Multiple Choice

Identify the choice that best completes the statement or answers the question.

____ 1. The opportunity cost of going to college is
   a. the total spent on food, clothing, books, transportation, tuition, lodging, and other expenses.
   b. the value of the best opportunity a student gives up to attend college.
   c. zero for students who are fortunate enough to have all of their college expenses paid by someone else.
   d. zero, since a college education will allow a student to earn a larger income after graduation.

____ 2. A marginal change is a
   a. change that involves little, if anything, that is important.
   b. large, significant adjustment.
   c. change for the worse, and so it is usually a short-term change.
   d. small, incremental adjustment.

____ 3. Suppose the state of Massachusetts passes a law that increases the tax on alcoholic beverages. As a result, residents in Massachusetts start purchasing their alcohol in surrounding states. Which of the following principles does this best illustrate?
   a. People respond to incentives
   b. Rational people think at the margin
   c. Trade can make everyone better off
   d. Markets are usually a good way to organize economic activity

____ 4. Trade between the United States and India
   a. benefits both the United States and India.
   b. is a losing proposition for the United States because India has cheaper labor.
   c. is a losing proposition for India because capital is much more abundant in the U.S. than in India.
   d. is a losing proposition for India because U.S. workers are more productive.

____ 5. Central planning refers to
   a. markets guiding economic activity. Today many countries that had this system have abandoned it.
   b. markets guiding economic activity. Today many countries that did not have this system have implemented it.
   c. government guiding economic activity. Today many countries that had this system have abandoned it.
   d. government guiding economic activity. Today many countries that did not have this system have implemented it.

____ 6. One advantage market economies have over centrally-planned economies is that market economies
   a. provide an equal distribution of goods and services to households.
   b. establish a significant role for government in the allocation of resources.
   c. solve the problem of scarcity.
   d. are more efficient.

____ 7. The basic principles of economics suggest that
   a. markets are seldom, if ever, a good way to organize economic activity.
   b. government should become involved in markets when trade between countries is involved.
   c. government should become involved in markets when those markets fail to produce efficient outcomes.
   d. All of the above are correct.

____ 8. Which of the following statements about markets is most accurate?
   a. Markets are usually a good way to organize economic activity.
   b. Markets are usually inferior to central planning as a way to organize economic activity.
   c. Markets fail and are therefore not an acceptable way to organize economic activity.
   d. Markets are a good way to organize economic activity in developed nations, but not in less developed nations.
9. The invisible hand refers to
   a. how central planners made economic decisions.
   b. how the decisions of households and firms lead to desirable market outcomes.
   c. the control that large firms have over the economy.
   d. government regulations without which the economy would be less efficient.

10. Which of the following is an example of an externality?
   a. Annie purchases a handbag.
   b. Bob’s dog barks loudly during the night waking his neighbors.
   c. Clark sells a book to Calvin.
   d. David watches a scary movie.

11. Where can an economy not produce?
   a. inside its production possibilities frontier
   b. on its production possibilities frontier
   c. outside its production possibilities frontier
   d. at the endpoints of its production possibilities frontier

12. Production is efficient if the economy is producing at a point
   a. on the production possibilities frontier.
   b. outside the production possibilities frontier.
   c. on or inside the production possibilities frontier.
   d. inside the production possibilities frontier.

13. Unemployment would cause an economy to
   a. produce inside its production possibilities frontier.
   b. produce on its production possibilities frontier.
   c. produce outside its production possibilities frontier.
   d. experience an outward shift of its production possibilities frontier.

14. Which of the following concepts cannot be illustrated by the production possibilities frontier?
   a. efficiency
   b. opportunity cost
   c. equality
   d. trade-offs

15. When a production possibilities frontier is bowed outward, the opportunity cost of producing an additional unit of a good
   a. increases as more of the good is produced.
   b. decreases as more of the good is produced.
   c. does not change as more of the good is produced.
   d. may increase, decrease, or not change as more of the good is produced.

16. A production possibilities frontier shifts outward when
   a. the economy experiences economic growth.
   b. the desires of the economy’s citizens change.
   c. at least one of the basic principles of economics is violated.
   d. opportunity costs are lessened.

Table 2-3

Production Possibilities for Libraryland

<table>
<thead>
<tr>
<th>Books</th>
<th>Magazines</th>
</tr>
</thead>
<tbody>
<tr>
<td>400</td>
<td>0</td>
</tr>
<tr>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td>200</td>
<td>350</td>
</tr>
<tr>
<td>100</td>
<td>450</td>
</tr>
<tr>
<td>0</td>
<td>500</td>
</tr>
</tbody>
</table>
17. **Refer to Table 2-3.** What is the opportunity cost to Libraryland of increasing the production of books from 200 to 300?
   a. 100 magazines
   b. 150 magazines
   c. 200 magazines
   d. 350 magazines

**Figure 2-3**

![Diagram of production possibilities curve]

18. **Refer to Figure 2-3.** At which point is this economy producing its maximum possible quantity of pans?
   a. J
   b. L
   c. M
   d. N

**Figure 2-10**

![Diagram of production possibilities curve]

19. **Refer to Figure 2-10.** Which of the following events would explain the shift of the production possibilities frontier from A to B?
   a. The economy’s citizens developed an enhanced taste for books.
   b. The economy experienced a technological advance in the production of books.
   c. More capital became available in the economy.
   d. More labor became available in the economy.
20. Positive statements are
   a. prescriptive.
   b. claims about how the world should be.
   c. claims about how the world is.
   d. made by economists speaking as policy advisers.

Table 3-11
Assume that Falda and Varick can switch between producing wheat and producing cloth at a constant rate.

<table>
<thead>
<tr>
<th></th>
<th>Quantity Produced in 1 Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bushels of Wheat</td>
</tr>
<tr>
<td>Falda</td>
<td>8</td>
</tr>
<tr>
<td>Varick</td>
<td>6</td>
</tr>
</tbody>
</table>

21. Refer to Table 3-11. Assume that Falda and Varick each has 1 hour available. If each person divides his time equally between the production of wheat and cloth, then total production is
   a. 4 bushels of wheat and 7.5 yards of cloth.
   b. 7 bushels of wheat and 13.5 yards of cloth.
   c. 8 bushels of wheat and 15 yards of cloth.
   d. 14 bushels of wheat and 27 yards of cloth.

22. Refer to Table 3-11. Falda’s opportunity cost of one bushel of wheat is
   a. 2/3 yard of cloth.
   b. 4/3 yards of cloth.
   c. 15/8 yards of cloth.
   d. 3/2 yards of cloth.

23. Refer to Table 3-11. Falda’s opportunity cost of one yard of cloth is
   a. 2/3 bushel of wheat.
   b. 4/5 bushel of wheat.
   c. 4 bushels of wheat.
   d. 3/2 bushels of wheat.

24. Refer to Figure 3-1. The rate of tradeoff between producing chairs and producing couches is constant in
   a. Panel (a).
   b. Panel (b).
   c. both Panel (a) and Panel (b).
   d. neither Panel (a) nor Panel (b).
25. **Refer to Figure 3-2.** The fact that the line slopes downward reflects the fact that  
a. for Peru, it is more costly to produce emeralds than it is to produce rubies.  
b. Peru will produce more emeralds and fewer rubies as time goes by.  
c. Peru faces a tradeoff between producing emeralds and producing rubies.  
d. Peru should specialize in producing rubies.

26. **Refer to Figure 3-2.** If the production possibilities frontier shown is for 40 hours of production, then how long does it take Peru to make one emerald?  
a. 1/6 hour  
b. 1/5 hour  
c. 5 hours  
d. 6 hours

27. If Korea is capable of producing either shoes or soccer balls or some combination of the two, then  
a. Korea should specialize in the product in which it has an absolute advantage.  
b. it would be impossible for Korea to have an absolute advantage over another country in both products.  
c. it would be difficult for Korea to benefit from trade with another country if Korea is efficient in the production of both goods.  
d. Korea should specialize in the product in which it has a comparative advantage.

28. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, where Sandy can make 6 tables or 18 chairs. Given this, we know that the opportunity cost of 1 table is  
a. 1/5 chair for Mike and 1/3 chair for Sandy.  
b. 1/5 chair for Mike and 3 chairs for Sandy.  
c. 5 chairs for Mike and 1/3 chair for Sandy.  
d. 5 chairs for Mike and 3 chairs for Sandy.

29. Both Bill and Mary produce t-shirts and hats. If Bill’s opportunity cost of 1 t-shirt is 4 hats and Mary’s opportunity cost of 1 t-shirt is 3 hats, then  
a. Bill has a comparative advantage in the production of t-shirts.  
b. Mary has a comparative advantage in the production of t-shirts.  
c. Mary has a comparative advantage in the production of hats.  
d. Bill has a comparative advantage in the production of both t-shirts and hats.

30. For two individuals who engage in the same two productive activities, it is impossible for one of the two individuals to  
a. have a comparative advantage in both activities.  
b. have an absolute advantage in both activities.  
c. be more productive per unit of time in both activities.  
d. gain from trade with each other.
31. Refer to Figure 4-1. The movement from point A to point B on the graph shows
   a. a decrease in demand.
   b. an increase in demand.
   c. a decrease in quantity demanded.
   d. an increase in quantity demanded.

32. Refer to Figure 4-1. The movement from point A to point B on the graph is caused by
   a. an increase in price.
   b. a decrease in price.
   c. a decrease in the price of a substitute good.
   d. an increase in income.

33. The law of demand states that, other things equal, an increase in
   a. price causes quantity demanded to increase.
   b. price causes quantity demanded to decrease.
   c. quantity demanded causes price to increase.
   d. quantity demanded causes price to decrease.

34. Refer to Figure 4-4. Which of the following would cause the demand curve to shift from Demand B to
   Demand C in the market for DVDs in the United States?
   a. a decrease in the price of DVDs
   b. a decrease in the price of DVD players
   c. a change in consumer preferences toward watching movies in movie theaters rather than at home
   d. a decrease in the number of people in the United States
35. A decrease in demand is represented by a
a. movement downward and to the right along a demand curve.
b. movement upward and to the left along a demand curve.
c. rightward shift of a demand curve.
d. leftward shift of a demand curve.

36. You lose your job and, as a result, you buy fewer iTunes music downloads. This shows that you consider iTunes music downloads to be a(n)
a. luxury good.
b. inferior good.
c. normal good.
d. complementary good.

37. If American cheese and cheddar cheese are substitutes, then which of the following would increase the demand for cheddar cheese?
a. a decrease in the price of cheddar cheese
b. an increase in the price of American cheese
c. a decrease in the price of American cheese
d. Both a) and b) are correct.

38. A likely example of complementary goods for most people would be
a. butter and margarine.
b. lawnmowers and automobiles.
c. chips and salsa.
d. cola and lemonade.

39. A very hot summer in Atlanta will cause
a. the demand curve for lemonade to shift to the left.
b. the demand for air conditioners to decrease.
c. the demand for jackets to decrease.
d. a movement downward and to the right along the demand curve for tank tops.

40. Ashley bakes bread that she sells at the local farmer’s market. If she purchases a new convection oven that reduces the costs of baking bread, the
a. supply curve for Ashley’s bread will increase.
b. supply curve for Ashley’s bread will decrease.
c. demand curve for Ashley’s bread will increase.
d. demand curve for Ashley’s bread will decrease.

**Extra Credit Question:**
To be eligible to answer this extra credit question, you must satisfy both criteria below:
- Your cell phone has not rung in class
- You are taking this test in class at the regularly scheduled time: (Thursday, January 26th)

41. An early frost in the vineyards of Napa Valley would cause a(n)
a. increase in the demand for wine, increasing price.
b. increase in the supply of wine, decreasing price.
c. decrease in the demand for wine, decreasing price.
d. decrease in the supply of wine, increasing price.
## IMPORTANT DIRECTIONS FOR MARKING ANSWERS

Use #2 pencil only.
Make heavy black marks that fill the circle completely.
Erase clearly any answer you wish to change.
Make no stray marks on this answer sheet.

---

### REFER TO THESE EXAMPLES BEFORE STARTING PRACTICE EXERCISES

**EXAMPLE**

<table>
<thead>
<tr>
<th>WRONG</th>
<th>RIGHT</th>
<th>PRACTICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 11 11 11 11</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>2 12 12 12 12</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>3 13 13 13 13</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>4 14 14 14 14</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>5 15 15 15 15</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>6 16 16 16 16</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>7 17 17 17 17</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>8 18 18 18 18</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>9 19 19 19 19</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>10 20 20 20 20</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>11 21 21 21 21</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>12 22 22 22 22</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>13 23 23 23 23</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>14 24 24 24 24</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>15 25 25 25 25</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>16 26 26 26 26</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>17 27 27 27 27</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>18 28 28 28 28</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>19 29 29 29 29</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>20 30 30 30 30</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>31 32 32 32 32</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>33 34 34 34 34</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>35 36 36 36 36</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>37 38 38 38 38</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>39 40 40 40 40</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>41 42 42 42 42</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>43 44 44 44 44</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>45 46 46 46 46</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>47 48 48 48 48</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>49 50 50 50 50</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>51 52 52 52 52</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>53 54 54 54 54</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>55 56 56 56 56</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>57 58 58 58 58</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>59 60 60 60 60</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
</tbody>
</table>

**PRACTICE**

<table>
<thead>
<tr>
<th>A B C D E</th>
<th>A B C D E</th>
<th>A B C D E</th>
<th>A B C D E</th>
</tr>
</thead>
<tbody>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
<tr>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
<td>A B C D E</td>
</tr>
</tbody>
</table>

---

Trans-Optic® EM-30423-345

Scantron Corporation 2008. All Rights Reserved.