

Chapter 01 Test Bank

Student: _____

1. Economics is best defined as the study of:

- A. inflation, interest rates and the stock market.
- B. supply and demand.
- C. how people make choices in the face of scarcity and the implications of those choices for society as a whole.
- D. the financial concerns of businesses and individuals.

2. Economics is the study of:

- A. the financial concerns of businesses and individuals.
- B. the role of government in limiting the choices people make.
- C. choice in the face of limited resources.
- D. whether we will have enough resources in the future.

3. Economists recognize that because people have limited resources:

- A. government intervention is necessary.
- B. they have to make trade-offs.
- C. they will never be happy.
- D. our future is bleak.

4. The Scarcity Principle states that:

- A. people don't have enough money to buy what they want.
- B. society will eventually run out of resources.
- C. with limited resources, having more of one thing means having less of another.
- D. some countries have fewer resources than others.

5. An implication of scarcity is that:

- A. people will never be happy.
- B. making trade-offs becomes unnecessary as wealth increases.
- C. some people will always be poor.
- D. people must make trade-offs.

6. If all the world's resources were to magically increase one hundredfold, then:
- A. people would still have to make trade-offs.
 - B. economics would no longer be relevant.
 - C. scarcity would disappear.
 - D. trade-offs would become unnecessary.
7. The Scarcity Principle applies to:
- A. poor people primarily.
 - B. consumers primarily.
 - C. firms primarily.
 - D. everyone.
8. Forest lives in complete isolation in Montana. He is self-sufficient and feeds himself through hunting, fishing, and farming. Which of the following statements about Forest is true?
- A. Forest has unlimited resources.
 - B. Forest is not required to make trade-offs because he is self-sufficient.
 - C. Forest has to make trade-offs.
 - D. Forest doesn't have to consider costs and benefits.
9. The Scarcity Principle applies to:
- A. all decisions.
 - B. only market decisions, e.g., buying a car.
 - C. only non-market decisions, e.g., watching a sunset.
 - D. only the poor.
10. Chris has a one-hour break between classes every Wednesday. Chris can either stay at the library and study or go to the gym and work out. The decision Chris must make is:
- A. not an economic problem because neither activity costs money.
 - B. not an economic problem because it's an hour that Chris has no matter what he does.
 - C. an economic problem because the tuition Chris pays covers the cost of both the gym and the library.
 - D. an economic problem because Chris has only one hour, and engaging in one activity means giving up the other.
11. Josh wants to go to the football game this weekend, but he has a paper due on Monday. It will take him the whole weekend to write the paper. Josh decides to stay home and work on the paper. According to the Scarcity Principle, the reason Josh doesn't go to the game is that:
- A. Josh prefers schoolwork to football games.
 - B. writing the paper is easier than going to the game.
 - C. Josh can't go the game and finish the paper.
 - D. going to the game won't be fun.

12. Whether studying the output of the U.S. economy or how many classes a student will take, an unifying concept is that:

- A. wants are limited and resources are unlimited, so trade-offs are unnecessary.
- B. wants are unlimited and resources are scarce, so trade-offs have to be made.
- C. wants are limited and resources are unlimited, so trade-offs have to be made.
- D. both wants and resources are unlimited.

13. The Cost-Benefit Principle indicates that an action should be taken if:

- A. its total benefits exceed its total costs.
- B. its average benefits exceed its average costs.
- C. its net benefit (benefit minus cost) is zero.
- D. its extra benefit is greater than or equal to its extra cost.

14. If a person takes an action if, and only if, the extra benefits from taking that action exceed the extra costs, then that person is:

- A. not following the Cost-Benefit Principle.
- B. following the Scarcity Principle.
- C. following the Cost-Benefit Principle.
- D. not rational.

15. Choosing to study for an exam until the extra benefit (e.g., improved score) equals the extra cost (e.g., the value of foregone activities) is:

- A. not an economic choice.
- B. an application of the Cost-Benefit Principle.
- C. an application of the Scarcity Principle.
- D. not rational because it ignores the importance of total benefits and total costs.

16. The Scarcity Principle tells us _____, and the Cost-Benefit Principle tells us _____.

- A. that choices must be made; how to make good choices
- B. that good choices eliminate scarcity; how to make good choices
- C. how to make choices; that choices must be made
- D. how to make good choices; that choices involve costs and benefits

17. According to the Cost-Benefit Principle, you should go see the latest Star Wars movie with your friends this week-end if:

- A. the extra benefits of seeing the movie are greater than the extra costs of seeing the movie.
- B. you really like Star Wars.
- C. you can afford to go to the movies.
- D. the average benefit you get from going to the movies is greater than the average cost of a ticket.

18. A rational person:

- A. makes choices based on total benefits and total costs.
- B. makes choices based on added benefits and added costs.
- C. undertakes activities until the net benefits become less than zero.
- D. considers the financial benefits and financial costs of making a choice.

19. Suppose that the extra cost to Tim of a third glass of soda is zero because he's at a restaurant that gives free refills. According to the Cost-Benefit Principle Tim should:

- A. drink a third glass of soda.
- B. drink a third glass of soda if the extra benefit of doing so is positive.
- C. drink a third glass of soda if his total benefit from drinking soda is positive.
- D. not drink a third glass of soda.

20. Janie must choose to either mow the lawn or wash clothes. If she mows the lawn, she will earn \$30, and if she washes clothes, she will earn \$45. She dislikes both tasks equally and they both take the same amount of time. Janie will therefore choose to _____ because it generates a _____ economic surplus.

- A. mow the lawn; bigger
- B. wash clothes; bigger
- C. mow the law; smaller
- D. wash clothes; smaller

21. Dean should play golf instead of preparing for tomorrow's exam in economics if:

- A. he is irrational.
- B. the benefit of golfing is greater than the benefit of studying.
- C. the economic surplus from playing golf is greater than the economic surplus from studying.
- D. Dean can play golf for free.

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

- A. \$70,000
- B. \$50,000
- C. \$20,000
- D. \$15,000

23. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year. Larry's opportunity cost of attending State College is:
- A. \$35,000
 - B. \$30,000
 - C. \$20,000
 - D. \$15,000
24. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year. Larry's opportunity cost of attending State NoName U is:
- A. \$60,000
 - B. \$30,000
 - C. \$20,000
 - D. \$15,000
25. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year. Larry maximizes his economic surplus by attending:
- A. Elite U.
 - B. State College.
 - C. NoName U because he has a full scholarship there.
 - D. NoName U because the annual cost is only \$20,000.
26. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year. What is Larry's economic surplus from attending State College instead of his next best alternative?
- A. \$40,000
 - B. \$20,000
 - C. \$10,000
 - D. \$5,000

27. Jen spends her afternoon at the beach, paying \$1 to rent a beach umbrella and \$11 for food and drinks rather than spending an equal amount of money to go to a movie.

Her opportunity cost of going to the beach is:

- A. the \$12 she spent on the umbrella, food and drinks.
- B. only \$0 because she would have spent \$12 to go to the movie.
- C. the value she places on seeing the movie.
- D. the value she places on seeing the movie plus the \$12 she spent on the umbrella, food and drinks.

28. All else equal, relative to a person who earns minimum wage, a person who earns \$30 per hour has:

- A. a higher opportunity cost of working an additional hour.
- B. a higher opportunity cost of taking the day off work.
- C. a lower opportunity cost of driving farther to work.
- D. the same opportunity cost of spending time on leisure activities.

29. The opportunity cost of an activity includes the value of:

- A. all of the alternatives that must be forgone.
- B. the next-best alternative that must be foregone.
- C. the least-best alternative that must be foregone.
- D. the chosen activity minus the value of the next-best alternative.

30. Amy is thinking about going to the movies tonight. A movie ticket costs \$15, and she'll have to cancel a \$20 dog-sitting job that she would have been willing to do for free. The opportunity to Amy cost of going to the movies is:

- A. \$5.
- B. \$15.
- C. \$20.
- D. \$35.

31. The economic surplus of an action is:

- A. the benefit gained by taking an action.
- B. the difference the explicit and implicit costs of taking an action.
- C. the difference between the benefit and the cost of taking an action.
- D. the money a person has left over after taking an action.

32. You are trying to decide whether to purchase the latest Harry Potter book online or borrow it from the library. There is no charge for borrowing a book from the library, but going to the library takes more time than ordering a book online. Regardless of how you get the book, its benefit to you is the same. If the cost of buying the book online is \$13, then you should:

- A. borrow the book from the library because you can get it from the library for free.
- B. borrow the book from the library if the cost of doing so (in terms of the extra time it takes) is less than \$13.
- C. borrow the book from the library if the cost of doing so (in terms of the extra time it takes) is greater than \$13.
- D. buy the book online because it takes less time.

33. Alex received a four-year scholarship to State U. that covered tuition and fees, room and board, and books and supplies. If Alex becomes a full-time student, then:

- A. attending State U. for four years is costless for Alex.
- B. Alex has no incentive to study hard while at State U.
- C. the opportunity cost of attending State U. includes the money Alex could have earned working for four years.
- D. the opportunity cost of attending State U. includes the sum of the benefits Alex would had from attending each of the other schools to which he was admitted.

34. Suppose Mary is willing to pay up to \$15,000 for an used Ford pick-up truck. If she buys one for \$12,000, her _____ would be _____.

- A. benefit; \$12,000
- B. cost; \$15,000
- C. economic surplus; \$3,000
- D. economic surplus; \$12,000

35. If individuals are rational, they should choose actions that yield the:

- A. largest total benefits.
- B. smallest total costs.
- C. smallest economic surplus.
- D. largest economic surplus.

36. Suppose the most you would be willing to pay for a plane ticket home is \$250. If you buy one for \$175, then your economic surplus is:

- A. \$250.
- B. \$175.
- C. \$75.
- D. \$0.

37. The Cost-Benefit Principle:

- A. fully captures how people choose between alternatives.
- B. provides an abstract model of how people should choose between alternatives.
- C. describes how people behave once they have enough education.
- D. provides little insight into how people actually chose between alternatives.

38. Economists believe the Cost-Benefit Principle is:

- A. a simple but useful model of how people should make choices.
- B. a comprehensive description all the factors that influence people's choices.
- C. an interesting intellectual exercise with little applicability to the real world.
- D. of little use to those who wish to learn how to make better decisions.

39. The cost-benefit model used by economists is:

- A. unrealistic because it is too detailed and specific to apply to most situations.
- B. unrealistic because everyone can think of times when he or she violated the principle.
- C. useful because everyone follows it all of the time.
- D. useful because most people follow it most of the time.

40. Economists use abstract models because:

- A. every economic situation is unique, so it is impossible to make generalizations.
- B. every economic situation is essentially the same, so specific details are unnecessary.
- C. they are useful for describing general patterns of behavior.
- D. computers have allowed economists to develop abstract models.

41. The fact that most people make some decisions based on intuition rather than calculation is:

- A. irrational, because intuition is usually wrong.
- B. consistent with the cost-benefit model because calculating costs and benefits is irrational.
- C. consistent with the cost-benefit model because most people intuitively weigh costs and benefits.
- D. inconsistent with the cost-benefit model, but still rational.

42. Moe has a big exam tomorrow. He considered studying this evening, but decided to hang out with Curly instead. If neither activity involves any explicit costs, and Moe always chooses rationally, it must be true that:

- A. the opportunity cost of studying is greater than the value Moe gets from spending time with Curly.
- B. the opportunity cost of studying is less than the value Moe gets from spending time with Curly.
- C. Moe gets more benefit from spending time with Curly than from studying.
- D. Moe gets less benefit from spending time with Curly than from studying.

43. If one fails to account for implicit costs in decision making, then applying the cost-benefit rule will be flawed because:

- A. the benefits will be overstated.
- B. the costs will be understated.
- C. the benefits will be understated.
- D. the costs will be overstated.

44. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450. If you do not use the frequent-flyer coupon to fly to Miami, should you go to Miami?

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

45. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450. What is the opportunity cost of using the coupon for the Miami trip?
- A. \$100
 - B. \$450
 - C. \$500
 - D. \$550
46. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450. Should you use the frequent flyer coupon to go to Miami?
- A. Yes, your benefit is more than your cost.
 - B. No, your benefit is less than your cost.
 - C. Yes, your benefit is equal to your cost.
 - D. No, because there are no benefits in the trip.
47. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450. If the Chicago-Atlanta round-trip air fare were \$350, should you use the coupon to go to Miami?
- A. No, your economic surplus would be -\$50.
 - B. No, your economic surplus would be -\$100.
 - C. Yes, your economic surplus would be \$50.
 - D. Yes, your economic surplus would be \$400.
48. Pat earns \$25,000 per year (after taxes), and Pat's spouse, Chris, earns \$35,000 (after taxes). They have two pre-school-aged children. Childcare for their children costs \$12,000 per year. Given that Chris doesn't want to stay home with the kids, regardless of what Pat does, Pat should stay home with the kids if, and only if, the value of Pat spending more time with the kids is greater than:
- A. \$37,000 per year.
 - B. \$25,000 per year.
 - C. \$13,000 per year.
 - D. \$12,000 per year.

49. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. Assume that \$35 is the most you would have been willing to pay for a ticket. Your boss called, and she is looking for someone to cover a shift on Saturday at the same time as the concert. You would have to work 4 hours and she would pay you \$11/hr. The psychic cost to you of working is \$2/hr. Should you go to the concert instead of working Saturday?
- A. Yes, the benefit of going to the concert is more than the cost.
 - B. No, the benefit of going to the concert is less than the cost.
 - C. Yes, the benefit of going to the concert is equal to the cost.
 - D. No, because there are no benefits of going to the concert.
50. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. Assume that \$35 is the most you would have been willing to pay for a ticket. Your boss called, and she is looking for someone to cover a shift on Saturday at the same time as the concert. You would have to work 4 hours and she would pay you \$11/hr. The psychic cost to you of working is \$2/hr. What is the opportunity cost of going to the concert?
- A. \$1
 - B. \$9
 - C. \$35
 - D. \$36
51. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. Assume that \$35 is the most you would have been willing to pay for a ticket. Your boss called, and she is looking for someone to cover a shift on Saturday at the same time as the concert. You would have to work 4 hours and she would pay you \$11/hr. The psychic cost to you of working is \$2/hr. What is your opportunity cost of going to work on Saturday?
- A. \$0
 - B. \$9
 - C. \$35
 - D. \$36
52. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. Assume that \$35 is the most you would have been willing to pay for a ticket. Your boss called, and she is looking for someone to cover a shift on Saturday at the same time as the concert. You would have to work 4 hours and she would pay you \$11/hr. The psychic cost to you of working is \$2/hr. Your economic surplus from going to work instead of seeing SPAM on Saturday is:
- A. \$0
 - B. \$1
 - C. \$35
 - D. \$36

53. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books online with next day delivery at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16. The benefit to Matt of buying his books at the university bookstore instead of online is:
- A. \$5
 - B. \$9
 - C. \$170
 - D. \$175
54. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books online with next day delivery at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16. The benefit to Matt of driving to campus to buy the concert ticket last week was:
- A. \$2
 - B. \$4
 - C. \$9
 - D. \$16
55. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books online with next day delivery at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16. Given that driving to campus to buy the concert ticket was rational for Matt, Matt should:
- A. not drive to campus to buy the books because the \$5 he would save is only two percent of the cost of the books, and that is much less than the 25 percent he saved on the concert ticket.
 - B. drive to campus to buy the books because the books are cheaper at the bookstore than online.
 - C. drive to campus to buy the books because the \$5 he would save is more than he saved by driving to campus to buy the concert ticket.
 - D. not drive to campus to buy the books because the cost of gas and his time must certainly be more than the \$5 he would save.
56. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books online with next day delivery at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16. Assume the minimum that Matt would be willing to accept to drive to campus is equal to the \$4 he saved on the concert ticket. What would his economic surplus be if he bought his textbooks at the university bookstore rather than online?
- A. \$5
 - B. \$1
 - C. \$50
 - D. \$20

57. The marginal benefit of an activity is the:

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

58. Suppose the marginal cost of the 1st hour of talking on the phone is \$50, the marginal cost of the 2nd hour is \$75, and the marginal cost of the 3rd hour is \$105. In this case, the total cost of talking on the phone for 3 hours is:

- A. \$315
- B. \$105
- C. \$230
- D. \$150

59. Suppose the total benefit of watching 1 baseball game is 100, the total benefit of watching 2 games is 120, and the total benefit of watching 3 games is 125. In this case, the marginal benefit of watching the 3rd game is:

- A. 125
- B. 5
- C. 41.67
- D. 375

60. The extra benefit that results from carrying out one additional unit of an activity is the _____ of the activity.

- A. marginal benefit
- B. total benefit
- C. average benefit
- D. economic benefit

61. The marginal cost of an activity is the:

- A. change in the total cost of the activity that results from carrying out an additional unit of the activity.
- B. the total cost of the activity divided by the change in the level of the activity.
- C. the total cost of the activity divided by the level of the activity.
- D. change in the level of the activity divided by the change in the cost of the activity.

62. The extra cost that results from carrying out one additional unit of an activity is the _____ of the activity.

- A. marginal benefit
- B. marginal cost
- C. reservation cost
- D. opportunity cost

63. Dividing the total cost of n units of an activity by n reveals the:

- A. average benefit.
- B. marginal cost.
- C. units per cost.
- D. average cost.

64. For the Fall semester, you had to pay a nonrefundable fee of \$600 for your meal plan, which gives you up to 150 meals. If you eat all of the meals, your average cost for a meal is:

- A. \$6.
- B. \$5.
- C. \$4.
- D. \$0.25.

65. For the Fall semester, you had to pay a nonrefundable fee of \$600 for your meal plan, which gives you up to 150 meals. If you eat 100 meals, your average cost for a meal is:

- A. \$6.
- B. \$5.
- C. \$4.
- D. \$0.25.

66. For the Fall semester, you had to pay a nonrefundable fee of \$600 for your meal plan, which gives you up to 150 meals. If you eat 100 meals, your marginal cost of the 100th meal is:

- A. \$6.
- B. \$4.
- C. \$0.25.
- D. \$0.

67. The average benefit of n units of an activity is the:

- A. total benefit of n units divided by n .
- B. n divided by the total benefit of n units.
- C. n times the total benefit of n units.
- D. extra benefit from carrying out one additional unit of the activity.

68. You save \$10 on gas every week because you take the bus to school. You have class 5 days a week. What is your average benefit per day of taking the bus to school?

- A. \$10
- B. \$5
- C. \$2
- D. \$0

69. Your scholarship depends on your maintaining a 3.5 cumulative GPA. Your GPA for last semester was 3.6, which brought your cumulative GPA down. What must be true?

- A. Last semester's grades were higher than your overall GPA.
- B. Last semester's grades were lower than your overall GPA.
- C. If this semester's grades are the same as last semester's, your overall GPA will stay the same.
- D. If this semester's grades are the same as last semester's, you might lose your scholarship.

70. Refer to the table below. The average cost of 4 units of this activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

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

71. Refer to the table below. The marginal cost of the 3rd unit of this activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

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

72. Refer to the table below. The average benefit of 2 units of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

- A. \$80
- B. \$60
- C. \$40
- D. \$20

73. Refer to the table below. The marginal benefit of the 5th unit of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

- A. \$50
- B. \$44
- C. \$10
- D. \$5

74. Refer to the table below. According to the Cost-Benefit Principle, how many units of this activity should be carried out?

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

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

75. Refer to the table below. The average cost of 5 units of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

- A. \$4
- B. \$6
- C. \$8
- D. \$10

76. Refer to the table below. The marginal cost of the 4th unit of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

- A. \$5
- B. \$6
- C. \$8
- D. \$10

77. Refer to the table below. The average benefit of 4 units of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

- A. \$4
- B. \$5
- C. \$9
- D. \$10

78. Refer to the table below. The marginal benefit of the 6th unit of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

- A. \$1
- B. \$2
- C. \$4
- D. \$7

79. Refer to the table below. According to the Cost-Benefit Principle, how many units of this activity should be carried out?

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

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

80. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The total value of donations raised by three employees is:

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

81. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The total labor cost with 4 employees is:

- A. \$21,500.
- B. \$22,000.
- C. \$38,000.
- D. \$43,121.

82. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The President of State U decides to hire fundraising employees as long as their average benefit exceeds their average cost. This results in _____ employees being hired and a net benefit (total donations minus total labor costs) of _____.

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

83. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The marginal benefit (in terms of extra donations) of the 2nd employee is:

- A. \$42,426.
- B. \$21,213.
- C. \$12,426.
- D. \$11,337.

84. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The marginal cost of the 4th employee is:

- A. \$9,500.
- B. \$10,750.
- C. \$11,000.
- D. \$13,000.

85. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The Chair of the Economics Department at State U says that fundraising employees should be hired as long as their marginal benefit exceeds their marginal cost. If the University follows this advice, then _____ employee(s) will be hired, and the net benefit (total donations minus total labor costs) will be _____.

- A. 1; \$22,000
- B. 2; \$25,426
- C. 3; \$25,426
- D. 2; \$3,476

86. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The net benefit of hiring fundraisers is largest when _____ employees are hired.

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

87. Ginger bought a phone that came with a \$10 rebate. Ginger should fill out and mail in the rebate form if:

- A. the opportunity cost of the time and trouble of sending in the rebate form is less than \$10.
- B. the opportunity cost of the time and trouble of sending in the rebate form is more than \$10.
- C. she would have bought the phone without the rebate, and so sending in the rebate form involves no opportunity cost.
- D. Ginger's surplus from purchasing the phone was less than \$10.

88. Tony notes that an electronics store is offering a flat \$20 off all prices in the store. Tony reasons that if he wants to buy something with a price of \$50, then it is a good offer, but if he wants to buy something with a price of \$500, then it is not a good offer. This is an example of:

- A. inconsistent reasoning; saving \$20 is saving \$20.
- B. the proper application of the Cost-Benefit Principle.
- C. rational choice because saving 40% is better than saving 4%.
- D. inconsistent reasoning because prices are sunk costs.

89. Suppose a retail store was offering 10% off list prices on all goods. The benefit of the 10% savings is:

- A. unrelated to the list price of the good.
- B. negatively related to the list price of the good.
- C. positively related to the list price of the good.
- D. zero since costs and benefits shouldn't be measured proportionally.

90. A firm pays Pam \$40 per hour to assemble personal computers. Each day, Pam can assemble 4 computers if she works 1 hour, 7 computers if she works 2 hours, 9 computers if she works 3 hours, and 10 computers if she works 4 hours. Pam cannot work more than 4 hours day. Each computer consists of a motherboard, a hard drive, a case, a monitor, a keyboard, and a mouse. The total cost of these parts is \$600 per computer. What is the marginal cost of producing the computers that Pam can assemble during her 3rd hour of work?

- A. \$5,400
- B. \$5,520
- C. \$1,200
- D. \$1,240

91. A firm pays Pam \$40 per hour to assemble personal computers. Each day, Pam can assemble 4 computers if she works 1 hour, 7 computers if she works 2 hours, 9 computers if she works 3 hours, and 10 computers if she works 4 hours. Pam cannot work more than 4 hours day. Each computer consists of a motherboard, a hard drive, a case, a monitor, a keyboard, and a mouse. The total cost of these parts is \$600 per computer. What is the marginal cost of producing the computers that Pam can assemble during her 2nd hour of work?

- A. \$1,800
- B. \$1,840
- C. \$4,200
- D. \$4,280

92. A firm pays Pam \$40 per hour to assemble personal computers. Each day, Pam can assemble 4 computers if she works 1 hour, 7 computers if she works 2 hours, 9 computers if she works 3 hours, and 10 computers if she works 4 hours. Pam cannot work more than 4 hours day. Each computer consists of a motherboard, a hard drive, a case, a monitor, a keyboard, and a mouse. The total cost of these parts is \$600 per computer. If the firm sells each computer for \$625, then how many hours a day should the firm employ Pam to maximize its net benefit from her employment?

- A. 1 hour
- B. 2 hours
- C. 3 hours
- D. 4 hours

93. A firm pays Pam \$40 per hour to assemble personal computers. Each day, Pam can assemble 4 computers if she works 1 hour, 7 computers if she works 2 hours, 9 computers if she works 3 hours, and 10 computers if she works 4 hours. Pam cannot work more than 4 hours day. Each computer consists of a motherboard, a hard drive, a case, a monitor, a keyboard, and a mouse. The total cost of these parts is \$600 per computer. If the firm sells each computer for \$650, then how many hours a day should the firm employ Pam to maximize its net benefit from her employment?
- A. 1 hour
 B. 2 hours
 C. 3 hours
 D. 4 hours
94. If Jane works for 6 hours she can rent out 9 apartments, and if she works for 7 hours she can rent out 12 apartments. The marginal benefit of Jane's 7th hour of work equals:
- A. 12 apartments
 B. 9 apartments
 C. 3 apartments
 D. 1 apartment
95. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

The marginal benefit of upgrading from a 2.0GHz computer to a 2.5GHz computer is:

- A. \$1,400.
 B. \$1,000.
 C. \$400.
 D. \$100.

96. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

The total benefit of a 3.0GHz computer is:

- A. \$300.
- B. \$900.
- C. \$1,700.
- D. \$1,650.

97. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

The total cost of a 2.5GHz computer is:

- A. \$1,000.
- B. \$900.
- C. \$200.
- D. \$100.

98. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

The marginal cost of upgrading from a 2.5GHz to 3.0GHz computer is:

- A. \$400.
- B. \$300.
- C. \$200.
- D. \$100.

99. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

Application of the Cost-Benefit Principle would lead one to purchase a _____ computer.

- A. 2.0GHz
- B. 2.5GHz
- C. 3.0GHz
- D. 4.0GHz

100. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

Choosing a 3.5GHz computer would be irrational because:

- A. its marginal benefit is less than its marginal cost.
- B. its marginal benefit is equal to its marginal cost.
- C. it is impossible to tell the difference compared to a 3.0GHz computer.
- D. its marginal benefit is greater than its marginal cost.

101. Jack has a ticket to see Bo Bice for which he paid \$30 yesterday. He takes an unpaid day off from work to get ready for the concert. When he arrives at the concert, five different people offer him \$70 for his ticket. Jack decides to keep his ticket. At the time he makes this decision, his opportunity cost of seeing Bo Bice is:

- A. \$30 plus his forgone earnings.
- B. \$40.
- C. \$70.
- D. \$70 plus his forgone earnings.

102. Jody has purchased a non-refundable \$75 ticket to attend a Miley Cyrus concert on Friday night. Subsequently, she is asked to go to out dinner at no expense to her. If she uses cost-benefit analysis to choose between going to the concert and going out to dinner, the opportunity cost of going out to dinner should include:

- A. only the entertainment value of the concert.
- B. the cost of the ticket plus the entertainment value of the concert.
- C. only the cost of concert ticket.
- D. neither the cost of the ticket nor the entertainment value of the concert.

103. You won a free ticket to see the latest Star Trek movie this Friday night (which you can costlessly resell for its face value of \$15). Your favorite band is also performing on Friday and is your only alternative activity. Friday is your last chance to see either the movie or the band. Tickets to see your favorite band cost \$30, and on any given day, you would be willing to pay as much as \$50 for a ticket. Based on this information, what is your opportunity cost of going to see the Star Trek movie on Friday?

- A. \$0
- B. \$30
- C. \$35
- D. \$50

104. You want to buy a TV that regularly costs \$250. You can either buy the TV from a nearby store or from a store that's downtown. Relative to going to the nearby store, driving downtown involves additional time and gas. The downtown store, however, has a 10% off sale this week. Last week you drove downtown to save \$20 on some concert tickets, a 15% savings. Should you drive downtown to buy the TV?

- A. Yes, because you will save 10%, which is better than nothing.
- B. No, because you will save more than \$20.
- C. Yes, because you will save more than \$20.
- D. No, because you will only save 10%, which is less than 15%.

105. The table below shows the relationship between the number of times you get your car washed each month and your total monthly benefit from car washes. Each car wash costs \$15.

Number of Car Washes Per Month	Total Monthly Benefit from Car Washes
0	\$0
1	\$20
2	\$36
3	\$48
4	\$56
5	\$60

What's the average benefit of 4 car washes per month?

- A. \$14
- B. \$12
- C. \$8
- D. \$4

106. The table below shows the relationship between the number of times you get your car washed each month and your total monthly benefit from car washes. Each car wash costs \$15.

Number of Car Washes Per Month	Total Monthly Benefit from Car Washes
0	\$0
1	\$20
2	\$36
3	\$48
4	\$56
5	\$60

What is the marginal cost of the 5th car wash each month?

- A. \$15
- B. \$14
- C. \$12
- D. \$4

107. The table below shows the relationship between the number of times you get your car washed each month and your total monthly benefit from car washes. Each car wash costs \$15.

Number of Car Washes Per Month	Total Monthly Benefit from Car Washes
0	\$0
1	\$20
2	\$36
3	\$48
4	\$56
5	\$60

What is the marginal benefit of the 3rd car wash each month?

- A. \$4
- B. \$12
- C. \$16
- D. \$48

108. The table below shows the relationship between the number of times you get your car washed each month and your total monthly benefit from car washes. Each car wash costs \$15.

Number of Car Washes Per Month	Total Monthly Benefit from Car Washes
0	\$0
1	\$20
2	\$36
3	\$48
4	\$56
5	\$60

How many times a month should you get your car washed?

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

109. Frank owns an apple farm and plans to spend 4 hours today picking apples. The number of apples he can pick per hour depends on the total number of hours he spends working in either the east orchard or the west orchard in the manner shown in the table below.

Hours in East Orchard	Number of Apples Per Hour	Hours in West Orchard	Number of Apples Per Hour
1	40	1	10
2	32	2	10
3	25	3	10
4	20	4	10

If Frank spends 2 hours picking apples in the east orchard and 2 hours picking apples in the west orchard, how many apples in total will Frank be able to pick today?

- A. 21
- B. 42
- C. 84
- D. 92

110. Frank owns an apple farm and plans to spend 4 hours today picking apples. The number of apples he can pick per hour depends on the total number of hours he spends working in either the east orchard or the west orchard in the manner shown in the table below.

Hours in East Orchard	Number of Apples Per Hour	Hours in West Orchard	Number of Apples Per Hour
1	40	1	10
2	32	2	10
3	25	3	10
4	20	4	10

What is the opportunity cost to Frank of spending an additional hour picking apples in the East orchard?

- A. 10 apples
- B. 20 apples
- C. 30 apples
- D. 40 apples

111. Frank owns an apple farm and plans to spend 4 hours today picking apples. The number of apples he can pick per hour depends on the total number of hours he spends working in either the east orchard or the west orchard in the manner shown in the table below.

Hours in East Orchard	Number of Apples Per Hour	Hours in West Orchard	Number of Apples Per Hour
1	40	1	10
2	32	2	10
3	25	3	10
4	20	4	10

What is the marginal benefit to Frank of the 2nd hour he spends picking in the east orchard?

- A. 8 apples
- B. 24 apples
- C. 32 apples
- D. 64 apples

112. Frank owns an apple farm and plans to spend 4 hours today picking apples. The number of apples he can pick per hour depends on the total number of hours he spends working in either the east orchard or the west orchard in the manner shown in the table below.

Hours in East Orchard	Number of Apples Per Hour	Hours in West Orchard	Number of Apples Per Hour
1	40	1	10
2	32	2	10
3	25	3	10
4	20	4	10

How should Frank divide his time between the east and the west orchard?

- A. He should spend all 4 hours in the east orchard.
- B. He should spend 3 hours in the east orchard and 1 hour in the west orchard.
- C. He should spend 2 hours in east orchard and 2 hours in the west orchard.
- D. He should spend 1 hour in the east orchard and 3 hours in the west orchard.

113. Positive economic principles are those that:

- A. are always correct.
- B. are influenced by political ideology.
- C. indicate how people should behave.
- D. predict how people will behave.

114. One thing that distinguishes normative economic principles from positive economic principles is that:

- A. normative principles are pessimistic and positive principles are optimistic.
- B. normative principles reflect social norms, and positive principles reflect universal truths.
- C. normative principles tell us how people should behave, and positive principles tell us how people will behave.
- D. normative principles tell us how people will behave, and positive principles tell us how people should behave.

115. Normative economic principles are concerned with how people _____ make decisions while positive economic principles are concerned with how people _____ make decisions.

- A. do; should
- B. should; do
- C. in power; in ordinary life
- D. in ordinary life; in power

116. An editorial in the paper argues that a person only should be allowed to attend school if the marginal cost of educating that person is less than the marginal benefit of educating that person. The writer's reasoning is an application of:

- A. positive economics.
- B. negative economics.
- C. normative economics.
- D. economic naturalism.

117. The Incentive Principle states that a person:

- A. is more likely to take an action if its cost increases.
- B. is more likely to take an action if its benefit increases.
- C. should take an action if its cost increases.
- D. should take an action if its benefit increases.

118. The Incentive Principle is an example of:

- A. an economic decision-making pitfall.
- B. over-estimating the benefits of an action.
- C. a positive economic principle.
- D. a normative economic principle.

119. According to the Incentive Principle, people will be less likely to smoke if the government:

- A. increases taxes on smoking-cessation devices such as nicotine patches.
- B. increases taxes on cigarettes, effectively raising the price.
- C. subsidizes hospitals treating lung disease.
- D. invests more money in cancer research.

120. According to the Incentive Principle:

- A. it is irrational to perform volunteer services.
- B. people will always take the highest-paying job they are offered.
- C. benefits are more important than costs in making a decision.
- D. people tend to do more of something when its benefits are greater.

121. Microeconomics differs from macroeconomics in that microeconomics focuses on:

- A. the performance of the entire economy.
- B. issues such as inflation, unemployment and economic growth.
- C. the choices made by individuals the implications of those choices.
- D. government policies designed improve the performance of the national economy.

122. Macroeconomics differs from microeconomics in that macroeconomics focuses on:

- A. individual choices and group behavior in individual markets.
- B. the performance of national economies and ways to improve that performance.
- C. production in specific markets.
- D. prices in specific markets.

123. The study of individual choice and its implications for the behavior of prices and quantities in individual markets is:

- A. microeconomics.
- B. a normative economic principle.
- C. the Scarcity Principle.
- D. macroeconomics.

124. Which branch of economics is most likely to study differences in countries' growth rates?

- A. microeconomics
- B. normative economics
- C. macroeconomics
- D. experimental economics

125. Which of the following would not be studied in microeconomics?

- A. How individual firms decide how much to produce.
- B. Whether to study or watch TV tonight.
- C. How an early freeze in California will affect the price of fruit.
- D. Whether the federal budget should be balanced.

126. Which of the following would *not* be studied in macroeconomics?

- A. The causes of the Great Depression.
- B. The growth rate of the U.S. economy.
- C. How a sharp increase in gasoline prices is likely to affect SUV sales.
- D. The impact of government spending on the economy.

127. By convention, there are two major divisions of economics, called:

- A. marginal benefit and marginal cost.
- B. reservation price and opportunity cost.
- C. microeconomics and macroeconomics.
- D. rational economics and irrational economics.

128. A study that deals with the salaries of university professors would be considered:

- A. macroeconomics
- B. microeconomics
- C. economic naturalism
- D. real economics

129. In deciding how many guitars to buy for his shop before the Christmas season, Mark is making a(n) _____ decision.

- A. microeconomic
- B. macroeconomic
- C. normative
- D. irrational

130. A study of the impact of various government policies on economic growth would be considered:

- A. microeconomics.
- B. macroeconomics.
- C. government economics.
- D. marginal economics.

131. The field of economics that would be most concerned with a recent fall in interest rates is:

- A. microeconomics.
- B. macroeconomics.
- C. economic naturalism.
- D. marginal economics.

132. An economic naturalist is someone who:

- A. uses economic arguments to protect the environment.
- B. has an innate talent for using economic concepts.
- C. applies economic insights to understand everyday life.
- D. studies the process of natural selection in a cost-benefit framework.

133. With ATMs, it is possible to retrieve cash from the bank at any time. One hundred years ago, one could only get cash from the bank during business hours, say, 9 am to 3 pm. The present availability of 24-hour service has arisen because:

- A. flexibility was not valued 100 years ago.
- B. it was impossible to provide 24-hour service 100 years ago.
- C. the cost of providing 24-hour service is much lower today.
- D. government forced banks to become more convenient.

134. The number of U.S. households with access to the Internet is growing rapidly. Compared to 50 years ago, one would predict that when considering a major purchase, people today will gather:

- A. less information because the Internet has lowered the cost of gathering information.
- B. less information because the Internet has increased the benefit of gathering information.
- C. more information because the Internet has lowered the cost of gathering information.
- D. more information because the Internet has increased the cost of gathering information.

135. Every time you go to the grocery store, you try to wait in the shortest line. But the lines always seem to be roughly the same length. Why?

- A. Random chance equalizes the length of the lines.
- B. Other people are trying to choose the shortest line too.
- C. The cashiers work at the same speed.
- D. The cashiers do not have an incentive to work faster.

136. Suppose there are two parallel highways between two cities with approximately equal traffic. What would you expect to happen if the state began charging tolls to drive on one of those highways?

- A. More drivers would drive on the non-toll road, making the toll road less congested.
- B. More drivers would drive on the toll road making the non-toll road less congested.
- C. Traffic would remain evenly divided between the two roads as drivers continuously sought the less-congested route.
- D. Traffic would decrease on both roads.

137. During times of high unemployment, colleges often observe an increase in enrollment even if tuition remains unchanged. Why?

- A. Students go to college even when the net benefit is negative.
- B. The opportunity cost of attending college is lower when unemployment is high.
- C. The opportunity cost of attending college is higher when unemployment is high.
- D. The benefit of attending college is lower because college graduates are less likely to find jobs.

138. The last time gas prices increased drastically, sales of large Sport Utility Vehicles (SUVs) fell. Why?

- A. Higher gas prices lowered the benefit of driving an SUV.
- B. Higher gas prices increased the benefit of driving an SUV.
- C. Higher gas prices increased the cost of driving a SUV.
- D. Higher gas prices lowered the cost of driving a SUV.

139. Due to the fact that Curly used his frequent flyer miles to fly to visit Moe, Curly told Moe that it didn't cost him anything to visit. Is Curly correct?

- A. Yes, because Curly's frequent flyer miles made the trip free.
- B. Yes, because Curly could stay at Moe's house for free.
- C. No, because Curly could have used his frequent flyer miles to go somewhere else instead.
- D. No, because Curly had to pay for earlier trips in order to earn the frequent flyer miles.

140. Pat can either drive to work, which takes half an hour and uses \$1.50 worth of gas, or take the bus, which takes an hour and costs \$1.00. How should Pat get to work?

- A. Pat should take the bus because it costs \$0.50 less than driving.
- B. Pat should drive because it saves half an hour relative to taking the bus.
- C. Pat should drive if saving half an hour is worth \$0.50 or more.
- D. Pat should take the bus if saving half an hour is worth \$0.50 or more.

141. You have two options for how to spend the afternoon. You can either go see a movie with your roommate or work as a tutor for the Math Department. From experience, you know that going to see a movie gives you \$20 worth of enjoyment, and with your student discount, a movie ticket only costs \$12. If you spend the afternoon working as a math tutor, you will get paid \$45. On a typical day, you wouldn't be willing to spend the afternoon working as a math tutor for less than \$35. What is your opportunity cost of seeing a movie this afternoon?

- A. \$8
- B. \$12
- C. \$22
- D. \$57

142. You have two options for how to spend the afternoon. You can either go see a movie with your roommate or work as a tutor for the Math Department. From experience, you know that going to see a movie gives you \$20 worth of enjoyment, and with your student discount, a movie ticket only costs \$12. If you spend the afternoon working as a math tutor, you will get paid \$45. On a typical day, you wouldn't be willing to spend the afternoon working as a math tutor for less than \$35. What is your economic surplus from working as a math tutor instead of going to the movies?

- A. \$8
- B. \$12
- C. \$22
- D. \$57

143. You have two options for how to spend the afternoon. You can either go see a movie with your roommate or work as a tutor for the Math Department. From experience, you know that going to see a movie gives you \$20 worth of enjoyment, and with your student discount, a movie ticket only costs \$12. If you spend the afternoon working as a math tutor, you will get paid \$45. On a typical day, you wouldn't be willing to spend the afternoon working as a math tutor for less than \$35. Should you go see a movie or work as a math tutor?

- A. You should work as a math tutor.
- B. You should go to the movies.
- C. You should do neither.
- D. Both options are equally good.

Chapter 01 Test Bank KEY

1. Economics is best defined as the study of:

- A. inflation, interest rates and the stock market.
- B. supply and demand.
- C. how people make choices in the face of scarcity and the implications of those choices for society as a whole.
- D. the financial concerns of businesses and individuals.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

2. Economics is the study of:

- A. the financial concerns of businesses and individuals.
- B. the role of government in limiting the choices people make.
- C. choice in the face of limited resources.
- D. whether we will have enough resources in the future.

Economics is the study of how people make choices under conditions of scarcity and the implications of those choices for society as a whole.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

3. Economists recognize that because people have limited resources:

- A. government intervention is necessary.
- B. they have to make trade-offs.
- C. they will never be happy.
- D. our future is bleak.

Economists recognize that the resources available to us are limited, so having more of one good thing means having less of another.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

4. The Scarcity Principle states that:

- A. people don't have enough money to buy what they want.
- B. society will eventually run out of resources.
- C. with limited resources, having more of one thing means having less of another.
- D. some countries have fewer resources than others.

The Scarcity Principle states that although we have boundless needs and wants, the resources available to us are limited. So having more of one thing means having less of another.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

5. An implication of scarcity is that:

- A. people will never be happy.
- B. making trade-offs becomes unnecessary as wealth increases.
- C. some people will always be poor.
- D. people must make trade-offs.

The Scarcity Principle states that although we have boundless needs and wants, the resources available to us are limited. So having more of one thing means having less of another.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

6. If all the world's resources were to magically increase one hundredfold, then:

- A. people would still have to make trade-offs.
- B. economics would no longer be relevant.
- C. scarcity would disappear.
- D. trade-offs would become unnecessary.

Economists assume that resources will always be scarce relative to people's wants.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

7. The Scarcity Principle applies to:

- A. poor people primarily.
- B. consumers primarily.
- C. firms primarily.
- D. everyone.

Everyone has boundless wants and limited resources.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

8. Forest lives in complete isolation in Montana. He is self-sufficient and feeds himself through hunting, fishing, and farming. Which of the following statements about Forest is true?

- A. Forest has unlimited resources.
- B. Forest is not required to make trade-offs because he is self-sufficient.
- C. Forest has to make trade-offs.
- D. Forest doesn't have to consider costs and benefits.

Even if Forest is self-sufficient, he still has limited resources and unlimited wants. For example, he might want to have more than 24 hours in a day. Thus, he still has to make trade-offs.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 01 Easy*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

9. The Scarcity Principle applies to:

- A. all decisions.
- B. only market decisions, e.g., buying a car.
- C. only non-market decisions, e.g., watching a sunset.
- D. only the poor.

Economists assume that resources will always be scarce relative to people's wants.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

10. Chris has a one-hour break between classes every Wednesday. Chris can either stay at the library and study or go to the gym and work out. The decision Chris must make is:

- A. not an economic problem because neither activity costs money.
- B. not an economic problem because it's an hour that Chris has no matter what he does.
- C. an economic problem because the tuition Chris pays covers the cost of both the gym and the library.
- D. an economic problem because Chris has only one hour, and engaging in one activity means giving up the other.

Chris has to make a trade-off: if Chris goes to the gym, Chris cannot also study and vice versa.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

11. Josh wants to go to the football game this weekend, but he has a paper due on Monday. It will take him the whole weekend to write the paper. Josh decides to stay home and work on the paper. According to the Scarcity Principle, the reason Josh doesn't go to the game is that:

- A. Josh prefers schoolwork to football games.
- B. writing the paper is easier than going to the game.
- C. Josh can't go the game and finish the paper.
- D. going to the game won't be fun.

Josh has to make a trade-off: time is a scarce resource and so he must choose between the two activities.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

12. Whether studying the output of the U.S. economy or how many classes a student will take, an unifying concept is that:

- A. wants are limited and resources are unlimited, so trade-offs are unnecessary.
- B. wants are unlimited and resources are scarce, so trade-offs have to be made.
- C. wants are limited and resources are unlimited, so trade-offs have to be made.
- D. both wants and resources are unlimited.

The Scarcity Principle states that although we have boundless needs and wants, the resources available to us are limited. So having more of one thing means having less of another.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.
Topic: Economics: Studying Choice in a World of Scarcity*

13. The Cost-Benefit Principle indicates that an action should be taken if:

- A. its total benefits exceed its total costs.
- B. its average benefits exceed its average costs.
- C. its net benefit (benefit minus cost) is zero.
- D. its extra benefit is greater than or equal to its extra cost.

The extra benefits and extra costs from taking an action determine whether that action should be taken.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Economics: Studying Choice in a World of Scarcity*

14. If a person takes an action if, and only if, the extra benefits from taking that action exceed the extra costs, then that person is:

- A. not following the Cost-Benefit Principle.
- B. following the Scarcity Principle.
- C. following the Cost-Benefit Principle.
- D. not rational.

The Cost-Benefit Principle states that an individual should take an action if, and only if, the extra benefits from taking that action are at least as great as the extra costs.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Economics: Studying Choice in a World of Scarcity*

15. Choosing to study for an exam until the extra benefit (e.g., improved score) equals the extra cost (e.g., the value of foregone activities) is:

- A. not an economic choice.
- B. an application of the Cost-Benefit Principle.
- C. an application of the Scarcity Principle.
- D. not rational because it ignores the importance of total benefits and total costs.

Considering the extra benefits and extra costs of an action is an example of using the Cost-Benefit Principle.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Economics: Studying Choice in a World of Scarcity*

16. The Scarcity Principle tells us _____, and the Cost-Benefit Principle tells us _____.

- A. that choices must be made; how to make good choices
- B. that good choices eliminate scarcity; how to make good choices
- C. how to make choices; that choices must be made
- D. how to make good choices; that choices involve costs and benefits

The Scarcity Principle tells us that people must make choices because resources are scarce and wants are unlimited. The Cost-Benefit Principle tells us that we should make choices by weighing the extra benefits of an action against its extra costs.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

17. According to the Cost-Benefit Principle, you should go see the latest Star Wars movie with your friends this week-end if:

- A. the extra benefits of seeing the movie are greater than the extra costs of seeing the movie.
- B. you really like Star Wars.
- C. you can afford to go to the movies.
- D. the average benefit you get from going to the movies is greater than the average cost of a ticket.

The Cost-Benefit Principle tells us that we should make choices by weighing the extra benefits of an action against its extra costs.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

18. A rational person:

- A. makes choices based on total benefits and total costs.
- B. makes choices based on added benefits and added costs.
- C. undertakes activities until the net benefits become less than zero.
- D. considers the financial benefits and financial costs of making a choice.

Rational people make decisions according to the Cost-Benefit Principle.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

19. Suppose that the extra cost to Tim of a third glass of soda is zero because he's at a restaurant that gives free refills. According to the Cost-Benefit Principle Tim should:

- A. drink a third glass of soda.
- B. drink a third glass of soda if the extra benefit of doing so is positive.
- C. drink a third glass of soda if his total benefit from drinking soda is positive.
- D. not drink a third glass of soda.

According to the Cost-Benefit Principle, an individual should take an action if, and only if, the extra benefits of taking the action are at least as great as the extra costs.

In this case, since the extra cost of a third glass of soda is zero, Tim should drink a third glass as long as the extra benefit of doing so is positive.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

20. Janie must choose to either mow the lawn or wash clothes. If she mows the lawn, she will earn \$30, and if she washes clothes, she will earn \$45. She dislikes both tasks equally and they both take the same amount of time. Janie will therefore choose to _____ because it generates a _____ economic surplus.

- A. mow the lawn; bigger
- B. wash clothes; bigger
- C. mow the law; smaller
- D. wash clothes; smaller

Because both activities have the same cost (Janie's time and her dislike of the task), the activity with the greatest benefit will yield the greatest economic surplus.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

21. Dean should play golf instead of preparing for tomorrow's exam in economics if:

- A. he is irrational.
- B. the benefit of golfing is greater than the benefit of studying.
- C. the economic surplus from playing golf is greater than the economic surplus from studying.
- D. Dean can play golf for free.

People should choose actions that generate the largest possible economic surplus.

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

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

- A. \$70,000
- B. \$50,000
- C. \$20,000
- D. \$15,000

*AACSB: Analytic
Accessibility: Keyboard Navigation*

Blooms: Apply

Difficulty: 03 Hard

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.

Topic: Applying the Cost-Benefit Principle

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

- A. \$35,000
- B. \$30,000
- C. \$20,000
- D. \$15,000

*AACSB: Analytic
Accessibility: Keyboard Navigation*

Blooms: Apply

Difficulty: 03 Hard

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.

Topic: Applying the Cost-Benefit Principle

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

- A. \$60,000
- B. \$30,000
- C. \$20,000
- D. \$15,000

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard
Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle

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

- A. Elite U.
- B. State College.
- C. NoName U because he has a full scholarship there.
- D. NoName U because the annual cost is only \$20,000.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard
Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle

26. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year. What is Larry's economic surplus from attending State College instead of his next best alternative?

- A. \$40,000
- B. \$20,000
- C. \$10,000
- D. \$5,000

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 03 Hard
Topic: Applying the Cost-Benefit Principle

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.

27. Jen spends her afternoon at the beach, paying \$1 to rent a beach umbrella and \$11 for food and drinks rather than spending an equal amount of money to go to a movie. Her opportunity cost of going to the beach is:

- A. the \$12 she spent on the umbrella, food and drinks.
- B. only \$0 because she would have spent \$12 to go to the movie.
- C. the value she places on seeing the movie.
- D. the value she places on seeing the movie plus the \$12 she spent on the umbrella, food and drinks.

Opportunity cost is the value that must be foregone to undertake an activity. By going to the beach, Jen gives up the value she places on seeing the movie. We don't include the \$12 she spends at the beach because she also would have spent that money at the movies.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Applying the Cost-Benefit Principle

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.

28. All else equal, relative to a person who earns minimum wage, a person who earns \$30 per hour has:

- A. a higher opportunity cost of working an additional hour.
- B. a higher opportunity cost of taking the day off work.
- C. a lower opportunity cost of driving farther to work.
- D. the same opportunity cost of spending time on leisure activities.

All else equal, giving up a day of work "costs" the person who can earn \$30 per hour more than it does someone who earns the minimum wage.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Applying the Cost-Benefit Principle

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.

29. The opportunity cost of an activity includes the value of:

- A. all of the alternatives that must be forgone.
- B. the next-best alternative that must be foregone.
- C. the least-best alternative that must be foregone.
- D. the chosen activity minus the value of the next-best alternative.

The opportunity cost of an activity is not the total value of all possible activities that you could have pursued, but only the value of the one alternative you give up, which is presumably the next-best one.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

30. Amy is thinking about going to the movies tonight. A movie ticket costs \$15, and she'll have to cancel a \$20 dog-sitting job that she would have been willing to do for free. The opportunity to Amy cost of going to the movies is:

- A. \$5.
- B. \$15.
- C. \$20.
- D. \$35.

Opportunity cost includes both implicit costs and explicit costs. If she goes to the movies, Amy will give up the opportunity to earn \$20 plus the \$15 cost of the ticket.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

31. The economic surplus of an action is:

- A. the benefit gained by taking an action.
- B. the difference the explicit and implicit costs of taking an action.
- C. the difference between the benefit and the cost of taking an action.
- D. the money a person has left over after taking an action.

Economic surplus is defined as the benefit of an action minus its cost.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

32. You are trying to decide whether to purchase the latest Harry Potter book online or borrow it from the library. There is no charge for borrowing a book from the library, but going to the library takes more time than ordering a book online. Regardless of how you get the book, its benefit to you is the same. If the cost of buying the book online is \$13, then you should:

- A. borrow the book from the library because you can get it from the library for free.
- B. borrow the book from the library if the cost of doing so (in terms of the extra time it takes) is less than \$13.
- C. borrow the book from the library if the cost of doing so (in terms of the extra time it takes) is greater than \$13.
- D. buy the book online because it takes less time.

The benefit to you of borrowing the book from the library is the \$13 you save. Thus, you should borrow the book from the library if your cost of doing so is less than \$13.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 02 Medium
Topic: Applying the Cost-Benefit Principle*

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.

33. Alex received a four-year scholarship to State U. that covered tuition and fees, room and board, and books and supplies. If Alex becomes a full-time student, then:

- A. attending State U. for four years is costless for Alex.
- B. Alex has no incentive to study hard while at State U.
- C. the opportunity cost of attending State U. includes the money Alex could have earned working for four years.
- D. the opportunity cost of attending State U. includes the sum of the benefits Alex would had from attending each of the other schools to which he was admitted.

Even though Alex has no out-of-pocket costs, by attending State U Alex would be giving up on 4 years worth of earnings.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Applying the Cost-Benefit Principle*

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.

34. Suppose Mary is willing to pay up to \$15,000 for an used Ford pick-up truck. If she buys one for \$12,000, her _____ would be _____.

- A. benefit; \$12,000
- B. cost; \$15,000
- C. economic surplus; \$3,000
- D. economic surplus; \$12,000

Mary's benefit from owning the truck is \$15,000 and the cost is \$12,000, so her economic surplus is \$3,000.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Applying the Cost-Benefit Principle*

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.

35. If individuals are rational, they should choose actions that yield the:

- A. largest total benefits.
- B. smallest total costs.
- C. smallest economic surplus.
- D. largest economic surplus.

Rational individuals should make decisions based on the Cost-Benefit Principle, which means taking those actions that yield the largest possible economic surplus.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

36. Suppose the most you would be willing to pay for a plane ticket home is \$250. If you buy one for \$175, then your economic surplus is:

- A. \$250.
- B. \$175.
- C. \$75.
- D. \$0.

The economic surplus of taking an action is its benefit minus its cost.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

37. The Cost-Benefit Principle:

- A. fully captures how people choose between alternatives.
- B. provides an abstract model of how people should choose between alternatives.
- C. describes how people behave once they have enough education.
- D. provides little insight into how people actually chose between alternatives.

The Cost-Benefit Principle is not intended to exactly capture all features of human behavior. It just says that a rational decision maker should weigh costs and benefits.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

38. Economists believe the Cost-Benefit Principle is:

- A. a simple but useful model of how people should make choices.
- B. a comprehensive description all the factors that influence people's choices.
- C. an interesting intellectual exercise with little applicability to the real world.
- D. of little use to those who wish to learn how to make better decisions.

The Cost-Benefit Principle is seen as a simple but useful model of how people should make choices.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

39. The cost-benefit model used by economists is:

- A. unrealistic because it is too detailed and specific to apply to most situations.
- B. unrealistic because everyone can think of times when he or she violated the principle.
- C. useful because everyone follows it all of the time.
- D. useful because most people follow it most of the time.

Most people make sensible decisions most of the time.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

40. Economists use abstract models because:

- A. every economic situation is unique, so it is impossible to make generalizations.
- B. every economic situation is essentially the same, so specific details are unnecessary.
- C. they are useful for describing general patterns of behavior.
- D. computers have allowed economists to develop abstract models.

Economic models focus on the critical features of human behavior.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.
Topic: Applying the Cost-Benefit Principle*

41. The fact that most people make some decisions based on intuition rather than calculation is:

- A. irrational, because intuition is usually wrong.
- B. consistent with the cost-benefit model because calculating costs and benefits is irrational.
- C. consistent with the cost-benefit model because most people intuitively weigh costs and benefits.
- D. inconsistent with the cost-benefit model, but still rational.

People weigh costs and benefits, even if they are not consciously aware that they are doing so.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Applying the Cost-Benefit Principle*

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.

42. Moe has a big exam tomorrow. He considered studying this evening, but decided to hang out with Curly instead. If neither activity involves any explicit costs, and Moe always chooses rationally, it must be true that:

- A. the opportunity cost of studying is greater than the value Moe gets from spending time with Curly.
- B. the opportunity cost of studying is less than the value Moe gets from spending time with Curly.
- C. Moe gets more benefit from spending time with Curly than from studying.
- D. Moe gets less benefit from spending time with Curly than from studying.

If Moe rationally chooses to spend time with Curly, then his benefit of spending time with Curly must outweigh his cost. Given that neither activity involves any explicit costs, the opportunity cost of spending time with Curly equals the benefit of studying. Thus, if Moe rationally chooses to spend time with Curly, it must be the case that his benefit from spending time with Curly is greater than his benefit from studying.

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard
Topic: Applying the Cost-Benefit Principle*

Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.

43. If one fails to account for implicit costs in decision making, then applying the cost-benefit rule will be flawed because:

- A. the benefits will be overstated.
- B. the costs will be understated.
- C. the benefits will be understated.
- D. the costs will be overstated.

The cost includes both implicit and out-of-pocket costs.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Three Important Decision Pitfalls*

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

44. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450. If you do not use the frequent-flyer coupon to fly to Miami, should you go to Miami?

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

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

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

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

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

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

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

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

47. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450. If the Chicago-Atlanta round-trip air fare were \$350, should you use the coupon to go to Miami?

- A. No, your economic surplus would be -\$50.
- B. No, your economic surplus would be -\$100.
- C. Yes, your economic surplus would be \$50.
- D. Yes, your economic surplus would be \$400.

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

48. Pat earns \$25,000 per year (after taxes), and Pat's spouse, Chris, earns \$35,000 (after taxes). They have two pre-school-aged children. Childcare for their children costs \$12,000 per year. Given that Chris doesn't want to stay home with the kids, regardless of what Pat does, Pat should stay home with the kids if, and only if, the value of Pat spending more time with the kids is greater than:

- A. \$37,000 per year.
- B. \$25,000 per year.
- C. \$13,000 per year.
- D. \$12,000 per year.

The benefit of staying Pat home with the kids is the \$12,000 per year saved on childcare plus the value of Pat spending more time with the kids. The cost of Pat staying home with the kids is \$25,000 in foregone earnings. Thus, weighing costs and benefits, Pat should stay home with the kids if, and only if, the value of Pat spending more time with the kids is greater than \$13,000 per year.

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

49. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. Assume that \$35 is the most you would have been willing to pay for a ticket. Your boss called, and she is looking for someone to cover a shift on Saturday at the same time as the concert. You would have to work 4 hours and she would pay you \$11/hr. The psychic cost to you of working is \$2/hr. Should you go to the concert instead of working Saturday?

- A. Yes, the benefit of going to the concert is more than the cost.
- B. No, the benefit of going to the concert is less than the cost.
- C. Yes, the benefit of going to the concert is equal to the cost.
- D. No, because there are no benefits of going to the concert.

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

50. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. Assume that \$35 is the most you would have been willing to pay for a ticket. Your boss called, and she is looking for someone to cover a shift on Saturday at the same time as the concert. You would have to work 4 hours and she would pay you \$11/hr. The psychic cost to you of working is \$2/hr. What is the opportunity cost of going to the concert?

- A. \$1
- B. \$9
- C. \$35
- D. \$36

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

51. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. Assume that \$35 is the most you would have been willing to pay for a ticket. Your boss called, and she is looking for someone to cover a shift on Saturday at the same time as the concert. You would have to work 4 hours and she would pay you \$11/hr. The psychic cost to you of working is \$2/hr. What is your opportunity cost of going to work on Saturday?

- A. \$0
- B. \$9
- C. \$35
- D. \$36

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

52. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. Assume that \$35 is the most you would have been willing to pay for a ticket. Your boss called, and she is looking for someone to cover a shift on Saturday at the same time as the concert. You would have to work 4 hours and she would pay you \$11/hr. The psychic cost to you of working is \$2/hr. Your economic surplus from going to work instead of seeing SPAM on Saturday is:

- A. \$0
- B. \$1
- C. \$35
- D. \$36

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

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

- A. \$5
- B. \$9
- C. \$170
- D. \$175

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

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

- A. \$2
- B. \$4**
- C. \$9
- D. \$16

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

55. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books online with next day delivery at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16. Given that driving to campus to buy the concert ticket was rational for Matt, Matt should:
- A. not drive to campus to buy the books because the \$5 he would save is only two percent of the cost of the books, and that is much less than the 25 percent he saved on the concert ticket.
 - B. drive to campus to buy the books because the books are cheaper at the bookstore than online.
 - C. drive to campus to buy the books because the \$5 he would save is more than he saved by driving to campus to buy the concert ticket.
 - D. not drive to campus to buy the books because the cost of gas and his time must certainly be more than the \$5 he would save.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 03 Hard
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

56. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books online with next day delivery at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16. Assume the minimum that Matt would be willing to accept to drive to campus is equal to the \$4 he saved on the concert ticket. What would his economic surplus be if he bought his textbooks at the university bookstore rather than online?

- A. \$5
- B. \$1
- C. \$50
- D. \$20

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

57. The marginal benefit of an activity is the:

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

Marginal benefit is the increase in total benefit that results from carrying out one additional unit of an activity.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

58. Suppose the marginal cost of the 1st hour of talking on the phone is \$50, the marginal cost of the 2nd hour is \$75, and the marginal cost of the 3rd hour is \$105. In this case, the total cost of talking on the phone for 3 hours is:

- A. \$315
- B. \$105
- C. \$230
- D. \$150

To find total cost, you add the marginal cost of each hour: $\$50 + \$75 + \$105 = \230 .

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

59. Suppose the total benefit of watching 1 baseball game is 100, the total benefit of watching 2 games is 120, and the total benefit of watching 3 games is 125. In this case, the marginal benefit of watching the 3rd game is:

- A. 125
- B. 5
- C. 41.67
- D. 375

Marginal benefit is the increase in total benefit that results from carrying out one additional unit of an activity. By watching the 3rd game, total benefit increases from 120 to 125, so the marginal benefit is 5.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

60. The extra benefit that results from carrying out one additional unit of an activity is the _____ of the activity.

- A. marginal benefit
- B. total benefit
- C. average benefit
- D. economic benefit

Marginal benefit is the additional benefit of carrying out one additional unit of an activity.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

61. The marginal cost of an activity is the:

- A. change in the total cost of the activity that results from carrying out an additional unit of the activity.
- B. the total cost of the activity divided by the change in the level of the activity.
- C. the total cost of the activity divided by the level of the activity.
- D. change in the level of the activity divided by the change in the cost of the activity.

Marginal cost is the additional cost of carrying out an additional unit of an activity.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

62. The extra cost that results from carrying out one additional unit of an activity is the _____ of the activity.

- A. marginal benefit
- B. marginal cost
- C. reservation cost
- D. opportunity cost

Marginal cost is the additional cost of carrying out one additional unit of an activity.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

63. Dividing the total cost of n units of an activity by n reveals the:

- A. average benefit.
- B. marginal cost.
- C. units per cost.
- D. average cost.

Average cost is the total cost of undertaking n units of an activity divided by n .

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

64. For the Fall semester, you had to pay a nonrefundable fee of \$600 for your meal plan, which gives you up to 150 meals. If you eat all of the meals, your average cost for a meal is:

- A. \$6.
- B. \$5.
- C. \$4.
- D. \$0.25.

To find the average cost, divide the total cost by the number of meals. Here, $\$600/150 = \4 .

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

65. For the Fall semester, you had to pay a nonrefundable fee of \$600 for your meal plan, which gives you up to 150 meals. If you eat 100 meals, your average cost for a meal is:

- A. \$6.
- B. \$5.
- C. \$4.
- D. \$0.25.

To find the average cost, divide the total cost by the number of meals. Here, $\$600/100 = \6 .

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

66. For the Fall semester, you had to pay a nonrefundable fee of \$600 for your meal plan, which gives you up to 150 meals. If you eat 100 meals, your marginal cost of the 100th meal is:

- A. \$6.
- B. \$4.
- C. \$0.25.
- D. \$0.

The non-refundable \$600 you paid for your meal plan is a sunk cost; no matter how many meals you eat up to 150, your marginal cost is 0.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

67. The average benefit of n units of an activity is the:

- A. total benefit of n units divided by n .
- B. n divided by the total benefit of n units.
- C. n times the total benefit of n units.
- D. extra benefit from carrying out one additional unit of the activity.

Any average is the total divided by the number of units.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

68. You save \$10 on gas every week because you take the bus to school. You have class 5 days a week. What is your average benefit per day of taking the bus to school?

- A. \$10
- B. \$5
- C. \$2
- D. \$0

Your average benefit per day is your total benefit, \$10, divided by the number of days you take the bus, 5. So your average benefit per day is \$2.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Blooms: Understand
Difficulty: 01 Easy
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

69. Your scholarship depends on your maintaining a 3.5 cumulative GPA. Your GPA for last semester was 3.6, which brought your cumulative GPA down. What must be true?

- A. Last semester's grades were higher than your overall GPA.
- B. Last semester's grades were lower than your overall GPA.
- C. If this semester's grades are the same as last semester's, your overall GPA will stay the same.
- D. If this semester's grades are the same as last semester's, you might lose your scholarship.

When an average is falling, it must be true that the last unit included is less than the average over all prior units.

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

70. Refer to the table below. The average cost of 4 units of this activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

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

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

71. Refer to the table below. The marginal cost of the 3rd unit of this activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

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

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 02 Medium
Topic: Three Important Decision Pitfalls*

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

72. Refer to the table below. The average benefit of 2 units of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

- A. \$80
- B. \$60
- C. \$40
- D. \$20

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

73. Refer to the table below. The marginal benefit of the 5th unit of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

- A. \$50
- B. \$44
- C. \$10
- D. \$5

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 02 Medium
Topic: Three Important Decision Pitfalls*

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

74. Refer to the table below. According to the Cost-Benefit Principle, how many units of this activity should be carried out?

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$30	\$100
2	\$40	\$160
3	\$60	\$190
4	\$100	\$210
5	\$150	\$220
6	\$210	\$225

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

*AACSB: Analytic
Blooms: Evaluate
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

75. Refer to the table below. The average cost of 5 units of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

- A. \$4
- B. \$6
- C. \$8
- D. \$10

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

76. Refer to the table below. The marginal cost of the 4th unit of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

- A. \$5
- B. \$6
- C. \$8
- D. \$10

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

77. Refer to the table below. The average benefit of 4 units of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

- A. \$4
- B. \$5
- C. \$9
- D. \$10

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

78. Refer to the table below. The marginal benefit of the 6th unit of activity is:

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

- A. \$1
- B. \$2
- C. \$4
- D. \$7

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

79. Refer to the table below. According to the Cost-Benefit Principle, how many units of this activity should be carried out?

Units of Activity	Total Cost	Total Benefit
0	\$0	\$0
1	\$2	\$12
2	\$6	\$22
3	\$12	\$30
4	\$20	\$36
5	\$30	\$40
6	\$42	\$42
7	\$56	\$43

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

*AACSB: Analytic
Blooms: Evaluate
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

80. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The total value of donations raised by three employees is:

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

AACSB: Analytic
Blooms: Apply
Difficulty: 02 Medium
Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

81. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The total labor cost with 4 employees is:

- A. \$21,500.
- B. \$22,000.
- C. \$38,000.
- D. \$43,121.

*AACSB: Analytic
Blooms: Apply
Difficulty: 02 Medium
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

82. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The President of State U decides to hire fundraising employees as long as their average benefit exceeds their average cost. This results in _____ employees being hired and a net benefit (total donations minus total labor costs) of _____.

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

AACSB: Analytic
Blooms: Analyze
Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

83. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The marginal benefit (in terms of extra donations) of the 2nd employee is:

- A. \$42,426.
- B. \$21,213.
- C. \$12,426.
- D. \$11,337.

AACSB: Reflective Thinking

Blooms: Apply

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

84. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The marginal cost of the 4th employee is:

- A. \$9,500.
- B. \$10,750.
- C. \$11,000.
- D. \$13,000.

Blooms: Apply

Difficulty: 02 Medium

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

85. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The Chair of the Economics Department at State U says that fundraising employees should be hired as long as their marginal benefit exceeds their marginal cost. If the University follows this advice, then _____ employee(s) will be hired, and the net benefit (total donations minus total labor costs) will be _____.

- A. 1; \$22,000
- B. 2; \$25,426
- C. 3; \$25,426
- D. 2; \$3,476

AACSB: Analytic
Blooms: Analyze
Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

86. The table below shows how total donations, average donations, total labor costs and average labor costs vary depending on the number of employees State U hires for its fundraising activities.

Number of Employees	Total Donations	Average Donations	Total Labor Costs	Average Labor Costs
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

The net benefit of hiring fundraisers is largest when _____ employees are hired.

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

*AACSB: Analytic
Blooms: Analyze
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

87. Ginger bought a phone that came with a \$10 rebate. Ginger should fill out and mail in the rebate form if:

- A. the opportunity cost of the time and trouble of sending in the rebate form is less than \$10.
- B. the opportunity cost of the time and trouble of sending in the rebate form is more than \$10.
- C. she would have bought the phone without the rebate, and so sending in the rebate form involves no opportunity cost.
- D. Ginger's surplus from purchasing the phone was less than \$10.

Ginger should disregard the sunk cost of the phone and consider only the marginal benefit of receiving the rebate with the marginal cost of sending in the form.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

88. Tony notes that an electronics store is offering a flat \$20 off all prices in the store. Tony reasons that if he wants to buy something with a price of \$50, then it is a good offer, but if he wants to buy something with a price of \$500, then it is not a good offer. This is an example of:

- A. inconsistent reasoning; saving \$20 is saving \$20.
- B. the proper application of the Cost-Benefit Principle.
- C. rational choice because saving 40% is better than saving 4%.
- D. inconsistent reasoning because prices are sunk costs.

In applying the Cost-Benefit Principle, it is a common decision pitfall to consider proportions rather than the amount saved.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

89. Suppose a retail store was offering 10% off list prices on all goods. The benefit of the 10% savings is:

- A. unrelated to the list price of the good.
- B. negatively related to the list price of the good.
- C. positively related to the list price of the good.
- D. zero since costs and benefits shouldn't be measured proportionally.

The higher is the list price, the more you save.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

90. A firm pays Pam \$40 per hour to assemble personal computers. Each day, Pam can assemble 4 computers if she works 1 hour, 7 computers if she works 2 hours, 9 computers if she works 3 hours, and 10 computers if she works 4 hours. Pam cannot work more than 4 hours day. Each computer consists of a motherboard, a hard drive, a case, a monitor, a keyboard, and a mouse. The total cost of these parts is \$600 per computer. What is the marginal cost of producing the computers that Pam can assemble during her 3rd hour of work?

- A. \$5,400
- B. \$5,520
- C. \$1,200
- D. \$1,240

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

91. A firm pays Pam \$40 per hour to assemble personal computers. Each day, Pam can assemble 4 computers if she works 1 hour, 7 computers if she works 2 hours, 9 computers if she works 3 hours, and 10 computers if she works 4 hours. Pam cannot work more than 4 hours day. Each computer consists of a motherboard, a hard drive, a case, a monitor, a keyboard, and a mouse. The total cost of these parts is \$600 per computer. What is the marginal cost of producing the computers that Pam can assemble during her 2nd hour of work?

- A. \$1,800
- B. \$1,840
- C. \$4,200
- D. \$4,280

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard
Topic: Three Important Decision Pitfalls*

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

92. A firm pays Pam \$40 per hour to assemble personal computers. Each day, Pam can assemble 4 computers if she works 1 hour, 7 computers if she works 2 hours, 9 computers if she works 3 hours, and 10 computers if she works 4 hours. Pam cannot work more than 4 hours day. Each computer consists of a motherboard, a hard drive, a case, a monitor, a keyboard, and a mouse. The total cost of these parts is \$600 per computer. If the firm sells each computer for \$625, then how many hours a day should the firm employ Pam to maximize its net benefit from her employment?

- A. 1 hour
- B. 2 hours
- C. 3 hours
- D. 4 hours

*Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard
Topic: Three Important Decision Pitfalls*

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

93. A firm pays Pam \$40 per hour to assemble personal computers. Each day, Pam can assemble 4 computers if she works 1 hour, 7 computers if she works 2 hours, 9 computers if she works 3 hours, and 10 computers if she works 4 hours. Pam cannot work more than 4 hours day. Each computer consists of a motherboard, a hard drive, a case, a monitor, a keyboard, and a mouse. The total cost of these parts is \$600 per computer. If the firm sells each computer for \$650, then how many hours a day should the firm employ Pam to maximize its net benefit from her employment?

- A. 1 hour
- B. 2 hours
- C. 3 hours
- D. 4 hours

Accessibility: Keyboard Navigation

Blooms: Analyze

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

94. If Jane works for 6 hours she can rent out 9 apartments, and if she works for 7 hours she can rent out 12 apartments. The marginal benefit of Jane's 7th hour of work equals:

- A. 12 apartments
- B. 9 apartments
- C. 3 apartments
- D. 1 apartment

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

Marginal benefit is the increase in total benefit that results from carrying out one additional unit of an activity.

95. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

The marginal benefit of upgrading from a 2.0GHz computer to a 2.5GHz computer is:

- A. \$1,400.
- B. \$1,000.
- C. \$400.
- D. \$100.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

96. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

The total benefit of a 3.0GHz computer is:

- A. \$300.
- B. \$900.
- C. \$1,700.
- D. \$1,650.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

97. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

The total cost of a 2.5GHz computer is:

- A. \$1,000.
- B. \$900.
- C. \$200.
- D. \$100.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

98. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

The marginal cost of upgrading from a 2.5GHz to 3.0GHz computer is:

- A. \$400.
- B. \$300.
- C. \$200.
- D. \$100.

AACSB: Analytic

Blooms: Apply

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

99. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

Application of the Cost-Benefit Principle would lead one to purchase a _____ computer.

- A. 2.0GHz
- B. 2.5GHz
- C. 3.0GHz
- D. 4.0GHz

*AACSB: Analytic
Blooms: Analyze*

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

100. The following table shows the relationship between the speed of a computer's CPU and its benefits and costs. Assume that all other features of the computer are the same (that is, CPU speed is the only source of variation), and only the CPU speeds listed below are available for purchase.

CPU GHz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
2.0	\$1,000		\$900	
2.5	\$1,400			\$100
3.0		\$300	\$1,200	
3.5	\$1,900		\$1,500	
4.0	\$2,000			\$400

Choosing a 3.5GHz computer would be irrational because:

- A. its marginal benefit is less than its marginal cost.
- B. its marginal benefit is equal to its marginal cost.
- C. it is impossible to tell the difference compared to a 3.0GHz computer.
- D. its marginal benefit is greater than its marginal cost.

AACSB: Analytic

Blooms: Analyze

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

101. Jack has a ticket to see Bo Bice for which he paid \$30 yesterday. He takes an unpaid day off from work to get ready for the concert. When he arrives at the concert, five different people offer him \$70 for his ticket. Jack decides to keep his ticket. At the time he makes this decision, his opportunity cost of seeing Bo Bice is:

- A. \$30 plus his forgone earnings.
- B. \$40.
- C. \$70.
- D. \$70 plus his forgone earnings.

At the time he makes his decision, the ticket price and the lost day's pay are sunk costs. Keeping the ticket requires sacrificing the \$70 he was offered for it.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

102. Jody has purchased a non-refundable \$75 ticket to attend a Miley Cyrus concert on Friday night. Subsequently, she is asked to go to out dinner at no expense to her. If she uses cost-benefit analysis to choose between going to the concert and going out to dinner, the opportunity cost of going out to dinner should include:

- A. only the entertainment value of the concert.
- B. the cost of the ticket plus the entertainment value of the concert.
- C. only the cost of concert ticket.
- D. neither the cost of the ticket nor the entertainment value of the concert.

The price of the non-refundable ticket is a sunk cost, so the only thing that Jody should include in calculating the opportunity cost of going out to dinner, is the entertainment value of the concert.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

103. You won a free ticket to see the latest Star Trek movie this Friday night (which you can costlessly resell for its face value of \$15). Your favorite band is also performing on Friday and is your only alternative activity. Friday is your last chance to see either the movie or the band. Tickets to see your favorite band cost \$30, and on any given day, you would be willing to pay as much as \$50 for a ticket. Based on this information, what is your opportunity cost of going to see the Star Trek movie on Friday?

- A. \$0
- B. \$30
- C. \$35
- D. \$50

The opportunity cost of seeing the movie is the economic surplus you give up by not seeing your favorite band ($\$50 - \$30 = \$20$) plus the \$15 you could have received by selling your movie ticket.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

104. You want to buy a TV that regularly costs \$250. You can either buy the TV from a nearby store or from a store that's downtown. Relative to going to the nearby store, driving downtown involves additional time and gas. The downtown store, however, has a 10% off sale this week. Last week you drove downtown to save \$20 on some concert tickets, a 15% savings. Should you drive downtown to buy the TV?

- A. Yes, because you will save 10%, which is better than nothing.
- B. No, because you will save more than \$20.
- C. Yes, because you will save more than \$20.
- D. No, because you will only save 10%, which is less than 15%.

The information indicates that you are willing to drive downtown to save \$20, so you should also be willing to drive downtown to save \$25.

Accessibility: Keyboard Navigation

Blooms: Analyze

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

105. The table below shows the relationship between the number of times you get your car washed each month and your total monthly benefit from car washes. Each car wash costs \$15.

Number of Car Washes Per Month	Total Monthly Benefit from Car Washes
0	\$0
1	\$20
2	\$36
3	\$48
4	\$56
5	\$60

What's the average benefit of 4 car washes per month?

- A. \$14
- B. \$12
- C. \$8
- D. \$4

Blooms: Apply

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

106. The table below shows the relationship between the number of times you get your car washed each month and your total monthly benefit from car washes. Each car wash costs \$15.

Number of Car Washes Per Month	Total Monthly Benefit from Car Washes
0	\$0
1	\$20
2	\$36
3	\$48
4	\$56
5	\$60

What is the marginal cost of the 5th car wash each month?

- A. \$15
- B. \$14
- C. \$12
- D. \$4

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

107. The table below shows the relationship between the number of times you get your car washed each month and your total monthly benefit from car washes. Each car wash costs \$15.

Number of Car Washes Per Month	Total Monthly Benefit from Car Washes
0	\$0
1	\$20
2	\$36
3	\$48
4	\$56
5	\$60

What is the marginal benefit of the 3rd car wash each month?

- A. \$4
- B. \$12
- C. \$16
- D. \$48

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

108. The table below shows the relationship between the number of times you get your car washed each month and your total monthly benefit from car washes. Each car wash costs \$15.

Number of Car Washes Per Month	Total Monthly Benefit from Car Washes
0	\$0
1	\$20
2	\$36
3	\$48
4	\$56
5	\$60

How many times a month should you get your car washed?

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

*AACSB: Analytic
Blooms: Evaluate
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

109. Frank owns an apple farm and plans to spend 4 hours today picking apples. The number of apples he can pick per hour depends on the total number of hours he spends working in either the east orchard or the west orchard in the manner shown in the table below.

Hours in East Orchard	Number of Apples Per Hour	Hours in West Orchard	Number of Apples Per Hour
1	40	1	10
2	32	2	10
3	25	3	10
4	20	4	10

If Frank spends 2 hours picking apples in the east orchard and 2 hours picking apples in the west orchard, how many apples in total will Frank be able to pick today?

- A. 21
- B. 42
- C. 84
- D. 92

Blooms: Apply
Difficulty: 03 Hard
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

110. Frank owns an apple farm and plans to spend 4 hours today picking apples. The number of apples he can pick per hour depends on the total number of hours he spends working in either the east orchard or the west orchard in the manner shown in the table below.

Hours in East Orchard	Number of Apples Per Hour	Hours in West Orchard	Number of Apples Per Hour
1	40	1	10
2	32	2	10
3	25	3	10
4	20	4	10

What is the opportunity cost to Frank of spending an additional hour picking apples in the East orchard?

- A. 10 apples
- B. 20 apples
- C. 30 apples
- D. 40 apples

AACSB: Reflective Thinking

Blooms: Apply

Blooms: Understand

Difficulty: 02 Medium

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

111. Frank owns an apple farm and plans to spend 4 hours today picking apples. The number of apples he can pick per hour depends on the total number of hours he spends working in either the east orchard or the west orchard in the manner shown in the table below.

Hours in East Orchard	Number of Apples Per Hour	Hours in West Orchard	Number of Apples Per Hour
1	40	1	10
2	32	2	10
3	25	3	10
4	20	4	10

What is the marginal benefit to Frank of the 2nd hour he spends picking in the east orchard?

- A. 8 apples
- B. 24 apples
- C. 32 apples
- D. 64 apples

AACSB: Analytic
Blooms: Apply
Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

112. Frank owns an apple farm and plans to spend 4 hours today picking apples. The number of apples he can pick per hour depends on the total number of hours he spends working in either the east orchard or the west orchard in the manner shown in the table below.

Hours in East Orchard	Number of Apples Per Hour	Hours in West Orchard	Number of Apples Per Hour
1	40	1	10
2	32	2	10
3	25	3	10
4	20	4	10

How should Frank divide his time between the east and the west orchard?

- A. He should spend all 4 hours in the east orchard.
- B. He should spend 3 hours in the east orchard and 1 hour in the west orchard.
- C. He should spend 2 hours in east orchard and 2 hours in the west orchard.
- D. He should spend 1 hour in the east orchard and 3 hours in the west orchard.

Blooms: Analyze

Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.

Topic: Three Important Decision Pitfalls

113. Positive economic principles are those that:

- A. are always correct.
- B. are influenced by political ideology.
- C. indicate how people should behave.
- D. predict how people will behave.

By definition, positive economic principles predict how people will behave, and normative economic principles indicate how they should behave.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 01 Easy

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

Topic: Normative Economics Versus Positive Economics

114. One thing that distinguishes normative economic principles from positive economic principles is that:

- A. normative principles are pessimistic and positive principles are optimistic.
- B. normative principles reflect social norms, and positive principles reflect universal truths.
- C. normative principles tell us how people should behave, and positive principles tell us how people will behave.
- D. normative principles tell us how people will behave, and positive principles tell us how people should behave.

Normative economic principles describe how people should behave; positive economic principles predict how they will behave.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 01 Easy*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Normative Economics Versus Positive Economics*

115. Normative economic principles are concerned with how people _____ make decisions while positive economic principles are concerned with how people _____ make decisions.

- A. do; should
- B. should; do
- C. in power; in ordinary life
- D. in ordinary life; in power

Normative economic principles describe how people should behave; positive economic principles predict how they will behave.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Normative Economics Versus Positive Economics*

116. An editorial in the paper argues that a person only should be allowed to attend school if the marginal cost of educating that person is less than the marginal benefit of educating that person. The writer's reasoning is an application of:

- A. positive economics.
- B. negative economics.
- C. normative economics.
- D. economic naturalism.

Normative economic principles describe how people should behave; positive economic principles predict how they will behave. The editorial includes the word "should".

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Normative Economics Versus Positive Economics*

117. The Incentive Principle states that a person:

- A. is more likely to take an action if its cost increases.
- B. is more likely to take an action if its benefit increases.
- C. should take an action if its cost increases.
- D. should take an action if its benefit increases.

The Incentive Principle states that a person is more likely to take an action if its benefit rises, and less likely to do something if its cost rises.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Normative Economics Versus Positive Economics*

118. The Incentive Principle is an example of:

- A. an economic decision-making pitfall.
- B. over-estimating the benefits of an action.
- C. a positive economic principle.
- D. a normative economic principle.

The Incentive Principle predicts how people will behave. The Cost-Benefit Principle states how they should behave.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Normative Economics Versus Positive Economics*

119. According to the Incentive Principle, people will be less likely to smoke if the government:

- A. increases taxes on smoking-cessation devices such as nicotine patches.
- B. increases taxes on cigarettes, effectively raising the price.
- C. subsidizes hospitals treating lung disease.
- D. invests more money in cancer research.

The Incentive Principle states that a person is more likely to take an action if its benefit rises, and less likely to do something if its cost rises.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Normative Economics Versus Positive Economics*

120. According to the Incentive Principle:

- A. it is irrational to perform volunteer services.
- B. people will always take the highest-paying job they are offered.
- C. benefits are more important than costs in making a decision.
- D. people tend to do more of something when its benefits are greater.

The Incentive Principle states that a person is more likely to take an action if its benefit rises, and less likely to do something if its cost rises.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Normative Economics Versus Positive Economics*

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

121. Microeconomics differs from macroeconomics in that microeconomics focuses on:

- A. the performance of the entire economy.
- B. issues such as inflation, unemployment and economic growth.
- C. the choices made by individuals the implications of those choices.
- D. government policies designed improve the performance of the national economy.

Microeconomics is the study of individual choice under scarcity and its implications for the behavior of prices and quantities in individual markets.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economics: Micro and Macro*

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

122. Macroeconomics differs from microeconomics in that macroeconomics focuses on:

- A. individual choices and group behavior in individual markets.
- B. the performance of national economies and ways to improve that performance.
- C. production in specific markets.
- D. prices in specific markets.

Macroeconomics is the study of the performance of national economies and the policies that governments use to try to improve that performance.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economics: Micro and Macro*

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

123. The study of individual choice and its implications for the behavior of prices and quantities in individual markets is:

- A. microeconomics.
- B. a normative economic principle.
- C. the Scarcity Principle.
- D. macroeconomics.

Microeconomics is the study of individual choice under scarcity and its implications for the behavior of prices and quantities in individual markets.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economics: Micro and Macro*

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

124. Which branch of economics is most likely to study differences in countries' growth rates?

- A. microeconomics
- B. normative economics
- C. macroeconomics
- D. experimental economics

Macroeconomics is the study of the performance of national economies and the policies that governments use to try to improve that performance.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economics: Micro and Macro*

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

125. Which of the following would not be studied in microeconomics?

- A. How individual firms decide how much to produce.
- B. Whether to study or watch TV tonight.
- C. How an early freeze in California will affect the price of fruit.
- D. Whether the federal budget should be balanced.

The federal budget is a topic related to the performance of the national economy, and therefore is a macroeconomic topic. The other issues relate to individual choices and individual markets, and so are microeconomic topics.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Economics: Micro and Macro*

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

126. Which of the following would *not* be studied in macroeconomics?

- A. The causes of the Great Depression.
- B. The growth rate of the U.S. economy.
- C. How a sharp increase in gasoline prices is likely to affect SUV sales.
- D. The impact of government spending on the economy.

Macroeconomics is the study of the performance of national economies and the policies that governments use to try to improve that performance. SUV sales are directly related to individuals' choices about what to consume, and so are a microeconomic topic.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Economics: Micro and Macro

127. By convention, there are two major divisions of economics, called:

- A. marginal benefit and marginal cost.
- B. reservation price and opportunity cost.
- C. microeconomics and macroeconomics.
- D. rational economics and irrational economics.

The two main categories of economic study are macroeconomics and microeconomics.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Economics: Micro and Macro

128. A study that deals with the salaries of university professors would be considered:

- A. macroeconomics
- B. microeconomics
- C. economic naturalism
- D. real economics

The study of individual markets, such as the market for professors, is part of microeconomics.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.
Topic: Economics: Micro and Macro

129. In deciding how many guitars to buy for his shop before the Christmas season, Mark is making a(n) _____ decision.

- A. microeconomic
- B. macroeconomic
- C. normative
- D. irrational

Microeconomics focuses on individual choices.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economics: Micro and Macro

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

130. A study of the impact of various government policies on economic growth would be considered:

- A. microeconomics.
- B. macroeconomics.
- C. government economics.
- D. marginal economics.

Macroeconomics is the study of the performance of national economies and the policies that governments use to try to improve that performance.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economics: Micro and Macro

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

131. The field of economics that would be most concerned with a recent fall in interest rates is:

- A. microeconomics.
- B. macroeconomics.
- C. economic naturalism.
- D. marginal economics.

Macroeconomics focuses on overall national economic growth and factors that affect the overall economy such as the impact of changing interest rates on total spending in the economy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economics: Micro and Macro

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

132. An economic naturalist is someone who:

- A. uses economic arguments to protect the environment.
- B. has an innate talent for using economic concepts.
- C. applies economic insights to understand everyday life.
- D. studies the process of natural selection in a cost-benefit framework.

An economic naturalist is someone who uses insights from economics to make sense of observations from everyday life.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

133. With ATMs, it is possible to retrieve cash from the bank at any time. One hundred years ago, one could only get cash from the bank during business hours, say, 9 am to 3 pm.

The present availability of 24-hour service has arisen because:

- A. flexibility was not valued 100 years ago.
- B. it was impossible to provide 24-hour service 100 years ago.
- C. the cost of providing 24-hour service is much lower today.
- D. government forced banks to become more convenient.

Applying the Incentive Principle, since the cost of providing 24-hour service has fallen (due to technological innovations such as ATMs), we would expect more banks to provide 24-hour service now than 100 years ago.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

134. The number of U.S. households with access to the Internet is growing rapidly. Compared to 50 years ago, one would predict that when considering a major purchase, people today will gather:

- A. less information because the Internet has lowered the cost of gathering information.
- B. less information because the Internet has increased the benefit of gathering information.
- C. more information because the Internet has lowered the cost of gathering information.
- D. more information because the Internet has increased the cost of gathering information.

Applying the Incentive Principle, since the cost of gathering information has fallen, we would expect people today to gather more information today compared to 50 years ago.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

135. Every time you go to the grocery store, you try to wait in the shortest line. But the lines always seem to be roughly the same length. Why?

- A. Random chance equalizes the length of the lines.
- B. Other people are trying to choose the shortest line too.
- C. The cashiers work at the same speed.
- D. The cashiers do not have an incentive to work faster.

Applying the Incentive Principle, we would expect people to try to wait in the shortest line (where the time cost of waiting is the lowest). So, if one line happens to be shorter than the others, customers will quickly join that line.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

136. Suppose there are two parallel highways between two cities with approximately equal traffic. What would you expect to happen if the state began charging tolls to drive on one of those highways?

- A. More drivers would drive on the non-toll road, making the toll road less congested.
- B. More drivers would drive on the toll road making the non-toll road less congested.
- C. Traffic would remain evenly divided between the two roads as drivers continuously sought the less-congested route.
- D. Traffic would decrease on both roads.

Applying the Incentive Principle, in response to higher costs on the toll road, we would expect fewer people to use the toll road.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

137. During times of high unemployment, colleges often observe an increase in enrollment even if tuition remains unchanged. Why?

- A. Students go to college even when the net benefit is negative.
- B. The opportunity cost of attending college is lower when unemployment is high.
- C. The opportunity cost of attending college is higher when unemployment is high.
- D. The benefit of attending college is lower because college graduates are less likely to find jobs.

Applying the Incentive Principle, if we observe more people going to college, then it is likely because either the benefit of going to college has gone up, or the cost of going to college has gone down. An increase in the unemployment rate lowers the opportunity cost of going to college because individuals who otherwise might have preferred to work, will be less able to find jobs.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

138. The last time gas prices increased drastically, sales of large Sport Utility Vehicles (SUVs) fell. Why?

- A. Higher gas prices lowered the benefit of driving an SUV.
- B. Higher gas prices increased the benefit of driving an SUV.
- C. Higher gas prices increased the cost of driving a SUV.
- D. Higher gas prices lowered the cost of driving a SUV.

Applying the Incentive Principle as an economic naturalist, an increase in gas prices will increase the cost of driving an SUV, leading fewer people to purchase them.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

139. Due to the fact that Curly used his frequent flyer miles to fly to visit Moe, Curly told Moe that it didn't cost him anything to visit. Is Curly correct?

- A. Yes, because Curly's frequent flyer miles made the trip free.
- B. Yes, because Curly could stay at Moe's house for free.
- C. No, because Curly could have used his frequent flyer miles to go somewhere else instead.
- D. No, because Curly had to pay for earlier trips in order to earn the frequent flyer miles.

Curly gave up something of value (a different trip using his frequent flyer miles) to visit Moe.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

140. Pat can either drive to work, which takes half an hour and uses \$1.50 worth of gas, or take the bus, which takes an hour and costs \$1.00. How should Pat get to work?

- A. Pat should take the bus because it costs \$0.50 less than driving.
- B. Pat should drive because it saves half an hour relative to taking the bus.
- C. Pat should drive if saving half an hour is worth \$0.50 or more.
- D. Pat should take the bus if saving half an hour is worth \$0.50 or more.

Applying the Cost-Benefit Principle, Pat should drive if the marginal benefit of driving (saving half an hour) is greater than its marginal cost (\$0.50).

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard
Topic: Economic Naturalism

Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.

141. You have two options for how to spend the afternoon. You can either go see a movie with your roommate or work as a tutor for the Math Department. From experience, you know that going to see a movie gives you \$20 worth of enjoyment, and with your student discount, a movie ticket only costs \$12. If you spend the afternoon working as a math tutor, you will get paid \$45. On a typical day, you wouldn't be willing to spend the afternoon working as a math tutor for less than \$35. What is your opportunity cost of seeing a movie this afternoon?

- A. \$8
- B. \$12
- C. \$22
- D. \$57

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

142. You have two options for how to spend the afternoon. You can either go see a movie with your roommate or work as a tutor for the Math Department. From experience, you know that going to see a movie gives you \$20 worth of enjoyment, and with your student discount, a movie ticket only costs \$12. If you spend the afternoon working as a math tutor, you will get paid \$45. On a typical day, you wouldn't be willing to spend the afternoon working as a math tutor for less than \$35. What is your economic surplus from working as a math tutor instead of going to the movies?

- A. \$8
- B. \$12
- C. \$22
- D. \$57

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls

143. You have two options for how to spend the afternoon. You can either go see a movie with your roommate or work as a tutor for the Math Department. From experience, you know that going to see a movie gives you \$20 worth of enjoyment, and with your student discount, a movie ticket only costs \$12. If you spend the afternoon working as a math tutor, you will get paid \$45. On a typical day, you wouldn't be willing to spend the afternoon working as a math tutor for less than \$35. Should you go see a movie or work as a math tutor?

- A. You should work as a math tutor.
- B. You should go to the movies.
- C. You should do neither.
- D. Both options are equally good.

*AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 03 Hard*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.
Topic: Three Important Decision Pitfalls*

Chapter 01 Test Bank Summary

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Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.	30
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.	73
Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict people's behavior; a good place to start is by examining their incentives.	28
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