bombers
  - D. 0.9 Stealth bombers
91. On the basis of your calculations in Table 1.1, what is the opportunity cost of producing at point V rather than point U?
  - A. 3 B-1 bombers
  - B. 1 B-1 bomber
  - C. 4 Stealth bombers
  - D. 3 Stealth bombers
92. Refer to Table 1.1. In the production range of 7 to 9 Stealth bombers, the opportunity cost of producing 1 more Stealth bomber in terms of B-1s is:
  - A. 0.
  - B. 3.
  - C. 0.5.
  - D. 2.
93. The highest opportunity cost anywhere in Table 1.1 for Stealth bombers in terms of B-1 bombers is:
  - A. 1 B-1 bomber per Stealth bomber.
  - B. 3 B-1 bombers per Stealth bomber.
  - C. 2 B-1 bombers per Stealth bomber.
  - D. 0.5 B-1 bombers per Stealth bomber.

94. The highest opportunity cost anywhere in Table 1.1 for B-1 bombers in terms of Stealth bombers is:
- 1 Stealth bomber per B-1 bomber.
  - 3 Stealth bombers per B-1 bomber.
  - 2 Stealth bombers per B-1 bomber.
  - 0.5 Stealth per B-1 bomber.
95. The lowest opportunity cost anywhere in Table 1.1 for B-1 bombers in terms of Stealth bombers is:
- 0 Stealth bombers per B-1 bomber.
  - 2 Stealth bombers per B-1 bomber.
  - 1 Stealth bomber per B-1 bomber.
  - 0.5 Stealth bombers per B-1 bomber.

Table 1.2 shows the hypothetical tradeoff between different combinations of Stealth bombers and B-1 bombers that might be produced in a year with the limited U.S. capacity, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both the B-1 and Stealth bombers. Then answer the indicated questions.

**Table 1.2 Production possibilities for bombers**

| Combination | Number of Stealth Bomber | Opportunity cost of Stealth bombers in terms of B-1 bombers | Number of B-1 bombers | Opportunity cost of B-1 bombers in terms of Stealth bombers |
|-------------|--------------------------|---|-----------------------|---|
| A           | 195                      | _____   | 20                    | _____   |
| B           | 180                      | _____   | 35                    | _____   |
| C           | 150                      | _____   | 45                    | _____   |
| D           | 100                      | _____   | 50                    | _____   |

**Table 1.2 Answers**

| Combination | Number of Stealth Bombers | Opportunity cost of Stealth bombers in Terms of B-1 bombers | Number of B-1 bombers | Opportunity cost of B-1 bombers in terms of Stealth bombers |
|-------------|---------------------------|---|-----------------------|---|
| A           | 195                       |   | 20                    |   |
| B           | 180                       | $15 \div 15 = 1$  | 35                    | $15 \div 15 = 1$  |
| C           | 150                       | $10 \div 30 = 0.33$   | 45                    | $30 \div 10 = 3$  |
| D           | 100                       | $5 \div 50 = 0.1$   | 50                    | $50 \div 5 = 10$  |

96. On the basis of your calculations in Table 1.2, the law of increasing opportunity costs applies to:
- Both B-1 and Stealth bombers.
  - B-1 bombers but not to Stealth bombers.
  - Stealth bombers but not to B-1 bombers.
  - Neither bomber.
97. On the basis of your calculations in Table 1.2, what is the opportunity cost of producing at point B rather than point C?
- 45 B-1 bombers
  - 35 Stealth bombers
  - 180 Stealth bombers
  - 10 B-1 bombers
98. On the basis of your calculations in Table 1.2, what is gained by producing at point B rather than point C?
- 45 B-1 bombers
  - 30 Stealth bombers
  - 180 Stealth bombers
  - 10 B-1 bombers

99. On the basis of your calculations in Table 1.2, what is gained by producing at point B rather than point A?
- 35 B-1 bombers
  - 195 Stealth bombers
  - 15 B-1 bombers
  - 15 Stealth bombers
100. Refer to Table 1.2. In the production range of 20 to 35 B-1 bombers, the opportunity cost of producing 1 more B-1 bomber is:
- 195/20 of Stealth bombers.
  - 35/20 of Stealth bombers.
  - 15 Stealth bombers.
  - 1 Stealth bomber.
101. The highest opportunity cost anywhere in Table 1.2 for B-1 bombers in terms of Stealth bombers is:
- 10 Stealth bombers per B-1 bomber.
  - .33 B-1 bombers per Stealth bomber.
  - .10 B-1 bombers per Stealth bomber.
  - .10 Stealth bombers per B-1 bomber.
102. The lowest opportunity cost anywhere in Table 1.2 for Stealth bombers in terms of B-1 bombers is:
- .4 B-1 bombers per Stealth bomber.
  - .3 B-1 bombers per Stealth bomber.
  - .2 B-1 bombers per Stealth bomber.
  - .10 B-1 bombers per Stealth bomber.

Table 1.3 shows the hypothetical tradeoff between different combinations of brushes and combs that might be produced in a year with the limited capacity for Country X, *ceteris paribus*. Complete the table by calculating the required opportunity costs for brushes and combs. Then answer the indicated questions.

**Table 1.3 Production possibilities for brushes and combs**

| Combination | Number of brushes | Opportunity cost of brushes in terms of combs | Number of combs | Opportunity cost of combs in terms of brushes |
|-------------|-------------------|---|-----------------|---|
| J           | 0                 |   | 4               |   |
| K           | 10                |   | 3               |   |
| L           | 17                |   | 2               |   |
| M           | 21                |   | 1               |   |
| N           | 23                |   | 0               |   |

**Table 1.3 Answers**

| Combination | Number of brushes | Opportunity cost of brushes in terms of combs | Number of combs | Opportunity cost of combs in terms of brushes |
|-------------|-------------------|---|-----------------|---|
| J           | 0                 |   | 4               |   |
| K           | 10                | $1 \div 10 = 0.10$                            | 3               | $10 \div 1 = 10$                              |
| L           | 17                | $1 \div 7 = 0.14$                             | 2               | $7 \div 1 = 7$                                |
| M           | 21                | $1 \div 4 = 0.25$                             | 1               | $4 \div 1 = 4$                                |
| N           | 23                | $1 \div 2 = 0.50$                             | 0               | $2 \div 1 = 2$                                |

103. On the basis of your calculations in Table 1.3, what is the opportunity cost of producing at point M rather than point N?
- 23 combs
  - 21 combs
  - 1 brush
  - 2 brushes

104. On the basis of your calculations in Table 1.3, what is gained by producing at point M rather than point N?
- A. 23 combs
  - B. 21 combs
  - C. 1 comb
  - D. 2 combs
105. On the basis of your calculations in Table 1.3, what is gained from producing at point L rather than point K?
- A. 17 combs
  - B. 10 combs
  - C. 1 brush
  - D. 7 brushes
106. On the basis of your calculations in Table 1.3, the law of increasing opportunity costs applies to:
- A. Both brushes and combs.
  - B. Combs but not brushes.
  - C. Brushes but not combs.
  - D. Neither brushes nor combs.
107. On the basis of your calculations in Table 1.3, in the production range of 2 to 3 combs the opportunity cost of producing 1 more comb in terms of brushes is:
- A. 3.33.
  - B. 7.0.
  - C. 0.67.
  - D. 0.14.
108. On the basis of your calculations in Table 1.3, in the production range of 21 to 23 brushes the opportunity cost of producing more comb in terms of brushes is:
- A.  $1/21$ .
  - B.  $21/23$ .
  - C.  $1/2$ .
  - D. 4.
109. On the basis of your calculations in Table 1.3, in the production range of 1 to 2 combs the opportunity cost of producing 1 more comb in terms of brushes is:
- A. 4.
  - B.  $1/2$ .
  - C.  $2/17$ .
  - D.  $1/7$ .
110. On the basis of your calculations in Table 1.3, the highest opportunity cost for brushes in terms of combs is:
- A. 0.10 combs per brush.
  - B. 23 combs per brush.
  - C. 0.50 combs per brush.
  - D. 0.29 combs per brush.
111. On the basis of your calculations in Table 1.3, the lowest opportunity cost for combs in terms of brushes is:
- A. 10 brushes per comb.
  - B. 2 brushes per comb.
  - C. 0.33 brushes per comb.
  - D. 8.5 brushes per comb.

The following multiple-choice question requires critical thinking about *In the News and World View* articles that appeared in the text.



112. One *World View* article is titled "Food Shortages Plague N. Korea." On a production-possibilities curve between private and public goods, a decrease in military spending in an effort to increase food production could be represented as:
- A. A movement along the production-possibilities curve toward public goods.
  - B. A movement along the production-possibilities curve toward private goods.
  - C. A shift outward of the production-possibilities curve.
  - D. A shift inward of the production-possibilities curve.
113. One *World View* article is titled "Food Shortages Plague N. Korea." If North Korea reduces the size of its military and produces more food, this is most consistent with:
- A. A movement along the economy's production-possibilities curve.
  - B. Privatization.
  - C. A laissez faire policy.
  - D. The law of increasing opportunity costs.
114. One *World View* article states that NASA plans to spend \$100 billion to establish a manned station on the moon, and then continue on to Mars. This is an example of an activity that:
- A. Will move the U.S.'s production-possibilities curve inward.
  - B. Has no opportunity cost.
  - C. Will move the U.S. from one point on its production-possibilities curve to another point.
  - D. Has a negative opportunity cost.

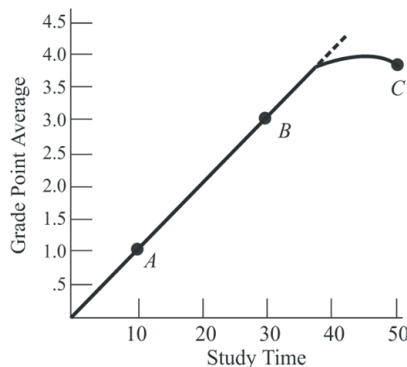


Figure 1.8 Relating grades and hours studied

115. Figure 1.8 suggests that:
- A. The law of increasing opportunity cost does not apply.
  - B. Resources can be perfectly adapted between study time and grade-point average.
  - C. The relationship between study time and grade-point average is first linear, then nonlinear.
  - D. The relationship between study time and grade-point average is constant.
116. Refer to Figure 1.8. If the university decides to lower grading standards, then:
- A. This curve will shift rightward.
  - B. This curve will pivot up and to the left.
  - C. The curve will begin to bend downward at an earlier point.
  - D. We will slide up the curve from point B to point C.

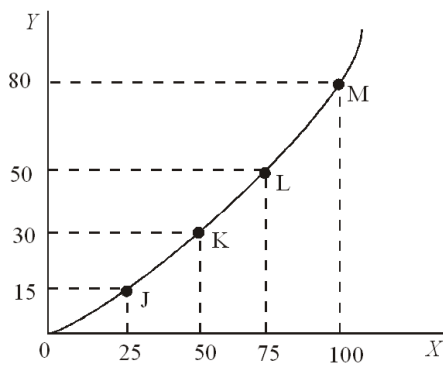


Figure 1.9

117. In Figure 1.9, as you move up the curve from Point J toward Point M, the slope:
- Increases.
  - Remains constant.
  - Decreases.
  - Becomes negative.
118. In Figure 1.9, the slope of the line between Points L and M is:
- 1.20.
  - 0.80.
  - 0.75.
  - 0.67.
119. In Figure 1.9, the slope of the line between Points K and L is:
- 1.25.
  - 0.80.
  - 0.75.
  - 0.60.
120. In Figure 1.9 the slope of the line is:
- Greater at Point K than Point L.
  - Equal to zero at all points.
  - The same at Points J and K.
  - Greater at Point M than Point L.
121. The slope of a curve at any point is given by the formula, the:
- Change in y coordinates between two points divided by the change in their x coordinates.
  - Change in x coordinates between two points divided by the change in their y coordinates.
  - Percentage change in y coordinates between two points divided by the percentage change in their x coordinates.
  - Percentage change in x coordinates between two points divided by the percentage change in their y coordinates.
122. A line that slopes downward from left to right has a:
- Negative slope.
  - Positive slope.
  - Slope that changes as you move along the curve.
  - Slope of zero.
123. A linear function can be distinguished by:
- The continuous change in its slope.
  - The same slope throughout the line.
  - The changing relationship between the two variables.
  - A shift in the function.

124. When the relationship between two variables changes:
- A. There is movement from one point on the curve to another point on the curve.
  - B. The curve becomes linear.
  - C. The entire curve shifts.
  - D. All of the choices.
125. The fact that there are too few resources to satisfy all our wants is attributed to:
- A. Scarcity.
  - B. Greed.
  - C. Shortages.
  - D. Lack of money.
126. According to the text, there is no such thing as a free lunch because:
- A. The producer must charge something to cover the cost of production.
  - B. Resources used to produce the lunch could be used to produce other goods and services.
  - C. The government must raise taxes to pay for the lunches.
  - D. No one would pay for lunch anymore if they could get it for free.
127. In the guns and butter production possibilities example, producing more and more tanks:
- A. Lowers the cost of each individual tank.
  - B. Can be done at a constant opportunity cost.
  - C. Requires us to give up larger and larger amounts of butter.
  - D. Is not possible due to scarcity.
128. Producing at a point inside the production possibilities curve:
- A. Means society must be using its resources efficiently.
  - B. Is unattainable, given the present level of technology.
  - C. Is feasible when the nation is at war, but not feasible when the nation is at peace.
  - D. Suggests we are forgoing the opportunity to produce more goods and services.
129. Greater regulation to correct the imbalances in the economy, as well government intervention to maintain full employment was associated primarily with the work of:
- A. John Maynard Keynes.
  - B. Adam Smith.
  - C. Karl Marx.
  - D. Ronald Reagan.
130. Scarcity results when available resources cannot satisfy all desired uses of those resources.  
True    False
131. Critics of government regulation argue that government interference in the marketplace stifles the animal spirits of entrepreneurship.  
True    False
132. Opportunity cost is a theoretical concept with no practical application.  
True    False
133. Every time we use scarce resources in one way, we give up the opportunity to use them in other ways.  
True    False
134. All output combinations that lie outside a production-possibilities curve are attainable with available resources and technology.  
True    False
135. Output combinations that lie inside the production-possibilities curve are characterized by efficient use of resources.  
True    False

- 136.If the economy is inside the production-possibilities curve, then more output can be produced using existing resources.  
True False
- 137.All economies must make decisions concerning what to produce, how to produce it, and for whom to produce.  
True False
- 138.The essential feature of the market mechanism is the price signal.  
True False
- 139.Government failure occurs when government intervention fails to improve economic outcomes.  
True False
- 140.Microeconomics is concerned with individual performance as well as the economy as a whole.  
True False
- 141.The Latin phrase "ceteris paribus" refers to holding other variables constant.  
True False
- 142.To calculate the slope of a line, find the vertical distance between two points and divide it by the horizontal distance between the same two points.  
True False
- 143.The slope of a production-possibilities curve is positive.  
True False
- 144.Explain why an economist would say "There is no such thing as a free lunch."
- 145.Describe the shape of the typical production-possibilities curve and explain why it has this shape.
- 146.Why do opportunity costs increase as society produces more of a good?

147.Explain the concept of inefficiency in terms of a production possibilities curve.

148.Explain the difference between macroeconomics and microeconomics. Give examples of each.

149.How does the market mechanism answer the WHAT, HOW, and FOR WHOM questions?

# 1 Key

1. Which of the following is not one of the three core economic issues that must be resolved?
- A. How to produce the goods and services we select
  - B. What to produce with unlimited resources**
  - C. Who should get the goods and services we produce
  - D. What to produce with limited resources

Resources are not unlimited.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #1  
Topic: SCARCITY: THE CORE PROBLEM

2. The fundamental problem of economics is:
- A. The law of increasing opportunity costs.
  - B. The scarcity of resources relative to human wants.**
  - C. How to get government to operate efficiently.
  - D. How to create employment for everyone.

Wants will always exceed resources.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #2  
Topic: SCARCITY: THE CORE PROBLEM

3. In economics, scarcity means that:
- A. A shortage of a particular good will cause the price to fall.
  - B. A production-possibilities curve cannot accurately represent the tradeoff between two goods.
  - C. Society's desires exceed the want-satisfying capability of the resources available to satisfy those desires.**
  - D. The market mechanism has failed.

We cannot produce everything with fixed resources.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #3  
Topic: SCARCITY: THE CORE PROBLEM

4. Given that resources are scarce:
- A. A "free lunch" is possible but only for a limited number of people.
  - B. Opportunity costs are experienced whenever choices are made.**
  - C. Poor countries must make choices but rich countries with abundant resources do not have to make choices.
  - D. Some choices involve opportunity costs while other choices do not.

Any choice requires us to give something up.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #4  
Topic: SCARCITY: THE CORE PROBLEM

5. A consequence of the economic problem of scarcity is that:  
**A.** Choices have to be made about how resources are used.  
B. There is never too much of any good or service produced.  
C. The production of goods and services must be controlled by the government.  
D. The production-possibilities curve is bowed outward.

Scarcity means choices must be made.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #5  
Topic: SCARCITY: THE CORE PROBLEM

6. The basic factors of production include:  
A. Land, labor, money, and capital.  
B. Land, labor, money, and inputs.  
C. Labor and capital.  
**D.** Land, labor, capital, and entrepreneurship.

The basic four factors are required for the production of goods and services.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #6  
Topic: SCARCITY: THE CORE PROBLEM

7. Factors of production are:  
**A.** Scarce in every society.  
B. Scarce only in United States.  
C. Scarce only in the poorest countries of the world.  
D. Unlimited in quantity.

Land, labor, capital, and entrepreneurship are scarce.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #7  
Topic: SCARCITY: THE CORE PROBLEM

8. Which of the following is not a factor of production?  
A. A psychiatrist  
**B.** The \$100,000 used to start a new business  
C. A bulldozer  
D. Six thousand acres of farmland

Land, labor, capital, and entrepreneurship are the factors of production. Money does not fall under any category of the factors of production.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #8  
Topic: SCARCITY: THE CORE PROBLEM

9. With respect to factors of production, which of the following statements is *not* true?
- A. Factors of production are also known as resources.
  - B. In order to produce any good or service, it is necessary to have factors of production.
  - C. Factors of production include land, labor, capital, and entrepreneurship.
  - D. Only those resources that are privately owned are counted as factors of production.**

Even resources owned by governments count as scarce factors of production.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #9

Topic: SCARCITY: THE CORE PROBLEM

10. Which of the following is the best example of land?
- A. The ethanol refined from corn
  - B. A factory that produces new goods and services
  - C. The river water used to float a riverboat casino**
  - D. A barber's chair

Even natural resources such as lakes and oceans count as land.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #10

Topic: SCARCITY: THE CORE PROBLEM

11. Capital, as economists use the term, refers to:
- A. The money needed to start a new business.
  - B. The costs of operating a business.
  - C. Shares of stock issued by businesses.
  - D. Final goods that are used to produce other goods and services.**

Capital is used to produce other goods and services, including other capital goods.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #11

Topic: SCARCITY: THE CORE PROBLEM

12. Which economist argued that free markets unleashed the "animal spirits" of entrepreneurs, propelling innovation, technology and growth?
- A. Lord Kelvin
  - B. Kenneth Olsen
  - C. Irving Fisher
  - D. Joseph Schumpeter**

Competition leads companies to always try to do something better and more efficiently in order to maximize profits.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #12

Topic: SCARCITY: THE CORE PROBLEM



13. The role of the entrepreneur in an economy is to:
- A.** Bring the factors of production together and assume the risk of production.
  - B. Work with government planners to determine what goods are produced.
  - C. Arrange bank financing for the owners of new businesses.
  - D. Ensure full employment of labor.

The entrepreneur is an important factor of production and acts to mobilize the use of other resources.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #13

Topic: SCARCITY: THE CORE PROBLEM

14. Economics can be defined as the study of:
- A. For whom resources are allocated to increase efficiency.
  - B. How society spends the income of individuals.
  - C.** How scarce resources are allocated to best meet society's goals.
  - D. What scarce resources are used to produce goods and services.

Economics studies how we get the most we can out of what we have.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #14

Topic: SCARCITY: THE CORE PROBLEM

15. Opportunity cost is:
- A. Only measured in dollars and cents.
  - B. The dollar cost to society of producing the goods.
  - C. The difficulty associated with using one good in place of another.
  - D.** The alternative that must be given up in order to get something else.

Any choice involves sacrificing something else, which is the opportunity cost.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #15

Topic: SCARCITY: THE CORE PROBLEM

16. Opportunity cost may be defined as the:
- A.** Goods or services that are forgone in order to obtain something else.
  - B. Dollar prices paid for final goods and services.
  - C. Dollar cost of producing a particular product.
  - D. Difference between wholesale and retail prices.

The opportunity cost is your best alternative that is forgone.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #16  
Topic: SCARCITY: THE CORE PROBLEM

17. The opportunity cost of studying for an economics test is:
- A. Negative, since it may improve your grade.
  - B. Zero, because you knew when you registered for the class that studying would be required.
  - C. The money you spent on tuition for the class.
  - D. The best alternative use of your time.**

The opportunity cost is the activity you would do instead of studying.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #17

Topic: SCARCITY: THE CORE PROBLEM

18. The "guns versus butter" dilemma that all nations confront is that:
- A. Guns and butter cannot be produced using the same resources.
  - B. An increase in national defense implies still more sacrifices of civilian goods and services.**
  - C. An increase in national defense is only possible if we produce less butter.
  - D. Butter is scarce, while guns are not.

To get more of one good, we must sacrifice production of other goods. "Guns versus butter" is a figurative way of expressing the trade-off between defense and civilian goods and services.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #18

Topic: SCARCITY: THE CORE PROBLEM

19. A production-possibilities curve indicates the:
- A. Combinations of goods and services an economy is actually producing.
  - B. Maximum combinations of goods and services an economy can produce given its available resources and technology.**
  - C. Maximum combinations of goods and services an economy can produce given unlimited resources.
  - D. Average combinations of goods and services an economy can produce given its available resources and technology.

The production possibilities curve shows us the possible choices we can make in regards to what to produce.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #19

Topic: PRODUCTION POSSIBILITIES

20. Which of the following is an assumption under which the production-possibilities curve is drawn?
- A. There is significant unemployment.
  - B. The supply of resources is fixed.**
  - C. The price level is changing.
  - D. Technology is changing.

The production possibilities curve is a snapshot of a short time frame when resources are fixed.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #20  
Topic: PRODUCTION POSSIBILITIES

21. A point on a nation's production-possibilities curve represents:
- A. An undesirable combination of goods and services.
  - B. Combinations of production that are unattainable, given current technology and resources.
  - C. Levels of production that will cause both unemployment and inflation.
  - D.** The full employment of resources to achieve a particular combination of goods and services.

Being on the curve is efficient, as we are getting the most we can out of our resources.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #21

Topic: PRODUCTION POSSIBILITIES

22. Which of the following correctly characterizes the shape of a production-possibilities curve?
- A. A straight line indicating the law of increasing opportunity costs applies
  - B.** A straight line when there is constant opportunity costs
  - C. A line that curves outward when resources are perfectly adaptable in the production of different goods
  - D. A line that curves inward when resources are perfectly adaptable in the production of different goods

A straight-line production possibilities curve means resources are equally adaptable to producing either good.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #22

Topic: PRODUCTION POSSIBILITIES

23. The production-possibilities curve illustrates:
- A.** The limitations that exist because of scarce resources.
  - B. That there is no limit to what an economy can produce.
  - C. That there is no limit to the level of output.
  - D. The existence of unlimited wants and resources.

We cannot get more of one good without giving up some other goods. Points outside the production-possibilities curve are unattainable, even though they may be wanted.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #23

Topic: PRODUCTION POSSIBILITIES

24. According to the law of increasing opportunity costs:
- A. The more one is willing to pay for resources, the larger will be the possible level of production.
  - B. Increasing the production of a particular good will cause the price of the good to rise.
  - C.** In order to produce additional units of a particular good, it is necessary for society to sacrifice increasingly larger amounts of alternative goods.
  - D. Only by keeping production constant can rising prices be avoided.

Opportunity costs rise as more and more of a good is produced.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #24  
Topic: PRODUCTION POSSIBILITIES

25. According to the law of increasing opportunity costs:
- A. Greater production leads to greater inefficiency.
  - B. Greater production means factor prices rise.
  - C.** Greater production of one good requires increasingly larger sacrifices of other goods.
  - D. Higher opportunity costs induce higher output per unit of input.

The opportunity cost rises, incrementally as more of one particular good is produced.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #25

Topic: PRODUCTION POSSIBILITIES

26. If an economy experiences increasing opportunity costs with respect to two goods, then the production-possibilities curve between the two goods will be:
- A.** Bowed outward.
  - B. A straight, downward-sloping line.
  - C. Bowed inward.
  - D. Bowed outward until the two goods are equal, and then bowed inward.

A bowed-out production possibilities curve means opportunity costs are increasing as we move from one point to another along the curve.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #26

Topic: PRODUCTION POSSIBILITIES

27. If the United States decides to convert automobile factories to tank production, as it did during World War II, but finds that some auto manufacturing facilities are not well suited to tank production, then:
- A. The production-possibilities curve between tanks and automobiles will appear as a straight line.
  - B. The production-possibilities curve between tanks and automobiles will shift outward.
  - C. Decreasing opportunity costs will occur with greater automobile production.
  - D.** Increasing opportunity costs will occur with greater tank production.

Factors of production, including capital, are specialized, meaning they are generally better suited for one use.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #27  
Topic: PRODUCTION POSSIBILITIES

28. If Korea is currently producing at efficiency, and it proceeds to increase the size of its military, then, as long as nothing else changes, its:
- A. Production-possibilities curve will shift outward.
  - B. Production-possibilities curve will shift inward.
  - C. Production of non-military goods will increase.
  - D. Production of non-military goods will decrease.**

There is a tradeoff; to get more of one good, other goods must be given up.

AACSB: Reflective Thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1-2

Schiller - Chapter 01 #28

Topic: PRODUCTION POSSIBILITIES

29. When an economy is producing efficiently it is:
- A. Producing a combination of goods and services beyond the production-possibilities curve.
  - B. Getting the most goods and services from the available resources.**
  - C. Experiencing decreasing opportunity costs.
  - D. Producing equal amounts of all goods.

This would be represented by being on the production-possibilities curve.

AACSB: Reflective Thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1-2

Schiller - Chapter 01 #29

Topic: PRODUCTION POSSIBILITIES

30. Which of the following is true when an economy is producing efficiently?
- A. The economy is producing on the production-possibilities curve.**
  - B. Goods and services are being produced using the most resources.
  - C. The economy is getting the fewest goods and services from the available resources.
  - D. Everyone in the economy is happy.

Being inside the production-possibilities curve is inefficient and being on it is efficient.

AACSB: Reflective Thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1-2

Schiller - Chapter 01 #30

Topic: PRODUCTION POSSIBILITIES

31. The points on a production-possibilities curve show:
- A. Desired output.
  - B. Actual output.
  - C. Potential output.**
  - D. All of the above.

Potential output is the maximum attainable output with our limited resources, and the production-possibilities curve shows the limits of our options.

AACSB: Reflective Thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1-2

Schiller - Chapter 01 #31

Topic: PRODUCTION POSSIBILITIES

32. In terms of the production-possibilities curve, inefficiency is represented by:
- A. All points on the curve.
  - B. All points outside the curve.
  - C.** All points inside the curve.
  - D. A rightward shift of the curve.

At points inside the production possibilities curve, we can get more of one good without sacrificing any other goods.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #32

Topic: PRODUCTION POSSIBILITIES

33. If an economy is producing inside the production-possibilities curve, then:
- A. There is full employment of resources.
  - B. It is operating efficiently.
  - C.** It can produce more of one good without giving up some of another good.
  - D. There are not enough resources available to produce more output.

No goods must be given up to move from an inefficient to an efficient level of production.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #33

Topic: PRODUCTION POSSIBILITIES

34. A technological advance would best be represented by:
- A.** A shift outward of the production-possibilities curve.
  - B. A shift inward of the production-possibilities curve.
  - C. A movement from inside the production-possibilities curve to a point on the production-possibilities curve.
  - D. A movement from the production-possibilities curve to a point inside the production-possibilities curve.

The shift would move the production-possibilities curve away from the origin, so that we can get more of both goods.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #34

Topic: PRODUCTION POSSIBILITIES

35. Which of the following events would allow the production-possibilities curve to shift outward?
- A. The economy's capital stock declines
  - B.** More teenagers enter the labor force
  - C. Technology is lost
  - D. People begin to retire at earlier ages

Increases in factors of production will shift the production-possibilities curve outward.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #35

Topic: PRODUCTION POSSIBILITIES

36. Economic growth would best be represented by a:
- A.** Shift outward of the production-possibilities curve.
  - B. Shift inward of the production-possibilities curve.
  - C. Movement from inside the production-possibilities curve to a point on the production-possibilities curve.
  - D. Movement from the production-possibilities curve to a point inside the production-possibilities curve.

Economic growth allows more of both goods.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #36

Topic: PRODUCTION POSSIBILITIES

37. Which of the following will cause the production-possibilities curve to shift inward?
- A. An increase in population
  - B.** A decrease in the size of the labor force
  - C. A technological advance
  - D. An increase in knowledge

A decrease in any factor of production will reduce our production possibilities.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #37

Topic: PRODUCTION POSSIBILITIES

38. Which of the following is not a basic decision that all nations must confront?
- A.** Should we have economic growth?
  - B. How should we produce goods and services?
  - C. For whom should goods and services be produced?
  - D. What goods and services should we produce?

Economic growth is necessary to maintain living standards with growing populations.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #38

Topic: BASIC DECISIONS

39. In a market economy, the people who receive the goods and services that are produced are those who:
- A. Need the goods and services the most.
  - B. Have the most political power.
  - C. Want the goods and services the most.
  - D.** Are willing to pay the highest price.

Those who place low value on the goods and services will not part with their money for them, and will likely be outbid by those who value them more.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-2  
Schiller - Chapter 01 #39  
Topic: BASIC DECISIONS

40. The market mechanism may best be defined as:
- A. The use of market prices and sales to signal desired output.
  - B. The use of market signals and government directives to select economic outcomes.
  - C. The process by which the production-possibilities curve shifts inward.
  - D. Price regulation by government.

Markets allocate based on prices.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #40  
Topic: THE MECHANISMS OF CHOICE

41. The market mechanism:
- A. Is not a very efficient means of communicating consumer demand to the producers of goods and services.
  - B. Works through central planning by government.
  - C. Eliminates market failures created by government.
  - D. Works because prices serve as a means of communication between consumers and producers.

Buyers choose how much to buy based on price; profitability and therefore production is driven by prices.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #41  
Topic: THE MECHANISMS OF CHOICE

42. The invisible hand refers to:
- A. Intervention in the economy by the government bureaucrats we do not see and over whom we have no control.
  - B. Undiscovered natural resources.
  - C. The allocation of resources by market forces.
  - D. The person who has the responsibility to coordinate all the markets in a market economy.

Resources are allocated efficiently as if directed by an unseen force.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #42  
Topic: THE MECHANISMS OF CHOICE

43. The doctrine of laissez faire is based on the belief that:
- A. Markets are likely to do a better job of allocating resources than government directives.
  - B. Government directives are likely to do a better job of allocating resources than markets.
  - C. Government failure does not exist.
  - D. Markets result in an unfair distribution of income.

Millions of individuals making choices everyday tend to do a better job than a central authority.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #43  
Topic: THE MECHANISMS OF CHOICE



44. A city's decision to limit smoking in public areas is an example of:
- A. The invisible hand at work.
  - B. The market mechanism at work.
  - C. Market failure.
  - D.** Government intervention.

Governments can sometimes improve market outcomes, though it is the exception rather than the rule.

AACSB: Reflective Thinking  
Blooms: Analysis  
Difficulty: Medium  
Learning Objective: 1-3  
Schiller - Chapter 01 #44

Topic: THE MECHANISMS OF CHOICE

45. A mixed economy:
- A. Is justified by the superiority of laissez faire over government intervention.
  - B.** Utilizes both market and nonmarket signals to allocate goods and services.
  - C. Relies on the use of central planning by private firms rather than the government.
  - D. Is one that allows trade with other countries.

Most industrialized economies are mixed economies, as they are based on market principles, but still have significant roles for government intervention in the allocation of goods and services.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #45

Topic: THE MECHANISMS OF CHOICE

46. Which of the following can be used to correct market failure?
- A. The market mechanism
  - B.** Laws and regulations
  - C. Laissez-faire price policies
  - D. Government failure

Laws and regulations can align the interests of individuals with society at large.

AACSB: Reflective Thinking  
Blooms: Analysis  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #46

Topic: THE MECHANISMS OF CHOICE

47. When the invisible hand does not produce optimal outcomes for the economy, there is evidence of:
- A.** Market failure.
  - B. Government failure.
  - C. Macroeconomic failure.
  - D. Scarcity.

Market failure situations call for possible government action to improve the outcome.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #47

Topic: THE MECHANISMS OF CHOICE

48. Government intervention may achieve a more optimal outcome than the market mechanism when addressing:
- A. Inefficient bureaucracy.
  - B. Consumption of cigarettes.**
  - C. Lack of incentive to try new products or technologies.
  - D. Inefficient bureaucracy, consumption of cigarettes, and lack of incentive to try new products or technologies.

Society is better off with less consumption than the market outcome dictates.

AACSB: Reflective Thinking  
Blooms: Analysis  
Difficulty: Medium  
Learning Objective: 1-3  
Schiller - Chapter 01 #48  
Topic: THE MECHANISMS OF CHOICE

49. If market signals result in pollution beyond the optimal level then:
- A. The economy experiences government failure.
  - B. A laissez-faire approach will reduce the level of pollution.
  - C. The market mechanism has failed to achieve social efficiency.**
  - D. The government is allocating resources inefficiently.

Government intervention could improve on the market outcome.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-3  
Schiller - Chapter 01 #49  
Topic: THE MECHANISMS OF CHOICE

50. When government directives do not produce better economic outcomes, which of the following has occurred?
- A. Government failure**
  - B. Market failure
  - C. Macroeconomic failure
  - D. Scarcity

Government failure occurs when government action ends up making the market outcomes worse, not better.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-3  
Schiller - Chapter 01 #50  
Topic: THE MECHANISMS OF CHOICE

51. Which of the following is an example of government failure?
- A. Bureaucratic delays
  - B. Required use of pollution-control technology that is obsolete
  - C. Inefficient incentives
  - D. Bureaucratic delays, required use of pollution-control technologies that are obsolete, and inefficient incentives**

There are costs to government action which in this case prevent an improvement in the outcome.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-3  
Schiller - Chapter 01 #51  
Topic: THE MECHANISMS OF CHOICE

52. Macroeconomics focuses on the performance of:
- A. Individual consumers.
  - B. Government agencies.
  - C.** The overall economy.
  - D. All of the above.

Things like inflation, unemployment and GDP are macroeconomic measures relating to the entire economy.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #52

Topic: WHAT ECONOMICS IS ALL ABOUT

53. Which of the following is *not* a macroeconomic statement?
- A. The unemployment rate for the United States rose to 5 percent in the last quarter.
  - B. The Federal Reserve lowered interest rates at their last meeting.
  - C. Congress increased the minimum wage rate in January.
  - D.** Jenny's wage rate rose and, in response, she decided to work more hours.

The wages of a particular worker is a microeconomics topic.

AACSB: Reflective Thinking  
Blooms: Analysis  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #53

Topic: WHAT ECONOMICS IS ALL ABOUT

54. The study of microeconomic theory focuses on the:
- A.** Structure and performance of markets and the operation of the price system.
  - B. Operation of the entire economy.
  - C. Role of the banking system in the economy.
  - D. Interaction of international trade and domestic production of goods and services.

Microeconomics studies how the foundation of an economy and individual markets work.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #54

Topic: WHAT ECONOMICS IS ALL ABOUT

55. Microeconomics is concerned with issues such as:
- A.** The demand for bottled water by individuals.
  - B. The level of inflation in the economy.
  - C. Maintaining a strong level of economic growth.
  - D. All of the choices.

The demand for a particular product is a microeconomic topic.

AACSB: Reflective Thinking  
Blooms: Analysis  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #55

Topic: WHAT ECONOMICS IS ALL ABOUT

56. Economic models are used by economists to:
- A. Predict economic behavior.
  - B. Develop economic policies.
  - C. Explain economic behavior.
  - D. Predict economic behavior, develop economic policies, and explain economic behavior.**

The economic models are designed to benefit society and prevent us from doing things that lead to lower living standards.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #56

Topic: WHAT ECONOMICS IS ALL ABOUT

57. The Latin phrase "ceteris paribus" means:
- A. The production-possibilities curve never shifts.
  - B. Laissez faire.
  - C. Other things remain equal.**
  - D. The invisible hand.

With so many variables in economics, it's usually best to isolate their movements and impacts, without the complications of everything else changing as well.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #57

Topic: WHAT ECONOMICS IS ALL ABOUT

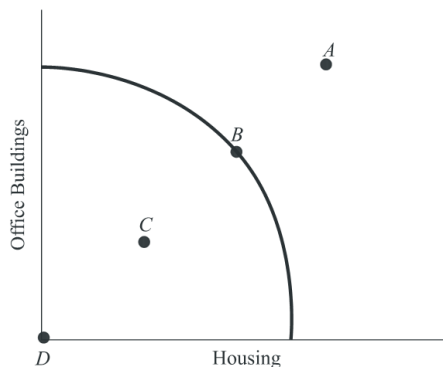


Figure 1.1 Production-possibilities curve

58. At which point is society employing some of its available technology but not all of it? (See Figure 1.1.)
- A. A
  - B. B
  - C. C**
  - D. D

Schiller - Chapter 01

We could produce more by using the resources we have more efficiently.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #58

Topic: WHAT ECONOMICS IS ALL ABOUT

59. At which point is society producing the most output possible with the available resources and technology? (See Figure 1.1.)
- A. A
  - B. B**
  - C. C
  - D. D

We are producing efficiently when we are on the production-possibilities curve.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #59

Topic: WHAT ECONOMICS IS ALL ABOUT

60. At which point is society producing some of each type of structure but still producing inefficiently? (See Figure 1.1.)
- A. A
  - B. B
  - C. C**
  - D. D

More could be produced by moving to a point on the production-possibilities curve.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #60

Topic: WHAT ECONOMICS IS ALL ABOUT

61. At which point might society be able to produce if new resources were discovered but cannot produce at with current resources? (See Figure 1.1.)
- A. A**
  - B. B
  - C. C
  - D. D

Economic growth makes it possible to produce more of both goods.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-2  
Schiller - Chapter 01 #61  
Topic: WHAT ECONOMICS IS ALL ABOUT

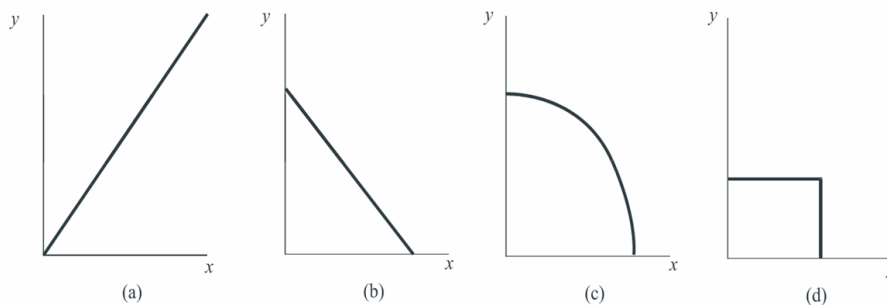


Figure 1.2 Production-possibilities curves

62. Choose the letter of the curve in Figure 1.2 that best represents a production-possibilities curve for two goods that obey the law of increasing opportunity costs.
- A. A
  - B. B
  - C. C**
  - D. D

A bowed-out production-possibilities curve means opportunity costs are not constant.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #62

Topic: WHAT ECONOMICS IS ALL ABOUT

63. Choose the letter of the curve in Figure 1.2 that best represents a production-possibilities curve for two goods for which there are constant opportunity costs.
- A. A
  - B. B**
  - C. C
  - D. D

The straight-line production-possibilities curve means resources are equally suited to both goods.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #63

Topic: WHAT ECONOMICS IS ALL ABOUT

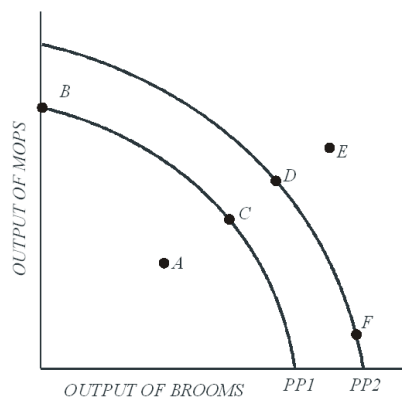


Figure 1.3

64. Using Figure 1.3, an increase in the capacity to produce can be represented by a movement from:
- A. Point A to point B.
  - B. Point A to point C.
  - C. Point B to point C.
  - D. Point C to point F.**

Economic growth shifts the production-possibilities curve away from the origin, so more of both goods can be produced.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #64

Topic: WHAT ECONOMICS IS ALL ABOUT

65. Using Figure 1.3, at point A:
- A.** There is inefficient use of available resources.
  - B. The available technology keeps production inside PP1.
  - C. All available resources are being used efficiently.
  - D. An increase in the production of mops would definitely require a decrease in the production of brooms.

Any point below the production-possibilities curve is considered an inefficient point.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #65

Topic: WHAT ECONOMICS IS ALL ABOUT

66. Which of the following is true about the combination of mops and brooms represented by point E in Figure 1.3?
- A. This economy will never be able to reach point E
  - B. Point E is attainable if this economy uses more of its available resources
  - C. Point E is attainable if this economy becomes more efficient
  - D.** Point E is attainable only if more resources become available or technological advances are made

Any point outside the production-possibilities curve cannot be attained without growth in resources or better technology.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #66

Topic: WHAT ECONOMICS IS ALL ABOUT

67. An increase in the proportion of the population that is unemployed is best represented in Figure 1.3 by a movement from point:
- A. C to point D.
  - B. D to point C.
  - C.** C to point A.
  - D. E to point D.

Inefficient points of production can be the result of unused labor or capital.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #67

Topic: WHAT ECONOMICS IS ALL ABOUT

68. A movement from point F to point D in Figure 1.3 results in:
- A. A reallocation of resources from mop production to broom production.
  - B. Permanent unemployment of workers producing brooms.
  - C.** A reallocation of resources from broom production to mop production.
  - D. More efficient production.

Moving from one point to another along the production-possibilities curve represents changing the combination of the two goods.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #68

Topic: WHAT ECONOMICS IS ALL ABOUT

69. In Figure 1.3, a shift of the production-possibilities curve from PP1 to PP2 could be caused by:
- A. A decrease in the quantity of raw materials available.
  - B. A decline in the production skills of workers.
  - C.** The use of improved production technology.
  - D. All of the above could cause the shift.

Economic growth is illustrated as an outward shift of the production-possibilities curve.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #69

Topic: WHAT ECONOMICS IS ALL ABOUT

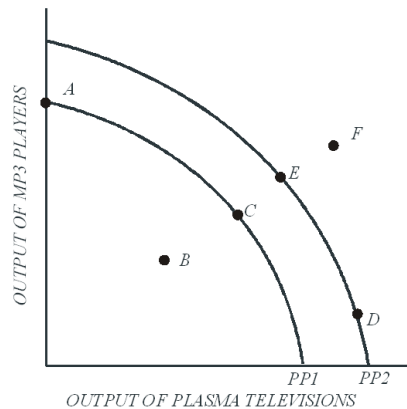


Figure 1.4

70. Using Figure 1.4, an increase in the capacity to produce can be represented by a movement from point:
- A. A to point B.
  - B.** C to point E.
  - C. A to point C.
  - D. D to point E.

Schiller - Chapter 01

Production-possibility curves that are further away from the origin represent a greater ability to produce goods and services.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #70

Topic: WHAT ECONOMICS IS ALL ABOUT



71. Which of the following is true about the combination of plasma televisions and MP3 players represented by point F in Figure 1.4?
- A. This economy will never be able to reach point F
  - B. Point F is attainable if this economy reduces its unemployment rate
  - C. Point F will be more easily attainable if the government takes control of all privately-run factories
  - D.** Point F can possibly be reached if more economic resources become available or technology improves

This point is not possible with the current endowment of resources and technology.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #71

Topic: WHAT ECONOMICS IS ALL ABOUT

72. A movement from point C to point A in Figure 1.4 results in:
- A. More efficient production.
  - B. Permanent unemployment of workers producing plasma televisions.
  - C. A reallocation of resources from MP3 player production to plasma television production.
  - D.** A reallocation of resources from plasma television production to MP3 player production.

Moving from one point to another on the same production-possibilities curve represents changing the combination of the two goods.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #72

Topic: WHAT ECONOMICS IS ALL ABOUT

73. In Figure 1.4, a shift of the production-possibilities curve from PP1 to PP2 could be caused by:
- A. An increase in the unemployment rate.
  - B.** Implementation of training programs which improve the skills of workers.
  - C. Better use of existing technology.
  - D. Tougher pollution controls for the producers of plasma televisions and MP3 players.

An increase in any resource, including physical or human capital, increases the production-possibilities curve.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #73

Topic: WHAT ECONOMICS IS ALL ABOUT

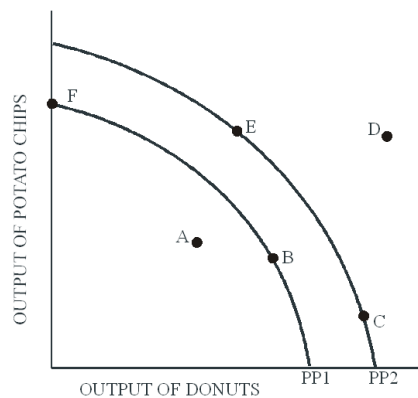


Figure 1.5

Schiller - Chapter 01

74. Using Figure 1.5, if an economy has the capacity to produce represented by PP2 then point E represents:
- A. A constant tradeoff between potato chips and donuts.
  - B. A combination of potato chips and donuts that is not attainable.
  - C.** An efficient use of resources.
  - D. The unemployment of resources.

Any point on the production-possibilities curve is efficient.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #74

Topic: WHAT ECONOMICS IS ALL ABOUT

75. Using Figure 1.5, if an economy is currently producing on PP2, which of the following would shift the production-possibilities curve toward PP1?
- A. An increase in the quantity of labor available
  - B.** A decrease in the amount of capital available
  - C. An increase in the level of unemployment
  - D. An advancement in technology

If resources decrease, the production-possibilities curve will shift inward towards the origin.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #75

Topic: WHAT ECONOMICS IS ALL ABOUT

76. In Figure 1.5, at which of the following points would the opportunity cost of producing another donut be greatest?
- F
  - E
  - B
  - D. C**

Since the economy is already producing a large amount of donuts, additional donuts will be extremely costly due to the law of increasing opportunity cost.

AACSB: Reflective Thinking

Blooms: Application

Difficulty: Hard

Learning Objective: 1-2

Schiller - Chapter 01 #76

Topic: WHAT ECONOMICS IS ALL ABOUT

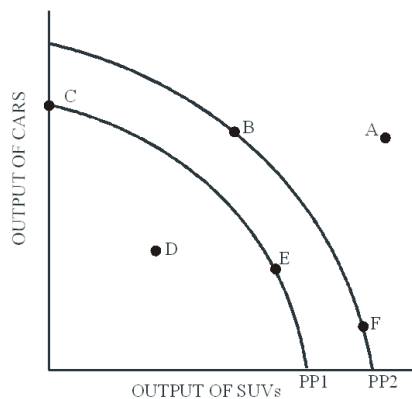


Figure 1.6

77. Using Figure 1.6, if an economy has the capacity to produce represented by PP1 then point E represents:
- A combination of cars and SUVs that is not attainable.
  - A constant tradeoff between cars and SUVs.
  - The unemployment of resources.
  - D. An efficient use of resources.**

Any point on the production-possibilities curve is considered efficient.

AACSB: Reflective Thinking

Blooms: Application

Difficulty: Hard

Learning Objective: 1-2

Schiller - Chapter 01 #77

Topic: WHAT ECONOMICS IS ALL ABOUT

78. In Figure 1.6, if the opportunity cost of producing cars was zero at all levels of production, the production-possibilities curve would be best represented by a:
- A.** Vertical straight line.
  - B. 45-degree line starting at the origin.
  - C. Horizontal straight line.
  - D. Circle.

We would be able to produce as many cars as we want without reducing the amount of SUVs in such a situation.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #78

Topic: WHAT ECONOMICS IS ALL ABOUT

79. In Figure 1.6, at which of the following points would the opportunity cost of producing one more car be the lowest?
- A.** F
  - B. E
  - C. B
  - D. C

Since most of the economy is devoted to SUV production at point F, allowing more resources to go towards car production would result in only a small loss of SUVs (a low opportunity cost).

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #79

Topic: WHAT ECONOMICS IS ALL ABOUT

80. In Figure 1.6, at which of the following points would the opportunity cost of producing one more SUV be the highest?
- A. C
  - B. B
  - C. A
  - D.** F

Since most of the economy is devoted to SUV production at point F, allowing some resources to go towards SUV production would result in the loss of many cars (a high opportunity cost).

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #80  
Topic: WHAT ECONOMICS IS ALL ABOUT

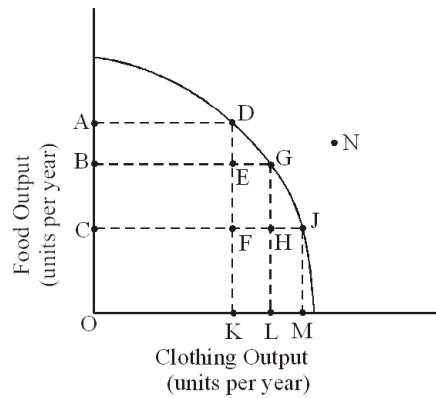


Figure 1.7

Schiller - Chapter 01

81. Refer to Figure 1.7. This economy will achieve efficiency in production at:
- A. Point D only.
  - B. Point G only.
  - C. Point J only.
  - D. Points D, G, and J.**

Any point along the production-possibilities curve is considered an efficient point.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #81

Topic: WHAT ECONOMICS IS ALL ABOUT

82. Refer to Figure 1.7. The cost of producing at point G rather than point D is:
- A. OA units of food.
  - B. KL units of clothing.
  - C. AB units of food.**
  - D. OL units of clothing.

To get additional clothing, food must be given up as resources are shifted out of the food industry.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #82

Topic: WHAT ECONOMICS IS ALL ABOUT

83. Refer to Figure 1.7. The benefit of producing at point G rather than point D is:
- A. OA units of food.
  - B. KL units of clothing.**
  - C. AB units of food.
  - D. OL units of clothing.

By moving resources out of the food industry and into the clothing industry, more clothing may be produced.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-2  
 Schiller - Chapter 01 #83

Topic: WHAT ECONOMICS IS ALL ABOUT

84. Refer to Figure 1.7. The cost of producing at point D rather than point J is:  
**A.** KM units of clothing.  
B. AC units of food.  
C. OM units of clothing.  
D. OA units of food.

Additional food may be produced by giving up the opportunity to produce clothing.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #84

Topic: WHAT ECONOMICS IS ALL ABOUT

85. Refer to Figure 1.7. If this economy is currently producing at point F, then by employing more resources this economy:  
A. Can move to point D, but not points G or J.  
**B.** Can move to points D, G or J.  
C. Can move to point G, but not points D or J.  
D. Will remain at point F.

Inefficient production results when resources are not being fully used. Using more resources moves us toward—in this case, on—the production-possibilities curve.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #85

Topic: WHAT ECONOMICS IS ALL ABOUT

86. Refer to Figure 1.7. Which of the following points are considered to be inefficient?  
A. D  
**B.** E  
C. G  
D. D, G, and J

Production choices that fall inside the production-possibilities curve are considered inefficient.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #86

Topic: WHAT ECONOMICS IS ALL ABOUT

87. Refer to Figure 1.7. Which of the following points are unattainable?  
A. G  
B. F  
**C.** N  
D. E

Any point beyond the production-possibilities curve is an unattainable level of production.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #87

Topic: WHAT ECONOMICS IS ALL ABOUT

88. Refer to Figure 1.7. Which of the following points show unemployment of resources?

**A.** H  
B. J  
C. N  
D. D

Resources must be unemployed at production levels below the production-possibilities curve.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-2  
Schiller - Chapter 01 #88

Topic: WHAT ECONOMICS IS ALL ABOUT

Table 1.1 shows the hypothetical tradeoff between different combinations of Stealth bombers and B-1 bombers that might be produced in a year with the limited U.S. capacity, ceteris paribus. Complete the table by calculating the required opportunity costs for both the B-1 and Stealth bombers. Then answer the indicated questions.

**Table 1.1 Production possibilities for bombers**

| Combination | Number of Stealth Bombers | Opportunity cost of Stealth bombers terms of B-1s | Number of B-1s | Opportunity cost of B-1s in terms of Stealth bombers |
|-------------|---------------------------|---|----------------|--|
| S           | 10                        |   | 0              |  |
| T           | 9                         |   | 1              |  |
| U           | 7                         |   | 2              |  |
| V           | 4                         |   | 3              |  |

**Table 1.1 Answers**

| Combination | Number of Stealth Bombers | Opportunity cost of Stealth bombers in Terms of B-1s | Number of B-1s | Opportunity cost of B-1s in terms of Stealth bombers |
|-------------|---------------------------|--|----------------|--|
| S           | 10                        |  | 0              |  |
| T           | 9                         | $1 \div 1 = 1$                                       | 1              | $1 \div 1 = 1$                                       |
| U           | 7                         | $1 \div 2 = 0.5$                                     | 2              | $2 \div 1 = 2$                                       |
| V           | 4                         | $1 \div 3 = 0.33$                                    | 3              | $3 \div 1 = 3$                                       |

Schiller - Chapter 01

89. On the basis of your calculations in Table 1.1, you may infer that the law of increasing opportunity costs applies to:
- A. Stealth bombers but not to B-1 bombers.  
B. B-1 bombers but not to Stealth bombers.  
**C.** Both B-1 bombers and Stealth bombers.  
D. Neither B-1 bombers nor Stealth bombers.

Since the opportunity cost is not constant, the law of increasing opportunity cost will apply to both goods.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #89

Topic: WHAT ECONOMICS IS ALL ABOUT

90. On the basis of your calculations in Table 1.1, what is the opportunity cost of producing at point S rather than point T?
- A. 1 Stealth bomber
  - B.** 1 B-1 bomber
  - C. 10 Stealth bombers
  - D. 0.9 Stealth bombers

To produce an extra stealth bomber, we must give up the one B-1 bomber that was being produced at point T.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #90

Topic: WHAT ECONOMICS IS ALL ABOUT

91. On the basis of your calculations in Table 1.1, what is the opportunity cost of producing at point V rather than point U?
- A. 3 B-1 bombers
  - B. 1 B-1 bomber
  - C. 4 Stealth bombers
  - D.** 3 Stealth bombers

An extra B-1 bomber will cost three stealth bombers.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #91

Topic: WHAT ECONOMICS IS ALL ABOUT

92. Refer to Table 1.1. In the production range of 7 to 9 Stealth bombers, the opportunity cost of producing 1 more Stealth bomber in terms of B-1s is:
- A. 0.
  - B. 3.
  - C.** 0.5.
  - D. 2.

In this production range, 2 additional stealth bombers require us to forego the opportunity to produce one entire B-1 bomber, or half a B-1 bomber for each stealth bomber.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #92

Topic: WHAT ECONOMICS IS ALL ABOUT



93. The highest opportunity cost anywhere in Table 1.1 for Stealth bombers in terms of B-1 bombers is:
- A. 1 B-1 bomber per Stealth bomber.
  - B. 3 B-1 bombers per Stealth bomber.
  - C. 2 B-1 bombers per Stealth bomber.
  - D. 0.5 B-1 bombers per Stealth bomber.

This is one of the extreme points on the production-possibilities curve where it meets the axis on the Stealth bomber end.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #93

Topic: WHAT ECONOMICS IS ALL ABOUT

94. The highest opportunity cost anywhere in Table 1.1 for B-1 bombers in terms of Stealth bombers is:
- A. 1 Stealth bomber per B-1 bomber.
  - B. 3 Stealth bombers per B-1 bomber.
  - C. 2 Stealth bombers per B-1 bomber.
  - D. 0.5 Stealth per B-1 bomber.

This is one of the extreme points on the production-possibilities curve where it meets the axis on the B-1 bomber end

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #94

Topic: WHAT ECONOMICS IS ALL ABOUT

95. The lowest opportunity cost anywhere in Table 1.1 for B-1 bombers in terms of Stealth bombers is:
- A. 0 Stealth bombers per B-1 bomber.
  - B. 2 Stealth bombers per B-1 bomber.
  - C. 1 Stealth bomber per B-1 bomber.
  - D. 0.5 Stealth bombers per B-1 bomber.

This is one of the extreme points on the production-possibilities curve where it meets the axis on the Stealth bomber end

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #95

Topic: WHAT ECONOMICS IS ALL ABOUT

Table 1.2 shows the hypothetical tradeoff between different combinations of Stealth bombers and B-1 bombers that might be produced in a year with the limited U.S. capacity, ceteris paribus. Complete the table by calculating the required opportunity costs for both the B-1 and Stealth bombers. Then answer the indicated questions.

**Table 1.2 Production possibilities for bombers**

| Combination | Number of Stealth Bomber | Opportunity cost of Stealth bombers in terms of B-1 bombers | Number of B-1 bombers | Opportunity cost of B-1 bombers in terms of Stealth bombers |
|-------------|--------------------------|---|-----------------------|---|
| A           | 195                      | _____   | 20                    | _____   |
| B           | 180                      | _____   | 35                    | _____   |
| C           | 150                      | _____   | 45                    | _____   |
| D           | 100                      | _____   | 50                    | _____   |

**Table 1.2 Answers**

| Combination | Number of Stealth Bombers | Opportunity cost of Stealth bombers in terms of B-1 bombers | Number of B-1 bombers | Opportunity cost of B-1 bombers in terms of Stealth bombers |
|-------------|---------------------------|---|-----------------------|---|
| A           | 195                       |   | 20                    |   |
| B           | 180                       | $15 \div 15 = 1$  | 35                    | $15 \div 15 = 1$  |
| C           | 150                       | $10 \div 30 = 0.33$   | 45                    | $30 \div 10 = 3$  |
| D           | 100                       | $5 \div 50 = 0.1$   | 50                    | $50 \div 5 = 10$  |

Schiller - Chapter 01

96. On the basis of your calculations in Table 1.2, the law of increasing opportunity costs applies to:
- Both B-1 and Stealth bombers.
  - B-1 bombers but not to Stealth bombers.
  - Stealth bombers but not to B-1 bombers.
  - Neither bomber.

This means the production-possibilities curve for B-1 bombers and stealth bombers is bowed out.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-1  
 Schiller - Chapter 01 #96

Topic: WHAT ECONOMICS IS ALL ABOUT

97. On the basis of your calculations in Table 1.2, what is the opportunity cost of producing at point B rather than point C?
- 45 B-1 bombers
  - 35 Stealth bombers
  - 180 Stealth bombers
  - D.** 10 B-1 bombers

From point C to point B, we get 30 (180 - 150) additional stealth bombers we must give up 10 (45 - 35) B-1 bombers.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-1  
 Schiller - Chapter 01 #97

Topic: WHAT ECONOMICS IS ALL ABOUT

98. On the basis of your calculations in Table 1.2, what is gained by producing at point B rather than point C?
- A. 45 B-1 bombers
  - B. 30 Stealth bombers**
  - C. 180 Stealth bombers
  - D. 10 B-1 bombers

Reallocating resources to stealth bombers will allow 30 (180 - 150) additional stealth bombers to be produced.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #98

Topic: WHAT ECONOMICS IS ALL ABOUT

99. On the basis of your calculations in Table 1.2, what is gained by producing at point B rather than point A?
- A. 35 B-1 bombers
  - B. 195 Stealth bombers
  - C. 15 B-1 bombers**
  - D. 15 Stealth bombers

Reallocating resources to B-1 bombers will allow for 15 (35 - 20) B-1 bombers to be produced.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #99

Topic: WHAT ECONOMICS IS ALL ABOUT

100. Refer to Table 1.2. In the production range of 20 to 35 B-1 bombers, the opportunity cost of producing 1 more B-1 bomber is:
- A. 195/20 of Stealth bombers.
  - B. 35/20 of Stealth bombers.
  - C. 15 Stealth bombers.
  - D. 1 Stealth bomber.**

In the production range of 20 to 35 B-1 bombers, 15 (35 - 20) bombers are being added while 15 (195 - 180) Stealth bombers are being lost. Therefore for each B-1 bomber, 1 (15/15) Stealth bomber is given up.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #100

Topic: WHAT ECONOMICS IS ALL ABOUT

101. The highest opportunity cost anywhere in Table 1.2 for B-1 bombers in terms of Stealth bombers is:
- A.** 10 Stealth bombers per B-1 bomber.
  - B. .33 B-1 bombers per Stealth bomber.
  - C. .10 B-1 bombers per Stealth bomber.
  - D. .10 Stealth bombers per B-1 bomber.

This represents an extreme point on the production-possibilities curve where the curve meets the axis on the Stealth bomber end.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-1  
 Schiller - Chapter 01 #101

Topic: WHAT ECONOMICS IS ALL ABOUT

102. The lowest opportunity cost anywhere in Table 1.2 for Stealth bombers in terms of B-1 bombers is:
- A. .4 B-1 bombers per Stealth bomber.
  - B. .3 B-1 bombers per Stealth bomber.
  - C. .2 B-1 bombers per Stealth bomber.
  - D.** .10 B-1 bombers per Stealth bomber.

This represents an extreme point on the production-possibilities curve where the curve meets the axis on the B-1 bomber end.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Hard  
 Learning Objective: 1-1  
 Schiller - Chapter 01 #102

Topic: WHAT ECONOMICS IS ALL ABOUT

Table 1.3 shows the hypothetical tradeoff between different combinations of brushes and combs that might be produced in a year with the limited capacity for Country X, ceteris paribus. Complete the table by calculating the required opportunity costs for brushes and combs. Then answer the indicated questions.

**Table 1.3 Production possibilities for brushes and combs**

| Combination | Number of brushes | Opportunity cost of brushes in terms of combs | Number of combs | Opportunity cost of combs in terms of brushes |
|-------------|-------------------|---|-----------------|---|
| J           | 0                 | _____   | 4               | _____   |
| K           | 10                | _____   | 3               | _____   |
| L           | 17                | _____   | 2               | _____   |
| M           | 21                | _____   | 1               | _____   |
| N           | 23                | _____   | 0               | _____   |

**Table 1.3 Answers**

| Combination | Number of brushes | Opportunity cost of brushes in terms of combs | Number of combs | Opportunity cost of combs in terms of brushes |
|-------------|-------------------|---|-----------------|---|
| J           | 0                 |   | 4               |   |
| K           | 10                | $1 \div 10 = 0.10$                            | 3               | $10 \div 1 = 10$                              |
| L           | 17                | $1 \div 7 = 0.14$                             | 2               | $7 \div 1 = 7$                                |
| M           | 21                | $1 \div 4 = 0.25$                             | 1               | $4 \div 1 = 4$                                |
| N           | 23                | $1 \div 2 = 0.50$                             | 0               | $2 \div 1 = 2$                                |

103. On the basis of your calculations in Table 1.3, what is the opportunity cost of producing at point M rather than point N?
- A. 23 combs
  - B. 21 combs
  - C. 1 brush
  - D.** 2 brushes

2 (23 - 21) brushes must be given up in order to get an additional comb (1 - 0).

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #103

Topic: WHAT ECONOMICS IS ALL ABOUT

104. On the basis of your calculations in Table 1.3, what is gained by producing at point M rather than point N?
- A. 23 combs
  - B. 21 combs
  - C.** 1 comb
  - D. 2 combs

Shifting resources towards production of combs allows for greater comb production (1 - 0).

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #104

Topic: WHAT ECONOMICS IS ALL ABOUT

105. On the basis of your calculations in Table 1.3, what is gained from producing at point L rather than point K?
- A. 17 combs
  - B. 10 combs
  - C. 1 brush
  - D.** 7 brushes

Shifting resources towards production of brushes allows for greater brush production (17 - 10).

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #105

Topic: WHAT ECONOMICS IS ALL ABOUT

106. On the basis of your calculations in Table 1.3, the law of increasing opportunity costs applies to:
- A.** Both brushes and combs.
  - B. Combs but not brushes.
  - C. Brushes but not combs.
  - D. Neither brushes nor combs.

A production-possibilities curve will be bowed out from the origin where there are increasing opportunity costs.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #106

Topic: WHAT ECONOMICS IS ALL ABOUT

107. On the basis of your calculations in Table 1.3, in the production range of 2 to 3 combs the opportunity cost of producing 1 more comb in terms of brushes is:
- A. 3.33.
  - B. 7.0.**
  - C. 0.67.
  - D. 0.14.

Shifting resources towards more combs requires a drop in the production of brushes.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #107

Topic: WHAT ECONOMICS IS ALL ABOUT

108. On the basis of your calculations in Table 1.3, in the production range of 21 to 23 brushes the opportunity cost of producing more comb in terms of brushes is:
- A. 1/21.
  - B. 21/23.
  - C. 1/2.**
  - D. 4.

Shifting resources towards more brushes (2) requires a drop in the production of combs (1). Therefore for each 1 brush,  $\frac{1}{2}$  a comb is given up. (1 divided by 2).

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #108

Topic: WHAT ECONOMICS IS ALL ABOUT

109. On the basis of your calculations in Table 1.3, in the production range of 1 to 2 combs the opportunity cost of producing 1 more comb in terms of brushes is:
- A. 4.**
  - B. 1/2.
  - C. 2/17.
  - D. 1/7.

Shifting resources towards more combs requires a drop in the production of brushes.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #109  
Topic: WHAT ECONOMICS IS ALL ABOUT

110. On the basis of your calculations in Table 1.3, the highest opportunity cost for brushes in terms of combs is:
- A. 0.10 combs per brush.
  - B. 23 combs per brush.
  - C. 0.50 combs per brush.**
  - D. 0.29 combs per brush.

This is a point where the production possibilities curve touches the axis. The opportunity costs are 0.10, 0.14, 0.25 and 0.5 respectively as we increase brush production.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #110

Topic: WHAT ECONOMICS IS ALL ABOUT

111. On the basis of your calculations in Table 1.3, the lowest opportunity cost for combs in terms of brushes is:
- A. 10 brushes per comb.
  - B. 2 brushes per comb.**
  - C. 0.33 brushes per comb.
  - D. 8.5 brushes per comb.

This is a point where the production possibilities curve touches the axis. For each combination, the opportunity cost for 1 comb is 10, 7, 4 and 2.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #111

Topic: WHAT ECONOMICS IS ALL ABOUT

The following multiple-choice question requires critical thinking about *In the News and World View* articles that appeared in the text.

Schiller - Chapter 01

112. One *World View* article is titled "Food Shortages Plague N. Korea." On a production-possibilities curve between private and public goods, a decrease in military spending in an effort to increase food production could be represented as:
- A. A movement along the production-possibilities curve toward public goods.
  - B. A movement along the production-possibilities curve toward private goods.**
  - C. A shift outward of the production-possibilities curve.
  - D. A shift inward of the production-possibilities curve.

The movement represents resources being pulled from one industry and allocated into the other industry.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #112  
Topic: WORLD VIEW

113. One *World View* article is titled "Food Shortages Plague N. Korea." If North Korea reduces the size of its military and produces more food, this is most consistent with:
- A. A movement along the economy's production-possibilities curve.
  - B. Privatization.
  - C. A laissez faire policy.
  - D. The law of increasing opportunity costs.

Resources are being fully utilized but are being reassigned to a different industry.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #113  
Topic: WORLD VIEW

114. One *World View* article states that NASA plans to spend \$100 billion to establish a manned station on the moon, and then continue on to Mars. This is an example of an activity that:
- A. Will move the U.S.'s production-possibilities curve inward.
  - B. Has no opportunity cost.
  - C. Will move the U.S. from one point on its production-possibilities curve to another point.
  - D. Has a negative opportunity cost.

It represents a choice of how to allocate our fully employed resources.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #114  
Topic: WORLD VIEW

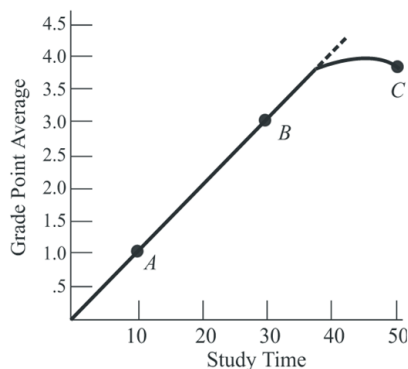


Figure 1.8 Relating grades and hours studied

115. Figure 1.8 suggests that:
- A. The law of increasing opportunity cost does not apply.
  - B. Resources can be perfectly adapted between study time and grade-point average.
  - C. The relationship between study time and grade-point average is first linear, then nonlinear.
  - D. The relationship between study time and grade-point average is constant.

The function begins with a constant positive slope then it becomes non-constant.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #115  
Topic: APPENDIX



116. Refer to Figure 1.8. If the university decides to lower grading standards, then:
- A. This curve will shift rightward.
  - B. This curve will pivot up and to the left.**
  - C. The curve will begin to bend downward at an earlier point.
  - D. We will slide up the curve from point B to point C.

We would expect grades to be higher with less study time required, all else equal.

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Medium  
 Learning Objective: 1-1  
 Schiller - Chapter 01 #116  
 Topic: APPENDIX

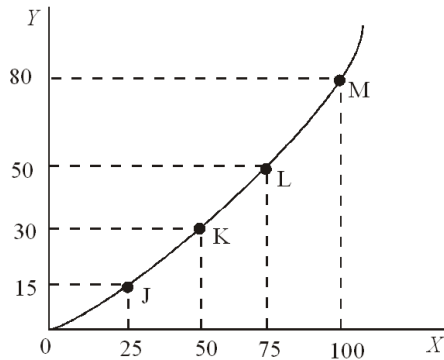


Figure 1.9

117. In Figure 1.9, as you move up the curve from Point J toward Point M, the slope:
- A. Increases.**
  - B. Remains constant.
  - C. Decreases.
  - D. Becomes negative.

The curve is getting steeper so the slope is increasing.

Schiller - Chapter 01

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Medium  
 Learning Objective: 1-1  
 Schiller - Chapter 01 #117  
 Topic: APPENDIX

118. In Figure 1.9, the slope of the line between Points L and M is:
- A. 1.20.**
  - B. 0.80.
  - C. 0.75.
  - D. 0.67.

The slope is calculated as the change in the vertical variable divided by the change in the horizontal variable ( $1.20 = 30/25$ ).

AACSB: Reflective Thinking  
 Blooms: Application  
 Difficulty: Medium  
 Learning Objective: 1-1  
 Schiller - Chapter 01 #118  
 Topic: APPENDIX

119. In Figure 1.9, the slope of the line between Points K and L is:
- A. 1.25.
  - B. 0.80.**
  - C. 0.75.
  - D. 0.60.

The slope is calculated as the change in the vertical variable divided by the change in the horizontal variable ( $0.80 = 20/25$ ).

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #119  
Topic: APPENDIX

120. In Figure 1.9 the slope of the line is:
- A. Greater at Point K than Point L.
  - B. Equal to zero at all points.
  - C. The same at Points J and K.
  - D. Greater at Point M than Point L.**

The slope increases as we move from left to right because the curve is getting steeper.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #120  
Topic: APPENDIX

121. The slope of a curve at any point is given by the formula, the:
- A. Change in y coordinates between two points divided by the change in their x coordinates.**
  - B. Change in x coordinates between two points divided by the change in their y coordinates.
  - C. Percentage change in y coordinates between two points divided by the percentage change in their x coordinates.
  - D. Percentage change in x coordinates between two points divided by the percentage change in their y coordinates.

This is the equivalent of rise over run, where the change in y is the rise and the change in x is the run.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #121  
Topic: APPENDIX

122. A line that slopes downward from left to right has a:
- A. Negative slope.**
  - B. Positive slope.
  - C. Slope that changes as you move along the curve.
  - D. Slope of zero.

This is due to the inverse or negative relationship between the two variables.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #122  
Topic: APPENDIX

123. A linear function can be distinguished by:
- A. The continuous change in its slope.
  - B.** The same slope throughout the line.
  - C. The changing relationship between the two variables.
  - D. A shift in the function.

Linear functions have constant slopes while non-linear functions have non-constant slopes.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #123  
Topic: APPENDIX

124. When the relationship between two variables changes:
- A. There is movement from one point on the curve to another point on the curve.
  - B. The curve becomes linear.
  - C.** The entire curve shifts.
  - D. All of the choices.

This would be caused by a change in a variable that is not on either axis.

AACSB: Reflective Thinking  
Blooms: Application  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #124  
Topic: APPENDIX

125. The fact that there are too few resources to satisfy all our wants is attributed to:
- A.** Scarcity.
  - B. Greed.
  - C. Shortages.
  - D. Lack of money.

There is always an imbalance in what is desired and what is possible.

AACSB: Analytic  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #125  
Topic: SCARCITY: THE CORE PROBLEM

126. According to the text, there is no such thing as a free lunch because:
- A. The producer must charge something to cover the cost of production.
  - B.** Resources used to produce the lunch could be used to produce other goods and services.
  - C. The government must raise taxes to pay for the lunches.
  - D. No one would pay for lunch anymore if they could get it for free.

There is always an opportunity cost of an activity as something must be given up to do an activity.

AACSB: Analytic  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-1  
Schiller - Chapter 01 #126  
Topic: SCARCITY: THE CORE PROBLEM

127. In the guns and butter production possibilities example, producing more and more tanks:  
A. Lowers the cost of each individual tank.  
B. Can be done at a constant opportunity cost.  
**C. Requires us to give up larger and larger amounts of butter.**  
D. Is not possible due to scarcity.

This is because of the law of increasing opportunity cost.

AACSB: Analytic  
Blooms: Application  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #127  
Topic: PRODUCTION POSSIBILITIES

128. Producing at a point inside the production possibilities curve:  
A. Means society must be using its resources efficiently.  
B. Is unattainable, given the present level of technology.  
C. Is feasible when the nation is at war, but not feasible when the nation is at peace.  
**D. Suggests we are forgoing the opportunity to produce more goods and services.**

This is known as an inefficient point of production.

AACSB: Analytic  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #128  
Topic: PRODUCTION POSSIBILITIES

129. Greater regulation to correct the imbalances in the economy, as well government intervention to maintain full employment was associated primarily with the work of:  
**A. John Maynard Keynes.**  
B. Adam Smith.  
C. Karl Marx.  
D. Ronald Reagan.

This forms the basis of the Keynesian school of Economics.

AACSB: Analytic  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-3  
Schiller - Chapter 01 #129  
Topic: THE MECHANISMS OF CHOICE

130. Scarcity results when available resources cannot satisfy all desired uses of those resources.  
**TRUE**

Wants exceeds resources.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #130  
Topic: SCARCITY: THE CORE PROBLEM

131. Critics of government regulation argue that government interference in the marketplace stifles the animal spirits of entrepreneurship.

**TRUE**

Regulation and intervention by the government reduce incentives to produce.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy

Learning Objective: 1-1

Schiller - Chapter 01 #131

Topic: SCARCITY: THE CORE PROBLEM

132. Opportunity cost is a theoretical concept with no practical application.

**FALSE**

Any activity requires that something be given up—an opportunity cost.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 1-1

Schiller - Chapter 01 #132

Topic: SCARCITY: THE CORE PROBLEM

133. Every time we use scarce resources in one way, we give up the opportunity to use them in other ways.

**TRUE**

A cost is always involved in any activity.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy

Learning Objective: 1-1

Schiller - Chapter 01 #133

Topic: SCARCITY: THE CORE PROBLEM

134. All output combinations that lie outside a production-possibilities curve are attainable with available resources and technology.

**FALSE**

Attainable levels of production lie on or inside the production-possibilities curve.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 1-1

Schiller - Chapter 01 #134

Topic: PRODUCTION POSSIBILITIES

135. Output combinations that lie inside the production-possibilities curve are characterized by efficient use of resources.

**FALSE**

Efficient levels of production lie on the production-possibilities curve.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy

Learning Objective: 1-1

Schiller - Chapter 01 #135

Topic: PRODUCTION POSSIBILITIES

136. If the economy is inside the production-possibilities curve, then more output can be produced using existing resources.

**TRUE**

Below the production-possibilities curve, resources are not being fully employed, so we can get more production without sacrificing any of either good.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #136

Topic: PRODUCTION POSSIBILITIES

137. All economies must make decisions concerning what to produce, how to produce it, and for whom to produce.

**TRUE**

These are the basic questions of how an economy will be organized.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #137  
Topic: BASIC DECISIONS

138. The essential feature of the market mechanism is the price signal.

**TRUE**

Prices guide buyers and sellers to achieve an optimal allocation of resources.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #138  
Topic: THE MECHANISMS OF CHOICE

139. Government failure occurs when government intervention fails to improve economic outcomes.

**TRUE**

In such a case, the market outcome was preferred to government intervention.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 1-3  
Schiller - Chapter 01 #139  
Topic: THE MECHANISMS OF CHOICE

140. Microeconomics is concerned with individual performance as well as the economy as a whole.

**FALSE**

Microeconomics looks at the building blocks of any economy; firms, workers, and governments.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #140  
Topic: WHAT ECONOMICS IS ALL ABOUT

141. The Latin phrase "ceteris paribus" refers to holding other variables constant.

**TRUE**

We must hold many variables constant when we study how one variable affects another.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-3  
Schiller - Chapter 01 #141

Topic: WHAT ECONOMICS IS ALL ABOUT

142. To calculate the slope of a line, find the vertical distance between two points and divide it by the horizontal distance between the same two points.

**TRUE**

This is the same as rise over run, or change in y divided by change in x.

AACSB: Analytic  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #142  
Topic: APPENDIX

143. The slope of a production-possibilities curve is positive.

**FALSE**

The production-possibilities curve will always be downward-sloping, but it may be constant or non-constant.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 1-1  
Schiller - Chapter 01 #143  
Topic: APPENDIX

144. Explain why an economist would say "There is no such thing as a free lunch."

All resources are scarce. Any time a scarce resource is used in one way, the opportunity to use the resource in other ways is given up. The resources used to produce a "free lunch" could have been used to produce other goods and/or services so an opportunity cost is incurred.

AACSB: Reflective Thinking  
Blooms: Analysis  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #144

Topic: SCARCITY: THE CORE PROBLEM

145. Describe the shape of the typical production-possibilities curve and explain why it has this shape.

The typical production-possibilities curve bends or bows outward. It has this shape because opportunity costs increase as society produces more of a good. In order to get more of a particular good, increasing quantities of other goods must be given up. This is known as the law of increasing opportunity costs.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #145  
Topic: PRODUCTION POSSIBILITIES

146. Why do opportunity costs increase as society produces more of a good?

As society produces more of a good, ever-increasing quantities of other goods and services must be sacrificed or given up. This occurs mostly because there is difficulty experienced in moving resources from one industry to another. The mix of factor inputs also has an impact and may restrict output capabilities.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #146

Topic: PRODUCTION POSSIBILITIES

147. Explain the concept of inefficiency in terms of a production possibilities curve.

A production-possibilities curve shows potential output using all available resources and technology. If an economy does not use all the resources or technology available to it, then it will produce inside the production-possibilities curve. This incomplete use of resources and/or technology is referred to as inefficiency.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #147

Topic: PRODUCTION POSSIBILITIES

148. Explain the difference between macroeconomics and microeconomics. Give examples of each.

Macroeconomics focuses on aggregate economic behavior. Full employment, price stability and economic growth are macroeconomic issues. Microeconomics is concerned with the smaller components that actually contribute to the macroeconomy such as individuals, particular business firms and industries, and government agencies.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #148

Topic: WHAT ECONOMICS IS ALL ABOUT

149. How does the market mechanism answer the WHAT, HOW, and FOR WHOM questions?

The market mechanism answers the WHAT question through the indirect interactions of producers and consumers. Market prices and sales signal the desired output. Producers desire to maximize profits and look for the least-cost method of production. This answers the HOW question. The market distributes output to the highest bidder and in doing so answers the FOR WHOM question.

AACSB: Reflective Thinking  
Blooms: Comprehension  
Difficulty: Hard  
Learning Objective: 1-1  
Schiller - Chapter 01 #149

Topic: THE MECHANISMS OF CHOICE



# 1 Summary

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