***Macroeconomics: Prin., Apps, & Tools, 8e* (O'Sullivan) TB1**

**Chapter 7 The Economy at Full Employment**

7.1 Wage and Price Flexibility and Full Employment

1) One of the necessary conditions for the classical model to be true is that

A) wages and prices are fully flexible.

B) wages and prices are partly flexible.

C) wages and prices will not change.

D) wages were flexible and prices are fixed.

Answer: A

Diff: 1

Topic: Wage and Price Flexibility and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

2) \_\_\_\_\_\_\_\_ unemployment occurs naturally in the labor market as workers search for jobs.

A) Cyclical

B) Frictional

C) Structural

D) Inflationary

Answer: B

Diff: 1

Topic: Wage and Price Flexibility and Full Employment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

3) \_\_\_\_\_\_\_\_ unemployment arises from a mismatch of skills and jobs.

A) Cyclical

B) Frictional

C) Structural

D) Inflationary

Answer: C

Diff: 1

Topic: Wage and Price Flexibility and Full Employment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

4) \_\_\_\_\_\_\_\_ unemployment rises and falls with economic fluctuations.

A) Cyclical

B) Frictional

C) Structural

D) Inflationary

Answer: A

Diff: 1

Topic: Wage and Price Flexibility and Full Employment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

5) When developing classical models, there is an assumption that wages and prices will remain fixed relative to changes in supply and demand.

Answer: FALSE

Diff: 1

Topic: Wage and Price Flexibility and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

6) The term "classical" refers to an economic theory which states that over a relatively short period of time, wages and prices will adjust quickly to bring the economy back to full employment.

Answer: TRUE

Diff: 1

Topic: Wage and Price Flexibility and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

7) When an economy is at full employment, the unemployment rate is zero percent.

Answer: FALSE

Diff: 1

Topic: Wage and Price Flexibility and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

8) What assumptions are made concerning wages and prices in a classical economic model?

Answer: Wages and prices adjust freely to changes in supply and demand.

Diff: 1

Topic: Wage and Price Flexibility and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

7.2 The Production Function

1) Consider a two-input production function, one of which is increasing while the other is fixed. At the point of diminishing returns, output will

A) increase at an increasing rate.

B) increase at a decreasing rate.

C) decrease at an increasing rate.

D) decrease at a decreasing rate.

Answer: B

Diff: 1

Topic: The Production Function

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

2) Purchasing additional equipment for more people to use or share in a production environment usually results in a

A) more expensive level of output.

B) higher level of output.

C) backlog of production.

D) worker sharing his or her load.

Answer: B

Diff: 1

Topic: The Production Function

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

|  |  |
| --- | --- |
| Output | Labor Input |
| **50** | **3** |
| 70 | 4 |
| 86 | 5 |
| 98 | 6 |
| 108 | 7 |
| 116 | 8 |

Assume the stock of capital is held constant.

**Table 7.1**

3) Refer to Table 7.1. Output is increasing at

A) an increasing rate.

B) a constant rate.

C) a diminishing rate.

D) a negative rate.

Answer: C

Diff: 2

Topic: The Production Function

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

4) Table 7.1 exemplifies the principle of

A) real vs. nominal costs.

B) marginal costs.

C) diminishing returns.

D) full employment equilibrium.

Answer: C

Diff: 1

Topic: The Production Function

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

5) Refer to Table 7.1. As labor inputs increase from 5 to 6, output

A) increases by 16 units.

B) increases by 98 units.

C) increases at a negative rate.

D) increases by 12 units.

Answer: D

Diff: 1

Topic: The Production Function

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

6) Investments made "today" in machines, equipment and buildings do not have an immediate effect on total capital stock.

Answer: TRUE

Diff: 1

Topic: The Production Function

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

7) When considering a two-input production function, one of which is increasing while the other is fixed, at some point called the point of diminishing returns, output will increase at a decreasing rate.

Answer: TRUE

Diff: 1

Topic: The Production Function

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

8) By providing workers with more machines, equipment and buildings to use in the production of goods, production would decrease.

Answer: FALSE

Diff: 1

Topic: The Production Function

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

9) Describe the relationship demonstrated by a production function.

Answer: The production function shows the relationship between the level of output of a good and the factors of production that are inputs to production.

Diff: 1

Topic: The Production Function

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

7.3 Wages and the Demand and Supply for Labor

1) The downward sloping labor demand curve demonstrates that as the \_\_\_\_\_\_\_\_ increases the \_\_\_\_\_\_\_\_ decreases.

A) real wage; amount of labor supplied

B) real wage; amount of labor hired

C) nominal wage; amount of labor supplied

D) nominal wage; amount of labor hired

Answer: B

Diff: 2

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

2) The \_\_\_\_\_\_\_\_ curve shows a(n) \_\_\_\_\_\_\_\_ relationship between the real wage and the number of workers who are willing to work.

A) labor demand; positive

B) labor demand; direct

C) labor supply; positive

D) labor supply; inverse

Answer: C

Diff: 2

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

3) If the real wage rises,

A) the marginal cost of labor falls.

B) firms will hire additional labor.

C) the marginal benefit of the worker increases.

D) firms will hire less labor.

Answer: D

Diff: 2

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

4) The labor demand curve is downward sloping because as the real wage \_\_\_\_\_\_\_\_ the amount of labor hired \_\_\_\_\_\_\_\_.

A) rises; increases

B) falls; increases

C) falls; decreases

D) rises; remains constant

Answer: B

Diff: 1

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

5) Suppose the stock of capital remains constant. By adding more labor, perhaps a second work shift, output

A) decreases.

B) increases.

C) remains the same.

D) becomes more costly.

Answer: B

Diff: 1

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

6) The labor supply and demand most directly affect the level of \_\_\_\_\_\_\_\_ in an economy.

A) people attending colleges

B) people requiring retraining

C) employment

D) welfare benefits

Answer: C

Diff: 1

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

7) Firms consider the \_\_\_\_\_\_\_\_ wage when considering whether to hire additional units of labor.

A) nominal

B) real

C) minimum

D) normal

Answer: B

Diff: 1

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

8) A wage rate that is adjusted for changes in the price level is known as the

A) real wage.

B) nominal wage.

C) minimum wage.

D) functional wage.

Answer: A

Diff: 1

Topic: Wages and the Demand and Supply for Labor

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

9) In equilibrium, the quantity of labor demanded is \_\_\_\_\_\_\_\_ the quantity of labor supplied.

A) greater than

B) less than

C) equal to

D) the primary determinant of

Answer: C

Diff: 1

Topic: Labor Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

10) The marginal principle states that one should

A) increase the level of an activity if the marginal benefit exceeds its marginal cost.

B) decrease the level of an activity if the marginal cost exceeds the marginal benefit.

C) if possible pick the level at which the marginal benefit equals the marginal cost.

D) all of the above

Answer: D

Diff: 1

Topic: Changes in Demand and Supply

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

11) The marginal benefit of a worker to a firm is the value of the extra output that results when

A) some workers are laid off and the remaining workers become more productive.

B) an additional worker is hired.

C) workers get paid for working overtime.

D) work is outsourced to a foreign country.

Answer: B

Diff: 1

Topic: Changes in Demand and Supply

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

12) If the demand for labor \_\_\_\_\_\_\_\_, real wages rise and the amount of labor employed \_\_\_\_\_\_\_\_.

A) increases; increases

B) increases; decreases

C) decreases; increases

D) decreases; decreases

Answer: A

Diff: 1

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

13) If the demand for labor \_\_\_\_\_\_\_\_, real wages fall and the amount of labor employed \_\_\_\_\_\_\_\_.

A) increases; increases

B) increases; decreases

C) decreases; increases

D) decreases; decreases

Answer: D

Diff: 2

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

14) If the supply of labor \_\_\_\_\_\_\_\_, real wages fall and the amount of labor employed \_\_\_\_\_\_\_\_.

A) increases; increases

B) increases; decreases

C) decreases; increases

D) decreases; decreases

Answer: A

Diff: 2

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

15) If the supply of labor \_\_\_\_\_\_\_\_, real wages rise and the amount of labor employed \_\_\_\_\_\_\_\_.

A) increases; increases

B) increases; decreases

C) decreases; increases

D) decreases; decreases

Answer: D

Diff: 2

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

16) An increase in the demand for labor means that

A) the demand for labor increases as a result of an increase in the real wage rate.

B) the demand for labor increases as a result of a decrease in the real wage rate.

C) the demand for labor increases at any real wage rate.

D) the supply of labor must also be increasing.

Answer: C

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

17) An increase in a firm's capital stock \_\_\_\_\_\_\_\_ in the marginal benefit of hiring labor.

A) will cause an increase

B) will cause a decrease

C) will cause no change

D) may cause an increase, a decrease, or no change

Answer: A

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

18) If a firm increases its capital stock, real wages will likely \_\_\_\_\_\_\_\_ and the equilibrium quantity of labor will likely \_\_\_\_\_\_\_\_.

A) increase; increase

B) increase; decrease

C) decrease; increase

D) decrease; decrease

Answer: A

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

19) If a firm decreases its capital stock, real wages will likely \_\_\_\_\_\_\_\_ and the equilibrium quantity of labor will likely \_\_\_\_\_\_\_\_.

A) increase; increase

B) increase; decrease

C) decrease; increase

D) decrease; decrease

Answer: D

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

20) As firms reduce their stock of capital, labor demand \_\_\_\_\_\_\_\_ and labor supply \_\_\_\_\_\_\_\_.

A) increases; increases

B) decreases; decreases

C) increases; stays the same

D) decreases; stays the same

Answer: D

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

21) As the result of a decrease in capital, the demand for labor would \_\_\_\_\_\_\_\_, the supply of labor would \_\_\_\_\_\_\_\_, and the real wage would \_\_\_\_\_\_\_\_.

A) decrease; decrease; decrease

B) decrease; remain the same; decrease

C) decrease; remain the same; increase

D) decrease; increase; remain the same

Answer: B

Diff: 3

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

22) As the result of an increase in the price of capital, the demand for labor would \_\_\_\_\_\_\_\_, the supply of labor would \_\_\_\_\_\_\_\_, and the quantity of labor hired would \_\_\_\_\_\_\_\_.

A) decrease; decrease; decrease

B) decrease; remain the same; decrease

C) increase; remain the same; decrease

D) decrease; increase; remain the same

Answer: B

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

23) As more efficient capital equipment becomes available, the demand for labor will \_\_\_\_\_\_\_\_, the real wage will \_\_\_\_\_\_\_\_, and the quantity of labor hired will \_\_\_\_\_\_\_\_.

A) increase; increase; increase

B) increase; remain the same; increase

C) increase; remain the same; decrease

D) increase; decrease; remain the same

Answer: A

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

24) As a result of an increase in the enforcement of illegal immigration laws, the demand for labor will \_\_\_\_\_\_\_\_, the supply of labor will \_\_\_\_\_\_\_\_, and the real wage will \_\_\_\_\_\_\_\_.

A) remain the same; decrease; increase

B) increase; decrease; remain the same

C) remain the same; increase; decrease

D) decrease; increase; remain the same

Answer: A

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

25) If the government stops granting temporary work permits to foreign nationals, the demand for labor will \_\_\_\_\_\_\_\_, the supply of labor will \_\_\_\_\_\_\_\_, and the quantity of labor hired will \_\_\_\_\_\_\_\_.

A) remain the same; increase; decrease

B) increase; decrease; remain the same

C) increase; decrease; decrease

D) remain the same; decrease; decrease

Answer: D

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

26) If the government liberalizes immigration policies, the demand for labor will \_\_\_\_\_\_\_\_, the real wage will \_\_\_\_\_\_\_\_, and the quantity of labor hired will \_\_\_\_\_\_\_\_.

A) remain the same; decrease; decrease

B) increase; decrease; remain the same

C) remain the same; increase; decrease

D) remain the same; decrease; increase

Answer: D

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

27) Suppose that workers develop a greater taste for leisure, and thus require more time away from work. What is likely to happen to wages and the quantity of labor hired?

A) wages increase, quantity of labor hired increases

B) wages increase, quantity of labor hired decreases

C) wages decrease, quantity of labor hired increases

D) wages decrease, quantity of labor hired decreases

Answer: B

Diff: 3

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

28) Suppose that workers decrease their taste for leisure, and thus require less time away from work. What is likely to happen to wages and the quantity of labor hired?

A) wages increase, quantity of labor hired increases

B) wages increase, quantity of labor hired decreases

C) wages decrease, quantity of labor hired increases

D) wages decrease, quantity of labor hired decreases

Answer: C

Diff: 3

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

29) An increase in the demand for labor will \_\_\_\_\_\_\_\_ wages and \_\_\_\_\_\_\_\_ employment.

A) increase; increase

B) increase; decrease

C) decrease; increase

D) decrease; decrease

Answer: A

Diff: 2

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

30) A decrease in the demand for labor will \_\_\_\_\_\_\_\_ real wages and \_\_\_\_\_\_\_\_ employment.

A) increase; increase

B) increase; decrease

C) decrease; increase

D) decrease; decrease

Answer: D

Diff: 2

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

31) An increase in the supply of labor will \_\_\_\_\_\_\_\_ real wages and \_\_\_\_\_\_\_\_ employment.

A) increase; increase

B) increase; decrease

C) decrease; increase

D) decrease; decrease

Answer: C

Diff: 2

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

32) A decrease in the supply of labor will \_\_\_\_\_\_\_\_ real wages and \_\_\_\_\_\_\_\_ employment.

A) increase; increase

B) increase; decrease

C) decrease; increase

D) decrease; decrease

Answer: B

Diff: 2

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

33) Which of the following would result in a higher real wage rate and a greater level of employment in the United States?

A) an increase in the U.S. population

B) more liberal U.S. immigration policies

C) an increase in the supply of capital in the United States

D) all of the above

Answer: C

Diff: 2

Topic: Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

34) What is the fundamental principle that economists use when evaluating the costs and benefits of production?

A) supply and demand principle

B) marginal principle

C) cost of goods principle

D) production principle

Answer: B

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

35) If firms have more capital, it is \_\_\_\_\_\_\_\_ for workers.

A) harmful

B) beneficial

C) ineffective

D) unimportant

Answer: B

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

36) When there is a decrease in labor supply, real wages are likely to

A) remain the same.

B) increase.

C) decrease.

D) allow less leisure time.

Answer: B

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

37) Which of the following factors is likely to increase the amount of available labor and decrease the real wages of workers?

A) consumers demanding more goods

B) a large number of factory closings

C) a high influx of immigration

D) in increase in the supply of capital stock

Answer: C

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

38) Suppose the equilibrium quantity of labor hired decreases and the equilibrium real wage rate increases. All else constant, this situation will also result in

A) higher output prices.

B) lower output prices.

C) fewer benefits for those still unemployed.

D) more government outlay for the unemployed.

Answer: A

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

39) The main effect of a decrease in labor demand that arises from a decrease in capital stock is

A) shifts in unemployment.

B) a need for fewer immigrant workers.

C) lower real wages.

D) companies make fewer profits.

Answer: C

Diff: 1

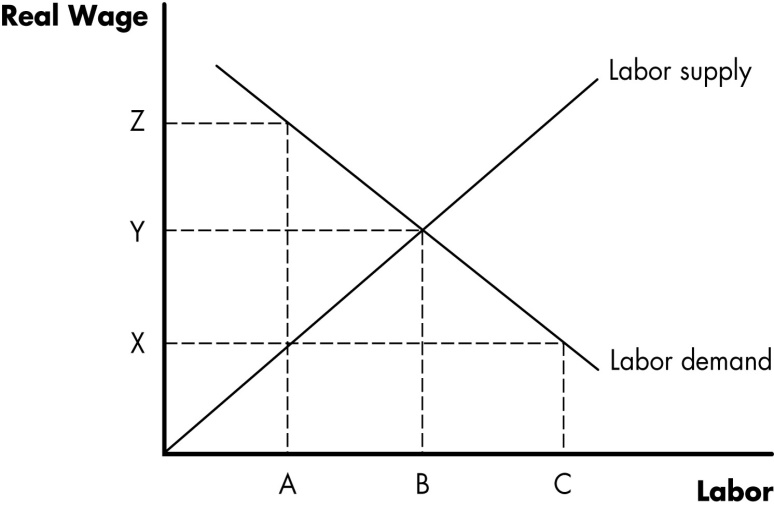
Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

Figure 7.1



40) Refer to Figure 7.1. In equilibrium, the real wage is \_\_\_\_\_\_\_\_ and the amount of labor employed is \_\_\_\_\_\_\_\_.

A) Z; C

B) Y; C

C) X; C

D) Y; B

Answer: D

Diff: 1

Topic: Changes in Demand and Supply, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

41) Refer to Figure 7.1. Start from initial equilibrium. If the economy experiences increased immigration, the new real wage could be \_\_\_\_\_\_\_\_ and the new amount of labor employed could be \_\_\_\_\_\_\_\_.

A) Z; C

B) Y; A

C) X; C

D) Z; A

Answer: C

Diff: 2

Topic: Changes in Demand and Supply, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

42) Refer to Figure 7.1 . Start from initial equilibrium. If firms reduce their capital stock, the new real wage could be \_\_\_\_\_\_\_\_ and the new amount of labor employed could be \_\_\_\_\_\_\_\_.

A) Z; C

B) Y; C

C) X; C

D) X; A

Answer: D

Diff: 2

Topic: Changes in Demand and Supply, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

43) Refer to Figure 7.1. Start from initial equilibrium. If firms increase their capital stock, the new real wage could be \_\_\_\_\_\_\_\_ and the new amount of labor employed could be \_\_\_\_\_\_\_\_.

A) Z; A

B) Z; C

C) X; A

D) X; C

Answer: B

Diff: 2

Topic: Changes in Demand and Supply, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

**Recall the Application about the level of real wages for laborers in England from 1350 to 1550 to answer the following question(s). In 1348, the bubonic plague, also known as the Black Death, arrived in England from Asia and caused a long decline in total population through the 1450s.**

44) According to this Application, the decline in population caused by the Black Death resulted in \_\_\_\_\_\_\_\_ real wages and \_\_\_\_\_\_\_\_ total output.

A) higher; less

B) higher; more

C) lower; less

D) lower; more

Answer: A

Diff: 2

Topic: Application 1, The Black Death and Living Standards in Old England

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

45) According to this Application, the decline in population resulting from the Black Death caused the \_\_\_\_\_\_\_\_ curve for labor to shift to the \_\_\_\_\_\_\_\_.

A) demand; right

B) demand; left

C) supply; right

D) supply; left

Answer: D

Diff: 1

Topic: Application 1, The Black Death and Living Standards in Old England

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

46) According to this Application, economist Thomas Malthus observed that social maladies such as the Black Death would temporarily \_\_\_\_\_\_\_\_ living standards until \_\_\_\_\_\_\_\_ living standards led to increased population growth.

A) raise; lower

B) raise; higher

C) lower; lower

D) lower; higher

Answer: B

Diff: 2

Topic: Application 1, The Black Death and Living Standards in Old England

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

47) Suppose bad weather in Florida unexpectedly results in a much smaller citrus crop than had been projected. This would cause the \_\_\_\_\_\_\_\_ labor to pick citrus fruit in Florida to \_\_\_\_\_\_\_\_.

A) demand for; increase

B) demand for; decrease

C) supply of; increase

D) supply of; decrease

Answer: B

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

48) Suppose bad weather in Florida unexpectedly results in a much smaller citrus crop than had been projected. This would tend to cause the labor demand curve for citrus pickers to shift to the

A) right, increasing wages.

B) right, decreasing wages.

C) left, increasing wages.

D) left, decreasing wages.

Answer: D

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

49) Suppose bad weather in Florida unexpectedly results in a much smaller citrus crop than had been projected. The reduction in the supply of Florida citrus fruit would tend to

A) increase the supply of California citrus fruit.

B) decrease the price of California citrus fruit.

C) increase the price of Florida citrus fruit.

D) shift the supply curve for Florida citrus fruit down and to the right.

Answer: C

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

50) Suppose bad weather in Florida unexpectedly results in a much smaller citrus crop than had been projected. This would tend to cause the labor supply curve for citrus pickers to

A) shift to the right, causing the labor demand curve to shift to the right.

B) shift to the left, causing the labor demand curve to shift to the left.

C) remain unchanged, and the wage rate would tend to increase.

D) remain unchanged, and the wage rate would tend to decrease.

Answer: D

Diff: 2

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

51) The nominal wage is the wage rate adjusted for changes in the price level.

Answer: FALSE

Diff: 1

Topic: Wages and the Demand and Supply for Labor

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

52) When firms increase capital stock, the productivity of their workers increases.

Answer: TRUE

Diff: 1

Topic: Labor Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

53) Labor market equilibrium occurs at a real wage where the demand for labor exceeds the supply of labor.

Answer: FALSE

Diff: 1

Topic: Labor Market Equilibrium

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

54) An increase in the amount of capital in the economy will shift the demand curve for labor to the left.

Answer: FALSE

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

55) Increased immigration is likely to lead to the labor demand curve shifting to the right.

Answer: FALSE

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

56) The marginal principle dictates that marginal cost should equal marginal benefit.

Answer: TRUE

Diff: 1

Topic: Changes in Demand and Supply

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

57) Increases in the real wage will lead workers to supply more hours of labor.

Answer: TRUE

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

58) There is an inverse relationship between the amount of labor supplied and real wages.

Answer: FALSE

Diff: 1

Topic: Changes in Demand and Supply

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

59) Explain the difference between nominal wages and real wages.

Answer: Nominal wages are the actual wages earned by employees. Real wages are the wages paid to employees after being adjusted for changes in the price level.

Diff: 1

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

60) Suppose the government raises the minimum wage in the economy. All else constant, how will this affect the quantity of labor demanded and the quantity of labor supplied?

Answer: The increase in the real wage will increase the marginal cost of labor and firms will therefore hire fewer workers (a decrease in the quantity of workers demanded). Since more people would be willing to work at a higher real wage, the quantity of labor supplied should increase.

Diff: 1

Topic: Wages and the Demand and Supply for Labor

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

61) Suppose the government cracks down on illegal immigration. How will this affect the demand and supply of labor.

Answer: The reduction in immigration causes a decrease in the supply of labor (the curve shifts to the left). This results in a new equilibrium at a higher real wage and a lower level of employment. The quantity of labor demanded will also decrease, but the labor demand curve remains the same because none of the determinants of labor demand have changed.

Diff: 1

Topic: Changes in Demand and Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

62) Suppose that we observe that wages are falling while output is increasing. Holding the demand for output constant, what might cause this to happen?

Answer: Something must have shifted the labor supply curve to the right. This could have been due to any number of things. One possibility could be an increase in the population, and hence, in the potential labor force.

Diff: 1

Topic: Changes in Demand and Supply

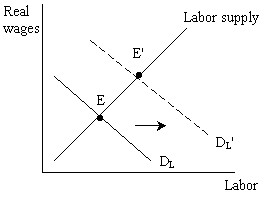
Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

63) Draw a graph illustrating a labor market in equilibrium. Illustrate and explain the effect of an increase in the capital stock.

Answer:

****

As shown in the graph, the increase in the capital stock results in an increased demand for labor. This, in turn, results in a higher real wage (from E to E') and an increase in the quantity of labor hired.

Diff: 2

Topic: Changes in Demand and Supply, graphing

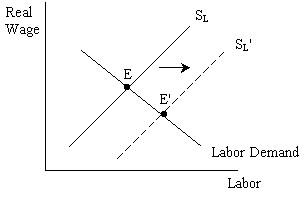
Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

64) Draw a graph illustrating a labor market in equilibrium. Illustrate and explain the effect of an increase in immigration.

Answer:

****

As shown in the graph, the increase in immigration results in an increased supply of labor. This, in turn, results in a lower real wage (from E to E') and an increase in the quantity of labor hired.

Diff: 2

Topic: Changes in Demand and Supply, graphing

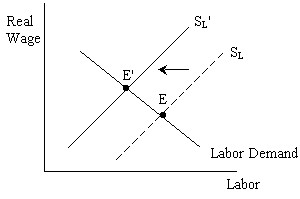
Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

65) Draw a graph illustrating a labor market in equilibrium. Illustrate and explain the effect of an increase in the preference for leisure by workers.

Answer:



As shown in the graph, the change in workers' preference for leisure results in a decreased supply of labor. This, in turn, results in a higher real wage (from E to E') and a decrease in the quantity of labor hired.

Diff: 2

Topic: Changes in Demand and Supply, graphing

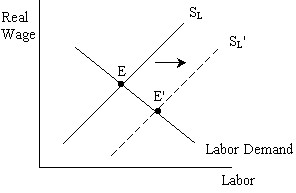
Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

66) Draw a graph illustrating a labor market in equilibrium. Illustrate and explain the effect of a decrease in the preference for leisure by workers.

Answer:



As shown in the graph, the change in workers' preference for leisure results in an increased supply of labor. This, in turn, results in a lower real wage (from E to E') and an increase in the quantity of labor hired.

Diff: 2

Topic: Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

7.4 Labor Market Equilibrium and Full Employment

1) Full-employment output is also called

A) natural output.

B) national output.

C) potential output.

D) target output.

Answer: C

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

2) The level of output produced when the labor market is in equilibrium is called

A) natural output.

B) product market equilibrium output.

C) potential output.

D) global production output.

Answer: C

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

3) The level of output produced when the labor market is in equilibrium is called

A) natural output.

B) target output.

C) product market equilibrium output.

D) full-employment output.

Answer: D

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

4) The natural rate of unemployment is the estimated rate of unemployment that would prevail when \_\_\_\_\_\_\_\_ unemployment is zero.

A) frictional

B) cyclical

C) structural

D) seasonal

Answer: B

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

5) In the United States, estimates of the natural rate of unemployment in recent years have varied between

A) 0 percent and 4 percent.

B) 0 percent and 2 percent.

C) 2 percent and 4 percent.

D) 5 percent and 6.5 percent.

Answer: D

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-17

6) The level of potential output in the United States increases as the

A) supply of labor increases.

B) stock of capital decreases.

C) demand for labor decreases.

D) supply of labor decreases.

Answer: A

Diff: 2

Topic: Labor Market Equilibrium and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

7) If current unemployment is close to the natural rate of unemployment, the level of the \_\_\_\_\_\_\_\_ GDP is likely to be close to the level of potential output.

A) nominal

B) structural

C) real

D) estimated

Answer: C

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

8) Increased labor demand will result in

A) lower wages.

B) no change in wages.

C) higher wages.

D) more employment benefits.

Answer: C

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

9) When the quantity of labor supplied is equal to the quantity of labor demanded at the equilibrium wage rate,

A) there is a lack of unemployment.

B) the economy operates at full-employment output.

C) frictional unemployment is zero.

D) the economy is at a peak point during an inflationary period.

Answer: B

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

10) A decrease in the population of an economy is likely to lead to lower wages and a lower quantity of labor used.

Answer: FALSE

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

11) Full-employment output is the level of output that is produced when the labor market is in equilibrium.

Answer: TRUE

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

12) If current unemployment is close to the natural rate of unemployment, the level of real GDP is likely to be close to the level of potential output.

Answer: TRUE

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

13) Potential output in an economy decreases as the supply of labor decreases or the capital stock increases.

Answer: FALSE

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

14) What two factors need to increase in order to increase potential output in an economy?

Answer: supply of labor, stock of capital

Diff: 1

Topic: Labor Market Equilibrium and Full Employment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

7.5 Using the Full-Employment Model

1) Suppose that a new tax on hiring labor is imposed. The demand for labor will \_\_\_\_\_\_\_\_, and as a result real wages will \_\_\_\_\_\_\_\_ and employment will \_\_\_\_\_\_\_\_.

A) increase; increase; decrease

B) decrease; decrease; decrease

C) increase; decrease; increase

D) increase; increase; increase

Answer: B

Diff: 2

Topic: Taxes and Potential Output

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

2) Imposing an employment tax leads to

A) more employment.

B) decreased potential output in the economy.

C) greater demand for labor.

D) a decreased supply of labor.

Answer: B

Diff: 1

Topic: Taxes and Potential Output

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

3) The extent of the decline in output associated with the imposition of an employment tax depends on the

A) slope of the labor demand curve.

B) slope of the labor supply curve.

C) tax rate.

D) wage rate.

Answer: B

Diff: 1

Topic: Taxes and Potential Output

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

4) The argument that raising the employment tax leads to more employment is most likely to hold if the

A) labor demand curve is vertical.

B) labor supply curve has a steep slope.

C) labor supply curve has a relatively flat slope.

D) labor supply curve has the same slope as labor demand.

Answer: C

Diff: 1

Topic: Taxes and Potential Output

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

5) An increase in the employment tax should have a relatively small effect on output if the labor supply curve

A) is relatively steep.

B) is relatively flat.

C) is perfectly horizontal.

D) has a positive slope.

Answer: A

Diff: 1

Topic: Taxes and Potential Output

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

6) An increase in the employment tax will have no effect on output if the labor supply curve

A) has a negative slope.

B) is perfectly vertical.

C) is perfectly horizontal.

D) has a positive slope.

Answer: B

Diff: 1

Topic: Taxes and Potential Output

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

7) If the cost of hiring workers increases but the marginal benefit remains unchanged, employers are likely to respond by hiring \_\_\_\_\_\_\_\_ at any given wage.

A) more workers

B) fewer workers

C) immigrant workers

D) teenaged workers

Answer: B

Diff: 1

Topic: Taxes and Potential Output

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

**Recall the Application about European soccer stars choosing to play for clubs in countries with lower tax rates to reduce their taxes to answer the following question(s). A study conducted by economists Henrik Jacobsen Kleven, Camille Landais,and Emmanuel Saez found that top tax rates and tax breaks do matter when soccer stars choose where to locate.**

8) Recall the Application. If country A has a lower overall income tax rate than country B, and labor can freely and easily move between the two countries, \_\_\_\_\_\_\_\_ in country A will tend to \_\_\_\_\_\_\_\_.

A) labor supply; increase

B) labor supply; decrease

C) labor demand; increase

D) labor demand; decrease

Answer: A

Diff: 2

Topic: Application 2, Do European Soccer Stars Change Clubs to Reduce Their Taxes?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

9) Recall the Application. If country A has a lower overall income tax rate than country B, and labor can freely and easily move between the two countries, \_\_\_\_\_\_\_\_ in country B will tend to \_\_\_\_\_\_\_\_.

A) labor supply; increase

B) labor supply; decrease

C) labor demand; increase

D) labor demand; decrease

Answer: B

Diff: 2

Topic: Application 2, Do European Soccer Stars Change Clubs to Reduce Their Taxes?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

10) Recall the Application. If country A has a lower overall income tax rate than country B, and labor can freely and easily move between the two countries, real wages in country A will tend to \_\_\_\_\_\_\_\_ and employment in country A will tend to \_\_\_\_\_\_\_\_.

A) increase; increase

B) decrease; increase

C) increase; decrease

D) decrease; decrease

Answer: B

Diff: 2

Topic: Application 2, Do European Soccer Stars Change Clubs to Reduce Their Taxes?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

11) Recall the Application. If country A has a lower overall income tax rate than country B, and labor can freely and easily move between the two countries, real wages in country B will tend to \_\_\_\_\_\_\_\_ and employment in country B will tend to \_\_\_\_\_\_\_\_.

A) increase; increase

B) decrease; increase

C) increase; decrease

D) decrease; decrease

Answer: C

Diff: 2

Topic: Application 2, Do European Soccer Stars Change Clubs to Reduce Their Taxes?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

12) According to this Application, many economists believe that the increase in "globalization" in the last 30 years has \_\_\_\_\_\_\_\_ the ability of countries to levy taxes at rates that differ substantially from other countries.

A) limited

B) slightly increased

C) eliminated

D) greatly increased

Answer: A

Diff: 1

Topic: Application 2, Do European Soccer Stars Change Clubs to Reduce Their Taxes?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

13) Fluctuations in economic activity can result from

A) the loss of crops due to drought or insects.

B) increases in the price of oil.

C) wars.

D) all of the above

Answer: D

Diff: 1

Topic: Real Business Cycle Theory

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

14) Real business cycle theory emphasizes the role of \_\_\_\_\_\_\_\_ in causing economic fluctuations.

A) agriculture

B) wars

C) natural disasters

D) technological change

Answer: D

Diff: 1

Topic: Real Business Cycle Theory

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

15) Suppose that technological advancement makes labor more productive. What is likely to happen wages and to potential output?

A) Wages increase and potential output increases.

B) Wages increase and potential output decreases.

C) Wages decrease and potential output increases.

D) Wages decrease and potential output decreases.

Answer: A

Diff: 2

Topic: Real Business Cycle Theory

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

16) Suppose that a technological decline makes labor less productive. What is likely to happen to wages and to potential output?

A) Wages increase and potential output increases.

B) Wages increase and potential output decreases.

C) Wages decrease and potential output increases.

D) Wages decrease and potential output decreases.

Answer: D

Diff: 2

Topic: Real Business Cycle Theory

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-17

17) The real business cycle school of thought is generally viewed as controversial because

A) it contradicts classical economic thought.

B) critics find it difficult to understand how many of the post-World War II recessions could be explained by adverse changes in technology.

C) it blames unemployment on immigration.

D) all of the above

Answer: B

Diff: 1

Topic: Real Business Cycle Theory

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

18) According to real business cycle theorists, in modern times, economic fluctuations can largely be attributed to

A) immigration policies that increased the supply of labor.

B) advancements in technology.

C) the entry of more college graduates in the labor market.

D) large scale unemployment.

Answer: B

Diff: 1

Topic: Real Business Cycle Theory

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

19) The real business cycle theory emphasizes that in today's modern age, \_\_\_\_\_\_\_\_ technology plays a significant role in causing economic fluctuations.

A) shocks to

B) advances in

C) obsolete ideas in

D) duplications in

Answer: A

Diff: 1

Topic: Real Business Cycle Theory

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

20) If there was an adverse technological shock which decreased the demand for labor, then

A) GDP would increase.

B) GDP would decrease.

C) Imports would increase.

D) Imports would decrease.

Answer: B

Diff: 1

Topic: Real Business Cycle Theory

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

21) If there was a positive technological shock which increased the demand for labor, then

A) GDP would increase.

B) GDP would decrease.

C) imports would increase.

D) imports would decrease.

Answer: A

Diff: 1

Topic: Real Business Cycle Theory

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

**Recall the Application which questions whether a standard real business cycle model can be used to explain both the origin and severity of the Great Depression to answer the following question(s).**

22) According to the Application, during the Great Depression, real wages \_\_\_\_\_\_\_\_, which is \_\_\_\_\_\_\_\_ with a standard real business cycle model.

A) fell; consistent

B) rose; consistent

C) fell; inconsistent

D) rose; inconsistent

Answer: D

Diff: 1

Topic: Application 3, Can Labor Market Policies Account for the Great Depression?

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-17

23) According to the Application, to help explain the behavior of real wages during the Great Depression, economists Harold L. Cole and Lee E. Ohanian extended the standard real business cycle model to include

A) government interventions that affected the labor market.

B) extended unemployment benefits that increased real wages.

C) exports to countries that were unaffected by the Great Depression.

D) calculating GDP using real instead of nominal values.

Answer: A

Diff: 1

Topic: Application 3, Can Labor Market Policies Account for the Great Depression?

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-17

24) According to the real business cycle model, if negative technology shocks were responsible for the origin and severity of the Great Depression, output would be expected to \_\_\_\_\_\_\_\_ and real income would be expected to \_\_\_\_\_\_\_\_.

A) decline; decline

B) decline; rise

C) rise; decline

D) rise; rise

Answer: A

Diff: 1

Topic: Application 3, Can Labor Market Policies Account for the Great Depression?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

25) Higher employment taxes lead to lower levels of employment.

Answer: TRUE

Diff: 1

Topic: Taxes and Potential Output

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

26) Real business cycle theory emphasizes that shocks to technology can play a big part in causing economic fluctuations.

Answer: TRUE

Diff: 1

Topic: Real Business Cycle Theory

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-17

27) The key idea of the real business theory is that potential output itself will remain stable over time.

Answer: FALSE

Diff: 1

Topic: Real Business Cycle Theory

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

28) Suppose that the government increases a tax paid by employers for hiring workers (for example, social security). What are the likely effects on real wages, output and employment? What are the likely magnitudes of these effects?

Answer: The tax increases will shift labor demand to the left, so real wages and employment will each go down. As employment goes down, so will output. The likely *magnitudes* of these effects is less clear. If labor supply is near vertical, the effects on wages will be large, but the effects on employment and output will be small. If labor supply is near horizontal, the effects on wages will be small, but the effects on employment and output will be large.

Diff: 2

Topic: Taxes and Potential Output

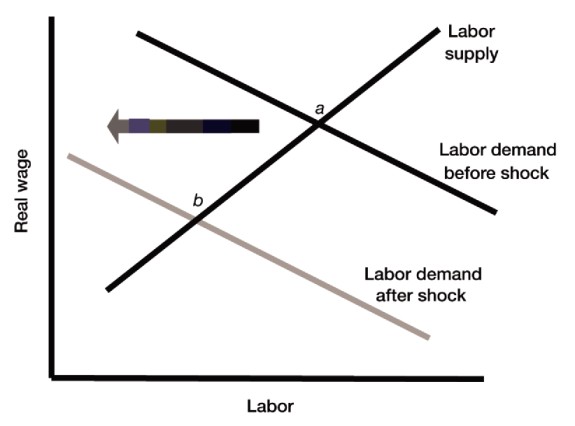
Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

29) Using the real business cycle theory, explain the effects of an adverse technological shock on the labor market and on the output market. Illustrate graphically how the adverse technology shock affects labor demand and supply. Why is this theory controversial?

Answer: The real business cycle theory emphasizes that changes in technology will usually change the level of full employment and output. An adverse technological shock would cause output and potential output to fall and would cause a decrease in the demand for labor. Critics of the theory find it difficult to explain how many of the post-World War II recessions can be explained by adverse technological shocks. Critics also point to the fact that the theory does not provide an explanation for unemployment, because in the real business cycle model, the labor market is in equilibrium: the quantity of labor demanded equals the quantity of labor supplied, and everyone who seeks employment finds employment.



Diff: 3

Topic: Real Business Cycle Theory

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-17

7.6 Dividing Output Among Competing Demands for GDP at Full Employment

1) In 2010, which of the following countries had the highest share of consumption spending in GDP?

A) China

B) the United States

C) Germany

D) France

Answer: B

Diff: 1

Topic: International Comparisons

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-2

2) In 2010, which of the following countries had the highest share of investment spending in GDP?

A) China

B) the United States

C) Germany

D) France

Answer: A

Diff: 1

Topic: International Comparisons

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-2

3) In 2010, which of the following countries was the only one having negative net export spending in GDP?

A) China

B) the United States

C) France

D) Germany

Answer: C

Diff: 1

Topic: International Comparisons

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-2

4) In 2010, China's share of investment spending as a percentage of GDP was \_\_\_\_\_\_\_\_ Germany's share.

A) less than half of

B) slightly less than

C) more than twice as much as

D) roughly equal to

Answer: C

Diff: 1

Topic: International Comparisons

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-2

5) Crowding out refers to

A) increases in consumption, investment, or net exports caused by an increase in government purchases.

B) decreases in consumption, investment, or net exports caused by an increase in government purchases.

C) reductions in tax revenues associated with increases in tax rates.

D) increases in tax revenues associated with increases in tax rates.

Answer: B

Diff: 1

Topic: Crowding Out in a Closed Economy

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-2

6) Decreases in consumption, investment, or net exports caused by an increase in government purchases are known as

A) diminishing returns.

B) demand-side effects.

C) crowding out.

D) strategic substitution.

Answer: C

Diff: 1

Topic: Crowding Out in a Closed Economy

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-2

7) A closed economy refers to an economy with

A) no immigration.

B) no international trade.

C) tariffs and import quotas.

D) government control of all factors of production.

Answer: B

Diff: 1

Topic: Crowding Out in a Closed Economy

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-2

8) When the share of government spending in GDP increased in the United States during World War II,

A) consumption's share of GDP increased.

B) investment's share of GDP fell.

C) government spending was crowded out.

D) investment's share of GDP increased.

Answer: B

Diff: 1

Topic: Crowding Out in a Closed Economy

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-2

9) When the share of government spending in GDP increased in the United States during World War II,

A) consumption's share of GDP fell.

B) consumption's share of GDP increased.

C) government spending was crowded out.

D) investment's share of GDP increased.

Answer: A

Diff: 1

Topic: Crowding Out in a Closed Economy

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-2

10) An open economy refers to an economy with

A) unrestricted immigration.

B) international trade.

C) no trade barriers.

D) no government intervention.

Answer: B

Diff: 1

Topic: Crowding Out in a Closed Economy

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-2

11) In practice, increases in government spending in an open economy can crowd out

A) consumption.

B) investment.

C) net exports.

D) all of the above

Answer: D

Diff: 1

Topic: Crowding Out in an Open Economy

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

12) An open economy has \_\_\_\_\_\_\_\_ included in the GDP.

A) unemployment

B) net exports

C) salary increases

D) taxation factors

Answer: B

Diff: 1

Topic: Crowding Out in an Open Economy

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

13) The difference between exports and imports in GDP is called

A) net imports.

B) net exports.

C) import tariffs.

D) gross imports.

Answer: B

Diff: 1

Topic: Crowding Out in an Open Economy

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

14) An increase in consumption, investment, or net exports caused by a decrease in government purchases is known as

A) a closed economy.

B) demand-side effects.

C) crowding in.

D) crowding out.

Answer: C

Diff: 1

Topic: Crowding In

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-2

15) If a change in government spending causes "crowding in" in an open economy, which of the following might increase in addition to consumption and investments?

A) unemployment

B) net exports

C) stock of capital

D) supply and demand

Answer: B

Diff: 1

Topic: Crowding In

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

16) Compared to other countries, the United States has a relatively low share of consumption spending in GDP.

Answer: FALSE

Diff: 2

Topic: International Comparisons

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-2

17) When the economy operates below full employment, an increase in government spending must crowd out another component of GDP.

Answer: FALSE

Diff: 1

Topic: Crowding Out in a Closed Economy

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

18) In an open economy, increases in government spending can crowd out consumption, investment, or net exports.

Answer: TRUE

Diff: 1

Topic: Crowding Out in an Open Economy

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

19) In an open economy with strong international trade, increases in government spending are likely to have an overall "crowding out" effect.

Answer: TRUE

Diff: 1

Topic: Crowding Out in an Open Economy

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

20) Explain the concept of "crowding out" in a closed economy.

Answer: In a closed economy, GDP consists of consumer spending, investment spending and government purchases. If we consider the economy to be at full employment, then GDP is considered fixed. If government spending increases, other components of the fixed GDP must decrease. In this sense, increased government spending reduces, or "crowds out" other components of GDP— investment spending and/or consumer spending.

Diff: 2

Topic: Crowding Out in a Closed Economy

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

21) Explain the difference between an open economy and a closed economy.

Answer: An open economy is an economy with international trade. In an open economy, full employment output is divided among four uses: consumption, investment, government purchases, and net exports. A closed economy is an economy without international trade. In a closed economy, full employment output is divided among just three different uses: consumption, investment, and government purchases.

Diff: 2

Topic: Crowding In

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

22) Explain the concept of "crowding in."

Answer: "Crowding in" occurs when a government decreases spending. If the level of output is fixed, when the government reduces spending, other spending components of GDP will increase. In a closed economy, consumption and investment could increase. In an open economy, consumption, investment and net exports could all increase.

Diff: 2

Topic: Crowding In

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

***Macroeconomics: Prin., Apps, & Tools, 8e* (O'Sullivan) TB1**

**Chapter 2 The Key Principles of Economics**

2.1 The Principle of Opportunity Cost

1) The opportunity cost of something is

A) the cost of the labor used to produce it.

B) what you sacrifice to get it.

C) the price charged for it.

D) the search cost required to find it.

Answer: B

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

2) The principle of opportunity cost

A) is more relevant for firms than for individuals.

B) only refers to monetary payments.

C) is only relevant in economics.

D) is applicable to all decision-making.

Answer: D

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

3) The principle that the cost of something is equal to what is sacrificed to get it is known as the

A) marginal principle.

B) principle of opportunity cost.

C) principle of diminishing returns.

D) reality principle.

Answer: B

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

4) The saying that "There's no such thing as a free lunch" refers to the

A) marginal principle.

B) spillover principle.

C) principle of opportunity cost.

D) reality principle.

Answer: C

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

5) Jacinda quit her job as a blackjack dealer where she made $42,000 per year to start her own florist business. Her business expenses are $14,000 per year on rent, $21,000 per year on supplies, and $9,000 per year on part time help. As for her personal expenses, her apartment costs her $12,000 per year and her personal bills are an extra $6,000 per year. What is Jacinda's opportunity cost of running the business?

A) $104,000

B) $86,000

C) $62,000

D) $44,000

Answer: B

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

6) An unemployed individual decides to spend the day fishing. The opportunity cost of fishing is

A) the cost of bait and any other monetary expenses.

B) zero, because the person doesn't have a job.

C) the cost of bait, any other monetary expenses, and the value of the individual's wages while he was working.

D) the cost of bait, any other monetary expenses, and the value of the best alternative use of the individual's time.

Answer: D

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

7) Suppose that you own a house. What is the opportunity cost of living in the house?

A) There is no opportunity cost because you own the house.

B) There is no opportunity cost unless you could set up a business in the house.

C) The opportunity cost is the rent you could have received from a tenant if you didn't live there.

D) The opportunity cost is the cost of your monthly mortgage payment plus bills.

Answer: C

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

8) Steven lives in a big city where there is a shortage of parking. He has a parking spot in his driveway where he parks his car. Which of the following statements is most correct?

A) Steven has a lower opportunity cost of owning a car than his neighbor, who must rent a parking spot.

B) The opportunity cost of using the spot is zero, because Steven owns the house.

C) The opportunity cost of using the parking spot is the price he could charge someone else for using the spot.

D) The opportunity cost depends on how much Steven's mortgage payment is.

Answer: C

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

9) You rent a DVD of The Dark Knight Rises. The rental is for seven days and you watch the movie on the first day. You tell a friend about the film and your friend asks to come over and watch the movie with you before it is due back. What is your opportunity cost if you decide to watch the movie a second time instead of going to a football game?

A) the entire cost of the movie rental, since you have already watched the movie

B) one half the rental cost, because you have already watched the movie one time

C) The answer depends on how much you liked the movie in the first place.

D) the football game you forego by watching the movie again

Answer: D

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

10) Angelina, age seven, decides to dress up like Princess Fiona for Halloween. What is the opportunity cost of her decision?

A) the cost of the costume

B) the fact that she can't dress up like Dora the Explorer, her second choice

C) zero, because seven-year-olds don't have opportunity costs

D) the cost of the Lady Gaga costume which she did not want

Answer: B

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

11) Spending money on a new car instead of a used car when you are on a fixed budget is an example of

A) the incursion of an opportunity cost.

B) isolating variables.

C) a bad thing to do because you run out of money.

D) living on the edge.

Answer: A

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

12) Suppose that your tuition to attend college is $24,000 per year and you spend $8,000 per year on room and board. If you were working full time, you could earn $30,000 per year. What is your opportunity cost of attending college for one year?

A) $32,000

B) $38,000

C) $54,000

D) $62,000

Answer: C

Diff: 1

Topic: The Cost of College

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

13) Suppose that your tuition to attend college is $14,000 per year and you spend $5,000 per year on room and board. If you were working full time, you could earn $26,000 per year. What is your opportunity cost of attending college?

A) $19,000

B) $31,000

C) $40,000

D) $45,000

Answer: C

Diff: 1

Topic: The Cost of College

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

14) The opportunity cost of going to college

A) is zero if your parents pay your tuition.

B) is equal to the cost of tuition, room and board, and other expenses.

C) includes wages you lose by going to school instead of working.

D) is the same for all students at a particular school who pay full tuition.

Answer: C

Diff: 1

Topic: The Cost of College

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

15) You have an hour between your economics and math classes. What is the opportunity cost of that time if you use it to complete your math homework instead of your economics homework?

A) the economics homework you could have completed

B) the math homework you chose to complete

C) the cost of your calculator and math textbook

D) zero, because it doesn't cost any money to do your math homework

Answer: A

Diff: 2

Topic: The Cost of College

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

16) The sacrifices made by societies in order to engage in military spending represent

A) the nominal costs of military spending.

B) the real costs of military spending.

C) the opportunity costs of military spending.

D) the excessive costs of military spending.

Answer: C

Diff: 1

Topic: The Cost of Military Spending

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

17) The trade-offs made by the U.S. government to fund the war in Iraq

A) prove that the government is spending too much on the war.

B) show that the government is justified in its war spending.

C) exceed the benefits derived from the war.

D) represent what was potentially sacrificed to engage in the war.

Answer: D

Diff: 1

Topic: The Cost of Military Spending

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

18) According to the possible trade-off example between warships and drinking water in the text, the policy question that should be considered in Malaysia is

A) do the opportunity costs of the warships exceed their nominal costs?

B) do the nominal costs of the warships exceed their real costs?

C) do the benefits of the warships exceed their opportunity costs?

D) do the real costs of the warships exceed their nominal costs?

Answer: C

Diff: 1

Topic: The Cost of Military Spending

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

|  |  |
| --- | --- |
| Bath | Groom |
| 0 | 6 |
| 7 | 5 |
| 13 | 4 |
| 18 | 3 |
| 22 | 2 |
| 25 | 1 |
| 27 | 0 |

**Table 2.1**

19) Kaitlyn and Larissa have formed a dog bathing and grooming business business. The number of dogs they can bathe or groom in any given day is depicted in Table 2.1. The opportunity cost of grooming the first dog in a day is bathing \_\_\_\_\_\_\_\_ dog(s).

A) 1

B) 2

C) 24

D) 25

Answer: B

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

20) Kaitlyn and Larissa have formed a dog bathing and grooming business business. The number of dogs they can bathe or groom in any given day is depicted in Table 2.1. The opportunity cost of grooming the third dog in a day is bathing \_\_\_\_\_\_\_\_ dog(s).

A) 3

B) 4

C) 5

D) 18

Answer: B

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

21) Kaitlyn and Larissa have formed a dog bathing and grooming business business. The number of dogs they can bathe or groom in any given day is depicted in Table 2.1. The opportunity cost of grooming the sixth dog in a day is bathing \_\_\_\_\_\_\_\_ dog(s).

A) 0

B) 5

C) 6

D) 7

Answer: D

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

22) Kaitlyn and Larissa have formed a dog bathing and grooming business. The number of dogs they can bathe or groom in any given day is depicted in Table 2.1. As they groom more dogs, the opportunity cost of grooming additional dogs

A) falls.

B) rises.

C) remains constant.

D) depends on the prices being charged.

Answer: B

Diff: 2

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

23) Kaitlyn and Larissa have formed a dog bathing and grooming business. The number of dogs they can bathe or groom in any given day is depicted in Table 2.1. As they groom more dogs, the opportunity cost of bathing additional dogs

A) falls.

B) rises.

C) remains constant.

D) depends on the prices being charged.

Answer: A

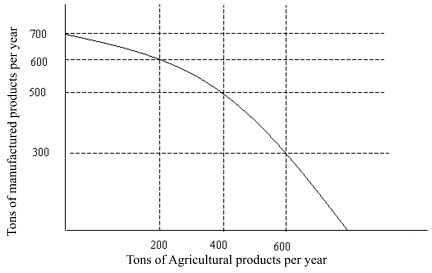
Diff: 2

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20



**Figure 2.1**

24) Referring to Figure 2.1,if you increase the production of farm goods, what other area is affected?

A) the price of produce

B) the production of manufactured goods

C) how much people can purchase

D) the wages earned by farm workers

Answer: B

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

25) The production possibilities curve in Figure 2.1 illustrates the notion of

A) increased factory goods production.

B) increased farm produce production.

C) diminishing resources.

D) opportunity cost.

Answer: D

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

26) Refer to Figure 2.1. If you are producing 600 tons of agricultural products per year, what is the maximum amount of manufactured products you can produce per year?

A) 300 tons

B) 500 tons

C) 600 tons

D) 700 tons

Answer: A

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

27) Refer to Figure 2.1. If you choose to produce only agricultural products, what is the maximum quantity you can produce per year?

A) 200 tons

B) 400 tons

C) 600 tons

D) > 600 tons

Answer: D

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

28) Refer to Figure 2.1. What is the opportunity cost of increasing production of manufactured products from 500 tons to 600 tons per year?

A) 200 tons of agricultural products per year

B) 400 tons of agricultural products per year

C) 500 tons of agricultural products per year

D) 600 tons of agricultural products per year

Answer: A

Diff: 2

Topic: Opportunity Cost and the Production Possibilities Curve, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

29) If an economy is fully utilizing its resources, it can produce more of one product only if it

A) doubles manufacturing of the product.

B) produces less of another product.

C) adds more people to the labor force.

D) reduces the prices of the most expensive products.

Answer: B

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

30) If you remove resources from factory production, the quantity of factory goods will

A) increase.

B) decrease.

C) remain the same but their price will decrease.

D) be diverted to other production.

Answer: B

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

31) If an economy is represented by a point inside its production possibilities curve,

A) it can produce more of one product even if it does not produce less of another product.

B) it can produce more of one product only if it produces less of another product.

C) it cannot produce more of one product unless it stops producing the other product entirely.

D) it cannot possibly produce more of one product, even if it produces less of another product.

Answer: A

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

32) If an economy is represented by a point along its production possibilities curve,

A) it can produce more of one product even if it does not produce less of another product.

B) it can produce more of one product only if it produces less of another product.

C) it cannot produce more of one product unless it stops producing the other product entirely.

D) it cannot possibly produce more of one product, even if it produces less of another product.

Answer: B

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

33) Points outside the production possibilities curve represent combinations of products that are

A) attainable only if the economy's resources are fully employed.

B) attainable only if the economy's resources are not fully employed.

C) attainable if the economy's resources are either fully employed or not fully employed.

D) unattainable.

Answer: D

Diff: 1

Topic: Opportunity Cost and the Production Possibilities Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

**Recall the Application about running a lawn-cutting business using solar-powered equipment to answer the following question(s).**

34) The time and invested funds involved in starting a lawn-cutting business address the economic concept of

A) the marginal principle.

B) opportunity cost.

C) the real-nominal principle.

D) the principle of diminishing returns.

Answer: B

Diff: 1

Topic: Application 1, Don't Forget the Costs of Time and Invested Funds

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

35) The current income you would sacrifice to start your own lawn-cutting business is part of the

A) opportunity cost of invested funds.

B) opportunity cost of starting a business.

C) cost of doing business.

D) present value of your initial investment.

Answer: B

Diff: 1

Topic: Application 1, Don't Forget the Costs of Time and Invested Funds

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

36) If you have $10,000 to start a lawn-cutting business, the interest rate is 4 percent, your cost of equipment is $3,000, and the earnings you sacrifice from working at another job are $32,000, your yearly cost of doing business would be

A) $13,000.

B) $13,400.

C) $35,400.

D) $45,000.

Answer: C

Diff: 2

Topic: Application 1, Don't Forget the Costs of Time and Invested Funds

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

37) A principle is a self-evident truth that most people readily understand and accept.

Answer: TRUE

Diff: 1

Topic: The Key Principles of Economics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

38) Opportunity cost is the difference between the nominal and real cost of some action.

Answer: FALSE

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

39) The opportunity cost of something is the gain you receive as a result of your sacrifice.

Answer: FALSE

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

40) The opportunity cost of something is the nominal price paid for the product.

Answer: FALSE

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

41) Tradeoffs involve an exchange of one thing for another because resources are limited and can be used in different ways.

Answer: TRUE

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

42) The notion of opportunity cost allows the measurement of tradeoffs.

Answer: TRUE

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

43) In order to get his bachelor's degree, Timothy gave up an offer for a full time job as a bartender. Therefore, Timothy incurred an opportunity cost.

Answer: TRUE

Diff: 1

Topic: The Cost of College

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

44) The opportunity cost of going to a particular college is not the same for everyone.

Answer: TRUE

Diff: 1

Topic: The Cost of College

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

45) The cost of a bachelor's degree in philosophy equals the tuition plus the cost of room and board.

Answer: FALSE

Diff: 1

Topic: The Cost of College

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

46) What is an opportunity cost?

Answer: An opportunity cost is what you sacrifice to get something.

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

47) Suppose that you lend $5,000 to a friend who pays you back $5,400 the next year. Suppose that prices that year rose by six percent and the real rate of return in the stock market was five percent. Your friend says that he or she was being more than fair by giving you more than the rate of inflation as a return. What do you think?

Answer: The opportunity cost of that money was not just the six percent inflation, but also the real rate of return that would have been enjoyed had the money been put in the stock market. For you to have been indifferent between loaning your money versus keeping it, your friend should have reimbursed you by $5,550, or a 11% return. This is another example of considering all the costs, both the loss in purchasing power of the money due to inflation and the implicit cost of the return that could have been earned if the money was invested in the stock market.

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

48) What is the opportunity cost of investing $10,000 of your own money in a business you wish to start?

Answer: The opportunity cost of your $10,000 is the money you lose because you cannot invest the money elsewhere.

Diff: 1

Topic: The Principle of Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

49) What do economists mean when they say that there is no such thing as a free lunch?

Answer: Everything has a cost, even when you do not pay money for it. Suppose that somebody bought you lunch. Resources from the economy were used to make that lunch, even though those resources may not belong to you. Consequently, the economy gave up anything else it could have made with the resources it used to make the lunch. The opportunity cost of that lunch is the lost opportunity to use those resources in some other way.

Diff: 2

Topic: The Principle of Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

50) What is the opportunity cost of your college degree?

Answer: A quick answer would be to say that the cost is the tuition, room and board, and books expenditures that are borne during the college years. But such a statement would be incorrect. First, it understates one aspect of costs: one is giving up income while a student. But it also overstates the costs in another dimension: people would eat and sleep somewhere regardless of their attendance in college. So one should not consider room and board to be part of the cost of college attendance.

Diff: 1

Topic: The Cost of College

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

2.2 The Marginal Principle

1) The extra benefit resulting from a small increase in an activity is called the

A) opportunity cost.

B) marginal benefit.

C) marginal cost.

D) diminishing returns of the activity.

Answer: B

Diff: 1

Topic: The Marginal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

2) The additional cost resulting from a small increase in some activity is called the

A) opportunity cost.

B) marginal benefit.

C) marginal cost.

D) diminishing returns of the activity.

Answer: C

Diff: 1

Topic: The Marginal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

3) The principle that individuals and firms pick the activity level where the incremental benefit of that activity equals the incremental cost of that activity is known as the

A) marginal principle.

B) principle of opportunity cost.

C) principle of diminishing returns.

D) spillover principle.

Answer: A

Diff: 1

Topic: The Marginal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

4) The marginal principle implies that an individual should produce or consume where

A) marginal benefit exceeds marginal cost.

B) marginal benefit is less than marginal cost.

C) marginal benefit equals marginal cost.

D) total benefit equals total cost.

Answer: C

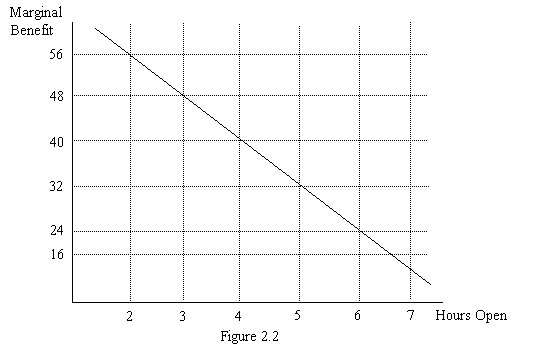
Diff: 1

Topic: The Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20



5) Joe runs a business and needs to decide how many hours to stay open. Figure 2.2 illustrates his marginal benefit of staying open for each additional hour. Suppose that Joe's marginal cost of staying open per hour is $24. How many hours should Joe stay open?

A) 3 hours

B) 4 hours

C) 5 hours

D) 6 hours

Answer: D

Diff: 1

Topic: The Marginal Principle, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

6) Joe runs a business and needs to decide how many hours to stay open. Figure 2.2 illustrates his marginal benefit of staying open for each additional hour. Suppose that Joe's marginal cost of staying open per hour is $32. How many hours should Joe stay open?

A) 4 hours

B) 5 hours

C) 6 hours

D) 7 hours

Answer: B

Diff: 1

Topic: The Marginal Principle, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

7) Joe runs a business and needs to decide how many hours to stay open. Figure 2.2 illustrates his marginal benefit of staying open for each additional hour. Suppose that we observe Joe staying open 5 hours per day. If he is following the marginal principle, what must his marginal cost per hour be?

A) $16

B) $24

C) $32

D) $40

Answer: C

Diff: 1

Topic: The Marginal Principle, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

8) Joe runs a business and needs to decide how many hours to stay open. Figure 2.2 illustrates his marginal benefit of staying open for each additional hour. Suppose that we observe Joe staying open 3 hours per day. If he is following the marginal principle, what must his marginal cost per hour be?

A) $24

B) $32

C) $40

D) $48

Answer: D

Diff: 1

Topic: The Marginal Principle, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

9) Joe runs a business and needs to decide how many hours to stay open. Figure 2.2 illustrates his marginal benefit of staying open for each additional hour. Suppose that we observe Joe staying open 6 hours per day. If he is following the marginal principle, what must his marginal cost per hour be?

A) $16

B) $24

C) $32

D) $48

Answer: B

Diff: 1

Topic: The Marginal Principle, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

|  |  |
| --- | --- |
| Hours of Operation | Marginal Cost |
| 1 | 6 |
| 2 | 12 |
| 3 | 18 |
| 4 | 24 |
| 5 | 30 |
| 6 | 36 |
| 7 | 42 |

**Table 2.2**

10) Krystal runs a nail salon and needs to decide how many hours to stay open. Table 2.2 illustrates her marginal costs of staying open for each additional hour. Suppose that Krystal's marginal benefit of staying open per hour is $30. If she is following the marginal principle, how many hours should Krystal stay open?

A) 4 hours

B) 5 hours

C) 6 hours

D) 7 hours

Answer: B

Diff: 1

Topic: The Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

11) Krystal runs a nail salon and needs to decide how many hours to stay open. Table 2.2 illustrates her marginal costs of staying open for each additional hour. Suppose that Krystal's marginal benefit of staying open per hour is $18. If she is following the marginal principle, how many hours should Krystal stay open?

A) 3 hours

B) 4 hours

C) 6 hours

D) 7 hours

Answer: A

Diff: 1

Topic: The Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

12) Krystal runs a nail salon and needs to decide how many hours to stay open. Table 2.2 illustrates her marginal costs of staying open for each additional hour. Suppose that we observe Krystal staying open 4 hours per day. If she is following the marginal principle, what must her marginal benefit be?

A) $12

B) $18

C) $24

D) $30

Answer: C

Diff: 1

Topic: The Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

13) Krystal runs a nail salon and needs to decide how many hours to stay open. Table 2.2 illustrates her marginal costs of staying open for each additional hour. Suppose that we observe Krystal staying open 2 hours per day. If she is following the marginal principle, what must her marginal benefit be?

A) $6

B) $12

C) $15

D) $18

Answer: B

Diff: 1

Topic: The Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

14) Krystal runs a nail salon and needs to decide how many hours to stay open. Table 2.2 illustrates her marginal costs of staying open for each additional hour. Suppose that we observe Krystal staying open 5 hours and her marginal benefit of staying open per hour is $18. If she is following the marginal principle, Krystal should

A) stay open 2 more hours.

B) stay open 3 more hours.

C) stay open 2 fewer hours.

D) stay open 3 fewer hours.

Answer: C

Diff: 2

Topic: The Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

15) Krystal runs a nail salon and needs to decide how many hours to stay open. Table 2.2 illustrates her marginal costs of staying open for each additional hour. Suppose that we observe Krystal staying open 5 hours and her marginal benefit of staying open per hour is $36. If she is following the marginal principle, Krystal should

A) stay open 1 more hour.

B) stay open 2 more hours.

C) stay open 1 fewer hour.

D) stay open 2 fewer hours.

Answer: A

Diff: 2

Topic: The Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

16) Considering how a change in one variable affects the value of another variable is called

A) the Peter Principle.

B) the marginal principle.

C) the principle of supply and demand.

D) functional decision making.

Answer: B

Diff: 1

Topic: The Marginal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

17) When referring to "marginal" changes, the economic focus is on

A) changes which affect only a few people or products.

B) large changes on the low end.

C) graduated changes on the high end.

D) small or incremental changes.

Answer: D

Diff: 1

Topic: The Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

18) When deciding whether to engage in an activity or how much to do, people should follow

A) the principle of microeconomics.

B) the principle of macroeconomics.

C) the marginal principle.

D) the law of supply and demand.

Answer: C

Diff: 1

Topic: The Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

**Recall the Application about the best speed at which to sail an ocean cargo ship to answer the following question(s).**

19) Weighing the benefits and costs of the different speeds at which to sail an ocean cargo ship addresses the economic concept known as

A) the principle of opportunity cost.

B) the marginal principle.

C) the principle of voluntary exchange.

D) the principle of diminishing returns.

Answer: B

Diff: 1

Topic: Application 2, How Fast to Sail?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

20) Sailing an ocean cargo ship slower to save on the expense of fuel as opposed to sailing it faster to save time and therefore allow it to make more deliveries makes sense if the \_\_\_\_\_\_\_\_ of sailing slower is less than the \_\_\_\_\_\_\_\_ of sailing slower.

A) marginal benefit; marginal cost

B) marginal cost; marginal benefit

C) marginal benefit; opportunity cost

D) marginal cost; opportunity cost

Answer: B

Diff: 1

Topic: Application 2, How Fast to Sail?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

21) The use of seat belts and other automobile safety features making bicycling more hazardous can be explained by the economic concept known as

A) the real-nominal principle.

B) the marginal principle.

C) the principle of voluntary exchange.

D) the principle of diminishing returns.

Answer: B

Diff: 1

Topic: Driving Speed and Safety

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

22) Saving time by driving faster is an example of a \_\_\_\_\_\_\_\_ of driving faster. Increasing the severity of injuries from a potential accident due to driving faster is a(n) \_\_\_\_\_\_\_\_ of driving faster.

A) nominal cost; real cost

B) marginal cost; nominal cost

C) marginal benefit; marginal cost

D) normative benefit; opportunity cost

Answer: C

Diff: 1

Topic: Driving Speed and Safety

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

23) When applying the marginal principle, you should pick the level at which the activity's marginal benefit equals its marginal cost.

Answer: TRUE

Diff: 1

Topic: The Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

24) When applying the marginal principle, you should pick the level at which the activity's marginal benefit is less than its marginal cost.

Answer: FALSE

Diff: 1

Topic: The Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

25) Basically, the marginal principle helps us to evaluate the factors involved in taking an action or if doing something is worth the effort.

Answer: TRUE

Diff: 1

Topic: The Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

26) When Lonnie produces 1 pair of cowboy boots his costs total $300. When he produces 2 pairs of cowboy boots his total costs are $500. This means that Lonnie's marginal cost of producing the second pair of cowboy boots is $200.

Answer: TRUE

Diff: 2

Topic: The Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

27) Economists argue that individuals should continue to consume until total benefit equals total cost.

Answer: FALSE

Diff: 1

Topic: The Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

28) If a company's total costs per day increase from $200 to $400 by adding another worker, but its additional benefits are $300, it is sensible to add that additional worker.

Answer: TRUE

Diff: 2

Topic: The Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

29) What is a marginal cost?

Answer: A marginal cost is the additional cost resulting from a small increase in the production of a good.

Diff: 1

Topic: The Marginal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

30) What is a marginal benefit?

Answer: A marginal benefit is the additional benefit resulting from a small increase in the production of a good.

Diff: 1

Topic: The Marginal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-20

31) When a firm hired its tenth worker, its factory output increased by four units per month. Would you expect the firm's output to increase by eight more units per month if the firm hired two more workers?

Answer: No. The principle of diminishing marginal returns suggests that after some point of increasing returns, each incremental worker should have a progressively lower level of marginal productivity.

Diff: 2

Topic: Marginal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

32) Consider a firm that is trying to determine how many hours to remain open in a day. How would the firm make this decision?

Answer: The firm would continue to stay open as long as the incremental, or marginal, benefit of staying open (say, the increased revenues) each extra hour exceeds (or at least equals) the incremental, or marginal, costs (e.g., electricity, wages, etc.) incurred from staying open that hour.

Diff: 2

Topic: Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

33) Different people eat different amounts of food when they go to buffet restaurants, even though they all pay the same price. Explain how this relates to the marginal principle.

Answer: The marginal monetary cost of eating more is zero, so people will eat until they would not enjoy eating other bite. There is an implicit cost of eating more once you are full (extra weight gain and physical discomfort). Therefore, people will eat until marginal benefit equals marginal cost, and this will occur at different amounts of food for different people.

Diff: 2

Topic: The Marginal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

34) Use the marginal principle to explain why government mandated safety features in automobiles during the 1960s and 1970s resulted in an increase in collisions between automobiles and bicycles.

Answer: The mandated safety features decreased the marginal cost of speed: People who wear seat belts suffer less severe injuries in a collision, so every additional unit of speed is less costly to the driver. Drivers felt more secure because they were better insulated from harm in the event of a collision, and so they drove faster. As a result, the number of collisions between cars and bicycles increased, meaning that safer environment for drivers led to a more hazardous environment for bicyclists.

Diff: 2

Topic: Driving Speed and Safety

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

2.3 The Principle of Voluntary Exchange

1) People acting in their own self interest is the basis of the

A) principle of supply and demand.

B) principle of voluntary exchange.

C) real-nominal principle.

D) principle of scarcity.

Answer: B

Diff: 1

Topic: The Principle of Voluntary Exchange

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

2) The principle of voluntary exchange is based on the idea of

A) making assumptions.

B) isolating variables.

C) thinking at the margin.

D) rational self-interest.

Answer: D

Diff: 1

Topic: The Principle of Voluntary Exchange

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

**Recall the Application about Jasper Johns and house painting to answer the following question(s). In this Application, it is assumed that Johns can earn $5,000 per day by painting works of art, and therefore should hire a house painter who charges $150 per day, and takes 10 days, to paint his house.**

3) This Application addresses the economic concept of

A) the marginal principle.

B) diminishing returns.

C) specialization and exchange.

D) real versus nominal costs.

Answer: C

Diff: 1

Topic: Application 3, Jasper Johns and Housepainting

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

4) At what point should Jasper Johns consider painting his own house?

A) if the house painter charges $500 per day and takes 20 days to paint the house

B) if the house painter charged $2,500 per day, since that is excessive for painting a house

C) if his earnings dropped to $1,000 per day

D) if the house painter charged more for 10 days worth of work than Johns could earn each day

Answer: D

Diff: 1

Topic: Application 3, Jasper Johns and Housepainting

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

5) Based on the Application, Jasper Johns' daily earnings are 33.33 times more than the house painter's daily earnings. If Jasper Johns' earnings per day were only twice as much as the house painter's earnings, what should he do?

A) He should still hire the house painter to paint his house.

B) He should paint his house himself.

C) He should hire a less productive house painter.

D) He should remain indifferent as to who paints the house, for the difference in daily earnings would now be much less significant.

Answer: B

Diff: 1

Topic: Application 3, Jasper Johns and Housepainting

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

6) When you have a job and your employer compensates you for your time with money, resulting in both of you being better off, it is an example of a voluntary exchange.

Answer: TRUE

Diff: 1

Topic: The Principle of Voluntary Exchange

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

7) The principle of voluntary exchange is the concept that a voluntary exchange between two people makes both people better off.

Answer: TRUE

Diff: 1

Topic: The Principle of Voluntary Exchange

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

8) A "market" is an arrangement that allows people to exchange things.

Answer: TRUE

Diff: 1

Topic: Exchange and Markets

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

2.4 The Principle of Diminishing Returns

1) The principle of diminishing returns implies that as one input increases while the other inputs are held fixed, output

A) increases at an increasing rate.

B) increases at a decreasing rate.

C) decreases at a decreasing rate.

D) decreases at an increasing rate.

Answer: B

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) The principle that "as one input increases while the other inputs are held fixed, output increases at a decreasing rate" is known as the

A) marginal principle.

B) principle of opportunity cost.

C) principle of diminishing returns.

D) spillover principle.

Answer: C

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) According to the principle of diminishing returns, if all factors of production but one are held constant and if that one factor is doubled, then eventually output will most likely

A) double too.

B) less than double.

C) more than double.

D) remain unchanged.

Answer: B

Diff: 2

Topic: The Principle of Diminishing Returns

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) A firm produces its product using both capital and labor. When it does not change its capital usage, but doubles its labor input, its output increases by less than 50 percent. Which of the following is the most likely explanation of this finding?

A) the principle of opportunity cost

B) the principle of diminishing returns

C) the marginal principle

D) the spillover principle

Answer: B

Diff: 2

Topic: The Principle of Diminishing Returns

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) According to the principle of diminishing returns, if the number of workers is increased beyond the point of diminishing returns, then the additional worker

A) increases total output by the same amount as previous workers.

B) increases total output by more than the amount of previous workers.

C) increases total output by less than the amount of previous workers.

D) decreases total output.

Answer: C

Diff: 2

Topic: The Principle of Diminishing Returns

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

|  |  |  |
| --- | --- | --- |
| Units of Capital | Number of Workers | Output/Day |
| 5 | 0 | 0 |
| 5 | 1 | 40 |
| 5 | 2 | 90 |
| 5 | 3 | 150 |
| 5 | 4 | 200 |
| 5 | 5 | 235 |

**Table 2.3**

6) Refer to Table 2.3. What can be observed about the given resources?

A) Capital and labor are both fixed.

B) Capital is variable.

C) Capital is fixed.

D) Labor is fixed.

Answer: C

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) Refer to Table 2.3. Increasing the number of workers from 2 to 3 will increase output per day by

A) 60 units.

B) 90 units.

C) 150 units.

D) 240 units.

Answer: A

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

8) Refer to Table 2.3. The principle of diminishing returns first occurs when how many workers are hired?

A) 2

B) 3

C) 4

D) 5

Answer: C

Diff: 2

Topic: The Principle of Diminishing Returns

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

|  |  |  |
| --- | --- | --- |
| Acres of Land | Tanks of Fertilizer | Truckloads of Potatoes |
| 20 | 0 | 28 |
| 20 | 1 | 70 |
| 20 | 2 | 105 |
| 20 | 3 | 135 |
| 20 | 4 | 152 |
| 20 | 5 | 141 |

**Table 2.4**

9) Refer to Table 2.4. What can be observed about the given resources?

A) Land is variable but fertilizer is fixed.

B) Land and fertilizer are both fixed.

C) Land and fertilizer are both variable.

D) Land is fixed but fertilizer is variable.

Answer: D

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

10) Refer to Table 2.4. Increasing the tanks of fertilizer from 3 to 4 will increase the truckloads of potatoes by

A) 152.

B) 35.

C) 17.

D) 11.

Answer: C

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

11) Refer to Table 2.4. Increasing the tanks of fertilizer from 4 to 5 will

A) increase truckloads of potatoes.

B) decrease truckloads of potatoes.

C) have no effect on truckloads of potatoes.

D) require more acres of land.

Answer: B

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

12) Refer to Table 2.4. The principle of diminishing returns sets in with the addition of the \_\_\_\_\_\_\_\_ tank of fertilizer.

A) second

B) third

C) fourth

D) fifth

Answer: A

Diff: 2

Topic: The Principle of Diminishing Returns

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

13) Diminishing returns occurs because

A) not enough people have jobs.

B) one of the inputs to the production process is fixed.

C) consumers don't buy enough of the products produced.

D) two people have not satisfied their self-interests.

Answer: B

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

**Recall the Application about the use of fertilizer and its impact on crop yields to answer the following question(s). The table is taken from this Application.**

Fertilizer and Corn Yield

|  |  |
| --- | --- |
| Bags of Fertilizer | Bushels of Corn |
| 0 | 85 |
| 1 | 120 |
| 2 | 135 |
| 3 | 144 |
| 4 | 147 |

14) Based on the data in the table, this Application addresses the economic concept of

A) the marginal principle.

B) the principle of voluntary exchange.

C) the principle of diminishing returns.

D) the real-nominal principle.

Answer: C

Diff: 1

Topic: Application 4, Fertilizer and Crop Yields

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

15) Refer to the table above. After applying the second bag of fertilizer, the farmer experienced

A) increasing returns.

B) diminishing returns.

C) constant returns.

D) negative returns.

Answer: B

Diff: 1

Topic: Application 4, Fertilizer and Crop Yields

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

16) Refer to the table above. The farmer increased his total production of corn by 9 bushels per acre after applying

A) the first bag of fertilizer.

B) the second bag of fertilizer.

C) the third bag of fertilizer.

D) the fourth bag of fertilizer.

Answer: C

Diff: 2

Topic: Application 4, Fertilizer and Crop Yields

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

17) Refer to the table above. The farmer began to experience diminishing returns after applying how many bags of fertilizer?

A) 1

B) 2

C) 3

D) 4

Answer: A

Diff: 2

Topic: Application 4, Fertilizer and Crop Yields

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

18) According to the principle of diminishing returns, an additional worker decreases total output.

Answer: FALSE

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

19) Explain the concept of diminishing returns.

Answer: The principle of diminishing returns shows that in the short run, beyond some point, output will increase at a decreasing rate. For example, producing more output in an existing production facility by increasing the number of workers sharing the facility will bring into effect the principle of diminishing returns, as output will eventually increase but at a decreasing rate.

Diff: 1

Topic: The Principle of Diminishing Returns

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

20) You are running a small yard maintenance business for the summer. What do you expect to happen to the number of yards you can maintain in a day as you add workers if you don't purchase more capital equipment (like mowers and leaf blowers)?

Answer: It is likely that as you add workers, you will get incrementally less output out of each additional worker. Holding constant your materials, such as trucks, lawnmowers, etc., you'll almost surely be able to maintain more yards per day. But as you hire more workers, there might be waits for use of the tools, or for transportation to the next job. This is the prediction of the principle of diminishing returns.

Diff: 2

Topic: The Principle of Diminishing Returns

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2.5 The Real-Nominal Principle

1) The real-nominal principle states that

A) people respond more to explicit, or real, costs than to implicit costs.

B) people respond more to implicit costs than to explicit costs.

C) what matters to people is the face value of money or income.

D) what matters to people is the purchasing power of money or income.

Answer: D

Diff: 1

Topic: The Real-Nominal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) The principle that states that what matters to people is the real value or purchasing power of money is the

A) marginal principle.

B) principle of diminishing returns.

C) spillover principle.

D) real-nominal principle.

Answer: D

Diff: 1

Topic: The Real-Nominal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) The face value of money or income is called its \_\_\_\_\_\_\_\_ value.

A) real

B) marginal

C) nominal

D) external

Answer: C

Diff: 1

Topic: The Real-Nominal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) The value of money or income in terms of the quantity of goods the money can buy is called its

A) real value.

B) marginal value.

C) nominal value.

D) implicit value.

Answer: A

Diff: 1

Topic: The Real-Nominal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) The real value of money

A) is another word for the face value.

B) reflects the purchasing power of money.

C) matters less to people than its nominal value.

D) is the same as its nominal value.

Answer: B

Diff: 1

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) If real salaries increase but nominal salaries do not, this means that

A) the purchasing power of money has decreased.

B) prices have not changed.

C) prices have risen.

D) prices have fallen.

Answer: D

Diff: 2

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) If real salaries decrease but nominal salaries do not, this means that

A) the purchasing power of money has increased.

B) prices have not changed.

C) prices have risen.

D) prices have fallen.

Answer: C

Diff: 2

Topic: The Real-Nominal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

8) A Major League Baseball player signs a contract that pays $27 million over 5 years. The $27 million is the contract's \_\_\_\_\_\_\_\_ value.

A) real

B) implicit

C) external

D) nominal

Answer: D

Diff: 1

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

9) Suppose your bank pays you 4 percent interest per year on your savings account, so that $1,000 grows to $1,040 over a one-year period. If prices increase by 1 percent per year over that time, approximately how much real value do you gain by keeping $100 in the bank for a year?

A) $0

B) $10

C) $30

D) $50

Answer: C

Diff: 2

Topic: The Real-Nominal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

10) Suppose your bank pays you 5 percent interest per year on your savings account. If prices increase by 5 percent per year over that time, approximately how much real value do you gain by keeping $100 in the bank for a year?

A) $0

B) $1

C) $3

D) $6

Answer: A

Diff: 2

Topic: The Real-Nominal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

11) Suppose that you lend $1,000 to a friend and he or she pays you back one year later. What is the opportunity cost of lending the money?

A) There is no cost.

B) the real interest rate that would have been earned on the money

C) the nominal interest rate that would have been earned on the money

D) the implicit cost of the money

Answer: B

Diff: 3

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

12) You borrow money to buy a house in 2009 at a fixed interest rate of 5.5 percent. By 2012, the inflation rate has steadily fallen to 1.5 percent from the recent high of 3.0 percent in 2009. Considering *only* your mortgage, is inflation good news or bad news for you?

A) bad news, because inflation hurts everyone

B) bad news, because it makes the real value of your mortgage payments increase

C) good news, because it makes the real value of your mortgage payments decrease

D) bad news, because it makes the nominal value of your mortgage payments increase

Answer: B

Diff: 2

Topic: The Real-Nominal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

13) What is the nominal value of money?

A) what can be purchased with the money

B) discounts taken by multiple purchases

C) savings by shopping on specific days of the week

D) its actual face value

Answer: D

Diff: 1

Topic: The Real-Nominal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

14) What is the real value of money?

A) its face value

B) its compounded earnings in banks

C) the quantity of goods it can buy

D) the ability of shop at market prices

Answer: C

Diff: 1

Topic: The Real-Nominal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

|  |  |  |
| --- | --- | --- |
|  | 1974 | 2011 |
| Minimum wage per hour | $ 2.00 | $ 7.25 |
| Weekly income from minimum wage | $80.00 | $290.00 |
| Cost of a standard basket of goods | $47.00 | $225.00 |
| Number of baskets per week | 1.70 | 1.29 |

**Table 2.5**

15) Comparing the minimum wages between 1974 and 2011 addresses the economic concept of

A) the marginal principle.

B) the principle of voluntary exchange.

C) the principle of diminishing returns.

D) the real-nominal principle.

Answer: D

Diff: 1

Topic: The Value of the Minimum Wage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

16) Refer to the table above. Thenominal value of the minimum wage in 2011 was

A) $2.00 per hour.

B) $3.63 per hour.

C) $5.62 per hour.

D) $7.25 per hour.

Answer: D

Diff: 1

Topic: The Value of the Minimum Wage

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

17) Refer to the table above. What happened to the real value of the minimum wage between 1974 and 2011?

A) It remained the same.

B) It increased.

C) It decreased.

D) It could not be determined from the given information.

Answer: C

Diff: 2

Topic: The Value of the Minimum Wage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

18) Refer to the table above. By what percentage did the federal minimum wage increase from 1974 to 2011?

A) 72.41 percent

B) 262.5 percent

C) 362.5 percent

D) 525.0 percent

Answer: B

Diff: 2

Topic: The Value of the Minimum Wage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

**Recall the Application about the impact inflation has on your potential future salary and the repayment of student loans to answer the following question(s).**

19) In considering the costs involved for student loans that must be repaid in ten years, this Application is addressing the economic concept of

A) the marginal principle.

B) the principle of voluntary exchange.

C) the principle of diminishing returns.

D) the real-nominal principle.

Answer: D

Diff: 1

Topic: Application 5, Repaying Student Loans

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

20) According to this Application, more years of work would be required to pay off a student loan if all prices

A) remained stable.

B) increased by 20 percent.

C) decreased by 10 percent.

D) increased by 40 percent.

Answer: C

Diff: 1

Topic: Application 5, Repaying Student Loans

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

21) According to this Application, if you earn a salary of $80,000 in the first year and all prices decrease by half in the next 5 years, what will your nominal annual salary be in 5 years?

A) $8,000

B) $10,000

C) $20,000

D) $40,000

Answer: D

Diff: 2

Topic: Application 5, Repaying Student Loans

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

22) According to this Application, if you earn a salary of $40,000 in the first year and all prices triple in the next 10 years, what will your nominal annual salary be in 10 years?

A) $20,000

B) $60,000

C) $120,000

D) $180,000

Answer: C

Diff: 2

Topic: Application 5, Repaying Student Loans

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

23) When product prices increase slower than nominal wages increase, the real value of wages decreases.

Answer: FALSE

Diff: 2

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

24) If product prices decrease more than nominal wages decrease, the real value of wages will increase.

Answer: TRUE

Diff: 2

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

25) What matters to people is the face value of money or income.

Answer: FALSE

Diff: 1

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

26) What matters to people is the real value of money or income.

Answer: TRUE

Diff: 1

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

27) The government uses the buying power of wages rather than face value or nominal value in reporting changes in "real wages" in the economy.

Answer: TRUE

Diff: 1

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

28) The government uses the buying power of wages in reporting changes in "nominal wages" in the economy.

Answer: FALSE

Diff: 1

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

29) Is it possible for nominal wages to decrease while real wages increase?

Answer: Yes, though unlikely. This would imply that prices have fallen, and that the decrease is sufficiently negative to offset any losses in nominal wages.

Diff: 2

Topic: The Real-Nominal Principle

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

30) Explain the real-nominal principle.

Answer: The real-nominal principle explains that what matters to people is the real value of money or income–its purchasing power–and not the face value of money or income.

Diff: 1

Topic: The Real-Nominal Principle

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

31) How would an increase in prices in retail stores change the real value of the money you earn as wages?

Answer: The real value would decrease.

Diff: 1

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

32) If your salary increases at a lower rate than prices are increasing, what would happen to your buying power?

Answer: Your money would have less buying power.

Diff: 1

Topic: The Real-Nominal Principle

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

***Macroeconomics: Prin., Apps, & Tools, 8e* (O'Sullivan) TB1**

**Chapter 1 Introduction: What Is Economics?**

1.1 What Is Economics?

1) Economics is best defined as the study of

A) financial decision-making.

B) how consumers make purchasing decisions.

C) the choices made by people faced with scarcity.

D) inflation, unemployment, and economic growth.

Answer: C

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) Economics is the study of

A) how to invest in the stock market.

B) how society uses limited resources.

C) the role of money in markets.

D) how government officials decide which goods and services are produced.

Answer: B

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) Scarcity can best be defined as a situation in which

A) there are no buyers willing to purchase what sellers have produced.

B) there are not enough goods to satisfy all of the buyers' demand.

C) the resources we use to produce goods and services are limited.

D) there is more than enough money to satisfy consumers' wants.

Answer: C

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) An arrangement that allows buyers and sellers to exchange things is called

A) a contract.

B) a market.

C) money.

D) efficient.

Answer: B

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) Because resources are limited

A) only the very wealthy can get everything they want.

B) firms will be forced out of business.

C) the availability of goods will be limited but the availability of services will not.

D) people must make choices.

Answer: D

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) Tradeoff is

A) allowing the government and other organizations to choose for us.

B) sacrificing one thing for another.

C) deciding who consumes the products produced in an economy.

D) holding other variables fixed.

Answer: B

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) Resources are all of the following EXCEPT

A) unlimited and in abundance.

B) the things we use to produce goods and services.

C) limited in quantity and can be used in different ways.

D) scarce and therefore require choices to be made.

Answer: A

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

8) The knowledge and skills acquired by a worker through education and experience is a description of which factor of production?

A) physical capital

B) human capital

C) labor

D) entrepreneurship

Answer: B

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

9) The physical and mental effort people use to produce goods and services is a description of which factor of production?

A) physical capital

B) human capital

C) labor

D) entrepreneurship

Answer: C

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

10) The effort used to coordinate the factors of production is a description of

A) physical capital.

B) human capital.

C) labor.

D) entrepreneurship.

Answer: D

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

11) All of the following are considered natural resources EXCEPT

A) a coral reef.

B) gold.

C) labor.

D) a redwood forest.

Answer: C

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

12) Normative economics

A) is the focus of most modern economic reasoning.

B) answers the question "What ought to be?"

C) predicts the consequences of alternative actions.

D) answers the question "What is?"

Answer: B

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

13) Which of the following is an example of a normative question?

A) How will an increase in the inheritance tax affect tax revenues?

B) What fraction of an income tax cut will be spent on imported goods?

C) Should Florida implement a state income tax to reduce its deficit?

D) How will an increase in unemployment benefits affect the unemployment rate?

Answer: C

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

14) Which of the following is a question answered with positive economic analysis?

A) Should the college reduce tuition for out-of-state residents?

B) Should the college charge higher tuition for part-time students?

C) If the college increased its eligibility requirements for enrollment, will class sizes decline?

D) Should the college eliminate its athletic program to cut its costs?

Answer: C

Diff: 2

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

15) Which of the following is a question answered with normative economic reasoning?

A) If the college offers free textbooks for students, will more students read their textbooks?

B) If the college provided less financial aid for out-of-state students, would more in-state students benefit?

C) If the college increased its enrollment requirements, would class size decline?

D) Should the college increase tuition to fund its athletic programs?

Answer: D

Diff: 2

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

16) The 3 key economic questions include all of the following EXCEPT

A) "what products do we produce?"

B) "how do we produce these products?"

C) "where should these products be produced?"

D) "who consumes the products?"

Answer: C

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

17) Deciding how a society's products are distributed among its citizens answers the economic question of

A) who consumes the products produced.

B) what products will be produced.

C) where will the products be consumed.

D) how will the products be produced.

Answer: A

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

18) Deciding if a company will produce automobiles by robotics or manual labor answers the economic question of

A) who consumes the products produced.

B) what products will be produced.

C) where will the products be consumed.

D) how will the products be produced.

Answer: D

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

19) Deciding if a power company will generate electricity from wind power or coal answers the economic question of

A) who consumes the products produced.

B) what products will be produced.

C) where will the products be consumed.

D) how will the products be produced.

Answer: D

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

20) An economic model is a

A) realistic version of an economic environment.

B) detailed version of an economic issue.

C) fictional representation of an entire economy.

D) simplified representation of an economic environment.

Answer: D

Diff: 1

Topic: Economic Models

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

21) Economic models are used to

A) explain every detail of an economic theory.

B) explore decision making by individuals, firms and other organizations.

C) build physical renditions of government construction projects.

D) represent the complexities of economic environments.

Answer: B

Diff: 1

Topic: Economic Models

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

22) Talking about alternatives is the first step in a process that helps us make better choices about how we use our resources.

Answer: TRUE

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

23) In the past few centuries, choices have led to a substantial decline in the standards of living around the globe.

Answer: FALSE

Diff: 1

Topic: What Is Economics?

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

24) Scarcity is a situation in which resources are unlimited in quantity and can be used in different ways.

Answer: FALSE

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

25) Positive economics answers the question, "What *ought* to be?" Normative economics predicts the consequences of alternative actions, answering the questions, "What *is*?" or "What *will be*?"

Answer: FALSE

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

26) Normative economics answers the question, "What *ought* to be?" Positive economics predicts the consequences of alternative actions, answering the questions, "What *is*?" or "What *will be*?"

Answer: TRUE

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

27) Most modern economic analysis is normative in nature, but involves questions with positive aspects.

Answer: FALSE

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

28) Economists will always reach the same conclusion in their positive analyses.

Answer: FALSE

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

29) One of the key economic questions is "where should products be produced?"

Answer: FALSE

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

30) One of the key economic questions is "who consumes the products?"

Answer: TRUE

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

31) An economic model is a detailed version of an economic environment.

Answer: FALSE

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

32) Economic models explore decision making by individuals, firms and other organizations.

Answer: TRUE

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

33) Would an economist consider clean air a scarce resource? Explain.

Answer: Yes, because the air had alternative uses. We can choose to use it to either breathe or to undertake activities that pollute it. The more we want to breathe clean air the more we must limit the production of pollutants. The more we pollute the air the less we can breathe clean air.

Diff: 2

Topic: What Is Economics?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

34) List and briefly describe the five factors of production.

Answer: Natural resources—those resources provided by nature. Labor—the physical and mental effort used by people to produce goods and services. Physical capital—the infrastructure, equipment, machines and structures used to produce goods and services. Human capital—the knowledge and skills obtained by workers through education and experience. Entrepreneurship—the organizing and coordination of the other four factors of production needed to produce and sell products.

Diff: 2

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

35) Give an example of something that is scarce in your life and explain the choices you've made because of scarcity.

Answer: Responses are numerous and will vary by students.

Diff: 1

Topic: What Is Economics?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

36) Positive economic analysis answers what question?

Answer: Positive economic analysis answers the question "what is" or "what will be."

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

37) Normative economic analysis answers what question?

Answer: Normative economic analysis answers the question "what ought to be."

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

38) Richard runs a pizza delivery restaurant. List the three basic types of decisions studied in economics and give an example from Richard's restaurant.

Answer: How to produce? With what resources will the pizzas be produced? What to produce? What sorts of pizza do people order? Who consumes the products? Which people decided to come to the restaurant on a given day?

Diff: 2

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-1

1.2 Economic Analysis and Modern Problems

1) According to the Texas Transportation Institute, the typical U.S. commuter wastes approximately how much time per year due to traffic congestion?

A) 14 hours

B) 22 hours

C) 47 hours

D) 96 hours

Answer: C

Diff: 1

Topic: Economic View of Traffic Congestion

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) In the final two decades of the twentieth century, average per capita global income

A) increased by approximately 35 percent.

B) remained relatively unchanged.

C) decreased by approximately 6 percent.

D) increased by more than 75 percent.

Answer: A

Diff: 1

Topic: Economic View of Poverty in Africa

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) In the final two decades of the twentieth century, per capita income in sub-Saharan Africa

A) increased by approximately 35 percent.

B) remained relatively unchanged.

C) decreased by approximately 6 percent.

D) increased by more than 75 percent.

Answer: C

Diff: 1

Topic: Economic View of Poverty in Africa

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) Prior to the financial crisis and recession which began in 2007, credit for mortgages was \_\_\_\_\_\_\_\_ , creating a \_\_\_\_\_\_\_\_.

A) virtually unavailable; housing bubble

B) only available to borrowers with high credit scores; shortage of affordable housing

C) easily obtained; housing boom

D) unavailable to low-income borrowers; large demand for rental properties

Answer: C

Diff: 1

Topic: Economic View of the Current World Recession

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) The financial crisis and recession which began in 2007

A) impacted only high-income countries.

B) was only severe in the United States.

C) had a global impact.

D) impacted only low-income countries.

Answer: C

Diff: 1

Topic: Economic View of the Current World Recession

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) Congestion taxes tend to cause an increase in traffic volume during rush hours.

Answer: FALSE

Diff: 1

Topic: Economic View of Traffic Congestion

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) In the 1980s and 1990s, average per capita income increased by a greater percentage in sub-Saharan Africa than it did in the rest of the world.

Answer: FALSE

Diff: 1

Topic: Economic View of Poverty in Africa

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

1.3 The Economic Way of Thinking

1) Who is associated with the following summary of the economic way of thinking: "The theory of economics does not furnish a body of settled conclusions immediately acceptable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its processer draw correct conclusions."

A) John Maynard Keynes

B) Alfred Marshall

C) Adam Smith

D) President Harry Truman

Answer: A

Diff: 1

Topic: The Economic Way of Thinking

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) To make things simpler and focus attention on what really matters, economists would

A) use assumptions.

B) ignore all variables.

C) think at the margin.

D) respond to incentives.

Answer: A

Diff: 1

Topic: Use Assumptions to Simplify

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) A variable measures

A) something that always has the same value.

B) something that can take on different values.

C) factors that occur with high degrees of uncertainty.

D) the degree to which something varies over time.

Answer: B

Diff: 1

Topic: Isolate Variables - Ceteris Paribus

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) The Latin phrase *ceteris paribus* means that when a relationship between two variables is being studied,

A) both are treated as unpredictable.

B) neither of those two variables is allowed to change.

C) all other variables are held fixed.

D) we recognize that some factors are unknown.

Answer: C

Diff: 1

Topic: Isolate Variables - Ceteris Paribus

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) To think at the margin means to consider

A) how nothing remains constant over time.

B) how a small change in one variable affects another variable.

C) how people behave in their own self-interest.

D) how people will decide what to purchase.

Answer: B

Diff: 1

Topic: Think at the Margin

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) Jerome has a "C" average in his philosophy course and a "B" average in his economics course. He decides to study an extra hour for his philosophy exam. This is an example of

A) thinking at the margin.

B) using assumptions to simplify.

C) *ceteris paribus.*

D) *caveat emptor.*

Answer: A

Diff: 1

Topic: Think at the Margin

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) A small change in a variable is

A) an average change.

B) a *ceteris paribus* change.

C) an efficient change.

D) a marginal change.

Answer: D

Diff: 1

Topic: Think at the Margin

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

8) Adam Smith

A) is considered the founder of economics.

B) introduced the concept of *ceteris paribus* to the discussion of supply and demand.

C) is responsible for refining the model of supply and demand.

D) is the author of this text.

Answer: A

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

9) When economists assume that people are rational and respond to incentives, they mean

A) people act with kindness.

B) people are altruistic.

C) people act in their own self-interest.

D) people are selfish.

Answer: C

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

10) When deciding to implement a congestion tax, economists and the government would use the elements of the economic way of thinking to primarily determine

A) if the tax would be allocated equitably.

B) what tax amount should be charged.

C) who should be exempt from the tax.

D) how much revenue will the tax generate.

Answer: B

Diff: 1

Topic: Example: London Addresses its Congestion Problem

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

11) After the implementation of the congestion tax in London, traffic volume was reduced and travel time for cars and buses was cut in half. This is an example of

A) responding to incentives.

B) the role of pricing in allocating resources.

C) *caveat emptor*.

D) comparative advantage.

Answer: A

Diff: 1

Topic: Example: London Addresses its Congestion Problem

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

12) When determining an appropriate congestion tax, economists would use which of the following elements of the economic way of thinking?

A) thinking at the margin

B) isolating variables

C) making assumptions

D) all of the above

Answer: D

Diff: 2

Topic: Example: London Addresses its Congestion Problem

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

**Recall the Application about the increase in purchases of hybrid vehicles to answer the following question(s).**

13) According to the Application, one factor which was responsible for roughly one-fifth of hybrid vehicles purchased in 2007 was a federal subsidy of up to $3,400 per hybrid vehicle. The increase in sales due to this subsidy is an example of which element of the economic way of thinking?

A) responding to incentives

B) thinking at the margin

C) isolating variables

D) using assumptions to simplify

Answer: A

Diff: 1

Topic: Application 1, Incentives to Buy Hybrid Vehicles

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

14) According to the Application, one factor which was responsible for roughly one-third of hybrid vehicles purchased in 2007 was an increase in the price of gasoline. The increase in sales due to higher gasoline prices describe the economic concept of

A) using assumptions to simplify.

B) *ceteris paribus.*

C) marginal thinking.

D) rational self interest.

Answer: D

Diff: 1

Topic: Application 1, Incentives to Buy Hybrid Vehicles

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

15) According to the Application, the average cost of abating one ton of CO2 emissions through the hybrid subsidy is $177, but a switch from coal to natural gas in power plants would reduce CO2 emissions at less than one-third the cost of the hybrid subsidy. The increase in cost associated with the reduction of one ton of CO2 emissions (assuming that each unit of CO2 emissions is measured in tons) describes the economic concept of

A) using assumptions to simplify.

B) *ceteris paribus.*

C) marginal thinking.

D) rational self interest.

Answer: C

Diff: 1

Topic: Application 1, Incentives to Buy Hybrid Vehicles

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

**Recall the Application about unwanted commercial e-mail, or spam, to answer the following question(s).**

16) According to the Application, the economic approach to spam is to

A) establish a price for commercial e-mail.

B) ignore the spam issue because it has no economic implications.

C) have it legislated on the local level since it is a microeconomic issue.

D) ban all e-mail from international servers.

Answer: A

Diff: 2

Topic: Application 2, The Economic Solution To Spam

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

17) According to the Application, the amount of e-mail spam would significantly decrease if

A) the cost of sending spam exceeded its profitability.

B) states passed laws making spam illegal.

C) e-mail filters were developed to separate spam from legitimate e-mail.

D) more people responded to spam e-mails.

Answer: A

Diff: 2

Topic: Application 2, The Economic Solution To Spam

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

18) Using assumptions to make things simpler and focus attention on what really matters is like using a road map to plan a trip.

Answer: TRUE

Diff: 1

Topic: Use Assumptions to Simplify

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

19) *Ceteris paribus* means "Let the buyer beware."

Answer: FALSE

Diff: 1

Topic: Isolate Variables - Ceteris Paribus

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

20) *Ceteris paribus* is the same as rise / run.

Answer: FALSE

Diff: 1

Topic: Isolate Variables - Ceteris Paribus

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

21) A small, one-unit change in value is called a marginal change.

Answer: TRUE

Diff: 1

Topic: Think at the Margin

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

22) A key assumption of most economic analysis is that people act rationally, meaning they respond to incentives.

Answer: TRUE

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

23) A key assumption of most economic analysis is that people are altruistic, meaning that they act in their own self-interest.

Answer: FALSE

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

24) Economists assume that individuals make informed decisions and act in their own self-interest.

Answer: TRUE

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

25) The congestion tax implemented in London reduced traffic volume and cut travel time for cars and buses in half.

Answer: TRUE

Diff: 1

Topic: Example: London Addresses its Congestion Problem

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

26) To determine an appropriate congestion tax, an economist has to assume that people respond to incentives.

Answer: TRUE

Diff: 1

Topic: Example: London Addresses its Congestion Problem

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

**Recall the Application about unwanted commercial e-mail, or spam, to answer the following question(s).**

27) According to the Application, one idea to reduce the volume of e-mail spam is to charge the sender for each commercial e-mail sent.

Answer: FALSE

Diff: 1

Topic: Application 2, The Economic Solution To Spam

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

28) What is meant by the term "marginal change"?

Answer: A marginal change is a small, one unit change in value.

Diff: 1

Topic: Think at the Margin

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

1.4 Preview of Coming Attractions: Macroeconomics

1) Macroeconomics is best described as the study of

A) very large issues.

B) the choices made by individual households, firms, and governments.

C) the nation's economy as a whole.

D) the relationship between inflation and wage inequality.

Answer: C

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-1

2) Which of the following is a macroeconomic question?

A) Should we have a constitutional amendment requiring the government to implement a national consumption tax to replace the current income tax?

B) Why did a leading computer manufacturer establish call centers in India?

C) Why does a pharmaceutical manufacturer try to lower its production costs?

D) Should the government put a tax on alcohol in an attempt to assist in the funding of support groups like Alcoholics Anonymous?

Answer: A

Diff: 2

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

3) Which of the following is NOT a macroeconomic question?

A) Should we have a constitutional amendment requiring the federal government to balance the budget each year?

B) Should restaurants be required to list the number of calories for each product on their menus?

C) How does a fiscal stimulus package affect gross domestic product?

D) Should Congress enact tougher immigration laws to reduce unemployment?

Answer: B

Diff: 2

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

4) We can use macroeconomic analysis to

A) learn how to balance a checkbook.

B) study the choices made by households.

C) understand marginal changes in the macroeconomy.

D) understand why economies grow.

Answer: D

Diff: 2

Topic: Using Macroeconomics to Understand Why Economies Grow

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

5) Macroeconomics involves the study of the decision-making of individual firms or individuals.

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

6) Macroeconomics helps explain economic fluctuations, why the economy shrinks and expands and why some of the economy's resources are idle.

Answer: TRUE

Diff: 1

Topic: Using Macroeconomics to Understand Economic Fluctuations

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

7) Describe the field of economics known as macroeconomics.

Answer: Macroeconomics is the study of the nation's economy as a whole. Macroeconomics focuses on the issues of inflation, unemployment and economic growth.

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-1

8) Explain three ways we can use macroeconomic analysis.

Answer: Macroeconomics explains why some resources increase over time and how an increase in these resources translates into a higher standard of living. In the fastest-growing countries, citizens save a large fraction of the money they earn. Firms can then borrow the funds saved to purchase machinery and equipment that make their workers more productive. The fastest growing countries also have well-educated workforces, allowing firms to quickly adopt new technologies that increase worker productivity. All economies, including ones that experience a general trend of growth, are subject to economic fluctuations including periods when the economy shrinks. During an economic downturn, some of the economy's resources are idle. Many workers are unemployed, and many factories and stores are closed. By contrast, sometimes the economy grows too rapidly, causing inflation. Macroeconomics helps us understand why these fluctuations occur—why the economy sometimes cools and sometimes overheats—and what we can do to moderate the fluctuations. A third reason for studying macroeconomics is to make informed business decisions. A manager who intends to borrow money for a new factory or store could use her knowledge of macroeconomics to predict the effects of current public policies on interest rates and then decide whether to borrow the money now or later.

Diff: 2

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

1.5 Preview of Coming Attractions: Microeconomics

1) The study of the choices made by individual households, firms, and government is called

A) macroeconomics.

B) microeconomics.

C) managerial economics.

D) market economics.

Answer: B

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) Microeconomics is best described as the study of

A) the choices made by individual households, firms, and governments.

B) inflation, unemployment, gross national product, and the nation's economy as a whole.

C) how markets interact in the aggregate economy.

D) marginal changes in the economy.

Answer: A

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) Which of the following is a microeconomic question?

A) Should companies pay for employees' health insurance?

B) Why do some countries have higher economic growth rates than other countries?

C) Should Congress and the president take action to reduce the unemployment rate?

D) Should the Fed attempt to influence the interest rate to control potential inflation?

Answer: A

Diff: 1

Topic: Using Microeconomics to Evaluate Public Policies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) Which of the following is a microeconomic question?

A) Should the government decrease unemployment benefits to reduce the unemployment rate ?

B) Why do some countries have higher inflation rates than other countries?

C) Should the government subsidize corn farmers to encourage the production of ethanol?

D) Should congress decrease taxes to help stimulate the economy?

Answer: C

Diff: 2

Topic: Using Microeconomics to Evaluate Public Policies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) Microeconomics helps explain economic fluctuations, why the economy shrinks and expands and why some of the economy's resources are idle.

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) Microeconomics is the study of aggregate behavior in the economy.

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) One example of a microeconomic question is, "How will prices in the clothing industry change if the government bans imports from China?"

Answer: TRUE

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

8) One example of a microeconomic question is, "Should unemployment benefits be increased?"

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

9) Describe the field of economics known as microeconomics.

Answer: Microeconomics is the study of the choices made by households, firms and government and how these choices affect the markets for goods and services.

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

10) Explain three ways we can use microeconomic analysis.

Answer:

1. To understand markets and predict changes: One reason for studying microeconomics is to better understand how markets work. Once you know how markets operate, you can use economic analysis to predict how various events affect product prices and quantities.

2. To make personal and managerial decisions: On the personal level, we use economic analysis to decide how to spend our time, what career to pursue, and how to spend and save the money we earn. As workers, we use economic analysis to decide how to produce goods and services, how much to produce, and how much to charge for them.

3. To evaluate public policies: While societies use markets to make the most of decisions concerning production and consumption, the government has several important roles in a market-based society. We can use economic analysis to determine how well the government performs its roles in the market economy. We can also explore the trade-offs associated with various public policies.

Diff: 2

Topic: Preview of Coming Attractions: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

1.6 Appendix A: Using Graphs and Percentages

1) There is a positive relationship between two variables if

A) they move in opposite directions.

B) they move in the same direction.

C) one variable changes and the other does not.

D) neither variable moves.

Answer: B

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

2) There is a negative relationship between two variables if

A) they move in opposite directions.

B) they move in the same direction.

C) one variable changes and the other does not.

D) neither variable moves.

Answer: A

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

3) The slope of a curve measures

A) the change in one variable in response to the change in the other variable.

B) the length of the curve.

C) only the change in the horizontal variable.

D) only the change in the vertical variable.

Answer: A

Diff: 1

Topic: Computing the Slope

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

4) Slope is calculated as the

A) change in the vertical variable divided by the change in the horizontal variable.

B) change in the horizontal variable divided by the change in the vertical variable.

C) the vertical axis divided by the horizontal axis.

D) change in the vertical variable.

Answer: A

Diff: 1

Topic: Computing the Slope

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

5) The slope of a straight line

A) is constant.

B) is negative.

C) is zero.

D) changes along the curve.

Answer: A

Diff: 1

Topic: Computing the Slope

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

6) If the variable on the vertical axis increases by 20 and the variable on the horizontal axis increases by 5, the slope of the line is

A) 0.25.

B) 4.

C) 15.

D) 100.

Answer: B

Diff: 1

Topic: Computing the Slope

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

7) If the variable on the vertical axis increases by 24 and the variable on the horizontal axis decreases by 3, the slope of the line is

A) -24.

B) -8.

C) 3.

D) 72.

Answer: B

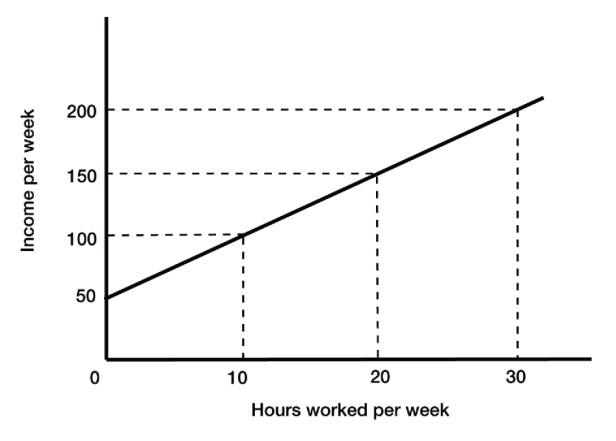
Diff: 1

Topic: Computing the Slope

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2



**Figure 1A.1**

8) Refer to Figure 1A.1. If the hours worked per week is 20, the income per week is

A) 50.

B) 100.

C) 150.

D) 200.

Answer: C

Diff: 1

Topic: Graphing Two Variables, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

9) Refer to Figure 1A.1. If the hours worked per week is 30, the income per week is

A) 50.

B) 100.

C) 150.

D) 200.

Answer: D

Diff: 1

Topic: Graphing Two Variables, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

10) Refer to Figure 1A.1. The slope of the line between the points where income equals 50 and income equals 200 is

A) 0.2.

B) 5.

C) 10.

D) 50.

Answer: B

Diff: 1

Topic: Computing the Slope, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

11) Refer to Figure 1A.1. The slope of the line between the points where hours worked per week are 20 and hours worked per week are 30 is

A) 0.2.

B) 5.

C) 10.

D) 50.

Answer: B

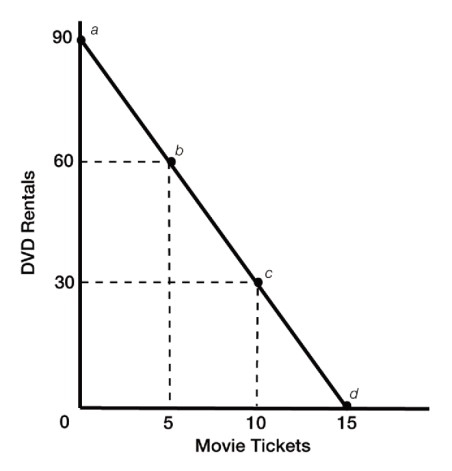
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Topic: Computing the Slope, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2



**Figure 1A.2**

12) Refer to Figure 1A.2. If this consumer rents zero DVDs, how many movie tickets will she purchase?

A) 0

B) 5

C) 10

D) 15

Answer: D

Diff: 1

Topic: Graphing Negative Relationships, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

13) Refer to Figure 1A.2. If this consumer rents 60 DVDs, how many movie tickets will she purchase?

A) 0

B) 5

C) 10

D) 15

Answer: B

Diff: 1

Topic: Graphing Negative Relationships, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

14) Refer to Figure 1A.2. The slope of the curve

A) is negative.

B) is positive.

C) is zero.

D) changes along the curve.

Answer: A

Diff: 1

Topic: Computing the Slope, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

15) Refer to Figure 1A.2. The slope between points *a* and *c* is

A) -5.

B) -6.

C) 10.

D) 30.

Answer: B

Diff: 1

Topic: Computing the Slope, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

16) The slope of a nonlinear curve

A) is constant.

B) is negative.

C) is zero.

D) changes along the curve.

Answer: D

Diff: 1

Topic: Graphing Nonlinear Relationships

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

17) If the price of monthly satellite TV service increases from $40 to $50, the percentage change is

A) 5 percent.

B) 20 percent.

C) 25 percent.

D) 45 percent.

Answer: C

Diff: 2

Topic: Computing Percentage Changes

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

18) If the price of a 32GB memory card decreases from $25 to $20, the percentage change is

A) -20 percent.

B) -33 percent.

C) -50 percent.

D) -60 percent.

Answer: A

Diff: 2

Topic: Computing Percentage Changes

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

**Recall the Application about the government of Mexico City repainting highway lane lines to transform a 4-lane highway into a 6-lane highway to answer the following question(s).**

19) When the government converted the highway from 4 lanes into 6 lanes, they claimed the capacity had increased by 50 percent. When the government switched the highway back from 6 lanes to 4 lanes, they claimed the capacity had been decreased by 33 percent. Had the government used the midpoint method, the percentage increase would have been \_\_\_\_\_\_\_\_ percent and the percentage decrease would have been \_\_\_\_\_\_\_\_ percent.

A) 33; 50

B) 33; 33

C) 40; 40

D) 50; 50

Answer: C

Diff: 2

Topic: Application 3, The Perils of Percentages

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

20) When computing percentage changes, using the simple approach results in increases and decreases which are

A) identical.

B) symmetric.

C) not symmetric.

D) more accurate than using the midpoint method.

Answer: C

Diff: 1

Topic: Application 3, The Perils of Percentages

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

21) If you work 4 extra hours, and the slope of the curve showing the relationship between your income and work hours is 8, your income will increase by

A) $2.

B) $4.

C) $12.

D) $32.

Answer: D

Diff: 2

Topic: Using Equations to Compute Missing Values

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

22) To increase income by $120 when the slope of the curve showing the relationship between your income and work hours is 8, how many extra hours will you need to work?

A) 8

B) 15

C) 112

D) 960

Answer: B

Diff: 2

Topic: Using Equations to Compute Missing Values

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

23) The origin of a graph is the intersection of the two axes, where the value of both variables is zero.

Answer: TRUE

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

24) Positive relationships are also referred to as inverse relationships.

Answer: FALSE

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

25) Negative relationships are also referred to as inverse relationships.

Answer: TRUE

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

26) Slope is calculated as rise / run.

Answer: TRUE

Diff: 1

Topic: Computing the Slope

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

27) Slope is calculated as a change in the variable on the horizontal axis divided by a change in the variable on the vertical axis.

Answer: FALSE

Diff: 1

Topic: Computing the Slope

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

***Macroeconomics: Prin., Apps, & Tools, 8e* (O'Sullivan) TB1**

**Chapter 3 Exchange and Markets**

3.1 Comparative Advantage and Exchange

1) Markets exist

A) so people can buy and sell things.

B) because people are self-sufficient.

C) because each person specializes in the production of many products.

D) as an arrangement where buyers do not interact with sellers.

Answer: A

Diff: 1

Topic: Comparative Advantage and Exchange

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

2) To explore the rationale for specialization, economists use the

A) marginal principle.

B) principle of opportunity cost.

C) real-nominal principle.

D) principle of marginal exchange.

Answer: B

Diff: 1

Topic: Comparative Advantage and Exchange

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

|  |  |  |
| --- | --- | --- |
|  | Kites /hour | Snowboards /hour |
| Jesse | 8 | 1 |
| April | 12 | 3 |

**Table 3.1**

3) Consider two individuals, Jesse and April, who hand paint kites and snowboards. Table 3.1 shows how much of each good Jesse and April can paint in one hour. Jesse's opportunity cost of painting one kite is painting

A) 1/12 of a snowboard.

B) 1/8 of a snowboard.

C) 1/3 of a snowboard.

D) 3 snowboards.

Answer: B

Diff: 1

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

4) Consider two individuals, Jesse and April, who hand paint kites and snowboards. Table 3.1 shows how much of each good Jesse and April can paint in one hour. Jesse's opportunity cost of painting one snowboard is painting

A) 1/8 of a kite.

B) 1.5 kites.

C) 8 kites.

D) 12 kites.

Answer: C

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

5) Consider two individuals, Jesse and April, who hand paint kites and snowboards. Table 3.1 shows how much of each good Jesse and April can paint in one hour. April's opportunity cost of painting one kite is painting

A) 1/12 of a snowboard.

B) 1/4 of a snowboard.

C) 3 snowboards.

D) 4 snowboards.

Answer: B

Diff: 1

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

6) Consider two individuals, Jesse and April, who hand paint kites and snowboards. Table 3.1 shows how much of each good Jesse and April can paint in one hour. April's opportunity cost of painting one snowboard is painting

A) 1.5 kites.

B) 3 kites.

C) 4 kites.

D) 12 kites.

Answer: C

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

7) Based on the data in Table 3.1

A) Jesse should specialize in painting kites and trade for snowboards.

B) Jesse should specialize in painting snowboards and trade for kites.

C) April should specialize in both goods.

D) Jesse should specialize in both goods.

Answer: A

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

8) Based on the data in Table 3.1

A) April should specialize in painting kites and trade for snowboards.

B) April should specialize in painting snowboards and trade for kites.

C) Jesse should specialize in both goods.

D) April should specialize in both goods.

Answer: B

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

9) Based on the data in Table 3.1, if Jesse and April choose to specialize and trade, then

A) April will specialize in painting kites and trade kites for snowboards.

B) April will specialize in painting snowboards and trade snowboards for kites.

C) Jesse will specialize in painting snowboards and trade snowboards for kites.

D) None of the above; specialization and trade are not beneficial for Jesse and April.

Answer: B

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

10) The ability of one person or nation to produce a good at a lower absolute cost than another is called a(n)

A) market advantage.

B) comparative advantage.

C) absolute advantage.

D) specialization advantage.

Answer: C

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

11) The ability of one person or nation to produce a good at a lower opportunity cost than another is called a(n)

A) market advantage.

B) comparative advantage.

C) absolute advantage.

D) specialization advantage.

Answer: B

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

12) An individual or country that has a comparative advantage in the production of one good

A) must have an absolute advantage in the good's production.

B) must not have an absolute advantage in the good's production.

C) may or may not have an absolute advantage in the good's production.

D) must not have an absolute advantage in the production of the other good.

Answer: C

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

|  |  |  |
| --- | --- | --- |
|  | Kites /hour | Snowboards /hour |
| Jesse | 8 | 1 |
| April | 12 | 3 |

**Table 3.2**

13) Consider two individuals, Jesse and April, who hand paint kites and snowboards. Table 3.2 shows how much of each good Jesse and April can paint in one hour. Which of the following is true?

A) April has an absolute advantage in painting kites but not snowboards.

B) April has an absolute advantage in painting snowboards but not kites.

C) April has an absolute advantage in painting both goods.

D) April does not have an absolute advantage in painting either good.

Answer: C

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

14) Consider two individuals, Jesse and April, who hand paint kites and snowboards. Table 3.2 shows how much of each good Jesse and April can paint in one hour. Which of the following is true?

A) April has a comparative advantage in painting kites but not snowboards.

B) April has a comparative advantage in painting snowboards but not kites.

C) April has a comparative advantage in painting both goods.

D) April does not have a comparative advantage in painting either good.

Answer: B

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

15) Consider two individuals, Jesse and April, who hand paint kites and snowboards. Table 3.2 shows how much of each good Jesse and April can paint in one hour. Which of the following is true?

A) April has both an absolute and comparative advantage in painting kites.

B) April has both an absolute and comparative advantage in painting snowboards.

C) April has neither an absolute nor comparative advantage in painting kites.

D) April has neither an absolute nor a comparative advantage in painting snowboards.

Answer: B

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

16) Consider two individuals, Jesse and April, who hand paint kites and snowboards. Table 3.2 shows how much of each good Jesse and April can paint in one hour. Which of the following is true?

A) Jesse has an absolute advantage in painting kites but not snowboards.

B) Jesse has an absolute advantage in painting snowboards but not kites.

C) Jesse has an absolute advantage in painting both goods.

D) Jesse has an absolute advantage in painting neither good.

Answer: D

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

|  |  |  |
| --- | --- | --- |
|  | Hair Pins /hour | Bandanas /hour |
| Nigel | 4 | 10 |
| Mia | 9 | 3 |

**Table 3.3**

17) Consider two individuals, Nigel and Mia, who produce hair pins and bandanas. Nigel's and Mia's hourly productivity are shown in Table 3.3. Nigel's opportunity cost of producing one bandana is

A) 1/4 of a hair pin.

B) 2/5 of a hair pin.

C) 2.5 hair pins.

D) 4 hair pins.

Answer: B

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

18) Consider two individuals, Nigel and Mia, who produce hair pins and bandanas. Nigel's and Mia's hourly productivity are shown in Table 3.3. Nigel's opportunity cost of producing one hair pin is

A) 1/3 of a bandana.

B) 2.5 bandanas.

C) 3 bandanas.

D) 10 bandanas.

Answer: B

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

19) Consider two individuals, Nigel and Mia, who produce hair pins and bandanas. Nigel's and Mia's hourly productivity are shown in Table 3.3. Mia's opportunity cost of producing one bandana is

A) 1/3 of a hair pin.

B) 2.5 hair pins.

C) 3 hair pins.

D) 9 hair pins.

Answer: C

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

20) Consider two individuals, Nigel and Mia, who produce hair pins and bandanas. Nigel's and Mia's hourly productivity are shown in Table 3.3. Mia's opportunity cost of producing one hair pin is

A) 1/3 of a bandana.

B) 2.5 bandanas.

C) 3 bandanas.

D) 10 bandanas.

Answer: A

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

21) Consider two individuals, Nigel and Mia, who produce hair pins and bandanas. Nigel's and Mia's hourly productivity are shown in Table 3.3. Which of the following is true?

A) Nigel has an absolute advantage in producing hair pins but not bandanas.

B) Nigel has an absolute advantage in producing bandanas but not hair pins.

C) Nigel has an absolute advantage in producing both goods.

D) Nigel does not have an absolute advantage in producing either good.

Answer: B

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

22) Consider two individuals, Nigel and Mia, who produce hair pins and bandanas. Nigel's and Mia's hourly productivity are shown in Table 3.3. Which of the following is true?

A) Nigel has a comparative advantage in producing hair pins but not bandanas.

B) Nigel has a comparative advantage in producing bandanas but not hair pins.

C) Nigel has a comparative advantage in producing both goods.

D) Nigel does not have a comparative advantage in producing either good.

Answer: B

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

23) Consider two individuals, Nigel and Mia, who produce hair pins and bandanas. Nigel's and Mia's hourly productivity are shown in Table 3.3. Which of the following is true?

A) Nigel has both an absolute and comparative advantage in hair pin production.

B) Nigel has both an absolute and comparative advantage in bandana production.

C) Nigel has neither an absolute nor comparative advantage in hair pin production.

D) Nigel has neither an absolute nor a comparative advantage in bandana production.

Answer: B

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

24) Consider two individuals, Nigel and Mia, who produce hair pins and bandanas. Nigel's and Mia's hourly productivity are shown in Table 3.3. Which of the following is true?

A) Mia has an absolute advantage in producing hair pins but not bandanas.

B) Mia has an absolute advantage in producing bandanas but not hair pins.

C) Mia has an absolute advantage in producing both goods.

D) Mia does not have an absolute advantage in producing either good.

Answer: A

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

25) Jimbo has a comparative advantage over Ned in producing a good if

A) Jimbo can produce more of the good than Ned can in a given time period.

B) Jimbo has a lower opportunity cost of producing the good than does Ned.

C) Jimbo has to trade off more than Ned does to produce the good.

D) Jimbo has a higher opportunity cost of producing the good than does Ned.

Answer: B

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

|  |  |  |
| --- | --- | --- |
|  | Wind Chimes | Sun Dials |
| Deena | 9 | 12 |
| Artie | 6 | 8 |

**Table 3.4**

26) Consider two individuals, Artie and Deena, who produce wind chimes and sun dials. Artie's and Deena's weekly productivity are shown in Table 3.4. Which of the following is true?

A) Artie has a comparative advantage in producing wind chimes but not sun dials.

B) Artie has a comparative advantage in producing sun dials but not wind chimes.

C) Artie has a comparative advantage in producing both goods.

D) Artie does not have a comparative advantage in producing either good.

Answer: D

Diff: 3

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

27) Consider two individuals, Artie and Deena, who produce wind chimes and sun dials. Artie's and Deena's weekly productivity are shown in Table 3.4. Which of the following is true?

A) Deena has an absolute advantage in producing both goods, and a comparative advantage in producing wind chimes.

B) Deena has an absolute advantage in producing both goods, and a comparative advantage in producing sun dials.

C) Deena has an absolute and a comparative advantage in producing both goods.

D) Deena has an absolute advantage in producing both goods, but no one has a comparative advantage in producing either good.

Answer: D

Diff: 3

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

28) The more times a worker performs a particular task, the more proficient the worker becomes at that task. This source of productivity increase is called

A) continuity.

B) innovation.

C) specialization.

D) repetition.

Answer: D

Diff: 1

Topic: The Division of Labor and Exchange

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

29) A specialized worker doesn't spend time switching from one task to another. This source of productivity increase is called

A) continuity.

B) innovation.

C) functionality.

D) repetition.

Answer: A

Diff: 1

Topic: The Division of Labor and Exchange

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

30) When a specialized worker gains insights into a particular task that leads to better production methods, this is called

A) continuity.

B) innovation.

C) specialization.

D) repetition.

Answer: B

Diff: 1

Topic: The Division of Labor and Exchange

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

31) Specialization and trade exploit differences in productivity across workers and

A) only benefit the exporter.

B) only benefit the importer.

C) make everyone better off.

D) make everyone worse off.

Answer: C

Diff: 1

Topic: The Division of Labor and Exchange

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

32) Specialization and exchange result from differences in productivity that lead to

A) opportunity cost.

B) comparative advantage.

C) absolute advantage.

D) self-sufficiency.

Answer: B

Diff: 1

Topic: The Division of Labor and Exchange

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

33) Differences in innate skills and the benefits associated with the division of labor result in

A) differences in productivity.

B) absolute advantage.

C) self-sufficiency.

D) diminishing returns.

Answer: A

Diff: 1

Topic: The Division of Labor and Exchange

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

34) Trade results from

A) comparative advantage.

B) absolute advantage.

C) self-sufficiency.

D) diminishing returns.

Answer: A

Diff: 2

Topic: Comparative Advantage and International Trade

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

35) An import is a product

A) produced in and purchased by residents of the home country.

B) produced in and sold to the residents of a foreign country.

C) produced in the home country and sold in another country.

D) produced in a foreign country and purchased by the residents of the home country.

Answer: D

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

36) An export is a product

A) produced in and purchased by residents of the home country.

B) produced in and sold to the residents of a foreign country.

C) produced in the home country and sold in another country.

D) produced in a foreign country and purchased by the residents of the home country.

Answer: C

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

37) A rich nation will trade with a poor nation because the

A) rich nation has the absolute advantage in producing all products.

B) poor nation has the absolute advantage in producing all products.

C) poor nation has the comparative advantage in producing a product.

D) rich nation has the comparative advantage in producing all products.

Answer: C

Diff: 2

Topic: Comparative Advantage and International Trade

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

38) For country *A*, an export is a good produced in

A) country *B* and purchased by residents of country *B*.

B) country *B* and purchased by residents of country *A*.

C) country *A* and purchased by residents of country *B*.

D) country *A* and purchased by residents of country *A*.

Answer: C

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

39) For country *A*, an import is a good produced in

A) country *B* and purchased by residents of country *B*.

B) country *B* and purchased by residents of country *A*.

C) country *A* and purchased by residents of country *B*.

D) country *A* and purchased by residents of country *A*.

Answer: B

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

40) Outsourcing allows a company to take advantage of the \_\_\_\_\_\_\_\_ of other countries, and in doing so it can produce its products at a lower cost.

A) comparative advantages

B) diminishing returns

C) trade imbalances

D) market failures

Answer: A

Diff: 1

Topic: Outsourcing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

41) The cost savings from outsourcing often lead to \_\_\_\_\_\_\_\_ for consumers and \_\_\_\_\_\_\_\_ for the outsourcing company.

A) lower prices; less output

B) lower prices; more output

C) higher prices; less output

D) higher prices; more output

Answer: B

Diff: 1

Topic: Outsourcing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

42) Jobs lost to outsourcing can be partially offset by jobs gained from

A) higher production costs.

B) higher opportunity costs.

C) greater trade imbalances.

D) increased output from another industry.

Answer: D

Diff: 1

Topic: Outsourcing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

43) When a U.S. company shifts some of its production to Mexico, it is engaging in

A) outsourcing.

B) insourcing.

C) self-sufficiency.

D) involuntary exchange.

Answer: A

Diff: 1

Topic: Outsourcing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

44) A U.S. company is attempting to cut costs by shifting some of its services to Thailand. This process of shifting production of products or services overseas to cut costs often results in

A) greater potential for market failure for those products and services.

B) greater economic uncertainty in the market for those products and services.

C) lower consumer prices on those products or services.

D) lower production quantities of those products or services.

Answer: C

Diff: 1

Topic: Outsourcing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

45) When a U.S. company shifts its call-center operations overseas to reduce costs, it is applying the economic concept of

A) thinking at the margin.

B) comparative advantage.

C) diminishing returns.

D) using assumptions to simplify.

Answer: B

Diff: 2

Topic: Outsourcing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

**Recall the Application about productivity in the nation of Latvia in the 1990s to answer the following question(s).**

46) According to this Application, in the 1990s EU countries had \_\_\_\_\_\_\_\_ in the production of all products compared to Latvia.

A) an absolute advantage and a comparative advantage

B) an absolute advantage but not a comparative advantage

C) a comparative advantage but not an absolute advantage

D) neither an absolute advantage nor a comparative advantage

Answer: B

Diff: 1

Topic: Application 1, Absolute Disadvantage and Comparative Advantage in Latvia

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-3

47) According to this Application, workers in the EU were more productive than workers in Latvia in the 1990s, yet EU nations still purchased products from Latvia. This is because Latvia \_\_\_\_\_\_\_\_ in the production of the products it sold to EU nations.

A) had an absolute advantage

B) had a comparative advantage

C) used fewer resources

D) had a higher opportunity cost

Answer: B

Diff: 1

Topic: Application 1, Absolute Disadvantage and Comparative Advantage in Latvia

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

48) According to this Application, workers in the EU were more productive than workers in Latvia in the 1990s, yet despite this, EU nations chose to trade with Latvia. Engaging in trade with Latvia allowed \_\_\_\_\_\_\_\_ to become more productive.

A) workers in the EU but not workers in Latvia

B) workers in Latvia but not workers in the EU

C) neither workers in the EU nor in Latvia

D) workers in both the EU and in Latvia

Answer: D

Diff: 1

Topic: Application 1, Absolute Disadvantage and Comparative Advantage in Latvia

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

49) If Libby can produce 20 gallons of beer or 5 gallons of wine per hour, her opportunity cost of one gallon of beer is 4 gallons of wine.

Answer: FALSE

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

50) A comparative advantage is the ability of one person or nation to produce a good at an opportunity cost that is lower than that of another person or nation.

Answer: TRUE

Diff: 1

Topic: Specialization and the Gains from Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

51) If Eddie can produce 40 milk shakes or 20 banana splits in an hour, and Tina can produce 30 milk shakes or 16 banana splits in an hour, then Eddie has a comparative advantage in producing milk shakes.

Answer: TRUE

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

52) If Eddie can produce 40 milk shakes or 20 banana splits in an hour, and Tina can produce 30 milk shakes or 16 banana splits in an hour, then Eddie has a comparative advantage in producing banana splits.

Answer: FALSE

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

53) If Eddie can produce 40 milk shakes or 20 banana splits in an hour, and Tina can produce 30 milk shakes or 16 banana splits in an hour, then Tina has a comparative advantage in producing milk shakes.

Answer: FALSE

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

54) If Eddie can produce 40 milk shakes or 20 banana splits in an hour, and Tina can produce 30 milk shakes or 16 banana splits in an hour, then Tina has a comparative advantage in producing banana splits.

Answer: TRUE

Diff: 2

Topic: Specialization and the Gains from Trade

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

55) If a person has an absolute advantage in some activity, she must have a comparative advantage in that activity as well.

Answer: FALSE

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

56) If a person has a comparative advantage in some activity, she must have an absolute advantage in that activity as well.

Answer: FALSE

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

57) Absolute advantage occurs when one producer has greater productivity compared to another producing the same product.

Answer: TRUE

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

58) The principles of comparative advantage and specialization only apply to trade between different nations.

Answer: FALSE

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

59) Imports are products produced in the home country and sold in another country.

Answer: FALSE

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

60) Exports are products produced in the home country and sold in another country.

Answer: TRUE

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

61) Trade will be beneficial for a nation with a comparative advantage in producing a certain product.

Answer: TRUE

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

62) Trade is only beneficial if a nation has an absolute advantage in producing all products.

Answer: FALSE

Diff: 1

Topic: Comparative Advantage and International Trade

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

63) What does it mean for a person or nation to have a comparative advantage in producing a product?

Answer: Having a comparative advantage means the person or nation has the ability to produce the product at a lower opportunity cost than another person or nation.

Diff: 1

Topic: Specialization and the Gains from Trade

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

64) Explain what is meant by the economic principle of voluntary exchange.

Answer: If two people both produce goods and each has a comparative advantage, and they exchange goods with each other for mutual benefit, it is called a voluntary exchange.

Diff: 1

Topic: Specialization and the Gains from Trade

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

65) Consider two individuals, Ozzy and Sharon, who produce toy boats and yoyos. Ozzy's and Sharon's hourly productivity are as follows:

|  |  |  |
| --- | --- | --- |
|  | Yoyos /hour | Toy boats /hour |
| Ozzy | 12 | 4 |
| Sharon | 10 | 5 |

Who has the absolute advantage or comparative advantage in the production of yoyos or boats?

Answer: Sharon has the absolute advantage in boats and Ozzy has the absolute advantage in yoyos. Sharon also has the comparative advantage in boats while Ozzy has it in yoyos, because Sharon's opportunity cost of producing one boat per hour is 2 yoyos, and Ozzy's opportunity cost of producing one boat per hour is 3 yoyos.

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

66) What does it mean for a nation to have an absolute advantage in producing a product?

Answer: If a country has the ability to produce a product at a lower resource cost than anyone else, the country is said to have an absolute advantage.

Diff: 1

Topic: Comparative Advantage versus Absolute Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

67) Consider two individuals, Celia and Sondra, who produce bracelets and pendants. Celia's and Sondra's hourly productivity are as follows:

|  |  |  |
| --- | --- | --- |
|  | Bracelets /hour | Pendants /hour |
| Celia | 4 | 1 |
| Sondra | 10 | 2 |

Who has the absolute advantage or comparative advantage in the production of bracelets or pendants?

Answer: Sondra has the absolute advantage in producing both goods, but Sondra only has comparative advantage in the production of bracelets, not pendants. Celia has a comparative advantage in the production of pendants. Sondra's opportunity cost of a bracelet is 1/5 of a pendant, and her opportunity cost of a pendant is 5 bracelets. Celia's opportunity cost of a bracelet is 1/4 of a pendant, and her opportunity cost of a pendant is 4 bracelets.

Diff: 2

Topic: Comparative Advantage versus Absolute Advantage

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-3

68) In *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith listed three reasons for productivity to increase with specialization. What are these three reasons?

Answer: repetition, continuity, innovation

Diff: 1

Topic: The Division of Labor and Exchange

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-3

69) Define the term "import."

Answer: An import is a product produced in a foreign country and purchased by residents of the home country.

Diff: 2

Topic: Comparative Advantage and International Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

70) Define the term "export."

Answer: An export is a product produced in the home country and sold in another country.

Diff: 2

Topic: Comparative Advantage and International Trade

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

71) Imagine two countries, Zorba and Anduluvia. Zorba is producing everything at a lower resource cost than Anduluvia. If the two countries trade what is the reason?

Answer: Just because Zorba has an absolute advantage in the production of all goods does not mean that it's not beneficial for the two countries to trade. Suppose there are only two goods. Zorba may have a comparative advantage in only one of the two goods, while Anduluvia may have a comparative advantage in the other. So Zorba could be made better off by specializing in the good in which it has the comparative advantage and trading with Anduluvia for the other good.

Diff: 2

Topic: Comparative Advantage and International Trade

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

3.2 Markets

1) An economy in which people exchange goods and services in a market is called a

A) socialist economy.

B) market economy.

C) centrally planned economy.

D) command economy.

Answer: B

Diff: 1

Topic: Markets

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

2) In a market economy, what specifies the terms of exchange, facilitating exchange between strangers?

A) contracts

B) insurance

C) patents

D) accounting rules

Answer: A

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

3) In a market economy, what encourages firms to develop new products and production processes?

A) contracts

B) insurance

C) patents

D) accounting rules

Answer: C

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

4) In a market economy, what provides potential investors with reliable information about the financial performance of a firm?

A) contracts

B) insurance

C) patents

D) accounting rules

Answer: D

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

5) In which system are decisions made by thousands of people who have information about resources, production technology and consumer desires?

A) market system

B) centrally planned system

C) command system

D) socialist system

Answer: A

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

6) In a market system, self-interest motivates most people to

A) avoid paying insurance premiums.

B) remain self-sufficient.

C) provide products for other people.

D) rely on government central planning.

Answer: C

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

7) An economy in which government bureaucracy decides how much of a good to produce, how to produce the good, and who gets the good is known as a

A) mixed economy.

B) centrally planned economy.

C) laissez-faire economy.

D) market economy.

Answer: B

Diff: 1

Topic: Virtues of Markets

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

8) A centrally planned economy has a planning authority that decides

A) what products to produce.

B) how the products are produced.

C) who receives the products.

D) all of the above

Answer: D

Diff: 1

Topic: Virtues of Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

9) In a market system, what provides individuals the information needed to make decisions?

A) insurance

B) prices

C) patents

D) government

Answer: B

Diff: 1

Topic: Virtues of Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

10) Entrepreneurs play a key role in which type of economy?

A) centrally planned economy

B) market economy

C) command economy

D) all of the above

Answer: B

Diff: 1

Topic: Virtues of Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

11) One of the most obvious clues to the relative scarcity of a product is

A) the variations in available sizes.

B) its current market price.

C) the limited selection of colors.

D) the quality of the product.

Answer: B

Diff: 1

Topic: Virtues of Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

12) Adam Smith used the metaphor of the "invisible hand" to explain how

A) markets mismatch buyers and sellers.

B) business owners are benevolent.

C) people acting on their own self-interest promote the interest of society as a whole.

D) the production possibilities frontier illustrates efficient outcomes.

Answer: C

Diff: 1

Topic: Virtues of Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

**Recall the Application about the market for meteorites to answer the following question(s).**

13) According to the Application, the market price of meteorites varies from a few dollars per gram to hundreds of dollars per gram. In a market system like the market for meteorites, prices vary due to

A) government intervention in the pricing of the products.

B) the lack of accounting rules in this market.

C) the relative scarcity, or rarity, of the product.

D) outsourcing.

Answer: C

Diff: 1

Topic: Application 2, The Market for Meteorites

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

14) According to the Application, people in Morocco bring meteorites picked up in the desert to local dealers, who then sell them to the public through Websites. This process is a description of

A) a market system.

B) a centrally planned economy.

C) a barter economy.

D) a bureaucratic system.

Answer: A

Diff: 1

Topic: Application 2, The Market for Meteorites

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

15) According to the Application, people in Morocco bring meteorites picked up in the desert to local dealers, who then sell them to the public through Websites. If the Moroccan government decided to intervene in this market by requiring all meteorites be turned over to the government, and then the government decides who is allowed to purchase the meteorites and at what prices, this best describes an example of

A) a market system.

B) central planning.

C) a barter economy.

D) comparative advantage.

Answer: B

Diff: 1

Topic: Application 2, The Market for Meteorites

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

16) By engaging in trade and acting in their own self interest, World War II POWs were following the economic principle of

A) comparative advantage.

B) division of labor.

C) international trade.

D) voluntary exchange.

Answer: D

Diff: 1

Topic: Example of the Emergence of Markets: POW Camps

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

17) Prisoners in World War II POW camps traded products for other products, a process referred to as

A) barter.

B) rationing.

C) central planning.

D) advantage exchange.

Answer: A

Diff: 1

Topic: Example of the Emergence of Markets: POW Camps

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

18) The prices of the products in the World War II POW camps, measured in terms of cigarettes, reflected the products'

A) costs of production.

B) retail prices.

C) practicality.

D) scarcity.

Answer: D

Diff: 1

Topic: Example of the Emergence of Markets: POW Camps

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

19) Markets exist to facilitate exchange between people.

Answer: TRUE

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

20) Under a market system, the people with information about buyers' desires, production technology and resources make the decisions.

Answer: TRUE

Diff: 1

Topic: Virtues of Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

21) The market system works by getting each person, motivated by his or her own self-interest, to produce products for other people.

Answer: TRUE

Diff: 1

Topic: Virtues of Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

22) What is a market economy?

Answer: A market economy is an economy in which people exchange goods and services in markets.

Diff: 1

Topic: Markets

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

23) Identify markets in which there is an exchange.

Answer: financial capital markets, labor markets, consumer markets

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

24) Explain why contracts are beneficial to markets.

Answer: Contracts specify the terms of trade, facilitating exchange between strangers.

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

25) Explain why insurance has been beneficial to markets.

Answer: Insurance reduces the risk of entrepreneurs.

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

26) Explain how patents have been beneficial for markets.

Answer: Patents increase the profitability of inventions, encouraging firms to develop new products and production processes.

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

27) Explain how accounting rules have been beneficial for markets.

Answer: Accounting rules provide potential investors with reliable information about the financial performance of firms.

Diff: 1

Topic: Markets

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

28) What is a centrally planned economy?

Answer: A centrally planned economy is an economy in which a government bureaucracy decides what products to produce, how to produce them, and who gets the products.

Diff: 1

Topic: Virtues of Markets

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-3

3.3 Market Failure and the Role of Government

1) How can governments intervene in trade?

A) by producing cheaper products

B) by helping reduce economic uncertainty

C) by not buying products from competing countries

D) all of the above

Answer: B

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-5

2) In a market-based economy, the government

A) allocates production.

B) decides how much to produce.

C) encourages insurance risk.

D) enforces property rights.

Answer: D

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-5

3) Market failure occurs when

A) markets have perfect information.

B) markets do not produce the most efficient outcome.

C) companies merge to increase efficiency.

D) companies are too efficient.

Answer: B

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-5

4) The phenomenon which occurs when markets do not produce the most efficient outcome on their own is known as

A) public goods.

B) imperfect information.

C) market failure.

D) economic certainty.

Answer: C

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-5

5) One common source of market failure is

A) perfect competition.

B) pollution.

C) perfect information.

D) private goods.

Answer: B

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-5

6) One role government can play in addressing market failure is to

A) enforce the rules of exchange.

B) increase economic uncertainty.

C) promote imperfect competition.

D) facilitate decision making for private goods.

Answer: A

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-5

7) Providing unemployment insurance is one way a government can

A) break up monopolies.

B) enforce rules of exchange.

C) create public-works programs.

D) reduce economic uncertainty.

Answer: D

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-5

**Recall the Application about the role of government in promoting civil liberties to answer the following question(s).**

8) According to the Application, there is a \_\_\_\_\_\_\_\_ relationship between the strength of civil liberties and the economic rate of return on government investment projects, which tends to lead to \_\_\_\_\_\_\_\_ government projects.

A) positive; less efficient

B) negative; less efficient

C) positive; more efficient

D) negative; more efficient

Answer: C

Diff: 1

Topic: Application 3, Civil Liberties and Efficiency of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-5

9) According to the Application, moving from a country with relatively weak civil liberties to one with relatively strong civil liberties, the economic rate of return on World Bank development projects

A) increases by about 15 percentage points.

B) more than triples.

C) decreases by more than 20 percent.

D) is not noticeably changed.

Answer: A

Diff: 1

Topic: Application 3, Civil Liberties and Efficiency of Government

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-5

10) Market failure happens when a market does not generate the most efficient outcome.

Answer: TRUE

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-5

11) In a market-based economy, only the government can reduce economic uncertainty.

Answer: FALSE

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-5

12) The government plays no role in a market-based economy.

Answer: FALSE

Diff: 1

Topic: Market Failure and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-5

***Macroeconomics: Prin., Apps, & Tools, 8e* (O'Sullivan) TB1**

**Chapter 4 Demand, Supply, and Market Equilibrium**

4.1 The Demand Curve

1) If a competitive market operates perfectly, it relies on

A) the number of people buying goods.

B) the laws of supply and demand.

C) how many products can be produced for sale.

D) how much people are willing to pay for the products.

Answer: B

Diff: 1

Topic: Demand, Supply and Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

2) A change in the quantity demanded of a product is the result of a change in

A) the price of the product.

B) the price of related goods.

C) consumer income.

D) the cost of producing the product.

Answer: A

Diff: 1

Topic: The Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

3) A demand curve is defined as the relationship between

A) the price of a good and the quantity of that good that consumers are willing to buy.

B) the price of a good and the quantity of that good that producers are willing to sell.

C) the income of consumers and the quantity of a good that consumers are willing to buy.

D) the income of consumers and the quantity of a good that producers are willing to sell.

Answer: A

Diff: 1

Topic: The Demand Curve

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

4) The quantity demanded of a product increases as

A) consumer income rises.

B) the prices of other products fall.

C) the price of the product rises.

D) the price of the product falls.

Answer: D

Diff: 1

Topic: The Demand Curve

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

5) The Law of Demand can be explained as

A) a lot of people wanting the same thing.

B) the higher the price, the smaller the quantity demanded, *ceteris paribus*.

C) people are willing to make limited sacrifices to acquire products.

D) legal reasons people make purchases in the marketplace.

Answer: B

Diff: 2

Topic: The Individual Demand Curve and the Law of Demand

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

6) In considering the relationships between price and quantity demanded, *ceteris paribus* directs the economist to assume that

A) price increases affect quantity.

B) quantity increases affect prices.

C) either price nor quantity affect demand.

D) all other variables remain unchanged.

Answer: D

Diff: 2

Topic: The Individual Demand Curve and the Law of Demand

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

7) When there is a change in the quantity demanded it means that

A) the hours the customer can buy products each day have increased.

B) the number of products in inventory have increased.

C) the quantity a consumer is willing to buy changes when the price changes.

D) the selling price of the products has not changed.

Answer: C

Diff: 2

Topic: The Individual Demand Curve and the Law of Demand

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

8) The market demand curve

A) shows the relationship between the price of a good and the quantity that all consumers together are willing to buy.

B) is drawn assuming that variables such as income and tastes are variable.

C) is drawn assuming that the number of consumers is variable.

D) is drawn assuming that the selling price is fixed.

Answer: A

Diff: 1

Topic: From Individual Demand to Market Demand

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

9) Suppose that there are only three consumers of a product. At a price of $6 per unit, the first consumer would buy 12 units of the product, the second consumer would buy 8 units, and the third consumer would buy 3 units of the product. If you drew a market demand curve for this product, the quantity demanded at a price of $6 would be

A) 23 units.

B) 20 units.

C) 12 units.

D) 11 units.

Answer: A

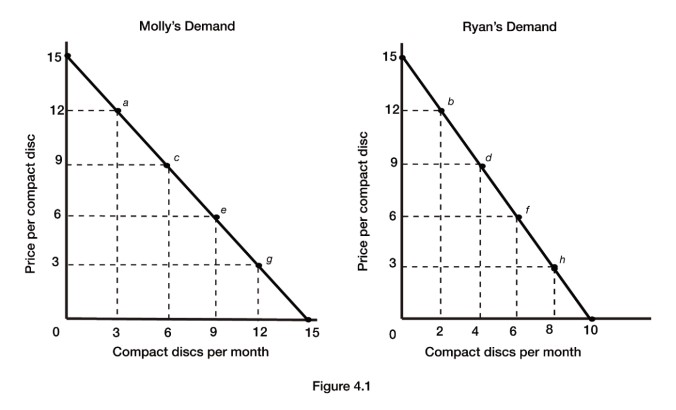
Diff: 1

Topic: From Individual Demand to Market Demand

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4



10) Refer to Figure 4.1, which shows Molly's and Ryan's individual demand curves for compact discs per month. Assuming Molly and Ryan are the only consumers in the market, what is the market quantity demanded at a price of $3?

A) 6

B) 9

C) 15

D) 20

Answer: D

Diff: 1

Topic: From Individual Demand to Market Demand, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

11) Refer to Figure 4.1, which shows Molly's and Ryan's individual demand curves for compact discs per month. Assuming Molly and Ryan are the only consumers in the market, what is the market quantity demanded at a price of $9?

A) 2

B) 4

C) 6

D) 10

Answer: D

Diff: 1

Topic: From Individual Demand to Market Demand, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

12) Refer to Figure 4.1, which shows Molly's and Ryan's individual demand curves for compact discs per month. Assuming Molly and Ryan are the only consumers in the market, if the market quantity demanded is 15, the price must be

A) $0.

B) $6.

C) $9.

D) $15.

Answer: B

Diff: 1

Topic: From Individual Demand to Market Demand, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

13) Refer to Figure 4.1, which shows Molly's and Ryan's individual demand curves for compact discs per month. Assuming Molly and Ryan are the only consumers in the market, if the market quantity demanded is 5, the price must be

A) $3.

B) $6.

C) $9.

D) $12.

Answer: D

Diff: 1

Topic: From Individual Demand to Market Demand, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

**Recall the Application about the decrease in taxes on cigarettes in several Canadian provinces in 1994 to answer the following question(s).**

14) According to this Application, after the government deceased cigarette taxes in several Canadian provinces, demand for cigarettes \_\_\_\_\_\_\_\_ in these provinces, shifting the demand curve to the \_\_\_\_\_\_\_\_.

A) increased; right

B) increased; left

C) decreased; right

D) decreased; left

Answer: A

Diff: 1

Topic: Application 1, The Law of Demand and Cigarettes

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

15) Recall the Application. The change in demand for cigarettes resulting from the decrease in taxes would normally create, *ceteris paribus*,

A) an increase in their supply.

B) a decrease in their supply.

C) an increase in their quantity supplied.

D) a decrease in their quantity supplied.

Answer: C

Diff: 2

Topic: Application 1, The Law of Demand and Cigarettes

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

16) According to this Application, after the government deceased cigarette taxes in several Canadian provinces in 1994, the price of cigarettes in these provinces decreased by roughly \_\_\_\_\_\_\_\_ percent.

A) 8

B) 17

C) 50

D) 88

Answer: C

Diff: 1

Topic: Application 1, The Law of Demand and Cigarettes

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-4

17) According to this Application, after the government deceased cigarette taxes in several Canadian provinces in 1994, the decrease in the price of cigarettes in these provinces

A) more than doubled the smoking rate.

B) created no noticeable change in the smoking rate.

C) increased the smoking rate by roughly 17 percent

D) was accompanied by a slight decrease in the rate of smoking.

Answer: C

Diff: 1

Topic: Application 1, The Law of Demand and Cigarettes

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

18) As the price of a product falls, the demand for the product increases, *ceteris paribus*.

Answer: FALSE

Diff: 1

Topic: The Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

19) On the "demand side" of a market, consumers indicate what they are willing to buy, in what quantity and at what price.

Answer: TRUE

Diff: 1

Topic: The Demand Curve

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

20) The law of demand states that there is a negative relationship between price and quantity demanded, *ceteris paribus*.

Answer: TRUE

Diff: 1

Topic: The Individual Demand Curve and the Law of Demand

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

21) The market demand curve shows the relationship between the price and the quantity demanded by all consumers, everything else being equal.

Answer: TRUE

Diff: 2

Topic: From Individual Demand to Market Demand

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

4.2 The Supply Curve

1) A supply curve is defined as the relationship between

A) the price of a good and the quantity that consumers are willing to buy.

B) the price of a good and the quantity that producers are willing to sell.

C) the income of consumers and the quantity of a product that consumers are willing to buy.

D) the income of consumers and the quantity of a product that producers are willing to sell.

Answer: B

Diff: 1

Topic: The Supply Curve

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

2) A change in quantity supplied of a product is the result of a change in

A) consumer income.

B) the state of production technology.

C) the cost of producing the product.

D) the price of the product.

Answer: D

Diff: 1

Topic: The Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

3) The Law of Supply states that

A) producers should only produce what they can sell.

B) producers should only sell the items when the price is right.

C) there is a positive relationship between price and quantity supplied, *ceteris paribus*.

D) producers are legally required to make necessary items available in the marketplace.

Answer: C

Diff: 1

Topic: The Individual Supply Curve and the Law of Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

Quantity of Frozen Latte-On-A-Stick Supplied

|  |  |  |
| --- | --- | --- |
| Price | Flo's Supply | Rita's Supply |
| 1 | 0 | 0 |
| 2 | 0 | 3 |
| 3 | 4 | 6 |
| 4 | 9 | 9 |
| 5 | 15 | 12 |

**Table 4.1**

4) Refer to Table 4.1, which shows Flo's and Rita's individual supply schedules for frozen latte-on-a-stick. Assuming Flo and Rita are the only suppliers in the market, what is the market quantity supplied at a price of $2?

A) 0

B) 2

C) 3

D) 5

Answer: C

Diff: 1

Topic: From Individual Supply to Market Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

5) Refer to Table 4.1, which shows Flo's and Rita's individual supply schedules for frozen latte-on-a-stick. Assuming Flo and Rita are the only suppliers in the market, what is the market quantity supplied at a price of $5?

A) 3

B) 12

C) 15

D) 27

Answer: D

Diff: 1

Topic: From Individual Supply to Market Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

6) Refer to Table 4.1, which shows Flo's and Rita's individual supply schedules for frozen latte-on-a-stick. Assuming Flo and Rita are the only suppliers in the market, what is the market quantity supplied at a price of $1?

A) 0

B) 1

C) 3

D) 5

Answer: A

Diff: 1

Topic: From Individual Supply to Market Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

7) Refer to Table 4.1, which shows Flo's and Rita's individual supply schedules for frozen latte-on-a-stick. Assuming Flo and Rita are the only suppliers in the market, if the market quantity supplied is 18, the price must be

A) $2.

B) $3.

C) $4.

D) $5.

Answer: C

Diff: 1

Topic: From Individual Supply to Market Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

8) Refer to Table 4.1, which shows Flo's and Rita's individual supply schedules for frozen latte-on-a-stick. Assuming Flo and Rita are the only suppliers in the market, if the market quantity supplied is 3, the price must be

A) $0.

B) $2.

C) $4.

D) $5.

Answer: B

Diff: 1

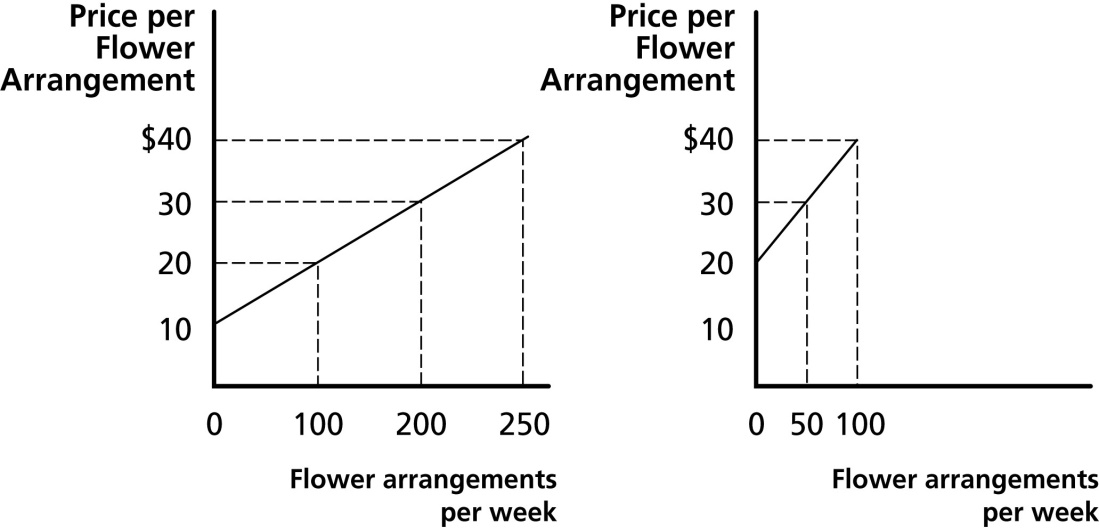
Topic: From Individual Supply to Market Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

**Figure 4.6**



**David's Supply Schedule Celeste's Supply Schedule**

9) Refer to Figure 4.6, which shows David's and Celeste's individual supply curves for flower arrangements per week. Assuming David and Celeste are the only producers in the market, what is the market quantity supplied at a price of $30?

A) 200

B) 250

C) 300

D) 350

Answer: B

Diff: 1

Topic: From Individual Supply to Market Supply, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

10) Refer to Figure 4.6, which shows David's and Celeste's individual supply curves for flower arrangements per week. Assuming David and Celeste are the only producers in the market, what is the market quantity supplied at a price of $20?

A) 0

B) 100

C) 150

D) 200

Answer: B

Diff: 1

Topic: From Individual Supply to Market Supply, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

11) Refer to Figure 4.6, which shows David's and Celeste's individual supply curves for flower arrangements per week. Assuming David and Celeste are the only producers in the market, if the market quantity supplied is 350, the price must be

A) $10.

B) $20.

C) $30.

D) $40.

Answer: D

Diff: 1

Topic: From Individual Supply to Market Supply, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

12) Refer to Figure 4.6, which shows David's and Celeste's individual supply curves for flower arrangements per week. Assuming David and Celeste are the only producers in the market, if the market quantity supplied is 50, the price must be

A) $0.

B) $10.

C) between $10 and $20.

D) $30.

Answer: C

Diff: 2

Topic: From Individual Supply to Market Supply, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

**Recall the Application about the decrease in the price of wool in the 1990s to answer the following question(s). In the 1990s, the world price of wool decreased by about 30 percent and prices have remained relatively low since then. In 2012, an organization in New Zealand proposed that sheep shearing be added to the Commonwealth Games and the Olympics as a spectator sport in an effort to increase the awareness and the demand for wool.**

13) Recall the Application. As the world price of wool decreased, the quantity of wool supplied by individual ranchers would \_\_\_\_\_\_\_\_, and the quantity supplied in the whole market would \_\_\_\_\_\_\_\_.

A) increase; increase

B) increase; decrease

C) decrease; decrease

D) decrease; increase

Answer: C

Diff: 1

Topic: Application 2, Law of Supply and Woolympics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

14) Recall the Application. The decrease in the price of wool would be reflected by a movement \_\_\_\_\_\_\_\_ on the market supply curve for wool.

A) down and to the right

B) down and to the left

C) up and to the right

D) up and to the left

Answer: B

Diff: 1

Topic: Application 2, Law of Supply and Woolympics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

15) Recall the Application. If the organization in New Zealand was successful in getting the Olympics to include sheep shearing as a spectator sport, and this helped to raise the world price of wool, the quantity of wool supplied would \_\_\_\_\_\_\_\_ because the market supply curve for wool is \_\_\_\_\_\_\_\_ sloped.

A) increase; positively

B) increase; negatively

C) decrease; positively

D) decrease; negatively

Answer: A

Diff: 1

Topic: Application 2, Law of Supply and Woolympics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

16) As the price of a product rises, the quantity supplied decreases.

Answer: FALSE

Diff: 1

Topic: The Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

17) On the "supply side" of a market, producers indicate to consumers what they are willing to sell, in what quantity and at what price.

Answer: TRUE

Diff: 1

Topic: The Supply Curve

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

18) The law of supply states that there is a positive relationship between price and quantity supplied, *ceteris paribus*.

Answer: TRUE

Diff: 1

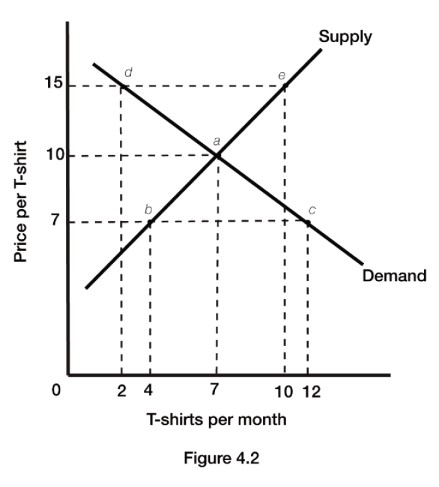
Topic: The Individual Supply Curve and the Law of Supply

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

4.3 Market Equilibrium: Bringing Demand and Supply Together



1) Figure 4.2 illustrates the supply and demand for t-shirts. If the actual price of t-shirts is $7, there is an

A) excess demand of 8 t-shirts.

B) excess supply of 8 t-shirts.

C) excess demand of 10 t-shirts.

D) excess supply of 10 t-shirts.

Answer: A

Diff: 1

Topic: Market Equilibrium: Bringing Demand and Supply Together

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

2) Figure 4.2 illustrates the supply and demand for t-shirts. If the actual price of t-shirts is $15, there is an

A) excess demand of 8 t-shirts.

B) excess supply of 8 t-shirts.

C) excess demand of 10 t-shirts.

D) excess supply of 10 t-shirts.

Answer: B

Diff: 1

Topic: Market Equilibrium: Bringing Demand and Supply Together, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

3) Figure 4.2 illustrates the supply and demand for t-shirts. If the actual price of t-shirts is $7, we would expect that

A) demand will decrease until quantity demanded equals quantity supplied.

B) supply will increase until quantity demanded equals quantity supplied.

C) price will increase until quantity demanded equals quantity supplied.

D) there will be no change in the price since the market is in equilibrium.

Answer: C

Diff: 1

Topic: Market Equilibrium: Bringing Demand and Supply Together, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

4) Figure 4.2 illustrates the supply and demand for t-shirts. If the actual price of t-shirts is $15, we would expect that

A) demand will decrease until quantity demanded equals quantity supplied.

B) supply will increase until quantity demanded equals quantity supplied.

C) price will decrease until quantity demanded equals quantity supplied.

D) there will be no change in the price since the market is in equilibrium.

Answer: C

Diff: 1

Topic: Market Equilibrium: Bringing Demand and Supply Together, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

5) Figure 4.2 illustrates the supply and demand for t-shirts. If the actual price of t-shirts is $10, we would expect that

A) demand will decrease until quantity demanded equals quantity supplied.

B) supply will increase until quantity demanded equals quantity supplied.

C) price will increase until quantity demanded equals quantity supplied.

D) there will be no change in the price since the market is in equilibrium.

Answer: D

Diff: 1

Topic: Market Equilibrium: Bringing Demand and Supply Together, graphing

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

6) What happens if the price of a product is below the equilibrium price?

A) The buyers will stop purchasing a "cheap" product.

B) The producer will lower the price to sell more product.

C) There will be an excess demand for the product.

D) There will be a surplus of the product.

Answer: C

Diff: 1

Topic: Excess Demand Causes the Price to Rise

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

7) In the event of excess supply in the coffee market

A) the price of coffee will increase.

B) the price of coffee will decrease.

C) the supply of coffee will decrease (supply will shift to the left) to meet the demand.

D) the demand for coffee will increase (demand will shift to the right) to meet the supply.

Answer: B

Diff: 1

Topic: Excess Demand Causes the Price to Rise

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

8) When consumers are willing to buy more than producers are willing to sell

A) there is excess supply of the product in the market.

B) there is excess demand for the product in the market.

C) the market is in equilibrium.

D) the demand curve will shift until the quantity supplied equals the quantity demanded.

Answer: B

Diff: 1

Topic: Excess Demand Causes the Price to Rise

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

9) Suppose that the quantity of cars demanded exceeds the quantity of cars supplied. We would expect that

A) the price of cars will increase.

B) the price of cars will decrease.

C) the supply will increase (supply will shift to the right) to meet the demand.

D) the demand will decrease (demand will shift to the left) to meet the supply.

Answer: A

Diff: 1

Topic: Excess Demand Causes the Price to Rise

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

10) Suppose that a market for a product is in equilibrium at a price of $5 per unit. At any price above $5 per unit

A) there will be an excess demand for the product.

B) there will be an excess supply of the product.

C) the quantity supplied of the product will be less than the quantity demanded of that product.

D) there will be a shortage of that product.

Answer: B

Diff: 2

Topic: Excess Demand Causes the Price to Rise

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

11) The government sometimes creates an excess demand for a product by setting a maximum price at which the product may be sold to consumers. This is sometimes called a

A) price ceiling.

B) price floor.

C) tax.

D) subsidy.

Answer: A

Diff: 1

Topic: Excess Demand Causes the Price to Rise

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

12) Suppose that the quantity of cars supplied exceeds the quantity of cars demanded. We would expect that

A) the price of cars will increase.

B) the price of cars will decrease.

C) the supply will increase (supply will shift to the right) to meet the demand.

D) the demand will decrease (demand will shift to the left) to meet the supply.

Answer: B

Diff: 1

Topic: Excess Supply Causes the Price to Drop

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

13) Suppose that a market for a product is in equilibrium at a price of $3 per unit. At any price below $3 per unit

A) there will be an excess demand for the product.

B) there will be an excess supply of the product.

C) the quantity demanded of the product will be less than the quantity supplied of that product.

D) there will be a surplus of that product.

Answer: A

Diff: 2

Topic: Excess Supply Causes the Price to Drop

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

14) A government sometimes creates an excess supply of a product by setting a minimum price at which the product may be sold to consumers. This is sometimes called a

A) price ceiling.

B) price floor.

C) tax.

D) subsidy.

Answer: B

Diff: 1

Topic: Excess Supply Causes the Price to Drop

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

**Recall the Application about the policies used by the European Union to support the agricultural sectors of is member countries to answer the following question(s).**

15) According to this Application, the policies used by the European Union to support the agricultural sectors of its member countries created excess supply. This would occur if these policies set a \_\_\_\_\_\_\_\_ price which was \_\_\_\_\_\_\_\_ the market equilibrium price.

A) maximum; above

B) maximum; below

C) minimum; above

D) minimum; below

Answer: C

Diff: 2

Topic: Application 3, Shrinking Wine Lakes

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

16) According to this Application, the policies used by the European Union to support the agricultural sectors of its member countries created excess supply. Excess supply can be generated if a government establishes a

A) price ceiling below the market equilibrium price.

B) price ceiling above the market equilibrium price.

C) price floor below the market equilibrium price.

D) price floor above the market equilibrium price.

Answer: D

Diff: 2

Topic: Application 3, Shrinking Wine Lakes

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

17) According to this Application, in recent years the European Union has reformed its agriculture policies by reducing or eliminating minimum prices. *Ceteris* *paribus*, these policy reforms would \_\_\_\_\_\_\_\_ excess supply by \_\_\_\_\_\_\_\_ prices.

A) reduce; raising

B) reduce; lowering

C) increase; raising

D) increase; lowering

Answer: B

Diff: 2

Topic: Application 3, Shrinking Wine Lakes

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

18) If the quantity of a product demanded is greater than the quantity of a product supplied, there is pressure in the market to push the price downward.

Answer: FALSE

Diff: 1

Topic: Market Equilibrium: Bringing Demand and Supply Together

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

19) Governments sometime create an excess demand for a product by setting a maximum price that is less than the equilibrium price, resulting in a permanent excess demand for the product. This is known as a price floor.

Answer: FALSE

Diff: 1

Topic: Excess Demand Causes the Price to Rise

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

20) Excess demand in an unregulated market will cause the price of a product to fall.

Answer: FALSE

Diff: 1

Topic: Excess Demand Causes the Price to Rise

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

21) Excess supply in an unregulated market will cause the price of a product to fall.

Answer: TRUE

Diff: 1

Topic: Excess Supply Causes the Price to Drop

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

22) Governments sometime create an excess supply of a product by setting a minimum price that is greater than the equilibrium price, resulting in a permanent excess supply of the product. This is known as a price ceiling.

Answer: FALSE

Diff: 1

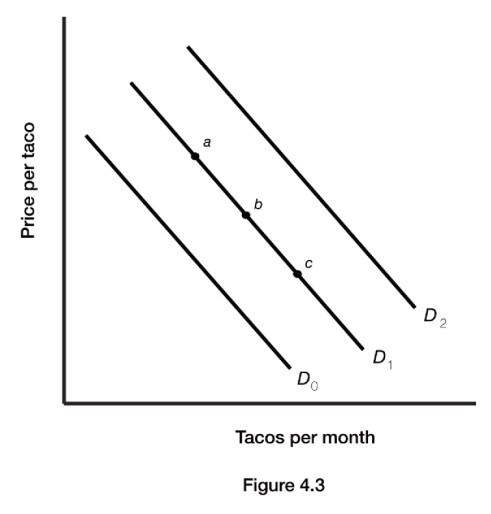
Topic: Excess Supply Causes the Price to Drop

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

4.4 Market Effects of Changes in Demand



1) Figure 4.3 illustrates the demand for tacos. An increase in the demand for tacos is represented by the movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *D*2 to *D*1.

D) *D*0 to *D*1.

Answer: D

Diff: 1

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

2) Figure 4.3 illustrates the demand for tacos. A decrease in the demand for tacos is represented by the movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *D*2 to *D*1.

D) *D*0 to *D*1.

Answer: C

Diff: 1

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

3) Figure 4.3 illustrates the demand for tacos. Assume tacos are a normal good. An increase in income would bring about a movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *D*2 to *D*1.

D) *D*0 to *D*1.

Answer: D

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

4) Figure 4.3 illustrates the demand for tacos. Assume tacos are an inferior good. An increase in income would bring about a movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *D*2 to *D*1.

D) *D*0 to *D*1.

Answer: C

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

5) Figure 4.3 illustrates the demand for tacos. Assume that tacos and beer are complements. An increase in the price of beer would bring about a movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *D*2 to *D*1.

D) *D*0 to *D*2.

Answer: C

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

6) Figure 4.3 illustrates the demand for tacos. Assume that tacos and beer are complements. A decrease in the price of beer would bring about a movement from

A) point *a* to point *c*.

B) point *c* to point *a*.

C) *D*2 to *D*0.

D) *D*0 to *D*2.

Answer: D

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

7) Figure 4.3 illustrates the demand for tacos. Assume that tacos and burritos are substitutes. A decrease in the price of burritos would bring about a movement from

A) point *a* to point *c*.

B) point *c* to point *b*.

C) *D*2 to *D*0.

D) *D*1 to *D*2.

Answer: C

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

8) Figure 4.3 illustrates the demand for tacos. An increase in the number of consumers in the market would bring about a movement from

A) point *a* to point *b*.

B) point *c* to point *a*.

C) *D*2 to *D*1.

D) *D*0 to *D*2.

Answer: D

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

9) Figure 4.3 illustrates the demand for tacos. An increase in price of tacos would bring about a movement from

A) point *a* to point *c*.

B) point *c* to point *a*.

C) *D*2 to *D*0.

D) *D*0 to *D*1.

Answer: B

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

10) Figure 4.3 illustrates the demand for tacos. A decrease in price of tacos would bring about a movement from

A) point *a* to point *c*.

B) point *c* to point *a*.

C) *D*2 to *D*0.

D) *D*0 to *D*2.

Answer: A

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

11) Figure 4.3 illustrates the demand for tacos. A successful advertising campaign to sell tacos would bring about a movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *D*2 to *D*1.

D) *D*0 to *D*1.

Answer: D

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

12) Figure 4.3 illustrates the demand for tacos. If people expect the price of tacos to decrease in the near future, this would most likely bring about a movement from

A) point *a* to point *b*.

B) point *c* to point *a*.

C) *D*2 to *D*0.

D) *D*0 to *D*1.

Answer: C

Diff: 2

Topic: Market Effects of Changes in Demand, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

13) When the price of apples goes up

A) the demand for apples will decrease, *ceteris paribus*.

B) the demand for apples will increase, *ceteris paribus*.

C) the quantity of apples demanded will decrease, *ceteris paribus*.

D) the quantity of apples demanded will increase, *ceteris paribus*.

Answer: C

Diff: 1

Topic: Change in Quantity Demanded versus Change in Demand

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

14) When the price of almonds falls

A) the demand for almonds decreases, *ceteris paribus*.

B) the demand for almonds increases, *ceteris paribus*.

C) the quantity of almonds demanded decreases, *ceteris paribus*.

D) the quantity of almonds demanded increases, *ceteris paribus*.

Answer: D

Diff: 1

Topic: Change in Quantity Demanded versus Change in Demand

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

15) Landon demands more sushi as his income increases. From this we can conclude that, for Landon,

A) sushi is a normal good.

B) sushi is an inferior good.

C) sushi is a complementary good.

D) sushi is a substitute good.

Answer: A

Diff: 1

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

16) Assume that coffee and tea are substitutes. When the price of coffee increases

A) the demand for tea decreases.

B) the demand for tea increases.

C) the supply of tea increases.

D) the supply of tea decreases.

Answer: B

Diff: 1

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

17) Suppose that a product benefits from a successful advertising campaign. The result is that

A) the demand for the product increases.

B) the demand for the product decreases.

C) the supply of the product increases.

D) the supply of the product decreases.

Answer: A

Diff: 3

Topic: Increases in Demand Shift the Demand Curve

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

18) Suppose that consumers expect that the price of a product will increase in the future. The result is that

A) the current demand for the product increases.

B) the current demand for the product decreases.

C) the current supply of the product increases.

D) the current supply of the product decreases.

Answer: A

Diff: 2

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

19) Assume that tortilla chips and salsa are complements. When the price of tortilla chips decreases

A) the demand for salsa increases.

B) the demand for salsa decreases.

C) the supply of salsa decreases.

D) the demand for tortilla chips decreases.

Answer: A

Diff: 1

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

20) If the population increases, the market demand for most products will

A) not change.

B) decrease.

C) increase.

D) depend on supply.

Answer: C

Diff: 1

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

21) Suppose that in October the price of a cup of cafe latte was $2.50 and 400 lattes were consumed. In November the price of a latte was $2.00 and 300 lattes were consumed. What might have caused this change?

A) The price of tea (a substitute for cafe lattes) fell.

B) The price of tea (a substitute for cafe lattes) rose.

C) The price of coffee beans (an input of production of cafe lattes) rose.

D) The price of coffee beans (an input of production of cafe lattes) fell.

Answer: A

Diff: 3

Topic: An Increase in Demand Increases the Equilibrium Price

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

22) If demand for a product increases, *ceteris paribus*, the equilibrium

A) price increases.

B) price decreases.

C) price remains unchanged.

D) quantity decreases.

Answer: A

Diff: 1

Topic: An Increase in Demand Increases the Equilibrium Price

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

23) A good for which demand decreases when income decreases is known as a(n) \_\_\_\_\_\_\_\_ good.

A) normal

B) inferior

C) complementary

D) substitute

Answer: A

Diff: 1

Topic: Decreases in Demand Shift the Demand Curve

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

24) If the demand for one good decreases when the price of another good decreases, the two goods are \_\_\_\_\_\_\_\_ goods.

A) normal

B) inferior

C) complementary

D) substitute

Answer: D

Diff: 1

Topic: Decreases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

25) If the demand for one good decreases when the price of another good increases, the two goods are \_\_\_\_\_\_\_\_ goods.

A) normal

B) inferior

C) complementary

D) substitute

Answer: C

Diff: 1

Topic: Decreases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

26) Suppose that consumers expect the price of a product to decrease in the future. The result is that

A) the current demand for the product increases.

B) the current demand for the product decreases.

C) the current supply of the product increases.

D) the current supply of the product decreases.

Answer: B

Diff: 1

Topic: Decreases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

27) A good for which demand decreases when income increases is known as a(n) \_\_\_\_\_\_\_\_ good.

A) normal

B) inferior

C) complementary

D) substitute

Answer: B

Diff: 1

Topic: Decreases in Demand Shift the Demand Curve

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-4

28) Suppose that in 2011, 4 million plasma TVs were purchased at $950 each, while in 2012, 3 million plasma TVs were purchased at $800 each. What might have caused this change?

A) The price of LCD TVs (a substitute for plasma TVs) fell.

B) The price of LCD TVs (a substitute for plasma TVs) rose.

C) Plasma TV manufacturing technology increased.

D) Plasma TV manufacturing technology decreased.

Answer: A

Diff: 3

Topic: A Decrease in Demand Decreases the Equilibrium Price

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

29) If the equilibrium price of a good decreases and the equilibrium quantity of the good decreases, we can conclude that

A) demand increased.

B) demand decreased.

C) supply increased.

D) supply decreased.

Answer: B

Diff: 2

Topic: A Decrease in Demand Decreases the Equilibrium Price

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

**Recall the Application about the increase in Chinese demand for pecans to answer the following question(s). Between 2006 and 2009, Chinese imports of U.S. pecans increased from 9 million pounds per year to 88 million pounds per year, and as a result of the increase in demand, the equilibrium price increased by about 50 percent. The increase in demand was caused in part by widespread reports in the Chinese media extolling the health benefits of pecans.**

30) Recall the Application. The equilibrium price of pecans increased because the demand curve shifted

A) up and to the right.

B) down and to the left.

C) down and to the right.

D) up and to the left.

Answer: A

Diff: 1

Topic: Application 4, Chinese Demand and Pecan Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

31) According to the Application, one reason for the increase in Chinese demand for pecans was

A) a decrease in income.

B) the expectation of higher future prices.

C) an increase in consumer preferences.

D) an increase in the price of walnuts, a substitute good.

Answer: C

Diff: 1

Topic: Application 4, Chinese Demand and Pecan Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

32) According to this Application, between 2006 and 2009, Chinese demand for pecans increased by roughly \_\_\_\_\_\_\_\_ percent.

A) 79

B) 90

C) 456

D) 877

Answer: D

Diff: 2

Topic: Application 4, Chinese Demand and Pecan Prices

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

33) Recall the Application. If consumer income in China increased and as a result the demand for pecans decreased, this would indicate that in China, pecans would be considered \_\_\_\_\_\_\_\_ goods.

A) normal

B) inferior

C) substitute

D) complementary

Answer: B

Diff: 1

Topic: Application 4, Chinese Demand and Pecan Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

34) Two goods are complements if an increase in the price of one good leads to an increase in demand for the other.

Answer: FALSE

Diff: 1

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

35) People will buy more of an inferior good when their income decreases.

Answer: TRUE

Diff: 1

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

36) Two goods are substitutes if an increase in the price of one good leads to a decrease in demand for the other.

Answer: FALSE

Diff: 1

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

37) An increase in demand will cause the equilibrium price and quantity to rise, *ceteris paribus*.

Answer: TRUE

Diff: 1

Topic: An Increase in Demand Increases the Equilibrium Price

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

38) If consumer preference for a product increases, this will cause the equilibrium price of the product to go down, and the equilibrium quantity of the product to go up.

Answer: FALSE

Diff: 2

Topic: An Increase in Demand Increases the Equilibrium Price

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

39) People will buy more of a normal good when their income decreases.

Answer: FALSE

Diff: 1

Topic: Decreases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

40) A decrease in population would shift the demand curve to the left.

Answer: TRUE

Diff: 1

Topic: Decreases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

41) A decrease in demand will cause the equilibrium price and quantity of a good to fall, *ceteris paribus*.

Answer: TRUE

Diff: 1

Topic: A Decrease in Demand Decreases the Equilibrium Price

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

42) Explain the difference between a change in quantity demanded and a change in demand.

Answer: A change in quantity demanded of a product is caused by a change in the price of the product. It is represented by a movement along the product's demand curve. A change in demand for a product is caused by a change in a variable other than the price of the product. It is represented by a shift of the demand curve.

Diff: 2

Topic: Change in Quantity Demanded versus Change in Demand

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

43) Describe the changes in the variables that will cause demand for a product to increase, shifting the demand curve to the right.

Answer: an increase in income if the product is a normal good; a decrease in income if the product is an inferior good; an increase in the price of a substitute good; a decrease in the price of a complementary good; an increase in population; an increase in consumer preference for the good; an increase in the expected future price of the good

Diff: 2

Topic: Increases in Demand Shift the Demand Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

44) Describe the changes in the variables that will cause demand for a product to decrease, shifting the demand curve to the left.

Answer: a decrease in income if the product is a normal good; an increase in income if the product is an inferior good; a decrease in the price of a substitute good; an increase in the price of a complementary good; a decrease in population; a decrease in consumer preference for the good; a decrease in the expected future price of the good

Diff: 2

Topic: Decreases in Demand Shift the Demand Curve

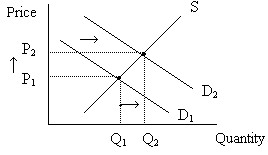
Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

45) Draw a graph to illustrate the effect of an increase in demand on the price and quantity in a market.

Answer:



As illustrated in the graph, an increase in demand causes the price and quantity sold of the product to increase.

Diff: 2

Topic: An Increase in Demand Increases the Equilibrium Price, graphing

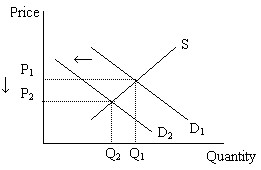
Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

46) Draw a graph to illustrate the effect of higher gasoline prices on the demand for large SUVs. What is the relationship between gasoline and SUVs?

Answer:



Gasoline and SUVs are complements. When the price of gasoline rises it becomes more expensive to drive an SUV, and so the demand for SUVs is likely to decrease (people may switch to smaller, more fuel-efficient vehicles). Note that as a result of the decrease in demand for SUVs their price should decrease and so should the quantity of SUVs sold.

Diff: 1

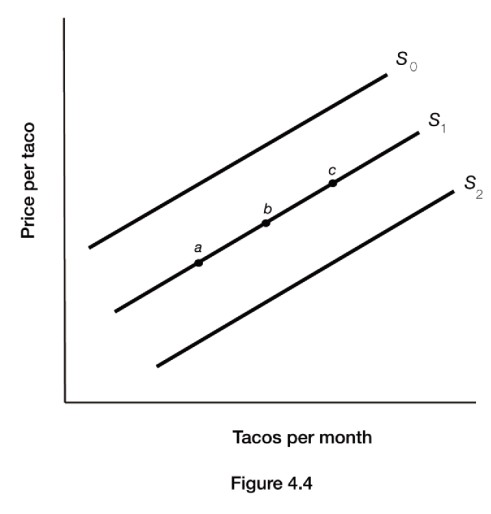
Topic: A Decrease in Demand Decreases the Equilibrium Price, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

4.5 Market Effects of Changes in Supply



1) Figure 4.4 illustrates the supply of tacos. An increase in the supply of tacos is represented by a movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *S*2 to *S*1.

D) *S*0 to *S*1.

Answer: D

Diff: 1

Topic: Market Effects of Changes in Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

2) Figure 4.4 illustrates the supply of tacos. A decrease in the supply of tacos is represented by a movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *S*2 to *S*1.

D) *S*0 to *S*1.

Answer: C

Diff: 1

Topic: Market Effects of Changes in Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

3) Figure 4.4 illustrates the supply of tacos. An increase in the price of ground beef, which is used to make tacos, would most likely cause a movement from

A) point *a* to point *b*.

B) point *c* to point *b*.

C) *S*2 to *S*1.

D) *S*0 to *S*1.

Answer: C

Diff: 2

Topic: Market Effects of Changes in Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

4) Figure 4.4 illustrates the supply of tacos. A technological advancement which makes tacos cheaper to produce would most likely cause a movement from

A) point *a* to point *c*.

B) point *c* to point *a*.

C) *S*2 to *S*0.

D) *S*0 to *S*2.

Answer: D

Diff: 2

Topic: Market Effects of Changes in Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

5) Figure 4.4 illustrates the supply of tacos. An increase in the number of Mexican food producers would most likely cause a movement from

A) point *a* to point *c*.

B) point *c* to point *a*.

C) *S*2 to *S*0.

D) *S*0 to *S*2.

Answer: D

Diff: 2

Topic: Market Effects of Changes in Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

6) Figure 4.4 illustrates the supply of tacos. If the government offered a subsidy to Mexican restaurants for each taco they produce, this would most likely cause a movement from

A) point *a* to point *c*.

B) point *c* to point *b*.

C) *S*2 to *S*1.

D) *S*0 to *S*1.

Answer: D

Diff: 2

Topic: Market Effects of Changes in Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

7) The price of pineapples has risen dramatically. Which of the following is likely to happen?

A) The quantity of pineapples supplied will increase.

B) The quantity of pineapples supplied will decrease.

C) The supply of pineapples will decrease.

D) The supply of pineapples will increase.

Answer: A

Diff: 1

Topic: Change in Quantity Supplied versus Change in Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

8) The price of iPhones has fallen dramatically. Which of the following is likely to happen?

A) The quantity of iPhones supplied will decrease.

B) The quantity of iPhones supplied will increase.

C) The supply of iPhones will decrease.

D) The supply of iPhones will increase.

Answer: A

Diff: 1

Topic: Change in Quantity Supplied versus Change in Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

9) Olives are used to produce olive oil. If the price of olives increases

A) the demand for olive oil increases.

B) the demand for olive oil decreases.

C) the supply of olive oil increases.

D) the supply of olive oil decreases.

Answer: D

Diff: 1

Topic: Increases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

10) If a technological advance makes it possible to produce computers at a lower cost

A) the demand for computers increases.

B) the demand for computers decreases.

C) the supply of computers increases.

D) the supply of computers decreases.

Answer: C

Diff: 1

Topic: Increases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

11) If the number of automobile manufacturers decreases,

A) the demand for automobiles increases.

B) the demand for automobiles decreases.

C) the supply of automobiles increases.

D) the supply of automobiles decreases.

Answer: D

Diff: 1

Topic: Increases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

12) If there is an advancement in the technology used to produce a product, what is the likely effect it may have on the supply?

A) The company would not change its manufacturing.

B) More people would be needed to produce the product.

C) It would decrease the supply.

D) It would increase the supply.

Answer: D

Diff: 1

Topic: Increases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

13) An increase in supply of a product results when

A) taxes on the product are increased.

B) the companies that produce the product have higher materials costs.

C) technological innovations are introduced in the manufacturing process.

D) the government reduces subsidies on the product.

Answer: C

Diff: 1

Topic: Increases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

14) Suppose that in 2011, 3 million plasma TVs were purchased at $950 each, while in 2012, 4 million plasma TVs were purchased at $800 each. What might have caused this change?

A) The price of LCD TVs (a substitute for plasma TVs) fell.

B) The price of LCD TVs (a substitute for plasma TVs) rose.

C) There was an advance in plasma TV manufacturing technology.

D) There were fewer workers in plasma TV manufacturing.

Answer: C

Diff: 3

Topic: An Increase in Supply Decreases the Equilibrium Price

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

15) Suppose that a technological advancement substantially reduces the cost of laser eye surgery. This would cause the equilibrium

A) price of technology to increase.

B) quantity of technology to decrease.

C) quantity of laser eye surgery to increase.

D) quantity of laser eye surgery to decrease.

Answer: C

Diff: 2

Topic: An Increase in Supply Decreases the Equilibrium Price

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

16) If the number of wine producers decreases,

A) the demand for wine increases.

B) the demand for wine decreases.

C) the supply of wine increases.

D) the supply of wine decreases.

Answer: D

Diff: 1

Topic: Decreases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

17) Corn is used to produce tortillas. If the price of corn increases,

A) the demand for tortillas increases.

B) the demand for tortillas decreases.

C) the supply of tortillas increases.

D) the supply of tortillas decreases.

Answer: D

Diff: 1

Topic: Decreases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

18) If producers have an expectation of higher future prices, the supply of the good that is currently available

A) will be all that is produced.

B) will increase.

C) will decrease.

D) will not change.

Answer: C

Diff: 1

Topic: Decreases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

19) Suppose that in October the price of a cup of cafe latte was $2.50 and 400 lattes were consumed. In November the price of a latte was $2.00 and 600 lattes were consumed. What might have caused this change?

A) The price of tea (a substitute for cafe lattes) fell.

B) The price of tea (a substitute for cafe lattes) rose.

C) The price of coffee beans (an input of production of cafe lattes) rose.

D) The price of coffee beans (an input of production of cafe lattes) fell.

Answer: D

Diff: 3

Topic: A Decrease in Supply Increases the Equilibrium Price

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

20) If the equilibrium price of a good increases and the equilibrium quantity of the good decreases, we can conclude that

A) demand increased.

B) demand decreased.

C) supply increased.

D) supply decreased.

Answer: D

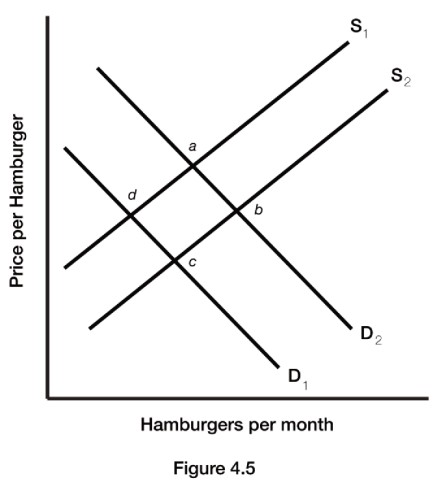
Diff: 2

Topic: A Decrease in Supply Increases the Equilibrium Price

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4



21) Figure 4.5 illustrates a set of supply and demand curves for hamburgers. An increase in supply and an increase in quantity demanded are represented by a movement from

A) point *a* to point *b*.

B) point *a* to point *c*.

C) point *d* to point *b*.

D) point *c* to point *d*.

Answer: A

Diff: 3

Topic: Simultaneous Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

22) Figure 4.5 illustrates a set of supply and demand curves for hamburgers. A decrease in demand and a decrease in quantity supplied are represented by a movement from

A) point *c* to point *a*.

B) point *a* to point *c*.

C) point *b* to point *c*.

D) point *d* to point *b*.

Answer: C

Diff: 3

Topic: Simultaneous Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

23) Figure 4.5 illustrates a set of supply and demand curves for hamburgers. A decrease in supply and a decrease in quantity demanded are represented by a movement from

A) point *a* to point *d*.

B) point *c* to point *d*.

C) point *c* to point *a*.

D) point *b* to point *c*.

Answer: B

Diff: 3

Topic: Simultaneous Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

24) Figure 4.5 illustrates a set of supply and demand curves for hamburgers. An increase in demand and an increase in quantity supplied are represented by a movement from

A) point *b* to point *a*.

B) point *c* to point *d*.

C) point *d* to point *a*.

D) point *b* to point *d*.

Answer: C

Diff: 3

Topic: Simultaneous Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

25) Figure 4.5 illustrates a set of supply and demand curves for hamburgers. A decrease in supply and an increase in demand are represented by a movement from

A) point *d* to point *c*.

B) point *c* to point *b*.

C) point *b* to point *d*.

D) point *c* to point *a*.

Answer: D

Diff: 3

Topic: Simultaneous Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

26) Figure 4.5 illustrates a set of supply and demand curves for hamburgers. An increase in supply and a decrease in demand are represented by a movement from

A) point *d* to point *b*.

B) point *d* to point *a*.

C) point *a* to point *c*.

D) point *b* to point *d*.

Answer: C

Diff: 3

Topic: Simultaneous Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

27) Figure 4.5 illustrates a set of supply and demand curves for hamburgers. An increase in supply and an increase in demand are represented by a movement from

A) point *d* to point *b*.

B) point *d* to point *a*.

C) point *c* to point *a*.

D) point *b* to point *c*.

Answer: A

Diff: 3

Topic: Simultaneous Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

28) Figure 4.5 illustrates a set of supply and demand curves for hamburgers. A decrease in supply and a decrease in demand are represented by a movement from

A) point *c* to point *a*.

B) point *b* to point *d*.

C) point *d* to point *a*.

D) point *a* to point *b*.

Answer: B

Diff: 3

Topic: Simultaneous Changes in Demand and Supply, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

29) Bananas and apples are substitutes. When the price of bananas falls, and a technological advance in apple production occurs at the same time

A) the equilibrium price of apples rises and the equilibrium quantity of apples falls.

B) the equilibrium price of apples rises and the equilibrium quantity of apples rises.

C) the equilibrium price of apples rises and the equilibrium quantity of apples might rise or fall.

D) the equilibrium price of apples falls and the equilibrium quantity of apples might rise or fall.

Answer: D

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

30) Bananas and apples are substitutes. When the price of bananas rises, and a technological advance in apple production occurs at the same time

A) the equilibrium price of apples rises and the equilibrium quantity of apples falls.

B) the equilibrium price of apples rises and the equilibrium quantity of apples rises.

C) the equilibrium price of apples rises and the equilibrium quantity of apples might rise or fall.

D) the equilibrium quantity of apples rises and the equilibrium price of apples might rise or fall.

Answer: D

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

31) If the demand for jelly decreases, and the price of grapes (used to make jelly) rises

A) the equilibrium price of jelly rises and the equilibrium quantity of jelly might rise or fall.

B) the equilibrium price of jelly falls and the equilibrium quantity of jelly might rise or fall.

C) the equilibrium price of jelly might rise or fall, and the equilibrium quantity of jelly falls.

D) the equilibrium price of jelly might rise or fall, and the equilibrium quantity of jelly rises.

Answer: C

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

32) If the demand for jelly increases, and the price of grapes (used to make jelly) rises

A) the equilibrium price of jelly rises and the equilibrium quantity of jelly might rise or fall.

B) the equilibrium price of jelly falls and the equilibrium quantity of jelly might rise or fall.

C) the equilibrium price of jelly falls and the equilibrium quantity of jelly rises.

D) the equilibrium quantity of jelly falls and the equilibrium price of jelly might rise or fall.

Answer: A

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

33) Suppose that a new advertising campaign extolling the virtues of apple juice is successful, and a major freeze destroys half of the country's apple crop. What happens to the price and quantity of apple juice?

A) The equilibrium price of apple juice might rise or fall and the equilibrium quantity of apple juice falls.

B) The equilibrium price of apple juice might rise or fall and the equilibrium quantity of apple juice rises.

C) The equilibrium price of apple juice rises and the equilibrium quantity of apple juice might rise or fall.

D) The equilibrium price of apple juice falls and the equilibrium quantity of apple juice might rise or fall.

Answer: C

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

34) Suppose that a new study is released stating that consumption of orange juice (a substitute for apple juice) reduces the risk of cancer, and a major freeze destroys half of the country's apple crop. What happens to the price and quantity of apple juice?

A) The price of apple juice might rise or fall and the quantity of apple juice falls.

B) The price of apple juice might rise or fall and the quantity of apple juice rises.

C) The price of apple juice falls and the quantity of apple juice falls.

D) The quantity of apple juice might rise or fall, and the price of apple juice rises.

Answer: A

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

**Recall the Application about the decline in honeybee colonies and its effect on the price of ice cream to answer the following question(s). In the last few years thousands of honeybee colonies have vanished, a result of bee colony collapse disorder (CCD). Roughly one third of the U.S. food supply--including a wide variety of fruits, vegetables, and nuts--depends on pollination from bees. The decline of honeybees threatens $15 billion worth of crops in the United States.**

35) According to this Application, the decline in honeybee colonies has caused \_\_\_\_\_\_\_\_ of fruits and nuts used in ice cream production.

A) a decrease in the supply

B) an increase in the supply

C) an increase in the demand

D) a decrease in the demand

Answer: A

Diff: 1

Topic: Application 5, Honeybees and the Price of Ice Cream

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-4

36) According to this Application, the decline in honeybee colonies and its subsequent effect on the ingredients used in the production of ice cream has \_\_\_\_\_\_\_\_ the equilibrium price and \_\_\_\_\_\_\_\_ the equilibrium quantity of ice cream.

A) increased; increased

B) increased; decreased

C) decreased; increased

D) decreased; decreased

Answer: B

Diff: 2

Topic: Application 5, Honeybees and the Price of Ice Cream

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

37) According to this Application, the decline in honeybee colonies has impacted the supply curve for ice cream, shifting the supply curve to the \_\_\_\_\_\_\_\_ due to a(n) \_\_\_\_\_\_\_\_ in production costs.

A) right; increase

B) right; decrease

C) left; increase

D) left; decrease

Answer: C

Diff: 2

Topic: Application 5, Honeybees and the Price of Ice Cream

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

38) This Application exemplifies how a change in \_\_\_\_\_\_\_\_ in one market impacts the \_\_\_\_\_\_\_\_ in a different market.

A) demand; demand

B) demand; supply

C) supply; supply

D) supply; demand

Answer: C

Diff: 1

Topic: Application 5, Honeybees and the Price of Ice Cream

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

39) A change in the price of a product will change the supply of that product.

Answer: FALSE

Diff: 1

Topic: Change in Quantity Supplied versus Change in Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

40) A decrease in the cost of production will shift the supply curve down and to the right.

Answer: TRUE

Diff: 1

Topic: Increases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

41) An increase in wages will shift the supply curve up and to the left.

Answer: TRUE

Diff: 1

Topic: Decreases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

42) If supply of a product increases and demand for the product decreases, equilibrium quantity will definitely change.

Answer: FALSE

Diff: 2

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

43) If supply of a product increases and demand for the product decreases, equilibrium price will definitely change.

Answer: TRUE

Diff: 2

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

44) Explain the difference between a change in quantity supplied and a change in supply.

Answer: A change in quantity supplied of a product is caused by a change in the price of the product. It is represented by a movement along the product's supply curve. A change in supply of a product is caused by a change in a variable other than the price of the product. It is represented by a shift of the supply curve.

Diff: 2

Topic: Change in Quantity Supplied versus Change in Supply

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

45) Describe the changes in the variables that will cause supply for a product to increase, shifting the supply curve down and to the right.

Answer: a decrease in wages of workers who produce the product; a decrease in the prices of materials or capital used to produce the product; advances in technology which is used in the production of the product; government subsidies applied to the production of the product; a decrease in the expected future price of the product; an increase in the number of producers of the product.

Diff: 2

Topic: Increases in Supply Shift the Supply Curve

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

46) Describe the changes in the variables that will cause supply for a product to decrease, shifting the supply curve up and to the left.

Answer: an increase in wages of workers who produce the product; an increase in the prices of materials or capital used to produce the product; an increase in the per-unit tax on the product; an increase in the expected future price of the product; a decrease in the number of producers of the product.

Diff: 2

Topic: Decreases in Supply Shift the Supply Curve

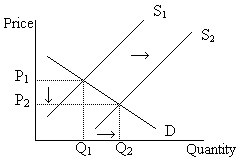
Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

47) As a result of advances in technology, cellular telephones have become cheaper to produce. Illustrate the effect of this change on the market for cellular telephones.

Answer:



As illustrated on the graph, the decreased cost of production leads to an increase in the supply of cellular telephones, with the result that the price of the product decreases and the quantity sold increases.

Diff: 2

Topic: An Increase in Supply Decreases the Equilibrium Price, graphing

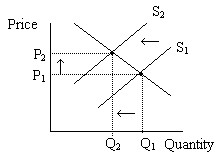
Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

48) Using a graph, illustrate the effect that an increase in production costs will have on the equilibrium price and quantity of a good.

Answer:



The graph shows a decrease in supply. The supply curve shifts to the left, causing equilibrium price to rise, and equilibrium quantity to fall.

Diff: 2

Topic: A Decrease in Supply Increases the Equilibrium Price, graphing

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

49) Explain what would happen to the equilibrium price and quantity of oranges if the supply of oranges increased while the demand for oranges decreased.

Answer: Equilibrium price would decrease. Equilibrium quantity would depend on which change was larger. If the supply increase was larger than the demand decrease, equilibrium quantity would increase. If the demand decrease was larger than the supply increase, equilibrium quantity would decrease.

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Reflective Thinking

Learning Outcome: Micro-4

50) Explain what would happen to the equilibrium price and quantity of pineapples if the supply of pineapples decreased while the demand for pineapples increased.

Answer: Equilibrium price would increase. Equilibrium quantity would depend on which change was larger. If the supply decrease was larger than the demand increase, equilibrium quantity would decrease. If the demand increase was larger than the supply decrease, equilibrium quantity would increase.

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

51) Explain what would happen to the equilibrium price and quantity of iPhones if the supply of iPhones increased while the demand for iPhones also increased.

Answer: Equilibrium quantity would increase. Equilibrium price would depend on which change was larger. If the supply increase was larger than the demand increase, equilibrium price would decrease. If the demand increase was larger than the supply increase, equilibrium price would increase.

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

52) Explain what would happen to the equilibrium price and quantity of gasoline if the supply of gasoline decreased while the demand for gasoline also decreased.

Answer: Equilibrium quantity would decrease. Equilibrium price would depend on which change was larger. If the supply decrease was larger than the demand decrease, equilibrium price would increase. If the demand decrease was larger than the supply decrease, equilibrium price would decrease.

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

53) Explain what will happen to the equilibrium price and quantity of hybrid automobiles if there are technological advancements in the production of hybrid automobiles while at the same time consumer preference for hybrid automobiles increases.

Answer: Technological advancements will cause supply to increase and increases in consumer preference will cause demand to increase. Equilibrium quantity will definitely increase. Equilibrium price will depend on whether the increase in supply or the increase in demand is larger. If the supply increase is larger than the demand increase, equilibrium price will decrease. If the demand increase is larger than the supply increase, equilibrium price will increase.

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

54) Explain what will happen to the equilibrium price and quantity of satellite TV service if the wages of the workers who provide the satellite TV service increase while at the same time the price of cable television service (a substitute for satellite TV service) also increases.

Answer: The wage increases will cause supply to decrease and increases in the price of cable television service will cause demand for satellite TV service to increase. Equilibrium price will definitely increase. Equilibrium quantity will depend on whether the decrease in supply or the increase in demand is larger. If the supply decrease is larger than the demand increase, equilibrium quantity will decrease. If the demand increase is larger than the supply decrease, equilibrium quantity will increase.

Diff: 3

Topic: Simultaneous Changes in Demand and Supply

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

4.6 Predicting and Explaining Market Changes

1) When demand increases and the demand curve shifts to the right, equilibrium price \_\_\_\_\_\_\_\_ and equilibrium quantity \_\_\_\_\_\_\_\_.

A) increases; increases

B) increases; decreases

C) decreases; increases

D) decreases; decreases

Answer: A

Diff: 2

Topic: Predicting and Explaining Market Changes

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

2) When demand decreases and the demand curve shifts to the left, equilibrium price \_\_\_\_\_\_\_\_ and equilibrium quantity \_\_\_\_\_\_\_\_.

A) increases; increases

B) increases; decreases

C) decreases; increases

D) decreases; decreases

Answer: D

Diff: 2

Topic: Predicting and Explaining Market Changes

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

3) When supply increases and the supply curve shifts to the right, equilibrium price \_\_\_\_\_\_\_\_ and equilibrium quantity \_\_\_\_\_\_\_\_.

A) increases; increases

B) increases; decreases

C) decreases; increases

D) decreases; decreases

Answer: C

Diff: 2

Topic: Predicting and Explaining Market Changes

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

4) When supply decreases and the supply curve shifts to the left, equilibrium price \_\_\_\_\_\_\_\_ and equilibrium quantity \_\_\_\_\_\_\_\_.

A) increases; increases

B) increases; decreases

C) decreases; increases

D) decreases; decreases

Answer: B

Diff: 2

Topic: Predicting and Explaining Market Changes

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-4

**Recall the Application about the decrease in price of illegal drugs in the United States to answer the following question(s).**

5) Recall the Application. The decrease in price of illegal drugs could be caused by either a(n) \_\_\_\_\_\_\_\_ in demand or a(n) \_\_\_\_\_\_\_\_ in supply of the drugs.

A) increase; increase

B) increase; decrease

C) decrease; increase

D) decrease; decrease

Answer: C

Diff: 2

Topic: Application 6, Why Lower Drug Prices?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

6) Recall the Application. If the decrease in price of illegal drugs is primarily due to a change in demand, the equilibrium quantity of drugs

A) will increase.

B) will decrease.

C) will not change.

D) may or may not change.

Answer: B

Diff: 2

Topic: Application 6, Why Lower Drug Prices?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

7) Recall the Application. If the decrease in price of illegal drugs is primarily due to a change in supply, the equilibrium quantity of drugs

A) will increase.

B) will decrease.

C) will not change.

D) may or may not change.

Answer: A

Diff: 2

Topic: Application 6, Why Lower Drug Prices?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

8) Recall the Application. If the decrease in price of illegal drugs is due to equal changes in demand and supply, the equilibrium quantity of drugs

A) will increase.

B) will decrease.

C) will not change.

D) may or may not change.

Answer: C

Diff: 2

Topic: Application 6, Why Lower Drug Prices?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

9) Recall the Application. If it is not known whether the decrease in price of illegal drugs is primarily due to a change in supply, a change in demand, or equal changes in both, the equilibrium quantity of drugs

A) will increase.

B) will decrease.

C) will not change.

D) may or may not change.

Answer: D

Diff: 2

Topic: Application 6, Why Lower Drug Prices?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

10) When demand changes and the demand curve shifts, equilibrium price and equilibrium quantity change in the same direction.

Answer: TRUE

Diff: 1

Topic: Predicting and Explaining Market Changes

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

11) When supply increases and the supply curve shifts to the right, equilibrium price and equilibrium quantity will both increase.

Answer: FALSE

Diff: 1

Topic: Predicting and Explaining Market Changes

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

***Macroeconomics: Prin., Apps, & Tools, 8e* (O'Sullivan) TB1**

**Chapter 5 Measuring a Nation's Production and Income**

5.1 The "Flip" Sides of Macroeconomic Activity: Production and Income

1) Macroeconomics differs from microeconomics in that

A) macroeconomics is the study of individual markets, while microeconomics deals with the nation's economy as a whole.

B) microeconomics is the study of individual markets, while macroeconomics deals with the nation's economy as a whole.

C) macroeconomics focuses principally on social and political issues, while microeconomics involves the study of a nation's monetary system.

D) microeconomics focuses principally on social and political issues, while macroeconomics involves the study of a nation's monetary system.

Answer: B

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-2

2) Which of the following would be a macroeconomic question?

A) How have the retirement benefits in the auto industry changed over time?

B) How has inflation increased over time?

C) How has the price of gold increased over time?

D) How has the number of commercial airline flights decreased over time?

Answer: B

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

3) Which of the following is a macroeconomic statement?

A) Motorcycle manufacturer productivity decreased by three percent in 2012.

B) The price of cell phones decreased by 18 percent last year.

C) Real domestic output of seafood increased 12 percent from 2011 to 2012.

D) The U.S. inflation rate was two percent in 2012.

Answer: D

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

4) Which of the following is NOT a macroeconomic statement?

A) Aggregate worker productivity decreased by three percent in 2012.

B) The price of cell phones decreased by 18 percent last year.

C) Gross domestic product in Peru increased 4 percent from 2011 to 2012.

D) The U.S. inflation rate was two percent in 2012.

Answer: B

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

5) Macroeconomics

A) studies the behavior of individual consumers, firms and markets.

B) studies the behavior of the economy as a whole.

C) involves the interaction between different countries in specific markets.

D) studies how computer automation has changed economics.

Answer: B

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

6) Fluctuations in economic performance is one of the two basic issues of macroeconomics. The other is

A) tracking unemployment.

B) keeping interest rates in check.

C) long-run economic growth.

D) monitoring inflation rates.

Answer: C

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

7) What are the two critical measures of a nation's economic health?

A) income and spending

B) sales and taxes

C) wages and raises

D) production and income

Answer: D

Diff: 2

Topic: The "Flip" Sides of Macroeconomic Activity: Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

8) The circular flow is used to make the point that

A) rising prices never occur during times of unemployment.

B) unemployment only occurs during a recession.

C) production generates income.

D) households purchase factors of production from firms.

Answer: C

Diff: 1

Topic: The Circular Flow of Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

9) As depicted in the circular flow diagram, firms

A) demand the goods and services that households supply in product markets.

B) supply the goods and services that households demand in product markets.

C) demand the resources that households supply in product markets.

D) supply the resources that households demand in factor markets.

Answer: B

Diff: 1

Topic: The Circular Flow of Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

10) Macroeconomics is the study of individual economic markets.

Answer: FALSE

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-2

11) The manner in which a nation's economy reacts when the measured factors are changed affects almost every individual.

Answer: TRUE

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

12) In the study of macroeconomics, production leads to income, and income leads to production in a continuing cycle.

Answer: TRUE

Diff: 1

Topic: The "Flip" Sides of Macroeconomic Activity: Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

13) In the circular flow model, firms sell the services of factors of production to households.

Answer: FALSE

Diff: 1

Topic: The "Flip" Sides of Macroeconomic Activity: Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

14) If the prices of goods begin to rise rapidly, people may find it difficult to maintain their lifestyles. Explain why.

Answer: The prices they pay for goods and services will increase and they will have to make sacrifices in other areas in order to maintain a lifestyle without going deeply into debt.

Diff: 1

Topic: Measuring a Nation's Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

15) Explain the supply and demand of products, factors of production, and the payments for the products and factors of production as described in the circular flow diagram.

Answer: Households supply the factors of production demanded by firms through the factor market. Firms pay income to the households for these factors. Firms supply the goods and services demanded by households through the product market. Firms collect revenue from the households for the goods being purchased.

Diff: 1

Topic: The Circular Flow of Production and Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-2

5.2 The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

1) The value of all final goods and services produced during a given time period measures a nation's

A) gross domestic product.

B) net national product.

C) consumer price index.

D) net exports.

Answer: A

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

2) If an economy produced 60 pounds of sushi at $12 per pound and 15 gallons of sake at $30 per gallon, the total value of these goods and services would be

A) $450.

B) $720.

C) $1,170.

D) $2,700.

Answer: C

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

3) If an economy produced 220 pounds of jelly beans at $5 per pound and 90 pounds of gum drops at $2 per pound in 2012, its real gross domestic product (GDP) was

A) 310 pounds of candy.

B) $180.

C) $1,100.

D) $1,280.

Answer: D

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

4) We measure gross domestic product by multiplying the quantities of goods by their prices because it allows us to

A) express the values of products in a common unit of measurement.

B) correct for inflation.

C) directly compare the output of one economy to that of another.

D) calculate the total number of units of goods produced in an economy.

Answer: A

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

5) Gross domestic product calculations count only final goods and services because

A) these are the only goods and services that are purchased in an economy.

B) counting all goods and services would lead to double-counting of many activities.

C) it is difficult to measure the prices of intermediate goods produced.

D) one cannot calculate the quantities of intermediate goods produced.

Answer: B

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

6) "Final goods and services" are those that are

A) produced outside the United States.

B) used in the production of other goods and services.

C) double counted in the calculation of GDP.

D) sold to ultimate or final purchasers.

Answer: D

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

7) A rancher raises sheep. Once a year he shears them and sells the raw wool to a processor who cleans it and spins it into yarn. The yarn is then sold to a knitting mill, which produces and sells sweaters. In calculating GDP we would count

A) the raw wool, the yarn and the sweaters.

B) only the yarn and the sweaters.

C) only the sweaters.

D) only the raw wool and the yarn.

Answer: C

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

8) How does real gross domestic product (GDP) differ from nominal GDP?

A) Nominal GDP controls for price changes, while real GDP does not.

B) Real GDP controls for price changes, while nominal GDP does not.

C) Nominal GDP can be used to directly compare the amount of output produced from year to year, while real GDP cannot be used for such comparison.

D) There is no difference between nominal GDP and real GDP.

Answer: B

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

9) When there are sustained increases in real GDP over time, we say that the economy is undergoing

A) economic stagnation.

B) a recession.

C) economic growth.

D) massive changes in productive capacity.

Answer: C

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

10) The data presented in the text shows that in the period from 1930-2011, real GDP in the United States has

A) increased substantially.

B) decreased in every year since 1930.

C) decreased only in recent years.

D) generally remained the same.

Answer: A

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

11) Which prices are used to measure goods and services in calculating the nominal GDP?

A) past years prices

B) current prices

C) average prices

D) projected prices

Answer: B

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

12) Which of the following is NOT a component of gross domestic product?

A) net exports

B) government purchases

C) purchases by consumers of used goods

D) purchases by consumers of finished goods

Answer: C

Diff: 1

Topic: The Components of GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

13) How many broad categories are used by economists to define the GDP?

A) 3

B) 4

C) 6

D) 8

Answer: B

Diff: 1

Topic: The Components of GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

14) The largest component of GDP is

A) government spending.

B) consumption expenditures.

C) private investment expenditures.

D) net exports.

Answer: B

Diff: 1

Topic: Consumption Expenditures

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

15) Which of the following is NOT an example of a consumption expenditure?

A) a digital camera you purchase to take on vacation

B) a new county jail

C) a motorcycle you purchase to ride on the weekends

D) a restaurant meal

Answer: B

Diff: 1

Topic: Consumption Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

16) Which of the following is an example of a consumption expenditure?

A) the construction of a new public library

B) the purchase of a ticket to a New Orleans Saints game

C) the purchase of a new fire truck

D) the salary paid to the mayor of Denver

Answer: B

Diff: 2

Topic: Consumption Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

17) For the purpose of GDP accounting, consumption expenditures include

A) only nondurable goods.

B) only durable goods.

C) both nondurable goods and services.

D) durable goods, nondurable goods, and services.

Answer: D

Diff: 1

Topic: Consumption Expenditures

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

18) What is the fastest growing component of consumption in the United States?

A) new home construction

B) nondurable goods

C) durable goods

D) services

Answer: D

Diff: 1

Topic: Consumption Expenditures

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

19) What type of spending is the largest component of the GDP?

A) consumption

B) government purchases

C) net exports

D) investment

Answer: A

Diff: 1

Topic: Consumption Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

20) Blu-ray disc players, iPhones, and hybrid cars are generally considered to be \_\_\_\_\_\_\_\_ goods.

A) durable

B) nondurable

C) intermediate

D) service

Answer: A

Diff: 1

Topic: Consumption Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

21) Bananas, chocolate bars, chewing gum, orange juice and yogurt are considered to be \_\_\_\_\_\_\_\_ goods.

A) durable

B) nondurable

C) essential

D) service

Answer: B

Diff: 1

Topic: Consumption Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

22) Going to the dentist would be counted in GDP as

A) crowns and fillings.

B) insurance utilization.

C) a service.

D) a measure of welfare.

Answer: C

Diff: 1

Topic: Consumption Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

23) Suppose that a sporting goods store had $800 of golf balls on its shelves at the beginning of 2012 and $1,300 at the end of 2012. The amount of inventory investment included in GDP would be

A) $500.

B) $800.

C) $1,300.

D) $2,100.

Answer: A

Diff: 1

Topic: Private Investment Expenditures

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

24) Which of the following is NOT a component of private investment, for purposes of GDP accounting?

A) newly produced housing

B) additions to firms' stock of inventories

C) purchases by firms of used machinery

D) newly built factories

Answer: C

Diff: 2

Topic: Private Investment Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

25) Gross investment is

A) what is left over from total new private investment after depreciation.

B) the total amount of private investment purchases, whether new or previously existing.

C) the total amount of new private investment purchases.

D) the wear and tear on private investment.

Answer: C

Diff: 1

Topic: Private Investment Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

26) Depreciation is

A) what is left over from total new private investment after use for a year.

B) the total amount of private investment purchases, whether new or previously existing.

C) the total amount of new private investment purchases.

D) the wear and tear on private investment.

Answer: D

Diff: 1

Topic: Private Investment Expenditures

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

27) Net investment is

A) what is left over from total new private investment after depreciation.

B) the total amount of private investment purchases, whether new or previously existing.

C) the total amount of new private investment purchases.

D) gross investment plus depreciation.

Answer: A

Diff: 1

Topic: Private Investment Expenditures

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

28) If in the third quarter of 2012 total investment spending was $4,768 billion and depreciation was $3,292 billion, then the amount counted in GDP, which is known as gross investment, would be

A) $1,476 billion.

B) $3,292 billion.

C) $4,768 billion.

D) $8,060 billion.

Answer: C

Diff: 2

Topic: Private Investment Expenditures

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

29) If in the third quarter of 2012 total investment spending was $4,768 billion and depreciation was $3,292 billion, then net investment was equal to

A) $1,476 billion.

B) $3,292 billion.

C) $4,768 billion.

D) $8,060 billion.

Answer: A

Diff: 1

Topic: Private Investment Expenditures

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

30) Which of the following is NOT an example of private investment expenditure?

A) new plants and equipment added during the year

B) new houses built during the year

C) using credit cards to purchase durable and nondurable goods

D) increases in inventories on goods produced during the year

Answer: C

Diff: 1

Topic: Private Investment Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

31) The majority of spending in the category of government purchases comes from

A) the federal government.

B) state and local governments.

C) transfer payments.

D) military spending.

Answer: B

Diff: 1

Topic: Government Purchases

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

32) For the purposes of GDP accounting, government purchases include

A) the purchases of new military equipment.

B) social security payments.

C) direct transfer payments by the government to other individuals.

D) welfare payments.

Answer: A

Diff: 1

Topic: Government Purchases

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

33) For the purposes of GDP accounting, government purchases

A) are considered part of investment.

B) are considered part of consumption.

C) include transfer payments.

D) include wages and benefits paid to government workers.

Answer: D

Diff: 1

Topic: Government Purchases

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

34) Social security payments are examples of

A) nondurable goods.

B) durable goods.

C) services.

D) transfer payments.

Answer: D

Diff: 1

Topic: Government Purchases

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

35) Transfer payments are excluded from government purchases in GDP accounting because

A) they are difficult to measure.

B) they are a reward to individuals who have been productive their entire lives.

C) they are already included as part of investment.

D) nothing is being produced in return for the payment.

Answer: D

Diff: 1

Topic: Government Purchases

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

36) A nation's net exports consist of

A) its exports plus its imports.

B) its exports minus its imports.

C) its exports plus all other nation's imports.

D) its imports plus all other nation's exports.

Answer: B

Diff: 1

Topic: Net Exports

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

37) Net exports include goods produced

A) domestically that are sold domestically, less goods produced domestically that are sold abroad.

B) domestically that are sold abroad, less goods produced domestically that are sold domestically.

C) domestically that are sold abroad, less goods that are produced abroad that are sold domestically.

D) abroad that are sold domestically, less goods that are produced domestically that are sold abroad.

Answer: C

Diff: 2

Topic: Net Exports

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

38) Which of the following should be included in U.S. GDP?

A) a 3D television manufactured in Thailand and sold in the United States

B) a 3D television manufactured in Thailand by a U.S. firm and sold in the United States

C) a 3D television manufactured in the United States and sold in Thailand

D) a used 3D television manufactured in the United States and sold in Thailand

Answer: C

Diff: 1

Topic: Net Exports

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

39) A trade surplus occurs when

A) a country purchases more from abroad than other countries purchase from it.

B) a country sells more abroad than it purchases from abroad.

C) a country's firms open more stores abroad than foreign firms open in the country.

D) foreign firms open more stores in a country than the country opens in foreign countries.

Answer: B

Diff: 1

Topic: Net Exports

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

40) Exports \_\_\_\_\_\_\_\_ GDP and imports \_\_\_\_\_\_\_\_ GDP.

A) increase; decrease

B) decrease; increase

C) increase; increase

D) decrease; decrease

Answer: A

Diff: 1

Topic: Net Exports

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

41) GDP is supposed to measure the goods \_\_\_\_\_\_\_\_ the United States.

A) purchased in

B) produced in

C) imported to

D) exported to

Answer: B

Diff: 1

Topic: Net Exports

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

42) When considering imports and exports, economists include the \_\_\_\_\_\_\_\_ as a component of the GDP.

A) total imports

B) total exports

C) net exports

D) gross exports

Answer: C

Diff: 1

Topic: Net Exports

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

43) A "trade deficit" occurs when

A) we sell more to other countries than we buy from them.

B) we buy more from other countries than we sell to them.

C) we sell more to one country than another.

D) we sell less to one country than another.

Answer: B

Diff: 1

Topic: Net Exports

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

44) The GDP equation is

A) Y = C + I + G + NX.

B) Y = C - I - G - NX.

C) C + I = G + NX.

D) C + I = Y + G + NX.

Answer: A

Diff: 1

Topic: Putting it all Together: The GDP Equation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

45) Intermediate goods are not counted as part of gross domestic product.

Answer: TRUE

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

46) The value of goods produced in a previous year but sold in the current year is added to the GDP for the current year.

Answer: FALSE

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

47) "Nominal GDP" is a measure of GDP that adjusts for price changes.

Answer: FALSE

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

48) Nominal GDP uses current year prices to measure GDP.

Answer: TRUE

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

49) The four components of GDP are consumption expenditures, private investment expenditures, government purchases, and transfer payments.

Answer: FALSE

Diff: 1

Topic: The Components of GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

50) As a component of GDP, consumption expenditures refers to purchases by consumers of currently produced goods and services.

Answer: TRUE

Diff: 1

Topic: Consumption Expenditures

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

51) In the GDP accounts, investment includes the purchase of newly issued shares of stock.

Answer: FALSE

Diff: 1

Topic: Private Investment Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

52) To an economist, "investment" in the GDP accounts means purchases of new final goods and services by firms.

Answer: TRUE

Diff: 1

Topic: Private Investment Expenditures

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

53) Depreciation is the term used when plants, equipment and housing deteriorate and wear out, thus losing their original values.

Answer: TRUE

Diff: 1

Topic: Private Investment Expenditures

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

54) The majority of spending in the government purchases category comes from the federal government.

Answer: FALSE

Diff: 1

Topic: Government Purchases

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

55) In the determination of production of goods or services with respect to GDP, transfer payments are included.

Answer: FALSE

Diff: 1

Topic: Government Purchases

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

56) Wages paid to teachers, police personnel, and postal workers are not transfer payments because they are payments for services and not simply "transfers" of money.

Answer: TRUE

Diff: 1

Topic: Government Purchases

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

57) A trade surplus occurs when a country's exports exceed that country's imports.

Answer: TRUE

Diff: 1

Topic: Net Exports

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

58) Net exports are total imports minus total exports.

Answer: FALSE

Diff: 1

Topic: Net Exports

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

59) We ADD to the GDP when goods produced abroad are sold in the United States.

Answer: FALSE

Diff: 1

Topic: Net Exports

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

60) Define GDP.

Answer: The total market value of all final goods and services produced within an economy in a given year.

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

61) Explain why only final goods are included in GDP.

Answer: Final goods are those that are sold to ultimate or final purchasers as opposed to intermediate goods, which are goods that are used in the production process. Suppose for example that a farmer grows potatoes and then sells them to a fast food chain that uses them to make fries, which are then sold to the public. If both the potatoes and the fries were counted then the same thing would be counted twice; in other words, the potatoes would be counted when they were potatoes and then again when they were in the form of the fries. In order to avoid this double counting only the final goods are included in GDP.

Diff: 1

Topic: The Production Approach: Measuring a Nation's Macroeconomic Activity Using Gross Domestic Product

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

62) List and describe the four components of GDP.

Answer: Consumption expenditures are purchases by consumers of currently produced goods and services, either domestic or foreign. Private investment expenditures are purchases by firms. These include spending on new plants and equipment, newly produced housing and increases in inventory. Government purchases are purchases of newly produced goods and services by federal, state and local governments. They include any goods purchased and the wages and benefits of all government employees. Net exports are net purchases by the foreign sector, which is calculated as domestic exports minus domestic imports.

Diff: 2

Topic: The Components of GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

63) Define transfer payments and explain why they are not included in the government purchases section of the GDP accounts.

Answer: Transfer payments are funds paid to individuals that are not associated with the production of goods and services. They are not included in the government purchases section of the GDP accounts because nothing is being produced in return for the payment. However they do show up in the accounts indirectly when they are spent (and saved) by their recipients; thus they do appear in the consumption (and saving) section of the accounts.

Diff: 2

Topic: Government Purchases

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

5.3 The Income Approach: Measuring a Nation's Macroeconomic Activity Using National Income

1) Income that flows to the private sector for services and production, is called

A) net income.

B) national income.

C) deficit income.

D) derived income.

Answer: B

Diff: 1

Topic: The Income Approach: Measuring a Nation's Macroeconomic Activity Using National Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

2) When gross domestic product (GDP) is adjusted by adding any income earned abroad by U.S. firms or residents which is sent back to the United States and by subtracting any income earned in the United States by non-U.S. corporations or foreign nationals which is sent back to their home countries, it is called

A) depreciation.

B) subsidized income.

C) international GDP.

D) gross national product (GNP).

Answer: D

Diff: 1

Topic: Measuring National Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

3) Depreciation is subtracted from GNP to determine

A) net income.

B) net national product (NNP).

C) net GDP.

D) net imbalance on exports.

Answer: B

Diff: 1

Topic: Measuring National Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

4) Which of the following is a category of national income?

A) net interest

B) corporate profits

C) rental income

D) all of the above

Answer: D

Diff: 1

Topic: Measuring National Income

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

5) Which of the following is the largest component of national income?

A) net interest

B) corporate profits

C) rental income

D) compensation of employees by firms

Answer: D

Diff: 1

Topic: Measuring National Income

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

6) Which of the following is NOT a component of value added of a firm?

A) expenditures on intermediate goods

B) profits

C) wages

D) interest

Answer: A

Diff: 1

Topic: Measuring National Income

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

7) The amount of income that households keep after paying taxes is

A) national income.

B) personal income.

C) personal disposable income.

D) value added income.

Answer: C

Diff: 1

Topic: Measuring National Income

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

8) Personal income and personal disposable income refer to payments ultimately flowing to

A) firms.

B) households.

C) governments.

D) foreigners.

Answer: B

Diff: 1

Topic: Measuring National Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

9) A firm's value added can be measured as the value of its

A) profits.

B) purchases of inputs from other firms.

C) total sales.

D) total sales, less purchases from other firms.

Answer: D

Diff: 1

Topic: Measuring National Income through Value Added

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

10) If Cassie's Coffee House purchases 42 cents worth of ingredients and spends 28 cents on wages per cup of coffee to produce an 89 cent cup of coffee, then Cassie's Coffee House's value added per cup of coffee is

A) 19 cents.

B) 28 cents.

C) 47 cents.

D) 61 cents.

Answer: C

Diff: 2

Topic: Measuring National Income through Value Added

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

11) If Cassie's Coffee House purchases 33 cents worth of ingredients and spends 36 cents on wages per cup of coffee to produce an 89 cent cup of coffee, then Cassie's Coffee House's contribution to GDP is \_\_\_\_\_\_\_\_ per cup of coffee.

A) 20 cents

B) 33 cents

C) 36 cents

D) 56 cents

Answer: D

Diff: 2

Topic: Measuring National Income through Value Added

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

**Recall the Application about the size of Wal-Mart to answer the following question(s). During 2008, Wal-Mart's sales were approximately $374 billion, or roughly 2.6 percent of U.S. GDP, and its cost of sales was $286 billion.**

12) In listing both the amount and cost of Wal-Mart's 2008 sales, this Application is addressing the economic concept of

A) real versus nominal GDP.

B) GDP as a measure of welfare.

C) chain-weighted indexes.

D) value added.

Answer: D

Diff: 1

Topic: Application 1, Using Value Added to Measure the True Size of Wal-Mart

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

13) According to this Application, why is the value of Wal-Mart's 2008 sales NOT an accurate measurement of its actual sales impact on the U.S. economy?

A) The sales figure did not account for chain-weighted inflation measurements.

B) The sales figure includes the value of purchases from other firms.

C) The sales figure did not take into account the recession of 2008.

D) The sales figure was in nominal, not real, dollars..

Answer: B

Diff: 2

Topic: Application 1, Using Value Added to Measure the True Size of Wal-Mart

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

14) According to this Application, by using a value-added approach to measure Wal-Mart's sales impact on the economy, we are

A) using a chain-weighted index.

B) avoiding double-counting.

C) including GDP as a measure of welfare.

D) excluding the net foreign sector.

Answer: B

Diff: 1

Topic: Application 1, Using Value Added to Measure the True Size of Wal-Mart

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

15) According to this Application, what was the approximate value of Wal-Mart's value added in 2008?

A) $88 billion

B) $286 billion

C) $374 billion

D) $661 billion

Answer: A

Diff: 2

Topic: Application 1, Using Value Added to Measure the True Size of Wal-Mart

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

16) In the expanded circular flow diagram, the government supplies

A) goods and services to the product market.

B) factors of production to the factor market.

C) goods and services to households.

D) factors of production to firms.

Answer: A

Diff: 2

Topic: An Expanded Circular Flow

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

17) In the expanded circular flow diagram, the rest of the world interacts directly with

A) households.

B) firms.

C) product markets.

D) factor markets.

Answer: C

Diff: 2

Topic: An Expanded Circular Flow

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

18) National income is the income that individuals and firms earn from their production.

Answer: TRUE

Diff: 1

Topic: The Income Approach: Measuring a Nation's Macroeconomic Activity Using National Income

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

19) Personal disposable income is pre-tax income that flows directly to households.

Answer: FALSE

Diff: 1

Topic: Measuring National Income

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

20) Compensation of employees is the largest component of national income.

Answer: TRUE

Diff: 1

Topic: Measuring National Income

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

21) Explain the difference between U.S. GDP and U.S. GNP.

Answer: U.S. GDP is the total market value of all final goods and services produced within the United States within a given year. U.S. GNP is calculated by adding to U.S. GDP the net income earned by U.S. firms and residents abroad. Thus, U.S. GNP measures the total income earned by U.S. firms and residents worldwide.

Diff: 2

Topic: Measuring National Income

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

5.4 A Closer Examination of Nominal and Real GDP

1) If real GDP was 100 in 2011 and 104.4 in 2012, the growth rate of real GDP between 2011 and 2012 was

A) 2.2 percent.

B) 4.4 percent.

C) 100 percent.

D) 102.2 percent.

Answer: B

Diff: 1

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

2) If the economy grew at 7 percent from 2011 to 2012 and real GDP was 400 in 2011, what was real GDP in 2012?

A) 393

B) 400

C) 407

D) 428

Answer: D

Diff: 2

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

3) Suppose that nominal GDP in year 1 is 200 and nominal GDP in year 2 is 242. Assume that inflation is ten percent per year. How fast did the economy grow between these two years?

A) 10 percent

B) 12 percent

C) 21 percent

D) 42 percent

Answer: A

Diff: 2

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

***Use the following information to answer the next several questions:***

***Scenario 1*:** Imagine that an economy produces two goods, flashlights and fishing lures. In 2011, the economy produced 70 flashlights and 40 fishing lures, and the prices of flashlights and fishing lures were $5 and $12, respectively. In 2012, the economy produced 85 flashlights and 50 fishing lures, and the prices of flashlights and fishing lures were $7 and $15, respectively.

4) Based on the information in Scenario 1, nominal GDP in 2011 in this economy was

A) $830.

B) $1,025.

C) $1,090.

D) $1,345.

Answer: A

Diff: 2

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

5) Based on the information in Scenario 1, nominal GDP in 2012 in this economy was

A) $830.

B) $1,025.

C) $1,090.

D) $1,345.

Answer: D

Diff: 2

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

6) Based on the information in Scenario 1, real GDP in 2012 (in 2011 dollars) in this economy was

A) $830.

B) $1,025.

C) $1,090.

D) $1,345.

Answer: B

Diff: 2

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

7) Based on the information in Scenario 1, nominal GDP grew by about \_\_\_\_\_\_\_\_ percent from 2011 to 2012.

A) 23

B) 31

C) 62

D) 162

Answer: C

Diff: 2

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

8) Based on the information in Scenario 1, real GDP grew by about \_\_\_\_\_\_\_\_ percent from 2011 to 2012.

A) 23

B) 31

C) 62

D) 162

Answer: A

Diff: 2

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

9) When GDP is measured in "current prices" it is known as the

A) real GDP.

B) nominal GDP.

C) real GNP.

D) nominal GNP.

Answer: B

Diff: 1

Topic: Measuring Real versus Nominal GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

10) When the GDP is measured using "adjustments for price changes" it is known as the

A) real GDP.

B) nominal GDP.

C) real GNP.

D) nominal GNP.

Answer: A

Diff: 1

Topic: Measuring Real versus Nominal GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

11) A chain-weighted index

A) is used to understate the rate of inflation.

B) uses neighboring years' data to calculate changes in nominal GDP.

C) calculates changes in prices by using an average of base years from neighboring years to obtain a more accurate measure of real GDP growth.

D) is a useful tool for determining which fence to purchase.

Answer: C

Diff: 2

Topic: How to Use the GDP Deflator

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

12) What is the chain-weighted price index for GDP in the base year?

A) 0

B) 1

C) 100

D) The answer depends on the price index for the current year.

Answer: C

Diff: 1

Topic: How to Use the GDP Deflator

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

13) When differences between nominal GDP and real GDP result due to price changes and nothing else is compared, an index is created called the

A) inflation index.

B) consumer price index.

C) GDP deflator.

D) index of leading indicators.

Answer: C

Diff: 1

Topic: How to Use the GDP Deflator

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

14) Nominal GDP measures the value of goods and services using current-year prices.

Answer: TRUE

Diff: 1

Topic: Measuring Real versus Nominal GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

15) Nominal GDP is measured by calculating real GDP at constant prices.

Answer: FALSE

Diff: 1

Topic: Measuring Real versus Nominal GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

16) The GDP deflator measures how prices change over time.

Answer: TRUE

Diff: 1

Topic: How to Use the GDP Deflator

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

17) Imagine that an economy produces two goods, flashlights and fishing lures. In 2011, the economy produced 100 flashlights and 50 fishing lures, and the prices of flashlights and fishing lures were $5 and $11, respectively. In 2012, the economy produced 120 flashlights and 60 fishing lures, and the prices of flashlights and fishing lures were $7 and $14, respectively. respectively. What happened to nominal GDP from 2011 to 2012? What happened to real GDP?

Answer: Nominal GDP in 2011 was (100 x 5) + (50 x 11) = $1,050. In 2012 nominal GDP was (120 x 7) + (60 x 14) = $1,680. For real GDP, we calculate GDP for 2012 in 2011 dollars. 2012 GDP in 2011 dollars would be (120 x 5) + (60 x 11) = $1,260. So while nominal GDP increased by 60 percent, real GDP only increased by 20 percent.

Diff: 2

Topic: Measuring Real versus Nominal GDP

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

18) Prior to 1996 the government measured real GDP using 1987 prices. What would the rapid growth in computers and the fall in computer prices tend to do to the difference between true GDP growth and measured real GDP growth, relative to using a later year?

Answer: Using 1987 prices would tend to overstate GDP growth relative to using prices from a later year. Computers were a burgeoning part of national product in the late 1980s and early 1990s, and the incremental contribution to GDP looks bigger when using a bigger price rather than a smaller price.

Diff: 3

Topic: Measuring Real versus Nominal GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

19) Suppose someone told you that the chain-weighted price index for GDP in a country was 135. Why does this fact not convey much information to you?

Answer: We do we have any price index information from any other years. So while we have a measure of "relative prices," we don't know what this measure is relative to.

Diff: 2

Topic: How to Use the GDP Deflator

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

20) Between 2009 and 2012, a country's nominal GDP grew by 18 percent and its inflation rate (based on the chain-weighted price index for GDP) was 11 percent. How fast did real GDP grow over this period?

Answer: The growth rate for real GDP would have been 1.18 / 1.11 = 1.06, so real GDP grew by 6 percent over the period.

Diff: 3

Topic: How to Use the GDP Deflator

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

5.5 Fluctuations in GDP

1) "Recession" refers to a period when real GDP in the economy

A) declines for at least six months.

B) suffers due to political instability.

C) grows rapidly.

D) experiences a rise in living standards.

Answer: A

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

2) A period in which real GDP in the economy declines for at least six months is referred to as

A) long term growth.

B) a recession.

C) a positive fluctuation.

D) living standards.

Answer: B

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

3) Business cycles are

A) movements in stock prices.

B) the transfer of executives between firms.

C) used to describe fluctuations in GDP.

D) a description of the time required to bring a new product to market.

Answer: C

Diff: 1

Topic: Fluctuations in GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

4) When real GDP falls for two consecutive quarters the economy is in a

A) depression.

B) recession.

C) peak.

D) trough.

Answer: B

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

5) The date at which a recession starts is called the

A) trough.

B) peak.

C) plateau.

D) depression.

Answer: B

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

6) The period of time in which the level of output moves from a trough to a peak is called a

A) recovery.

B) depression.

C) contraction.

D) plateau.

Answer: A

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

7) From World War II through 2010, the United States experienced \_\_\_\_\_\_\_\_ recessions.

A) 2

B) 5

C) 11

D) 15

Answer: C

Diff: 1

Topic: Fluctuations in GDP

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

8) A depression is

A) a severe recession.

B) a sustained economic upturn.

C) another word for a bull market.

D) the period of time following a peak in the business cycle.

Answer: A

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

9) How many quarters (3-month periods) must the "real" GDP decline to have the economy considered to be in a recession?

A) 1

B) 2

C) 3

D) 4

Answer: B

Diff: 1

Topic: Fluctuations in GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

10) The "expansion" of an economy occurs after

A) firms produce more goods.

B) people spend more money.

C) a trough.

D) an inflationary period.

Answer: C

Diff: 1

Topic: Fluctuations in GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

11) The common term for a severe recession is a

A) downturn.

B) depression.

C) bottoming out.

D) economic adjustment.

Answer: B

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

**Recall the Application about the time it took to recover from the recession of 2007-2009 to answer the following question(s).**

12) According to this Application, GDP did not return to its pre-recession peak until

A) the third quarter of 2009.

B) the first quarter of 2010.

C) the second quarter of 2011.

D) the fourth quarter of 2012.

Answer: C

Diff: 1

Topic: Application 2, Recovering from a Recession

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

13) According to this Application, some economists believe that the economy was slow to recover from the recession of 2007-2009 because this recession was brought on primarily by

A) a decrease in the demand for housing.

B) rapid inflation.

C) increasing oil prices.

D) a financial crisis.

Answer: D

Diff: 1

Topic: Application 2, Recovering from a Recession

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

14) In a business cycle, the date at which a recession starts is called a trough.

Answer: FALSE

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

15) In a business cycle, the period following a trough is called an expansion.

Answer: TRUE

Diff: 1

Topic: Fluctuations in GDP

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-3

16) From 1948 to 2010, the United States has experienced only 4 recessions.

Answer: FALSE

Diff: 1

Topic: Fluctuations in GDP

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

17) Describe the recession phase of a business cycle, including when it begins and when it ends.

Answer: Business cycles describe time periods of economic fluctuations. A recession is a period when real GDP falls for six or more consecutive months. The date at which a recession starts is called a peak. The date at which a recession ends is called a trough. After a trough comes an expansion, or recovery, phase, eventually leading to a new peak, and a new cycle begins.

Diff: 2

Topic: Fluctuations in GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

5.6 GDP as a Measure of Welfare

1) What is the best measure of the value of output of an economy?

A) GDP

B) GNP

C) NNP

D) the GDP deflator

Answer: A

Diff: 1

Topic: GDP as a Measure of Welfare

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

2) One of the flaws of GDP is that it

A) includes only transactions that take place in formal businesses.

B) ignores transactions that do not take place in organized markets.

C) includes measures of the underground economy.

D) includes measures of changes of quality of life associated with producing output.

Answer: B

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

3) GDP understates the value of output produced by an economy because it

A) includes transactions that do not take place in organized markets, such as home-cooked meals.

B) excludes value added from the underground economy, such as tips taken "under the table."

C) includes environmental degradation caused by increased output production.

D) excludes the value of the wages and benefits of government employees.

Answer: B

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

4) Suppose that a tire factory produces $825,000 of output and causes $70,000 worth of pollution as a result of production. The tire factory's official contribution to GDP would be \_\_\_\_\_\_\_\_ and its overall contribution to society would be \_\_\_\_\_\_\_\_.

A) $825,000; $895,000

B) $895,000; $825,000

C) $825,000; $755,000

D) $755,000; $825,000

Answer: C

Diff: 2

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-3

**Recall the Application about the link between happiness and GDP to answer the following question(s). Comparing changes in happiness to changes in per capita income over the last 30 years, economists at Dartmouth College and Warwick University have measured levels of happiness in the United States and United Kingdom based on income levels, ethnicity, age, and gender.**

5) This Application addresses the economic concept of

A) real versus nominal GDP.

B) fluctuations in GDP.

C) GDP as a measure of welfare.

D) measuring a nation's national income.

Answer: C

Diff: 1

Topic: Application 3, The Links Between Self-Reported Happiness and GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

6) According to the Application

A) reported levels of happiness in the United States have increased over the past 30 years.

B) stable marriages account for no more happiness than marriages ending in divorce.

C) retired people report higher levels of happiness than people below the age of 40.

D) money does appear to buy happiness, *ceteris paribus*.

Answer: D

Diff: 1

Topic: Application 3, The Links Between Self-Reported Happiness and GDP

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

7) According to the Application, large increases in per capita income in the United States over the past 30 years have

A) had the greatest impact on retired people.

B) not increased happiness levels.

C) led to a higher divorce rate.

D) lowered stress levels.

Answer: B

Diff: 1

Topic: Application 3, The Links Between Self-Reported Happiness and GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

8) GDP ignores all of the following EXCEPT

A) household production.

B) the value of leisure time.

C) products produced in other countries that are sold in the United States.

D) changes in the environment that occur in the production of output.

Answer: C

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

9) GDP calculations tend to exclude all of the following EXCEPT

A) illegal transactions.

B) environmental quality.

C) work that people do for themselves in their own homes.

D) salaries paid to government employees.

Answer: D

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

10) Not including transactions from the underground economy will tend to \_\_\_\_\_\_\_\_ GDP, and not including environmental changes caused by pollution will tend to \_\_\_\_\_\_\_\_ GDP.

A) overvalue; undervalue

B) undervalue; overvalue

C) overvalue; overvalue

D) undervalue; undervalue

Answer: B

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

11) GDP ignores transactions that take place in the underground economy.

Answer: TRUE

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-3

12) If GDP included the value of leisure time, the value of U.S. GDP would most likely increase.

Answer: TRUE

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

13) GDP measures underestimate the value of output produced by an economy because they include services not transferred through markets.

Answer: FALSE

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

14) Why is GDP only an imperfect valid measure of the value of output produced by an economy?

Answer: GDP will miss transactions that do not take place in organized markets, does not include leisure time, and ignores the underground economy. In addition, GDP does not value changes in the environment that arise through the production of output.

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

15) Give some examples of transactions in markets which are not regulated or controlled.

Answer: services such as cleaning, cooking, free child care, and people who run businesses from their homes, yard sales, flea markets

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

16) List four things considered to be shortcomings in the determination of GDP in relation to the use of GDP as a measure of welfare..

Answer: transactions in unorganized markets, leisure time, the underground economy, changes in the environment

Diff: 1

Topic: Shortcomings of GDP as a Measure of Welfare

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-3

***Macroeconomics: Prin., Apps, & Tools, 8e* (O'Sullivan) TB1**

**Chapter 6 Unemployment and Inflation**

6.1 Examining Unemployment

1) During periods of poor economic performance, real GDP

A) declines and unemployment rises.

B) declines and unemployment declines.

C) declines but unemployment typically does not change.

D) is unchanged but unemployment rises sharply.

Answer: A

Diff: 1

Topic: Examining Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

2) An economic \_\_\_\_\_\_\_\_ refers to either an upturn or a downturn in the economy.

A) stagnation

B) model

C) fluctuation

D) chain index

Answer: C

Diff: 1

Topic: Examining Unemployment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

3) Economists define the unemployed as individuals who are

A) not currently working.

B) not currently working but are actively looking for work.

C) working but looking for a different job.

D) working less than their desired amount of time.

Answer: B

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

4) Economists define the labor force to include

A) only people who are working full time.

B) people who are working.

C) people who are not working but are actively looking for a job, and people who are working.

D) all individuals of working age, regardless of whether they are working or looking for a job.

Answer: C

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

5) The unemployment rate is the number of unemployed people

A) divided by the number of people who are working.

B) divided by the total working-age population.

C) divided by the sum of the number of people who are working and the number of people who are looking for work.

D) and the number of people working fewer than their desired number of hours, divided by the number of people who are working or looking for work.

Answer: C

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

6) If Sam does not have a job and is not looking for work, he is considered

A) unemployed and in the labor force.

B) unemployed and not in the labor force.

C) not in the labor force.

D) unemployed.

Answer: C

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

7) If Sam does not have a job and is not currently looking for work but has looked in the past, he is considered

A) unemployed and in the labor force.

B) unemployed and not in the labor force.

C) not in the labor force.

D) unemployed.

Answer: C

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

8) People who are currently not working but are actively looking for work are officially classified as

A) unemployed and in the labor force.

B) unemployed and out of the labor force.

C) employed and in the labor force.

D) employed and out of the labor force.

Answer: A

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

9) People who are only working part-time, but want to be working full-time, are classified officially as

A) unemployed and in the labor force.

B) unemployed and out of the labor force.

C) employed and in the labor force.

D) employed and out of the labor force.

Answer: C

Diff: 2

Topic: How is Unemployment Defined and Measured?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

10) The fraction of the working-age population that is in the labor force is called the

A) employment rate.

B) unemployment rate.

C) labor force participation rate.

D) nonresponse rate.

Answer: C

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

11) What is the threshold age for individuals to be considered as being in the "labor force" for statistical purposes?

A) 16

B) 18

C) 21

D) Over 21

Answer: A

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

12) Suppose an economy consists of 500,000 individuals 16 years and older, 260,000 are employed, and 21,000 are unemployed but actively seeking work. In this example the labor force is

A) 239,000.

B) 260,000.

C) 281,000.

D) 500,000.

Answer: C

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

13) Suppose an economy consists of 500,000 individuals 16 years and older, 260,000 are employed, and 21,000 are unemployed but actively seeking work. In this example the labor force participation rate is approximately

A) 4 percent.

B) 48 percent.

C) 52 percent.

D) 56 percent.

Answer: D

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

14) Suppose an economy consists of 500,000 individuals 16 years and older, 260,000 are employed, and 21,000 are unemployed but actively seeking work. In this example the unemployment rate is approximately

A) 4.2 percent.

B) 6.1 percent.

C) 7.5 percent.

D) 8.0 percent.

Answer: C

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

15) In June 2012, the U.S. labor force consisted of 142,415,000 employed and 12,749,000 unemployed. The U.S. unemployment rate for June 2012 was about

A) 7.4 percent.

B) 8.2 percent.

C) 9.0 percent.

D) 11.2 percent.

Answer: B

Diff: 2

Topic: How is Unemployment Defined and Measured?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

Employment status of the working age

population of Metropolis is approximately:

|  |  |
| --- | --- |
| Employed full-time: | 4,200 |
| Employed part-time: | 700 |
| Not employed and looking for work: | 300 |
| Not employed and not looking for work: | 200 |

**Table 6.1**

16) Given the data in Table 6.1, the labor force participation rate of Metropolis is approximately

A) 96 percent.

B) 91 percent.

C) 83 percent.

D) 78 percent.

Answer: A

Diff: 2

Topic: How is Unemployment Defined and Measured?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

17) Given the data in Table 6.1, the unemployment rate of Metropolis is approximately

A) 6 percent.

B) 9 percent.

C) 12 percent.

D) 22 percent.

Answer: A

Diff: 2

Topic: How is Unemployment Defined and Measured?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

18) Suppose that 50 percent of the part-time workers of Metropolis are looking for full-time jobs. Given the data in Table 6.1, if these workers were counted as not employed and looking for work, the unemployment rate of Metropolis would be approximately

A) 6 percent.

B) 13 percent.

C) 16 percent.

D) 21 percent.

Answer: B

Diff: 2

Topic: How is Unemployment Defined and Measured?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

19) Given the data in Table 6.1, if the workers who are "not employed and not looking for work" were counted as not employed and in the labor force, the unemployment rate of Metropolis would be approximately

A) 4 percent.

B) 7 percent.

C) 9 percent.

D) 10 percent.

Answer: C

Diff: 3

Topic: How is Unemployment Defined and Measured?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

**Recall the Application about declining U.S. labor force participation since 1999 to answer the following question(s).**

20) According to this Application, one explanation for the decline in the U.S. labor force participation rate since 1999 is

A) the decline in the overall population.

B) the increasing number of retiring baby boomers.

C) the increase in immigration to the United States.

D) the increase in outsourcing by U.S. companies.

Answer: B

Diff: 1

Topic: Application 1, Declining Labor Force Participation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

21) According to this Application, one explanation for the decline in the U.S. labor force participation rate since 1999 is

A) higher college enrollment.

B) the increase in foreign ownership of U.S.-based companies.

C) sluggish economic growth that resulted in more discouraged workers.

D) the growing number of workers who have postponed retirement.

Answer: C

Diff: 1

Topic: Application 1, Declining Labor Force Participation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

22) Since 1997, the labor force participation rate for women in the United States has

A) remained virtually constant.

B) increased more than 10 percent.

C) decreased more than 20 percent.

D) equaled the participation rate for men.

Answer: A

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

23) People who want to work but have stopped looking for work because they could not find jobs after actively searching are called

A) employed.

B) unemployed.

C) discouraged workers.

D) empowered.

Answer: C

Diff: 1

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

24) The existence of discouraged workers will lead to an official unemployment rate that is

A) overstated.

B) understated.

C) either overstated or understated.

D) unbiased.

Answer: B

Diff: 1

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

25) If a large number of workers are classified as being out of the labor force when they are really looking for work, this will lead to an official unemployment rate that is

A) overstated.

B) understated.

C) neither overstated or understated.

D) unbiased.

Answer: B

Diff: 2

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

26) Which specific government agency monitors unemployment?

A) Commerce Department

B) Bureau of Labor Statistics

C) Executive Branch

D) State Department

Answer: B

Diff: 1

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

27) For the purpose of statistically reporting the unemployment rate, "discouraged workers" are

A) counted.

B) not counted.

C) offered other jobs.

D) trained to do different work.

Answer: B

Diff: 1

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

28) Individuals who have stopped looking for work after an active search because of the lack of transportation or lack of affordable child care, etc. are classified as \_\_\_\_\_\_\_\_ workers.

A) non-contributing

B) nonfunctional

C) marginally attached

D) very lazy

Answer: C

Diff: 1

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

**Recall the Application about the impact of the federal Disability Insurance program on the unemployment rate to answer the following question(s).**

29) Recall the Application. If the federal Disability Insurance program leads to a decrease in the labor force participation rate, the \_\_\_\_\_\_\_\_ will be \_\_\_\_\_\_\_\_.

A) frictional unemployment rate; higher

B) structural unemployment rate; higher

C) measured unemployment rate; lower

D) measured unemployment rate; higher

Answer: C

Diff: 1

Topic: Application 2, More Disability, Less Unemployment?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

30) According to this Application, the federal Disability Insurance Program has had \_\_\_\_\_\_\_\_ on the measured unemployment rate.

A) a very large effect

B) no effect

C) a negligible

D) an inconsequential effect

Answer: A

Diff: 1

Topic: Application 2, More Disability, Less Unemployment?

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

31) Recall the Application. Assume 5,000 unemployed workers left the workforce to participate in the federal Disability Insurance program, leaving the size of the labor force at 195,000. If 13,000 workers remain unemployed and in the labor force, what was the unemployment rate before and after the 5,000 unemployed workers left the workforce?

A) 9.0 percent; 6.7 percent

B) 6.5 percent; 2.3 percent

C) 12.8 percent; 4.3 percent

D) 38.5 percent; 27.8 percent

Answer: A

Diff: 2

Topic: Application 2, More Disability, Less Unemployment?

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-14

32) The unemployment rate

A) rises during booms and falls during recessions.

B) rises during recessions and falls during booms.

C) rises during times of rapid economic growth and falls during times of slow economic growth.

D) tends to remain the same in booms and recessions.

Answer: B

Diff: 1

Topic: Who are the Unemployed?

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

33) Seasonally adjusted unemployment rates

A) adjust for the predictable summer increase in the unemployment rate for teenagers.

B) adjust for the predictable summer decrease in the unemployment rate for teenagers.

C) are the same as the unadjusted rates in periods of bad weather.

D) are not calculated for the U.S. economy.

Answer: A

Diff: 1

Topic: Who are the Unemployed?

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

34) The unemployment rate is calculated by dividing the number unemployed and looking for work by the sum of the number employed and the number unemployed and looking for work.

Answer: TRUE

Diff: 1

Topic: Examining Unemployment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

35) Individuals who are not working and are not actively looking for work are counted as unemployed if they have looked for work in the past.

Answer: FALSE

Diff: 1

Topic: Examining Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

36) The labor force participation rate is the fraction of the population over 16 years of age that is looking for work.

Answer: FALSE

Diff: 1

Topic: Examining Unemployment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

37) A person who is not working and who has looked for work in the past, but is not looking for work now is not considered "unemployed."

Answer: TRUE

Diff: 1

Topic: How is Unemployment Defined and Measured?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

38) If a person without a job is not actively looking for work, that person is classified as not being in the labor force.

Answer: TRUE

Diff: 1

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

39) If a large number of people are classified as being out of the labor force when they are really looking for work, this will lead to an official unemployment rate that is lower than the true unemployment rate.

Answer: TRUE

Diff: 2

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

40) People who stopped looking for work because they could not find jobs are called discouraged workers.

Answer: TRUE

Diff: 1

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

41) Marginally attached workers are discouraged workers who have stopped their job search for reasons other than the lack of jobs.

Answer: TRUE

Diff: 1

Topic: Alternative Measures of Unemployment and Why They Are Important

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

42) Explain what is meant by the terms "labor force," "unemployment rate," and "labor force participation rate."

Answer: The labor force comprises all workers who are currently employed and unemployed workers who are actively looking for work. The unemployment rate is the percentage of the labor force which is unemployed. The labor force participation rate is the percentage of the population over 16 years of age that is in the labor force.

Diff: 1

Topic: Examining Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

43) Name two types of jobs most likely affected by "seasonal unemployment."

Answer: farming, construction work

Diff: 1

Topic: Who are the Unemployed?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

6.2 Categories of Unemployment

1) Unemployment that naturally occurs during the normal workings of an economy as people change jobs and move across the country is called

A) natural unemployment.

B) frictional unemployment.

C) structural unemployment.

D) cyclical unemployment.

Answer: B

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

2) Hector voluntarily left his job to search for a job in accounting, the field in which he has his bachelor's degree. Hector is considered

A) structurally unemployed.

B) cyclically unemployed.

C) frictionally unemployed.

D) not to be unemployed.

Answer: C

Diff: 2

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

3) Juanita quit her job to move to Santa Fe to be closer to her family. She is actively looking for a new job in Santa Fe. Juanita is considered

A) structurally unemployed.

B) cyclically unemployed.

C) frictionally unemployed.

D) not to be unemployed.

Answer: C

Diff: 2

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

4) Auto workers laid off from Hot-Rod Autoworks as the result of a recession are considered

A) structurally unemployed.

B) cyclically unemployed.

C) frictionally unemployed.

D) seasonally unemployed.

Answer: B

Diff: 2

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

5) Steel workers laid off from their jobs as the result of a recession are considered

A) structurally unemployed.

B) cyclically unemployed.

C) frictionally unemployed.

D) seasonally unemployed.

Answer: B

Diff: 2

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

6) Customer service representatives who have lost their jobs as a result of call centers being outsourced to India are an example of

A) structural unemployment.

B) cyclical unemployment.

C) frictional unemployment.

D) voluntary unemployment.

Answer: A

Diff: 2

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

7) \_\_\_\_\_\_\_\_ unemployment is most closely associated with periods of falling GDP.

A) Structural

B) Cyclical

C) Frictional

D) Voluntary

Answer: B

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

8) \_\_\_\_\_\_\_\_ unemployment is NOT associated with economic fluctuations.

A) Structural

B) Cyclical

C) Frictional

D) both A and C

Answer: D

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

9) Cyclical unemployment occurs

A) because the government labels some people who aren't really in the labor force as unemployed.

B) with economic fluctuations; it increases during bad times and decreases during good times.

C) naturally during the normal workings of an economy, as people change jobs, move across the country, etc.

D) because of a mismatch between the jobs that are available in the economy and the skills of workers seeking jobs.

Answer: B

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

10) \_\_\_\_\_\_\_\_ unemployment occurs due to a mismatch between the jobs that are available and the skills of workers seeking jobs.

A) Structural

B) Cyclical

C) Frictional

D) Voluntary

Answer: A

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

11) When the "real" GDP falls, the rate of unemployment generally

A) increases.

B) decreases.

C) stays constant.

D) equals the natural rate.

Answer: A

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

12) When displaced workers require retraining before entering the labor force again, it is the result of \_\_\_\_\_\_\_\_ unemployment.

A) cyclical

B) frictional

C) structural

D) seasonal

Answer: C

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

13) At full employment the unemployment rate equals the

A) cyclical unemployment rate.

B) structural unemployment rate.

C) structural unemployment rate plus the cyclical unemployment rate.

D) structural unemployment rate plus the frictional unemployment rate.

Answer: D

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

14) Economists say that the economy is at "full employment" when the

A) structural unemployment rate is zero.

B) total unemployment rate is zero.

C) frictional unemployment rate is zero.

D) cyclical unemployment rate is zero.

Answer: D

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

15) At full employment there is no

A) structural unemployment.

B) cyclical unemployment.

C) frictional unemployment.

D) all of the above

Answer: B

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

16) The economy needs some unemployment to operate efficiently, because without it

A) firms will find it difficult to recruit workers, leading to increased wages and prices.

B) firms will find it difficult to recruit workers, leading to reduced wages and prices.

C) workers will find it difficult to find a job, leading to increased wages and prices.

D) workers will find it difficult to find a job, leading to reduced wages and prices.

Answer: A

Diff: 2

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

17) In the United States today, economists estimate that the natural rate of unemployment is between \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_ percent.

A) 3; 5.5

B) 3; 4

C) 5; 6.5

D) 6.5; 7.5

Answer: C

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

18) The natural rate of unemployment

A) can vary over time and will differ across countries.

B) can vary over time but tends to be the same across countries.

C) tends to remain constant over time but at different levels for different countries.

D) tends to remain constant over time and is the same across countries.

Answer: A

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

19) As compared to the estimates of the natural rate of unemployment for the United States, those for Europe are

A) the same.

B) higher.

C) lower.

D) higher and more variable.

Answer: B

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

20) Compared to the natural rate of unemployment, the actual unemployment rate is

A) always higher.

B) always lower.

C) always the same.

D) higher in periods when GDP fails to grow at its normal rate.

Answer: D

Diff: 2

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

21) In periods when GDP fails to grow at its normal rate, the actual unemployment rate will be \_\_\_\_\_\_\_\_ than the natural rate of unemployment.

A) lower

B) higher

C) the same

D) falling faster

Answer: B

Diff: 2

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

22) Actual unemployment can exceed the natural rate of unemployment due to

A) structural unemployment.

B) cyclical unemployment.

C) frictional unemployment.

D) all of the above

Answer: B

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

23) In periods when GDP grows very rapidly for a long period, the actual unemployment rate will be \_\_\_\_\_\_\_\_ than the natural rate of unemployment.

A) lower

B) higher

C) the same

D) more variable

Answer: A

Diff: 2

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

24) Actual unemployment can fall below the natural rate of unemployment due to

A) structural unemployment.

B) negative cyclical unemployment.

C) frictional unemployment.

D) all of the above

Answer: B

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

25) The typical relationship between inflation and unemployment is

A) as unemployment falls, inflation falls.

B) as unemployment falls, inflation increases.

C) as unemployment falls, nothing happens to inflation.

D) unemployment changes do not directly lead to changes in inflation, but inflation changes may cause changes in unemployment.

Answer: B

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

26) Economic expansions might lead to inflation because an expansion leads to

A) a decrease in the unemployment rate, which increases wages.

B) an increase in the unemployment rate, which increases wages.

C) a decrease in the unemployment rate, which decreases wages.

D) an increase in the unemployment rate, which decreases wages.

Answer: A

Diff: 2

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

27) Which one of the following statements is NOT correct?

A) The natural rate of unemployment is estimated to be between 5 percent and 6.5 percent in the U.S.

B) The term "full employment" means that 100 percent of the labor force is employed.

C) The line between frictional and structural unemployment is sometimes hard to draw.

D) Unemployment can occur even when an economy is growing.

Answer: B

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

28) Economists consider an economy to be at "full employment" when

A) the unemployment rate equals the natural rate of unemployment.

B) there is only a small amount of cyclical unemployment.

C) there is no frictional unemployment.

D) there is no structural unemployment.

Answer: A

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

29) To operate efficiently, an economy generally "needs" \_\_\_\_\_\_\_\_ unemployment.

A) cyclical

B) frictional

C) structural

D) seasonal

Answer: B

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

30) Unemployment occurs even during periods when the economy is growing.

Answer: TRUE

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

31) Cyclical unemployment increases during recessions.

Answer: TRUE

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

32) Frictional unemployment is unemployment reflecting a mismatch of skills and jobs.

Answer: FALSE

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

33) Structural unemployment exists because workers and employers try to find the right employment matches.

Answer: FALSE

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

34) Economists consider the economy to be at "full employment" when there is no cyclical unemployment.

Answer: TRUE

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

35) The actual unemployment rate can be greater than or less than the natural rate of unemployment.

Answer: TRUE

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

36) Name the three types of unemployment.

Answer: cyclical, frictional and structural

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

37) What is cyclical unemployment?

Answer: Cyclical unemployment is the unemployment that accompanies fluctuations in real GDP.

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

38) What is frictional unemployment?

Answer: Frictional unemployment is unemployment that occurs naturally during the normal workings of the economy, such as workers taking time to to search for suitable jobs and companies taking time to search for qualified employees.

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

39) What is structural unemployment?

Answer: Structural unemployment is unemployment that occurs as the economy evolves, and reflects a mismatch of skills and jobs.

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-14

40) Could the advent of the Internet completely eliminate frictional unemployment?

Answer: While the Internet can improve the exchange of information, that is not enough to reduce frictional unemployment to zero. Some workers, for example, would prefer to continue searching for jobs in their own area rather than moving across the country to seek another job. In fact, improving information flows could even have a perverse effect of informing workers of other opportunities in the economy and thereby leading to more of them quitting their current jobs to seek other employment!

Diff: 2

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

41) Why is the line between frictional and structural unemployment sometimes hard to draw?

Answer: Suppose a highly skilled steel worker is laid off because his company shuts down its plant in his area and moves to a new location overseas. The worker would like to find a comparable job, but only low-wage, unskilled work is available in his town. Jobs are available, but not his kind of job; and the steel company will not come back. There is really no correct answer as to whether this is frictional or structural unemployment.

Diff: 2

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

42) In what sense is frictional unemployment "good" for the economy?

Answer: Since frictional unemployment is the unemployment that exists so that workers and firms find the right matches, the economy needs some frictional unemployment to operate efficiently.

Diff: 1

Topic: Types of Unemployment: Cyclical, Frictional, and Structural

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

43) What is meant by the term "the natural rate of unemployment"?

Answer: The natural rate of unemployment is the level of unemployment at which there is no cyclical unemployment. It consists only of frictional and structural unemployment.

Diff: 1

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

44) Why does unemployment not go to zero during booms?

Answer: While unemployment has a cyclical component—that is, it naturally goes up during recessions as people are laid off and down during booms as people are hired—there are other components of unemployment that do not vary over the business cycle. For instance, some people are going to be transitioning between jobs at all times of the business cycle (this is frictional unemployment). Frictional and structural unemployment rates are nonzero, so "full employment" actually means that some people are unemployed all the time.

Diff: 2

Topic: The Natural Rate of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

6.3 The Costs of Unemployment

**Recall the Application about the study done about the perceptions and behavior of the unemployed in Great Britain to answer the following question(s).**

1) According to this Application, becoming unemployed caused \_\_\_\_\_\_\_\_ in perceived well-being for men if those in their peer group were also unemployed.

A) a larger decrease

B) a smaller decrease

C) no change

D) an large increase

Answer: B

Diff: 1

Topic: Application 3, Social Norms, Unemployment, and Perceived Happiness

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

2) According to this Application, the more unhappy unemployed individuals were,

A) the more likely they were to remain unemployed.

B) the more aggressive they would be to try to find a job.

C) the more they congregated around others who were unemployed.

D) the longer they collected unemployment benefits.

Answer: B

Diff: 1

Topic: Application 3, Social Norms, Unemployment, and Perceived Happiness

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

3) According to this Application, if you are unemployed and if your peer group is also unemployed,

A) you have a better chance of finding employment.

B) you may not be as aggressive in searching for work.

C) you will want to find a job quickly to encourage your peer group about employment prospects.

D) you have little chance of finding a job.

Answer: B

Diff: 1

Topic: Application 3, Social Norms, Unemployment, and Perceived Happiness

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-14

4) Unemployment insurance typically replaces a worker's full earnings.

Answer: FALSE

Diff: 1

Topic: The Costs of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

5) Unemployment insurance tends to lead to the unemployed worker spending less time unemployed.

Answer: FALSE

Diff: 1

Topic: The Costs of Unemployment

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

6.4 The Consumer Price Index and the Cost of Living

1) The value of a dollar

A) is its purchasing power.

B) remains constant over time.

C) is its face value.

D) is set by the government.

Answer: A

Diff: 1

Topic: The CPI and the Cost of Living

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

2) The real-nominal principle can be stated as

A) production generates income.

B) only final goods and services should be counted in GDP.

C) what matters to people is the purchasing power of money or income.

D) only the manufacture of real goods is production.

Answer: C

Diff: 1

Topic: The CPI and the Cost of Living

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

3) The index most widely used by the government and the private sector to measure changes in the cost of living is the

A) Producer Price Index.

B) Consumer Price Index.

C) the GDP deflator.

D) the chain-weighted price index.

Answer: B

Diff: 1

Topic: The CPI and the Cost of Living

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-13

4) The Consumer Price Index (CPI) relies on the calculation of

A) prices of a fixed basket of goods that does not change often.

B) prices of a variable basket of goods that changes frequently.

C) the components of GDP that change annually.

D) the components of GDP that do not change frequently.

Answer: A

Diff: 1

Topic: The CPI and the Cost of Living

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

5) Which one of the following statements is true of the Consumer Price Index?

A) It does not take account of the price of imported goods and services.

B) It measures changes in prices of a fixed basket of goods.

C) It does not take into account the price of used goods.

D) It understates the true rate of inflation.

Answer: B

Diff: 1

Topic: The CPI and the Cost of Living

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

The following table lists the basket of goods in the

Consumer Price Index for the nation of Astro (Assume 2010 is the base year.)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2010 Quantity | 2010 Price | 2011 Quantity | 2011 Price | 2012 Quantity | 2012 Price |
| Sunglasses | 8 | $9.00 | 10 | $11.00 | 7 | $10.00 |
| Toothpaste | 15 | 3.00 | 18 | 4.00 | 15 | 4.00 |
| Ferrets | 6 | 12.00 | 4 | 15.00 | 9 | 18.00 |

**Table 6.2**

6) Using the information in Table 6.2, the Astro Consumer Price Index for 2010 is

A) 24.

B) 100.

C) 124.

D) 189.

Answer: B

Diff: 2

Topic: The CPI and the Cost of Living

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

7) Using the information in Table 6.2, the Astro Consumer Price Index for 2011 is

A) 87.

B) 99.

C) 126.

D) 238.

Answer: C

Diff: 2

Topic: The CPI and the Cost of Living

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

8) Using the information in Table 6.2, the Astro Consumer Price Index for 2012 is

A) 87.

B) 104.

C) 131.

D) 298.

Answer: C

Diff: 2

Topic: The CPI and the Cost of Living

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

9) Using the information in Table 6.2, the inflation rate from 2010 to 2011 is about

A) 26 percent.

B) 38 percent.

C) 42 percent.

D) 49 percent.

Answer: A

Diff: 2

Topic: The CPI and the Cost of Living

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

10) Using the information in Table 6.2, the inflation rate from 2011 to 2012 is about

A) 4 percent.

B) 5 percent.

C) 17 percent.

D) 31 percent.

Answer: A

Diff: 2

Topic: The CPI and the Cost of Living

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

11) Using the information in Table 6.2, the percent increase in prices over the two year period from 2010 to 2012 is approximately

A) 26 percent.

B) 31 percent.

C) 38 percent.

D) 98 percent.

Answer: B

Diff: 2

Topic: The CPI and the Cost of Living

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

12) What does the Consumer Price Index (CPI) measure?

A) prices of durable goods

B) prices of non durable goods

C) the cost of living over time

D) the cost of replacing lost items

Answer: C

Diff: 1

Topic: The CPI and the Cost of Living

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

13) The Consumer Price Index (CPI) differs from a chain-weighted price index in that the CPI

A) requires calculation of GDP, while the chain-weighted index does not.

B) measures the costs of a typical fixed basket of goods over time, while the chain-weighted index does not.

C) allows for the goods consumed in an economy to change over time, while the chain-weighted index does not.

D) compares the prices of all goods in one year to the prices of all goods in other years.

Answer: B

Diff: 2

Topic: The CPI versus the Chain Index for GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

14) The chain-weighted index for GDP and the CPI differ in that the CPI

A) excludes price changes from used and imported goods while the chain-weighted index includes these price changes.

B) asks how much a fixed basket of goods costs in the current year as compared to the cost of those same goods in a base year while the chain-weighted index takes an average of price changes using base years from neighboring years.

C) is calculated by the Commerce Department while the chain-weighted index is calculated by local newspapers.

D) is calculated in nominal terms and the chain-weighted index is calculated in real terms.

Answer: B

Diff: 3

Topic: The CPI versus the Chain Index for GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

15) Chain-weighted price indices are constructed such that

A) prices in different economies can be directly compared with one another.

B) prices in different years can be directly compared with one another.

C) all years' levels of GDP are directly related to a base year level of GDP.

D) prices of one good can be directly compared with prices of other goods.

Answer: B

Diff: 2

Topic: The CPI versus the Chain Index for GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

16) Most economists believe that price indices

A) overstate inflation and understate growth in nominal GDP.

B) overstate inflation and understate growth in real GDP.

C) understate inflation and understate growth in nominal GDP.

D) understate inflation and understate growth in real GDP.

Answer: B

Diff: 2

Topic: Problems in Measuring Changes in Prices

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-13

17) The principal reason why the chain-weighted index for GDP and the CPI both overstate actual changes in prices is that

A) it is hard to measure quality changes.

B) the basket of goods purchased by consumers never changes.

C) price data is often inaccurate.

D) all of the above

Answer: A

Diff: 1

Topic: Problems in Measuring Changes in Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

18) Economists believe that the CPI overstates actual price changes by as much as \_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_ percent each year.

A) 1; 2

B) 2; 3

C) 0.5; 1

D) 0.5; 1.5

Answer: D

Diff: 1

Topic: Problems in Measuring Changes in Prices

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-13

19) Cost-of-living adjustments are

A) automatic wage changes based on the CPI which are included in some union contracts.

B) changes in the basket of goods used in calculating the CPI.

C) averages of neighboring years' base prices used in constructing the CPI.

D) quality measurements included in the calculation of the CPI.

Answer: A

Diff: 1

Topic: Problems in Measuring Changes in Prices

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

20) When wages or benefits are automatically increased based on the reported inflation rate, it is called the \_\_\_\_\_\_\_\_ adjustment.

A) natural flow of money

B) cost-of-living

C) change in exports

D) change in imports

Answer: B

Diff: 1

Topic: Problems in Measuring Changes in Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

21) Social security payments automatically increase when the CPI goes up because of the

A) age of the recipient.

B) years receiving social security.

C) cost-of-living adjustments.

D) individual being married or unmarried.

Answer: C

Diff: 1

Topic: Problems in Measuring Changes in Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

**Recall the Application about the time involved in including cell phones in the calculation of the CPI to answer the following question(s).**

22) According to this Application, cell phones were introduced to the public in 1983, but it took the Bureau of Labor Statistics \_\_\_\_\_\_\_\_ to include them in calculating the CPI.

A) 3 years

B) 7 years

C) 15 years

D) 24 years

Answer: C

Diff: 1

Topic: Application 4, The Introduction of Cell Phones and the Bias in the CPI

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-13

23) According to this Application, the failure of including cell phones in a timely manner when calculating the CPI caused the telecommunications component of the price index

A) to be biased downward.

B) to be biased upward.

C) to actually register no perceptible bias.

D) to become negative.

Answer: B

Diff: 1

Topic: Application 4, The Introduction of Cell Phones and the Bias in the CPI

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-13

24) According to this Application, the bias in the CPI would be \_\_\_\_\_\_\_\_ if new goods are \_\_\_\_\_\_\_\_ incorporated in CPI calculations.

A) smaller; quickly

B) greater; immediately

C) smaller; slowly

D) negligible; slowly

Answer: A

Diff: 1

Topic: Application 4, The Introduction of Cell Phones and the Bias in the CPI

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

25) According to the Application, as new products are constantly invented and introduced on the market,

A) the bias in the CPI can be large.

B) the bias in the CPI tends to become smaller.

C) the bias in the CPI will eventually disappear.

D) the bias in the CPI will remain virtually unchanged.

Answer: A

Diff: 2

Topic: Application 4, The Introduction of Cell Phones and the Bias in the CPI

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

26) The basket of goods measured in computing the CPI includes goods produced in prior years and imported goods.

Answer: TRUE

Diff: 1

Topic: The CPI versus the Chain Index for GDP

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

27) Most economists believe that the CPI overstates the actual changes in prices while the chain index for GDP understates them.

Answer: FALSE

Diff: 1

Topic: Problems in Measuring Changes in Prices

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-13

28) What is the Consumer Price Index (CPI)?

Answer: The Consumer Price Index is a measure which tracks the cost of living over time. The CPI measures the cost of a fixed basket of goods chosen to represent the consumption pattern of a typical consumer.

Diff: 1

Topic: The CPI and the Cost of Living

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

29) What is a "cost-of-living" adjustment?

Answer: Increases in nominal wages or benefits to keep purchasing power constant.

Diff: 1

Topic: Problems in Measuring Changes in Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

30) Why do both the chain-weighted index for GDP and the CPI overstate actual price increases?

Answer: Both price indices overstate the actual price inflation experienced by economic agents because quality improvements are difficult to measure. For example, the price of computers may stay the same but one can get more computing power for one's money; thus while the price has remained constant, in some sense it has really fallen, but this is difficult to measure.

Diff: 2

Topic: Problems in Measuring Changes in Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

31) How costly are biases in the CPI?

Answer: Each year the federal government increases Social Security payments to the elderly by the rate of increase of prices as measured by the CPI. Economists believe that the CPI overstates actual price increases by between 0.5% and 1.5% a year. If we assume that the figure is 1%, and use the estimates provided by the Congressional Budget Office, reducing Social Security by 1% would save 42 billion dollars over a five-year period!

Diff: 2

Topic: Problems in Measuring Changes in Prices

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

6.5 Inflation

1) The percentage rate of change in the price level is called the

A) chain-weighted price index.

B) Consumer Price Index.

C) rate of inflation.

D) rate of absorption.

Answer: C

Diff: 1

Topic: Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

2) Suppose that a price index in Paraguay was 131 in 2011 and 152 in 2012. The inflation rate between those two years was approximately

A) 10.5 percent.

B) 11.6 percent.

C) 16 percent.

D) 21 percent.

Answer: C

Diff: 1

Topic: Inflation

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

3) Suppose that the CPI in Thailand was 345 in 2011 and 388 in 2012. The inflation rate between those two years was approximately

A) 11.2 percent.

B) 14.3 percent.

C) 12.5 percent.

D) 43 percent.

Answer: C

Diff: 2

Topic: Inflation

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

4) Suppose that the chain-weighted index for GDP in Panama was 180 in 2011 and 188 in 2012. The inflation rate between those two years was approximately

A) 1.1 percent.

B) 4.4 percent.

C) 8 percent.

D) 10.4 percent.

Answer: B

Diff: 2

Topic: Inflation

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

5) Suppose that a price index in Latvia was 120 in 2011 and 150 in 2012. The inflation rate between those two years was approximately

A) 8 percent.

B) 12.5 percent.

C) 25 percent.

D) 30 percent.

Answer: C

Diff: 1

Topic: Inflation

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

6) Suppose that the chain-weighted index for GDP in Gambia was 275 in 2011 and 350 in 2012. The inflation rate between those two years was approximately

A) 20.2 percent.

B) 27.3 percent.

C) 37.5 percent.

D) 75 percent.

Answer: B

Diff: 2

Topic: Inflation

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

7) Suppose that the CPI in Egypt was 111 in 2011 and 122 in 2012. The inflation rate between those two years was approximately

A) 4.8 percent.

B) 5.5 percent.

C) 9.9 percent.

D) 11 percent.

Answer: C

Diff: 2

Topic: Inflation

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

8) Suppose that in 2011 the chain-weighted price index for GDP in Estonia is 220 and the chain-weighted price index in Lithuania is 160. In 2012 the price index in Estonia is 242 and the price index in Lithuania is 180. You could conclude that

A) Estonia is a more expensive place to live than Lithuania.

B) Lithuania is a more expensive place to live than Estonia.

C) Estonia's rate of inflation is higher than Lithuania's.

D) Lithuania's rate of inflation is higher than Estonia's.

Answer: D

Diff: 3

Topic: Inflation

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

9) In the United States during the 1950s and 1960s

A) the inflation rate was frequently less than 2 percent a year.

B) prices fell.

C) prices rose sharply.

D) there was zero inflation.

Answer: A

Diff: 1

Topic: Historical U.S. Inflation Rates

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-13

10) The biggest problem caused by a deflation is that

A) prices fall.

B) wages fall.

C) people cannot repay their debts.

D) interest rates rise.

Answer: C

Diff: 1

Topic: The Perils of Deflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

11) Inflation must be high in Moscow because it is very expensive to live there.

Answer: FALSE

Diff: 1

Topic: Inflation

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Macro-13

12) Since the 1930s the United States has experienced continuous deflation.

Answer: FALSE

Diff: 1

Topic: Historical U.S. Inflation Rates

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Macro-13

13) Critically evaluate the statement "Honolulu is an expensive place to live. Therefore the inflation rate must be high in Honolulu."

Answer: The statement confuses the price level with the inflation rate. Inflation is a *flow* variable—it measures changes in prices from year to year, while the price level is a stock variable. The statement observes the price level, not the inflation rate.

Diff: 2

Topic: Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

14) Explain why deflation could prevent people from being able to repay their debts.

Answer: When an economy experiences deflation, or falling price levels, wages can actually decline. If someone has an outstanding loan that needs to be paid off, a decrease in wages will make it harder to pay the loan, since outstanding loan amounts will not decrease with deflation and the decrease in wages.

Diff: 2

Topic: The Perils of Deflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

6.6 The Costs of Inflation

1) Economists call the physical cost of changing prices

A) the cost of doing business.

B) menu costs.

C) inflationary suffrage.

D) increasing profits.

Answer: B

Diff: 1

Topic: Anticipated Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

2) On what kind of income is our tax system based?

A) real

B) nominal

C) adjusted

D) inflationary

Answer: B

Diff: 1

Topic: Anticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

3) The costs associated with recalculating prices and printing new price lists when there is inflation are known as

A) shoe leather costs.

B) menu costs.

C) chain-index costs.

D) diminishing costs.

Answer: B

Diff: 1

Topic: Anticipated Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

4) The costs of inflation that arise from trying to reduce cash holdings are known as

A) shoe leather costs.

B) menu costs.

C) chain-index costs.

D) diminishing costs.

Answer: A

Diff: 1

Topic: Anticipated Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

5) What happens to your purchasing power if inflation is less than you anticipated?

A) It decreases.

B) It increases.

C) It devalues your net worth.

D) It won't change much.

Answer: B

Diff: 1

Topic: Unanticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

6) If you negotiated a salary based on an anticipated inflation rate of 4 percent, and the actual inflation rate turned out to be 6 percent

A) the purchasing power of your real wages would be more than you anticipated.

B) your employer would have gained at your expense.

C) your real wage will increase, but your nominal wage will decrease.

D) the purchasing power of your wages will not change, since purchasing power is based on your nominal wage.

Answer: B

Diff: 2

Topic: Unanticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

7) If you take out a bank loan prior to unanticipated inflation

A) it will be harder for you to repay the loan because of the inflated dollar.

B) you will gain at the expense of your bank.

C) your bank will gain at your expense.

D) neither you nor your bank will be affected, because the loan was made prior to the inflation.

Answer: B

Diff: 2

Topic: Unanticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

8) One cost of unanticipated inflation is

A) both lenders and borrowers lose.

B) arbitrary redistributions of income.

C) nominal income falls below real income.

D) people cannot repay their debts.

Answer: B

Diff: 1

Topic: Unanticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

9) In November 2008, the MONTHLY rate of inflation in Zimbabwe approached 79 BILLION percent. An inflation rate such as this would

A) seriously disrupt normal commerce.

B) decrease the natural rate of unemployment.

C) be too high to calculate using the CPI.

D) all of the above

Answer: A

Diff: 1

Topic: Unanticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

10) An inflation rate that exceeds 50 percent per month is referred to as

A) anticipated inflation.

B) destructive deflation.

C) hyperinflation.

D) superflation.

Answer: C

Diff: 1

Topic: Unanticipated Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

11) Hyperinflation is defined as an inflation rate

A) that doubles each year.

B) that exceeds 50 percent per month.

C) that increases rapidly in one year and decreases rapidly the next year.

D) that is moderately high but anticipated.

Answer: B

Diff: 2

Topic: Unanticipated Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

12) Anticipated inflation is associated with cost increases which are fully expected.

Answer: TRUE

Diff: 1

Topic: The Costs of Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

13) Unanticipated inflation is associated with cost increases which are not expected.

Answer: TRUE

Diff: 1

Topic: The Costs of Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

14) Inflation distorts the operation of our tax and financial system.

Answer: TRUE

Diff: 1

Topic: Anticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

15) Hyperinflation refers to an inflation rate which exceeds 5 percent per month.

Answer: FALSE

Diff: 1

Topic: Unanticipated Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13

16) Unemployment and recessions are sometimes necessary to curb high inflation.

Answer: TRUE

Diff: 1

Topic: Unanticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

17) Explain menu costs and shoe leather costs as they relate to inflation.

Answer: When there is inflation, menu costs refer to the actual physical costs of changing prices, as would be necessary for printed material such as catalogs, price tags and restaurant menus. Shoe leather costs refer to the costs involved with holding less cash. When there is inflation, people will tend to want to hold less cash, since the value of cash being held will decrease. If less cash is held, more frequent trips to banks or ATMs will be necessary when people need cash.

Diff: 2

Topic: Anticipated Inflation

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-13

18) What is hyperinflation?

Answer: Hyperinflation refers to an inflation rate which exceeds 50 percent per month.

Diff: 1

Topic: Unanticipated Inflation

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-13