

## **Chapter 2 Test Bank**

### **Multiple Choice Questions**

**1.** Philosophers draw a distinction between positive statements, which describe the world as it is, and \_\_\_\_\_s, which describe how the world should be.

- A. normative statement
- B. budget constraint
- C. trade-off
- D. opportunity cost

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Remember

**2.** Attending college is a case where the \_\_\_\_\_ exceeds the monetary cost.

- A. budget constraint
- B. marginal analysis
- C. opportunity cost
- D. marginal utility

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

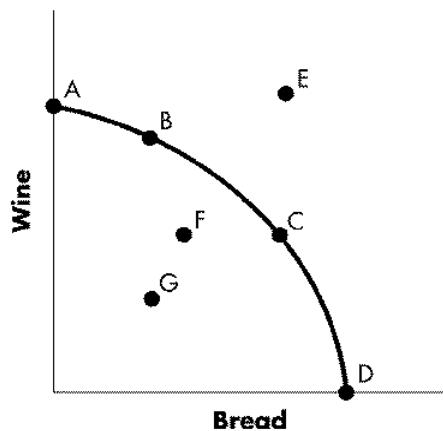
**3.** As depicted in \_\_\_\_\_, it is necessary to give up some of one good to gain more of the other good.

- A. the production possibilities frontier
- B. allocative efficiency
- C. scarcity
- D. utility

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember



**Figure 2-1**

4. Refer to Figure 2-1. An economy is operating at full employment, and then workers in the bread industry are laid off. This change is portrayed in the movement from:

- A. A to B
- B. B to E
- C. C to F
- D. G to F

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Apply

5. Refer to Figure 2-1. Along the production possibilities frontier, the most efficient point of production depicted is:

- A. Point B
- B. Point C
- C. Point D
- D. All points on the production possibilities frontier are equally efficient.

Answer: D Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Apply

**6.** Refer to Figure 2-1. The most inefficient point depicted is:

- A. Point A
- B. Point C
- C. Point D
- D. Point G

Answer: D Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Analyze

**7.** Why is there scarcity?

- A. Because the opportunity set determines this.
- B. Because theory dictates it.
- C. Because our unlimited wants exceed our limited resources
- D. Because human wants are limited.

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Understand

**8.** Scarcity exists because of:

- A. the market mechanism.
- B. specialization and division of labor.
- C. the allocation of goods by prices
- D. unlimited wants and limited resources.

Answer: D Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**9.** Scarcity implies that:

- A. consumers would be willing to purchase the same quantity of a good at a higher price.
- B. it is impossible to completely fulfill the unlimited human desire for goods and services with the limited resources available.
- C. at the current market price, consumers are willing to purchase more of a good than suppliers are willing to produce.
- D. consumers are too poor to afford the goods and services available.

Answer: B Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Understand

**10.** Gomer decides to spend an hour playing basketball rather than studying. His opportunity cost is:

- A. nothing, because he enjoys playing basketball more than studying.
- B. the increase in skill he obtains from playing basketball for that hour.
- C. the benefit to his grades from studying for an hour
- D. nothing, because he had a free pass into the sports complex to play basketball.

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Understand

**11.** "If I didn't have class tonight, I would save the \$4 campus parking fee and spend four hours at work where I earn \$10 per hour." The opportunity cost of attending class this evening is:

- A. \$0
- B. \$4
- C. \$40
- D. \$44

Answer: D Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Apply

**12.** The opportunity cost of attending university is likely to include all except which of the following?

- A. the cost of haircuts received during the school term
- B. the income you forgo in order to attend classes
- C. tuition fees
- D. the cost of required textbooks

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Understand

Possibility A	Economics	History
I	94	76
II	87	84
III	77	91

**Table 2-1**

**13.** Referring to Table 2-1: A student has only a few hours to prepare for two different exams this afternoon. The above table shows alternative possible exam scores with three alternative uses of the student's time. The opportunity cost of scoring a 94 on the economics exam rather than a 77 is:

- A. 8 points on the history exam.
- B. 15 points on the history exam.
- C. 14 points on the history exam.
- D. 17 points on the history exam.

Answer: B Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Apply

**14.** Refer to Table 2-1. A student has only a few hours to prepare for two different exams tomorrow morning. The above table shows alternative possible exam outcomes with three alternative uses of the student's time. The opportunity cost of scoring an 84 on the history exam rather than 76 is:

- A. 10 points on the economics exam
- B. 8 points on the history exam
- C. 7 points on the economics exam
- D. 12 points on the economics exam

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Apply

**15.** The opportunity cost of an action:

- A. can be determined by considering both the benefits that flow from as well as the monetary costs incurred as a result of the action.
- B. can be determined by adding up the bills incurred as a result of the action.
- C. can be objectively determined only by economists.
- D. is a subjective valuation that can be determined only by the individual who chooses the action.

Answer: D Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Understand

**16.** The slope of the \_\_\_\_\_ is determined by the relative price of the two goods, which is calculated by taking the price of one good and dividing it by the price of the other good.

- A. personal preference
- B. utility level
- C. budget constraint
- D. opportunity set

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**17.** Most choices involve \_\_\_\_\_, which involves comparing the benefits and costs of choosing a little more or a little less of a good.

- A. utility
- B. marginal analysis
- C. the budget constraint
- D. consumption

Answer: B Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**18.** Marginal thinking is best demonstrated by:

- A. choosing to spend one more hour studying economics because you think the improvement in your score on the next quiz will be worth the sacrifice of time.
- B. deciding to never purchase a coat made with animal skins or furs
- C. acquiring the information relevant to a choice before making that choice
- D. measuring all of the costs of a meal against all of the benefits when deciding whether to order a second milkshake

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Understand

**19.** The marginal benefit of a slice of pizza is the:

- A. total amount that a consumer is willing to pay for a whole pizza, divided by the number of slices
- B. difference between the value of the slice to the consumer and the price of the slice.
- C. maximum amount that a consumer is willing to pay for the slice.
- D. price of the slice of pizza

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Hard      Category: Understand

**20.** The general pattern that consumption of the first few units of any good tends to bring a higher level of \_\_\_\_\_ to a person than consumption of later units is a common pattern.

- A. utility
- B. marginal benefit
- C. opportunity cost
- D. sunk costs

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Understand

**21.** The lesson of \_\_\_\_\_ is to forget about the money that's irretrievably gone and instead to focus on the marginal costs and benefits of future options.

- A. marginal utility
- B. sunk costs
- C. marginal analysis
- D. budget constraints

Answer: B Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**22.** The model that economists use for illustrating the process of individual choice in a situation of scarcity is the \_\_\_\_\_, sometimes also called the opportunity set, a diagram which shows what choices are possible.

- A. consumption set
- B. budget constraint
- C. original budget
- D. income cap

Answer: B Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**23.** The leader of a federal political party made the following campaign promise: "My administration will increase national defense without requiring sacrifices elsewhere in the economy." The promise can be kept if:

- A. the economy moves along the production possibilities in the direction of a greater quantity of defense.
- B. the economy moves from a point inside the production possibilities curve toward a point on the production possibilities curve.
- C. the production possibilities frontier shifts outward due to an improvement in technology.
- D. either b) or c) occurs, but not as a result of a).

Answer: D Reference:

Explanation:

Type: Multiple Choice      Difficulty: Hard      Category: Analyze

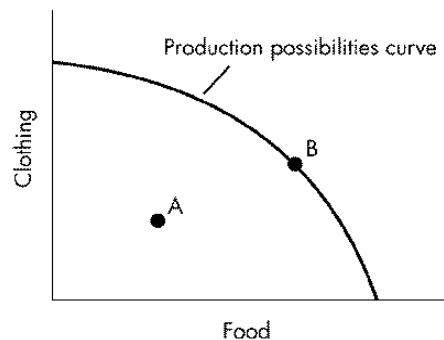


Figure 2-2

**24.** Refer to Figure 2-2. At Point A in the production possibilities graph shown above, the economy:

- A. is not using its resources efficiently.
- B. is using its resources efficiently while producing clothing but no food.
- C. is using its resources efficiently while producing food but no clothing.
- D. is using its resources efficiently to produce both food and clothing.

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Understand

**25.** Refer to Figure 2-2. When the economy moves from Point A to Point B in the diagram above:

- A. the economy begins using its resources efficiently to produce both food and clothing.
- B. the economy operates at its productive capacity once it reaches Point B.
- C. the economy increases production of both clothing and food.
- D. All of the above occur.

Answer: D Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Understand

**26.** Philosophers draw a distinction between \_\_\_\_\_, which describe the world as it is, and normative statements, which describe how the world should be.

- A. negative statements
- B. positive statements
- C. tradeoffs
- D. utilitarianism

Answer: B Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**27.** The law of \_\_\_\_\_ explains why people and societies rarely make all-or-nothing choices.

- A. consumption
- B. marginal analysis
- C. diminishing marginal utility
- D. utility

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**28.** As a person receives more of a good, the \_\_\_\_\_ from each additional unit of the good declines.

- A. utility
- B. sunk costs

- C. marginal utility
- D. budget constraint

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**29.** Which of the following would most likely shift the production possibilities curve inward?

- A. an increase in the number of hours factories are in use
- B. a decrease in the average number of hours worked per week as the labor force chooses to enjoy more leisure time
- C. an increase in the production of capital goods
- D. technological progress

Answer: B Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Analyze

**30.** The slope of the \_\_\_\_\_ is determined by the relative price of the two goods, which is calculated by taking the price of one good and dividing it by the price of the other good.

- A. Opportunity cost
- B. productive efficiency
- C. budget constraint
- D. production possibilities frontier

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Remember

**31.** In many cases, it is reasonable to refer to the \_\_\_\_\_ as the price.

- A. budget constraint
- B. sunk cost
- C. opportunity cost
- D. budget constraint

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Remember

**32.** The lesson of \_\_\_\_\_ is to forget about the money that's irretrievably gone and instead to focus on the marginal costs and benefits of future options.

- A. sunk costs
- B. opportunity costs
- C. marginal analysis
- D. budget constraints

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**33.** In deciding how many hours to work, Beulah will make a choice that maximizes her \_\_\_\_\_; that is, she will choose according to her preferences for leisure time and income.

- A. budget constraint
- B. opportunity set
- C. utility
- D. production possibilities frontier

Answer: C Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**34.** The model that economists use for illustrating the process of individual choice in a situation of scarcity is the budget constraint, sometimes also called the \_\_\_\_\_, a diagram which shows what choices are possible.

- A. opportunity set
- B. consumption choice
- C. time value of money
- D. risk premium

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**35.** Most real-world choices aren't about getting all of one thing or another, instead, most choices involve \_\_\_\_\_, which involves comparing the benefits and costs of choosing a little more or a little less of a good.

- A. utility
- B. opportunity cost
- C. benefit analysis
- D. marginal analysis

Answer: D Reference:

Explanation:

Type: Multiple Choice      Difficulty: Medium      Category: Remember

**36.** Economists refer to this pattern, the \_\_\_\_\_, which means that as a person receives more of a good, the additional or marginal utility from each additional unit of the good declines.

- A. law of trade-offs
- B. law of diminishing marginal utility
- C. production possibilities frontier
- D. law of increasing marginal utility

Answer: B Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

**37.** The choice on a production possibilities set that is socially preferred, or the choice on an individual's budget constraint that is personally preferred, will display \_\_\_\_\_.

- A. allocative efficiency
- B. the production possibilities frontier
- C. trade-offs
- D. scarcity

Answer: A Reference:

Explanation:

Type: Multiple Choice      Difficulty: Easy      Category: Remember

## **Essay Questions**

### **1. Define Productive Efficiency and Allocative Efficiency.**

Reference:

Explanation: Productive efficiency means that, given the available inputs and technology, it is impossible to produce more of one good without decreasing the quantity that is produced of another good. Allocative efficiency means that the particular mix of goods being produced—that is, the specific choice along the production possibilities frontier—represents the allocation that society most desires

Type: Essay      Difficulty: Medium      Category: Understand

### **2. Explain the Law of Diminishing Returns and illustrate with a relevant example.**

Reference:

Explanation: The law of diminishing returns holds that as additional increments of resources are added to a certain purpose, the marginal benefit from those additional increments will decline.

Example: When government spends a certain amount more on reducing crime, for example, the original gains in reducing crime could be relatively large. But additional increases typically cause relatively smaller reductions in crime, and paying for enough police and security to reduce crime to nothing at all would be tremendously expensive.

Type: Essay      Difficulty: Medium      Category: Understand

### **3. When most people want to know the cost of an item or a service, they look for a price tag. When economists want to determine cost, they go one step further. They use the idea of opportunity cost. Explain the concept of opportunity cost and illustrate with an example.**

Reference:

Explanation: Opportunity cost is whatever must be given up to obtain something that is desired. After the terrorist plane hijackings on September 11, 2001, many steps were proposed to improve air travel safety. For example, the federal government could provide armed “sky marshals” who would travel inconspicuously with the rest of the passengers. The cost of having a sky marshal on every flight would be roughly \$3 billion per year. Retrofitting all U.S. planes with reinforced cockpit doors to make it harder for terrorists to take over the plane would have a price tag of \$450 million. Buying more sophisticated security equipment for airports, like three-dimensional baggage scanners and cameras linked to face recognition software, could cost another \$2 billion. But the single biggest cost of greater airline security doesn’t involve spending money. It’s the opportunity cost of additional waiting time at the airport.

Type: Essay      Difficulty: Hard      Category: Understand

**4.** Define the term "sunk costs" and illustrate with an example.

Reference:

Explanation: Sunk costs, which are costs that were incurred in the past and cannot be recovered. Consider the case of Edgar who pays \$8 to see a movie, but after watching the film for 30 minutes he knows that it's truly terrible. Should he stay and watch the rest of the movie because he paid \$8, or should he leave? The money he spent is a sunk cost and unless the theater manager is feeling kindly, Edgar won't get a refund. But staying in the movie still means paying an opportunity cost in time. Thus, Edgar's choice is whether to spend the next 90 minutes suffering through a cinematic disaster or to do something— anything—else. The lesson of sunk costs is to forget about the money that's irretrievably gone and instead to focus on the marginal costs and benefits of future options.

Type: Essay      Difficulty: Hard      Category: Understand

**5.** Draw a picture of a production possibilities frontier curve. Identify each axis as measuring either guns or butter. Select and label Point A, which is beyond the economy's ability to produce; Point B, which represents an inefficient level of production; Point C, an efficient combination of output in which more guns are produced than units of butter; and Point D, an efficient production point in which more units of butter are produced than guns. Be sure to label each clearly.

Reference:

Explanation: Answers will vary

Type: Essay      Difficulty: Medium      Category: Understand

**6.** The economics approach portrays people as self-interested. Instead, the critics argue that people should be taught to care more deeply about others. Economists offer several answers to this concern. Offer two economist responses with explanation.

Reference:

Explanation: Philosophers draw a distinction between positive statements, which describe the world as it is, and normative statements, which describe how the world should be. In the study of economics, positive and normative arguments often blend into each other. Second, self-interested behavior and profit-seeking can be labeled with other names, such as personal choice and freedom. Third, self-interested behavior can lead to positive social results. For example, when people work hard to make a living, they create economic output. Fourth, even people who focus on their own self-interest in the economic part of their life often set aside their own narrow self-interest in other parts of life

Type: Essay      Difficulty: Hard      Category: Understand

**7.** When economists analyze how individuals make choices, they divide the decision process into two steps. Define these two steps and label the resultant model.

Reference:

Explanation: The first step is to consider what choices are possible for individuals. The second step is to think about which choices individuals actually make, based on their individual preferences. The model that economists use for illustrating the process of individual choice in a situation of scarcity is the budget constraint, sometimes also called the opportunity set, a diagram which shows what choices are possible.

Type: Essay      Difficulty: Medium      Category: Understand