

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

1. Economics is best defined as the study of
  - A. prices and quantities.
  - B. inflation and interest rates.
  - C. how people make choices under the conditions of scarcity and the results of the choices.
  - D. wages and incomes.
2. Economic questions always deal with
  - A. financial matters.
  - B. political matters.
  - C. insufficient resources.
  - D. choice in the face of limited resources.
3. The range of topics or issues that fit within the definition of economics is
  - A. limited to market activities, e.g., buying soap.
  - B. limited to individuals and firms.
  - C. extremely wide, requiring only the ideas of choice and scarcity.
  - D. very limited.
4. The central concern of economics is
  - A. poverty.
  - B. scarcity.
  - C. wealth accumulation.
  - D. overconsumption.
5. The scarcity principle indicates that
  - A. no matter how much one has, it is never enough.
  - B. compared to 100 years ago, individuals have less time today.
  - C. with limited resources, having more of "this" means having less of "that."
  - D. because tradeoffs must be made, resources are therefore scarce.
6. The logical implication of the scarcity principle is that
  - A. one will never be satisfied with what one has.
  - B. as wealth increases, making tradeoffs becomes less necessary.
  - C. as wealth decreases, making tradeoffs becomes less necessary.
  - D. choices must be made.
7. If all the world's resources were to magically increase 100 fold, then
  - A. the scarcity principle would still govern behavior.
  - B. economics would no longer be relevant.
  - C. the scarcity principle would disappear.
  - D. tradeoffs would become unnecessary.
8. The principle of scarcity applies to
  - A. the poor exclusively.
  - B. all consumers.
  - C. all firms.
  - D. everyone; consumers, firms, governments, and nations.
9. At the very least, Joe Average and Bill Gates are both identically limited by
  - A. their wealth.
  - B. the 24 hours that comprise a day.
  - C. their knowledge.
  - D. their influence.

10. Forest is a mountain man living in complete isolation in Montana. He is completely self-sufficient through hunting, fishing, and farming. He has not been in the city to buy anything in five years. One can infer
  - A. the scarcity principle does not apply to Forest.
  - B. Forest is not required to make choices.
  - C. the scarcity principle still applies because more hunting means less fishing and farming.
  - D. Forest is very satisfied.
11. The scarcity principle applies to
  - A. all decisions.
  - B. only market decisions, e.g., buying a car.
  - C. only non-market decisions, e.g., watching a sunset.
  - D. only the poor.
12. Chris has a one-hour break between classes every Wednesday. Chris can either stay at the library and study or go to the gym and work out. This is
  - A. not an economic problem, because neither one costs money.
  - B. not an economic problem, because it's an hour that is wasted no matter what Chris does.
  - C. an economic problem because the tuition Chris pays covers both the gym and the library.
  - D. an economic problem, because the one-hour time limit means Chris must make a choice.
13. Josh wants to go to the football game this weekend, but he has a paper due on Monday. It will take him the whole weekend to write the paper. Josh decided to stay home and work on the paper. According to the scarcity principle, the reason Josh didn't go to the game is that
  - A. Josh prefers schoolwork to football games
  - B. writing the paper is easier than going to the game
  - C. Josh doesn't have enough time for writing the paper and going to the game
  - D. it's too expensive to go to the game
14. Whether studying the size of the U.S. economy or the number of children a couple will choose to have, the unifying concept is that wants are
  - A. limited, resources are limited, and thus tradeoffs must be made.
  - B. unlimited, resources are limited, and thus tradeoffs must be made.
  - C. unlimited, resources are limited to some but not to others and thus some people must make tradeoffs.
  - D. unlimited, resources are limited, and thus government needs to do more.
15. The cost-benefit principle indicates that an action should be taken
  - A. if the total benefits exceed the total costs.
  - B. if the average benefits exceed the average costs.
  - C. if the net benefit (benefit minus cost) is zero.
  - D. if the extra benefit is greater than or equal to the extra costs.
16. When a person decides to pursue an activity as long as the extra benefits are at least equal to the extra costs, that person is
  - A. violating the cost-benefit principle.
  - B. following the scarcity principle.
  - C. following the cost-benefit principle.
  - D. pursuing the activity too long.
17. Choosing to study for an exam until the extra benefit (improved score) equals the extra cost (mental fatigue) is
  - A. not rational.
  - B. an application of the cost-benefit principle.
  - C. an application of the scarcity principle.
  - D. the relevant opportunity cost.

18. The scarcity principle indicates that \_\_\_\_\_ and the cost-benefit principle indicates \_\_\_\_\_.
- A. choices must be made; how to make the choices
  - B. choices must be made; the costs can never outweigh the benefits of the choices
  - C. rare goods are expensive; the costs should outweigh the benefits of the choices
  - D. rare goods are expensive; the costs can never outweigh the benefits of the choices
19. According to the cost-benefit principle,
- A. the lowest cost activity usually gives the lowest benefit.
  - B. a person should always choose the activity with the lowest cost.
  - C. a person should always choose the activity with the greatest benefit.
  - D. the extra costs and benefits of an activity are more important considerations than the total costs and benefits.
20. A rational person is one who
- A. is reasonable.
  - B. makes choices that are easily understood.
  - C. possesses well-defined goals and seeks to achieve them.
  - D. is highly cynical.
21. The 7<sup>th</sup> glass of soda that Tim consumes will produce an extra benefit of 10 cents and has an extra cost of zero (Tim is eating at the cafeteria). The cost-benefit principle predicts that Tim will
- A. realize he has had too much soda to drink and go home.
  - B. drink the 7<sup>th</sup> glass and continue until the marginal benefit of drinking another glass of soda is zero.
  - C. volunteer to empty out the fountain.
  - D. not drink the 7<sup>th</sup> glass.
22. Janie must either mow the lawn or wash clothes, earning her a benefit of \$30 or \$45, respectively. She dislikes both equally and they both take the same amount of time. Janie will therefore choose to \_\_\_\_\_ because the economic surplus is \_\_\_\_\_.
- A. mow; greater
  - B. wash; greater
  - C. mow; smaller
  - D. wash; smaller
23. Dean decided to play golf rather than prepare for his exam in economics that is the day after tomorrow. One can infer that
- A. Dean has made an irrational choice.
  - B. Dean is doing poorly in his economics class.
  - C. the economic surplus from playing golf exceeded the surplus from studying.
  - D. the cost of studying was less than the cost of golfing.

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

24. The opportunity cost of attending Elite U is
- A. \$50,000
  - B. \$10,000
  - C. \$20,000
  - D. \$15,000
25. The opportunity cost of attending State College is
- A. \$30,000
  - B. \$20,000
  - C. \$15,000
  - D. \$10,000

26. Larry maximizes his surplus by attending
- A. Elite U, because \$60,000 is greater than the benefit at the other schools.
  - B. State College, because the difference between the benefit and cost is greatest there.
  - C. NoName U, because Larry has a full scholarship there.
  - D. Elite U, because the opportunity costs of attending Elite U are the lowest.
27. Larry has decided to go to Elite U. He must have
- A. calculated his surplus from each choice and picked the one with the highest surplus.
  - B. underestimated the benefits of attending NoName.
  - C. overestimated the benefits of attending Elite U.
  - D. determined the opportunity cost of each choice and picked the one with the lowest opportunity cost.
28. Jen spends her afternoon at the beach, paying \$1 to rent a beach umbrella and \$11 for food and drinks rather than spending an equal amount of money to go to a movie. The opportunity cost of going to the beach is:
- A. the \$12 she spent on the umbrella, food and drinks.
  - B. only \$2 because she would have spent the money on food and drinks whether or not she went to the beach.
  - C. the movie she missed seeing.
  - D. the movie she missed seeing plus the \$12 she spent on the umbrella, food and drinks.
29. Relative to a person who earns minimum wage, a person who earns \$30 per hour has
- A. a lower opportunity cost of working longer hours.
  - B. a higher opportunity cost of taking a day off.
  - C. a lower opportunity cost of driving farther to work.
  - D. the same opportunity cost of spending time on leisure activities.
30. The opportunity cost of an activity is the value of
- A. an alternative forgone.
  - B. the next-best alternative forgone.
  - C. the least-best alternative forgone.
  - D. the difference between the chosen activity and the next-best alternative forgone.
31. Amy is thinking about going to the movies tonight. A ticket costs \$7 and she will have to cancel her dog-sitting job that pays \$30. The cost of seeing the movie is
- A. \$7.
  - B. \$30.
  - C. \$37.
  - D. \$37 minus the benefit of seeing the movie.
32. Economic surplus is
- A. the benefit gained by taking an action.
  - B. the price paid to take an action.
  - C. the difference between the benefit gained and the cost incurred of taking an action.
  - D. the wage someone would have to earn in order to take an action.
33. The Governor of your state has cut the budget for the University and increased spending on Medicaid. This is an example of
- A. the pitfall of considering average costs instead of marginal costs.
  - B. poor normative economic decision making.
  - C. poor positive economic decision making.
  - D. choice in the face of limited resources.

34. Sally earned \$25,000 per year before she became a mother. After she became a mother she told her employer that she would not be willing to work for anything less than \$50,000. Her decision is based on
- A. the high cost of raising a child.
  - B. her desire to save for her child's college expenses.
  - C. her increased value to her employer.
  - D. the value she places on spending time with her child.
35. Alex received a four-year scholarship to State U. that covered tuition and fees, room and board, and books and supplies. As a result
- A. attending State U. for four years is costless for Alex.
  - B. Alex has no incentive to work hard while at State U.
  - C. the cost of attending State U. is the amount of money Alex could have earned working for four years.
  - D. the cost of attending State U. is the sum of the benefits Alex would have had attending each of the four other schools to which Alex had been admitted.
36. Suppose Mary is willing to pay up to \$15,000 for a used Ford pick-up truck, but she finds one for \$12,000. Her \_\_\_\_\_ is \_\_\_\_\_.
- A. benefit; \$12,000
  - B. cost; \$15,000
  - C. economic surplus; \$3,000
  - D. economic surplus; \$12,000
37. In general, rational decision making requires one to choose the actions that yield the
- A. largest total benefit.
  - B. smallest total cost.
  - C. smallest net benefit.
  - D. largest economic surplus.
38. Suppose the most you would be willing to pay for a plane ticket home is \$250, but you buy one online for \$175. The economic surplus of buying the online ticket is:
- A. \$175.
  - B. \$250.
  - C. \$75.
  - D. \$0.
39. The use of economic models, like the cost-benefit principle, means economists believe that
- A. this is exactly how people choose between alternatives.
  - B. this is a reasonable abstraction of how people choose between alternatives.
  - C. those who explicitly make decisions this way are smarter.
  - D. with enough education, all people will start to explicitly make decisions this way.
40. Jenna decides to see a movie that costs \$7 for the ticket and has an opportunity cost of \$20. After the movie, she says to one of her friends that the movie was not worth it. Apparently,
- A. Jenna failed to apply the cost-benefit model to her decision.
  - B. Jenna was not rational.
  - C. Jenna overestimated the benefits of the movie.
  - D. Jenna underestimated the benefits of the movie.
41. Most of us make sensible decisions most of the time, because
- A. we know the cost-benefit principle.
  - B. subconsciously we are weighing costs and benefits.
  - C. most people know about the scarcity principle.
  - D. we conduct hypothetical mental auctions when we make decisions.

42. Suppose a person makes a choice that seems inconsistent with the cost-benefit principle. Which of the following statements represents the most reasonable conclusion to draw?
- A. The person (explicitly or implicitly) over-estimated the benefits or under-estimated the costs or both.
  - B. The cost-benefit principle is rarely true.
  - C. The person does not grasp how decisions should be made.
  - D. The person is simply irrational.
43. Economic models are intended to
- A. apply to all examples equally well.
  - B. eliminate differences in the way people behave.
  - C. generalize about patterns in decision-making.
  - D. distinguish economics students from everyone else.
44. Economic models claim to be a(n)
- A. reasonable abstraction of how people make choices, highlighting the most important factors.
  - B. exact replication of the decision-making process people use.
  - C. interesting chalkboard exercise with little applicability to the real world.
  - D. exceptionally accurate method of predicting nearly all behavior of everyone.
45. The cost-benefit model used by economists is
- A. unrealistic because it is too detailed and specific to apply to a variety of situations.
  - B. unrealistic because everyone can think of times when he or she violated the principle.
  - C. useful because everyone follows it all of the time.
  - D. useful because most people follow it most of the time.
46. Barry owns a clothing store in the mall and has asked two economic consultants to develop models of consumer behavior that he can use to increase sales. Barry should choose the model that
- A. does not include simplifying assumptions.
  - B. is the most detailed and complex.
  - C. assumes that consumers apply the cost-benefit principle.
  - D. predicts that consumers will always prefer Barry's store to the competing stores.
47. Economists use abstract models because
- A. every economic situation is unique, so it is impossible to make generalizations.
  - B. every economic situation is essentially the same, so specific details are unnecessary.
  - C. they are useful for describing general patterns of behavior.
  - D. computers have allowed economists to develop abstract models.
48. Most people make some decisions based on intuition rather than calculation. This is
- A. irrational, because intuition is often wrong.
  - B. consistent with the economic model of decision-making, because calculating costs and benefits leads to decision-making pitfalls.
  - C. consistent with the economic model because people intuitively compare the relative costs and benefits of the choices they face.
  - D. inconsistent with the economic model but rational, because intuition takes into account non-financial considerations.
49. Moe has a big exam tomorrow. He considered studying this evening, but decided to go out with Curly instead. Since Moe always chooses rationally, it must be true that
- A. the opportunity cost of studying tonight is less than the value Moe gets from spending time with Curly.
  - B. the opportunity cost of studying tonight is equal to the value Moe gets from spending time with Curly minus the cost of earning a low grade on the exam.
  - C. Moe gets more benefit from spending time with Curly than from studying.
  - D. Moe gets less benefit from spending time with Curly than from studying.

50. If one fails to account for opportunity costs in decision making, then applying the cost-benefit rule will be flawed because
- A. the benefits will be overstated.
  - B. the costs will be understated.
  - C. the benefits will be understated.
  - D. the costs will be overstated.

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

51. If you do not use the frequent-flyer coupon to fly, should you go to Miami?
- A. Yes, your benefit is more than your cost
  - B. No, your benefit is less than your cost
  - C. Yes, your benefit is equal to your cost
  - D. No, because there are no benefits in the trip
52. What is the opportunity cost of using the coupon for the Miami trip?
- A. \$100
  - B. \$450
  - C. \$500
  - D. \$550
53. If you use the frequent-flyer coupon to fly to Atlanta, would you get any economic surplus by making the trip?
- A. No, there is a loss of \$50.
  - B. Yes, surplus of \$350.
  - C. Yes, surplus of \$400.
  - D. Yes, surplus of \$100.
54. If the Chicago-Atlanta round-trip air fare is \$350, should you go to Miami?
- A. No, there is a loss of \$50.
  - B. No, there is a loss of \$100.
  - C. Yes, there is economic surplus of \$50.
  - D. Yes, there is economic surplus of \$400.
55. Pat earns \$25,000 per year (after taxes), and Pat's spouse, Chris, earns \$35,000 (after taxes). They have two pre-school children. Childcare for their children costs \$12,000 per year. Pat has decided to stay home and take care of the children. Pat must
- A. value spending time with the children by more than \$25,000.
  - B. value spending time with the children by more than \$12,000.
  - C. value spending time with the children by more than \$13,000.
  - D. value spending time with the children as much than does Chris.

You paid \$35 for a ticket (which is non-refundable) to see JAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as your concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

56. Should you go to the concert instead of working Saturday?
- A. Yes, your benefit is more than your cost
  - B. No, your benefit is less than your cost
  - C. Yes, your benefit is equal to your cost
  - D. No, because there are no benefits in the concert

57. What is the opportunity cost of going to the concert?  
A. \$1  
B. \$9  
C. \$35  
D. \$36
58. What is your opportunity cost, if you go to work on Saturday?  
A. \$0  
B. \$9  
C. \$35  
D. \$36
59. Your economic surplus of going to work on Saturday is  
A. \$0  
B. \$1  
C. \$35  
D. \$36

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

60. Matt's benefit of buying his books at the bookstore is \_\_\_\_\_.  
A. \$5  
B. \$9  
C. \$170  
D. \$175
61. Matt's benefit was \_\_\_\_\_ from driving to campus to buy the concert ticket last week.  
A. \$2  
B. \$4  
C. \$9  
D. \$16
62. According to the cost-benefit principle:  
A. it would not be rational for Matt to drive to campus to purchase the books because the \$5 saving is only . two percent of the cost of the books, and that is much less than the 25 percent he saved on the concert ticket.  
B. it would be rational for Matt to drive to campus because it costs less to buy the books there than via the Internet.  
C. it would be rational for Matt to drive to campus because the \$5 saving is more than he saved by driving . there to buy the concert ticket.  
D. it would not be rational for Matt to drive to campus to purchase the books because the cost of gas and . his time must certainly be more than the \$5 he would save.
63. Assume the minimum that Matt would be willing to accept to drive to the university campus is equal to the amount he saved on the concert ticket. What would be the amount of his economic surplus if he bought his textbooks at the university bookstore rather than via the Internet?  
A. \$5  
B. \$1  
C. \$50  
D. \$20
64. The marginal benefit of an activity is the  
A. same as the total benefits of the activity.  
B. total benefit divided by the level of the activity.  
C. extra benefit associated with an extra unit of the activity.  
D. total benefit associated with an extra unit of the activity .



65. If the marginal costs of 1, 2, and 3 hours of talking on the phone are \$50, \$75, and \$105, then the total costs are
- A. \$50, \$150, and \$315.
  - B. \$50, \$41.67, and \$115.
  - C. \$50, \$125, and \$230.
  - D. \$50, \$175, and \$405.
66. If the total benefits of watching 1, 2, and 3 baseball games on TV are 100, 120, and 125 then the marginal benefits are
- A. 100, 120, and 125.
  - B. 100, 20, and 5.
  - C. 100, 609, and 41.67.
  - D. 100, 240, and 375.
67. The extra benefit that comes from an extra unit of activity is called the \_\_\_\_\_ of the activity.
- A. marginal benefit.
  - B. marginal cost.
  - C. average benefit.
  - D. reservation benefit.
68. The marginal cost of an activity is the
- A. change in the cost of the activity that results from an extra unit of the activity.
  - B. same as the total cost of the activity.
  - C. ratio of total cost to the level of the activity.
  - D. change in the level of the activity divided by the change in the cost of the activity.
69. The extra cost that results from an extra unit of an activity is the
- A. marginal benefit.
  - B. marginal cost.
  - C. reservation cost.
  - D. same as the opportunity cost.
70. Dividing the total cost of n units of an activity by n reveals the
- A. average benefit.
  - B. marginal cost.
  - C. units per cost.
  - D. average cost.
71. You had to pay \$600 (non-refundable) for your meal plan for the Fall semester which gives you up to 150 meals. If you eat all of the meals, your average cost for a meal equals
- A. \$6.
  - B. \$5.
  - C. \$4.
  - D. \$0.25.
72. You had to pay \$600 (non-refundable) for your meal plan for Fall semester which gives you up to 150 meals. If you eat only 100 meals, your average cost for a meal
- A. \$6.
  - B. \$5.
  - C. \$4.
  - D. \$0.25.
73. You had to pay \$600 (non-refundable) for your meal plan for Fall semester which gives you up to 150 meals. If you eat only 100 meals, your marginal cost for the 100<sup>th</sup> meal is
- A. \$6
  - B. \$4
  - C. \$0.25
  - D. \$0

74. The average benefit of an activity is the
- total benefit of the activity divided by the number of units.
  - number of units divided by the total benefit of the activity.
  - number of units times the total benefit of the activity.
  - extra benefit for one additional unit of the activity.
75. You save \$10 on gas every week since you live close to the bus stop. You have class five days a week. What is your average benefit per day for living close to the bus stop?
- \$10
  - \$5
  - \$2
  - \$1.43
76. Your scholarship depends on your maintaining a 3.5 cumulative GPA. Your GPA for last semester was 3.6, which brought your cumulative GPA down. What must be true?
- Your marginal grades (last semester's grades) were higher than your overall GPA.
  - Your marginal grades were lower than your overall GPA.
  - If this semester's grades are the same as last semester's, your overall GPA will stay the same.
  - If this semester's grades are the same as last semester's, you might lose your scholarship.

Units of Activity	Total Cost	Total Benefit
1	\$30	\$100
2	\$40	\$160
3	\$60	\$180
4	\$100	\$200
5	\$150	\$205
6	\$175	\$210

77. Refer to the figure above. The average cost of 4 units of activity is
- \$20
  - \$25
  - \$30
  - \$40
78. Refer to the figure above. The marginal cost of the 3<sup>rd</sup> unit of activity is
- \$30
  - \$25
  - \$20
  - \$10
79. Refer to the figure above. The average benefit of 3 units of activity is
- \$80
  - \$60
  - \$40
  - \$20
80. Refer to the figure above. The marginal benefit of the 5<sup>th</sup> unit of activity is
- \$60
  - \$50
  - \$5
  - \$0
81. Refer to the figure above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is
- 1
  - 3
  - 4
  - 6

Units of Activity	Total Cost	Total Benefit
1	\$3	\$10
2	\$4	\$14
3	\$6	\$16
4	\$10	\$20
5	\$15	\$24
6	\$21	\$28
7	\$28	\$29

82. Refer to the figure above. The average cost of 5 units of activity is
- \$1
  - \$2
  - \$3
  - \$4
83. Refer to the figure above. The marginal cost of the 4<sup>th</sup> unit of activity is
- \$1
  - \$2
  - \$3
  - \$4
84. Refer to the figure above. The average benefit of 4 units of activity is
- \$4
  - \$5
  - \$6
  - \$10
85. Refer to the figure above. The marginal benefit of the 6<sup>th</sup> unit of activity is
- \$1
  - \$2
  - \$4
  - \$10
86. Refer to the figure above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is
- 1
  - 4
  - 5
  - 7

*Fundraisers for What'sAMatterU*

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

87. Refer to the figure above. Total donations raised by three employees is
- \$43,899.
  - \$45,000.
  - \$48,911.
  - \$51,963.
88. Refer to the figure above. The total labor cost of 4 employees is
- \$21,500.
  - \$22,000.
  - \$38,000.
  - \$43,121.

89. Refer to the figure above. The President of What'sAMatterU decides to hire fundraisers as long as the average benefit exceeds the average cost, resulting in \_\_\_\_\_ employees being hired and a net benefit (total donations minus total labor costs) of \_\_\_\_\_.
- A. 5; \$17,080
  - B. 5; \$67,080
  - C. 4; \$60,000
  - D. 4; \$22,000
90. Refer to the figure above. The marginal benefit (extra donations) of the 2<sup>nd</sup> employee is
- A. \$42,426.
  - B. \$21,213.
  - C. \$12,426.
  - D. \$11,337.
91. Refer to the figure above. The marginal labor cost (extra labor cost) of the 4<sup>th</sup> employee is
- A. \$9,500.
  - B. \$10,750.
  - C. \$11,000.
  - D. \$13,000.
92. Refer to the figure above. The Chairman of the Economics Department at What'sAMatterU says that fundraisers should be hired as long as their marginal donations exceed their marginal labor costs. Following this criterion, \_\_\_\_\_ employees are hired and net benefits are \_\_\_\_\_.
- A. 1; \$22,000
  - B. 2; \$25,426
  - C. 3; \$25,426
  - D. 2; \$3,476
93. Refer to the figure above. The net benefit of hiring fundraisers is largest when \_\_\_\_\_ employees are hired.
- A. 4
  - B. 3
  - C. 2
  - D. 1
94. Ginger bought an MP3 player that came with a \$10 rebate. Ginger should fill out and mail in the rebate form if
- A. the opportunity cost of the time and trouble of sending in the rebate forms is **less** than \$10.
  - B. the opportunity cost of the time and trouble of sending in the rebate forms is **more** than \$10.
  - C. she would have bought the MP3 player without the rebate, and so sending in the rebate involves no opportunity cost.
  - D. Ginger's surplus from purchasing the MP3 player was less than \$10.
95. Tony notes that an electronics store is offering a flat \$20 off all prices in the store. Tony reasons that if he wants to buy something with a price of \$50 that it is a good offer, but if he wants to buy something with a price of \$500 it is not a good offer. This is an example of
- A. inconsistent reasoning; saving \$20 is saving \$20.
  - B. the proper application of the cost-benefit principle.
  - C. rational choice because in the first case he saves 40% and in the second case he saves 4%.
  - D. marginal cost equals marginal benefit thinking.
96. Suppose a retail store was offering 10% off all prices on all goods. The incentive to take advantage of the 10% savings is
- A. unrelated to the list price of one good.
  - B. inversely related to the list price of the good.
  - C. directly related to the list price of the good.
  - D. independent of the list price.

IBM employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard at \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.

97. What is the marginal cost of producing the computers Pam assembles during her 3<sup>rd</sup> hour of work?  
 A. \$1,200  
 B. \$1,240  
 C. \$2,400  
 D. \$2,440
98. What is the marginal cost of producing the computers Pam assembles during her 4<sup>th</sup> hour of work?  
 A. \$1,200  
 B. \$1,240  
 C. \$2,400  
 D. \$2,440
99. IBM sells each computer for \$620. How many hours should IBM employ Pam to maximize its benefit from her employment?  
 A. 1 hour  
 B. 2 hours  
 C. 3 hours  
 D. 4 hours
100. IBM sells each computer for computers \$640. How many hours should IBM employ Pam to maximize its benefit from her employment?  
 A. 2 hours  
 B. 3 hours  
 C. 4 hours  
 D. 5 hours
101. If Jane works for 6 hours she can rent 12 apartments, and if she works for 7 hours she can rent 15 apartments. The marginal benefit of the 7<sup>th</sup> hour of Jane's work equals:  
 A. 12 apartments.  
 B. 15 apartments.  
 C. 1 apartment.  
 D. 3 apartments.

The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

CPU Mhz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
600	\$1,000		\$900	
700	\$1,500			\$100
800		\$400	\$1,400	
900	\$2,200		\$1,900	
1,000	\$2,400			\$600

102. The marginal benefit of upgrading from a 600 Mhz computer to a 700 Mhz computer is  
 A. \$1,500.  
 B. \$500.  
 C. \$50.  
 D. \$5.
103. The total benefit of an 800 Mhz computer is  
 A. \$400.  
 B. \$800.  
 C. \$1,900.  
 D. \$2,200.

104. The total cost of a 700 Mhz computer is
- A. \$1,000.
  - B. \$900.
  - C. \$200.
  - D. \$100.
105. The marginal cost of upgrading from a 700 to an 800 Mhz computer is
- A. \$500.
  - B. \$400.
  - C. \$200.
  - D. \$100.
106. Application of the cost-benefit principle would lead one to purchase a \_\_\_\_\_ computer because \_\_\_\_\_.
- A. 900 Mhz; the total benefit exceeds the total cost
  - B. 700 Mhz; the marginal benefit is \$500 and the marginal cost is \$100
  - C. 600 Mhz; it is certainly fast enough
  - D. 800 Mhz; the marginal benefits and marginal costs are equal
107. Choosing the 1,000 Mhz computer would be inefficient because
- A. the marginal benefit is less than the marginal cost.
  - B. the marginal benefit is equal to the marginal cost.
  - C. it is impossible to tell the difference compared to a 600 Mhz computer.
  - D. the marginal benefit is more than the marginal cost.
108. Jack has a ticket to see Bo Bice for which he paid \$30 yesterday. He takes an unpaid day off from work to get ready for the concert. When he arrives at the concert, 5 different people offer him \$70 for his ticket. The cost to Jack of seeing Bo Bice is
- A. \$30.
  - B. \$40.
  - C. \$70.
  - D. \$70 plus his forgone earnings.
109. Catherine and Nancy both own homes with similar size lawns. Catherine mows her own lawn while Nancy hires someone to mow hers. Assume both women are rational decision makers. Which is the best explanation of the different decisions they make?
- A. The opportunity cost of Nancy's time is higher than her cost to hire someone to mow the lawn.
  - B. Nancy can get her lawn mowed for less than Catherine.
  - C. Nancy doesn't own a lawnmower.
  - D. Nancy earns more than Catherine does.
110. What is the opportunity cost of living in a house that you already own?
- A. Zero, because you already own it.
  - B. That mostly depends on current mortgage rates.
  - C. The rent you could receive if you rented the house out to someone else.
  - D. The taxes you pay your local government.
111. Jody has purchased a non-refundable \$25 ticket to attend a Savage Garden concert on Friday evening. Subsequently, she is asked to go to dinner and dancing at no expense to her. If she uses cost-benefit analysis to choose between going to the concert and going on the date, she should
- A. include only the entertainment value of the concert in the opportunity cost of going on the date.
  - B. include the cost of the ticket plus the entertainment value of the concert in the opportunity cost of going on the date.
  - C. include only the cost of concert ticket in the opportunity cost of going on the date.
  - D. include neither the cost of the ticket nor the entertainment value of the concert in the opportunity cost of going on the date.

Sean studied 5 hours for his first Economics test and his test score was 85; 6 hours for his second Economics test and scored 90; and 7 hours for his third Economics test and scored 95. He also studied 5 hours for his first Math test and his test score was 68; 6 hours for his second Math test and scored 78; and 7 hours for his third Math test and scored 88.

112. The average benefit per hour studied for the Economics tests was \_\_\_\_\_ and the average benefit per hour studied for the Math tests was \_\_\_\_\_ .
- A. 15; 13
  - B. 5; 10
  - C. 13; 15
  - D. 10; 5
113. Sean's marginal benefit from the seventh hour spent studying Economics is
- A. 5
  - B. 10
  - C. 15
  - D. 45
114. Sean's marginal benefit from the seventh hour spent studying Math is:
- A. 5
  - B. 10
  - C. 15
  - D. 78
115. If Sean has already spent 5 hours studying Economics and 5 hours studying Math, he should spend the next hour
- A. Studying Math for half an hour and Economics for half an hour
  - B. Studying only Economics
  - C. Studying only Math
  - D. Studying Economics for 45 minutes and Math for 15 minutes

You need a TV, DVD player, and CD player. The sale flyer you got in the mail shows the TV that you want to buy is 10% off regular price this week. DVD and CD players are 20% off next week. Last week you drove downtown to save \$30 on some concert tickets, a 15% savings. The regular prices for TVs, DVD players, and CD players are:

TV	\$250
DVD Player	\$120
CD Player	\$200

116. Should you drive downtown next week to buy the DVD player and the CD player?
- A. Yes, because you will save \$32
  - B. No, because you will save less than \$30
  - C. Yes, because you will save \$64
  - D. Yes, because it is always worth it to drive downtown to earn a 20% discount
117. If the regular price for the TV is \$300, should you drive downtown to buy the TV this week?
- A. Yes, because you will save \$30.
  - B. No, because next week's discount on the DVD player and CD player will save you even more.
  - C. Yes, because you will save \$60.
  - D. Yes, because it is always worth it to drive downtown to earn a 10% discount.
118. Suppose instead that the DVD player is 20% off and the CD player is 5% off regular price. Should you drive downtown to buy the VCR and the CD player?
- A. Yes, because you will save \$24.
  - B. Yes, because you will save \$34.
  - C. Yes, because you will save \$64.
  - D. Yes, because it is always worth it to drive downtown to earn a 20% discount.

You own a pizza shop called "Pizza'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10 a pie. By hiring more cooks, you can increase your pizza production as shown in the following table.

Number of cooks	Total production of pizzas each hour
0	0
1	4
2	7
3	9
4	10
5	10

119. What is the total cost per day of hiring 3 cooks if they work 8 hour shifts?
- A. \$60
  - B. \$160
  - C. \$320
  - D. \$480
120. What is the dollar value of total production each 8-hour shift if you hire 2 cooks?
- A. \$320
  - B. \$560
  - C. \$70
  - D. \$140
121. What is the average labor cost per pizza if you hire 4 cooks?
- A. \$6
  - B. \$8
  - C. \$10
  - D. \$12
122. What is the average benefit per pizza if you hire 2 cooks?
- A. \$4
  - B. \$6
  - C. \$8
  - D. \$10
123. If you operate one hour every day what is the marginal cost of the 3rd cook?
- A. \$10
  - B. \$20
  - C. \$40
  - D. \$60
124. If you operate one hour every day what is the marginal benefit of the 3rd cook?
- A. \$10
  - B. \$20
  - C. \$30
  - D. \$40
125. How many cooks should you hire to maximize your net benefit?
- A. 1
  - B. 3
  - C. 4
  - D. 5
126. Microeconomics is distinguished from macroeconomics in that microeconomics focuses on
- A. the performance of the national economy.
  - B. the overall price level.
  - C. choices made by individuals or groups in the context of individual markets.
  - D. how to improve the performance of the national economy.



127. Macroeconomics is distinguished from microeconomics by its concentration on
- A. choices.
  - B. the performance of national economies and ways to improve upon their performance.
  - C. individual markets.
  - D. the level of prices in specific markets.
128. The study of individual choices and group behavior in individual markets defines
- A. microeconomics.
  - B. economics.
  - C. the scarcity principle.
  - D. macroeconomics.
129. Which branch of economics is most likely to study differences in countries' growth rates?
- A. microeconomics
  - B. normative economics
  - C. macroeconomics
  - D. experimental economics
130. Which of the following decisions would not be part of microeconomics?
- A. How to make the largest profit.
  - B. Whether to study or watch TV tonight.
  - C. How an early freeze in California will affect the price of fruit.
  - D. Whether the federal budget should always be balanced.
131. Which of the following questions would not be part of macroeconomics?
- A. What caused the great depression?
  - B. At what rate does the US economy typically grow?
  - C. Did the sharp increase in gasoline prices alter SUV sales?
  - D. How does government spending affect the economy?
132. By convention there are two major divisions of economics, called
- A. marginal benefit and marginal cost.
  - B. reservation price and opportunity cost.
  - C. microeconomics and macroeconomics.
  - D. rational economics and irrational economics.
133. The study that deals with the salaries of university professors would be considered
- A. macroeconomics
  - B. microeconomics
  - C. economic naturalism
  - D. marginal benefit
134. Studying how Pat allocates her time between teaching classes and assisting undergrad students is an example of
- A. microeconomics
  - B. macroeconomics
  - C. individual economics
  - D. economic naturalism
135. In deciding the number of guitars to buy for his shop before the Christmas season, Mark is making a(n) \_\_\_\_\_ decision.
- A. microeconomic
  - B. macroeconomic
  - C. economic surplus
  - D. marginal choice

136. Studying government policies towards building new roads and highways is
- A. microeconomics
  - B. macroeconomics
  - C. government economics
  - D. marginal economics
137. Last year interest rates fell. It was the focus of
- A. microeconomics
  - B. macroeconomics
  - C. economic naturalism
  - D. marginal economics
138. Positive economic principles are those that
- A. are always correct.
  - B. are not influenced by political ideology.
  - C. predict how people should behave.
  - D. predict how people will behave.
139. One thing that distinguishes normative principles from positive principles is that
- A. normative principles are pessimistic and positive principles are optimistic.
  - B. normative principles reflect the social norms of the community, and positive principles reflect universal truths.
  - C. normative principles tell us how people should make economic decisions, and positive principles tell us how people actually do make decisions.
  - D. normative principles tell us how people actually make economic decisions, and positive principles tell us how people should make decisions.
140. Normative economics is concerned with how people \_\_\_\_\_ make decisions while positive economics is concerned with how people \_\_\_\_\_ make decisions.
- A. in the real world; in models
  - B. should; do
  - C. in power; in ordinary life
  - D. in ordinary life; in power
141. An editorial in the paper argues that students should only be allowed to attend school so long as the marginal cost of educating that student is less than the marginal benefit of that student's education. The writer's reasoning is an application of
- A. positive economics.
  - B. negative economics.
  - C. normative economics.
  - D. economic naturalism.
142. The incentive principle states that a person is more likely to do something if
- A. the opportunity costs are high.
  - B. the benefits from doing it increase.
  - C. everyone else is doing the same thing.
  - D. he is paid to do it.
143. The incentive principle is an example of
- A. an economic decision-making pitfall
  - B. over-estimating the benefits of an action.
  - C. a positive economic principle.
  - D. a normative economic principle.
144. If the government wanted to use the incentive principle to discourage smoking, it would
- A. publicize the health risks associated with second-hand smoke.
  - B. increase taxes on cigarettes, raising the price of a pack.
  - C. subsidize hospitals for treating lung disease.
  - D. invest more money in health research.

145. According to the incentive principle,
- A. it is irrational to perform volunteer services.
  - B. people will always take the highest-paying job.
  - C. benefits are more important than costs in making a decision.
  - D. people tend to do more of something when the benefits are greater.
146. An economic naturalist is described as someone who
- A. uses economic arguments to protect forests and wetlands from development.
  - B. has a natural talent for drawing graphs.
  - C. applies economic insights to everyday life.
  - D. studies the process of natural selection in a marginal cost and marginal benefit framework.
147. With ATMs it is possible to retrieve cash from the bank at any time. One hundred years ago, one could only get cash from the bank during business hours, say, 9 am to 3 pm. The difference is because
- A. flexibility was not valued 100 years ago.
  - B. it was impossible to provide 24 hour a day service 100 years ago.
  - C. the cost of providing 24 hour a day service is much lower today.
  - D. government forced banks to become more convenient.
148. The number of US households with access to the Internet and those with broadband connections is growing rapidly. As an economic naturalist, one could predict that when a major purchase is being considered, families will
- A. always buy online.
  - B. never buy online.
  - C. collect more information before making the purchase because the cost of finding and acquiring it is lower.
  - D. collect more information before making the purchase because the benefit of information is now larger.
149. Every time you go to the grocery store, you try to choose the shortest line. But all of the lines always seem to be the same length. Why?
- A. The store manager tells the cashiers to speed up or slow down to maintain equal line lengths.
  - B. Everyone else is trying to choose the shortest line, too.
  - C. The cashiers all work at the same speed.
  - D. Cashiers do not have an incentive to work faster.

# 1 Key

1. Economics is best defined as the study of
- A. prices and quantities.
  - B. inflation and interest rates.
  - C.** how people make choices under the conditions of scarcity and the results of the choices.
  - D. wages and incomes.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #1  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity*

2. Economic questions always deal with
- A. financial matters.
  - B. political matters.
  - C. insufficient resources.
  - D.** choice in the face of limited resources.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #2  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity*

3. The range of topics or issues that fit within the definition of economics is
- A. limited to market activities, e.g., buying soap.
  - B. limited to individuals and firms.
  - C.** extremely wide, requiring only the ideas of choice and scarcity.
  - D. very limited.

*AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #3  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity*

4. The central concern of economics is
- A. poverty.
  - B.** scarcity.
  - C. wealth accumulation.
  - D. overconsumption.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #4  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity*

5. The scarcity principle indicates that
- A. no matter how much one has, it is never enough.
  - B. compared to 100 years ago, individuals have less time today.
  - C.** with limited resources, having more of "this" means having less of "that."
  - D. because tradeoffs must be made, resources are therefore scarce.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #5  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity*

6. The logical implication of the scarcity principle is that
- A. one will never be satisfied with what one has.
  - B. as wealth increases, making tradeoffs becomes less necessary.
  - C. as wealth decreases, making tradeoffs becomes less necessary.
  - D.** choices must be made.

*AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #6  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity*

7. If all the world's resources were to magically increase 100 fold, then  
**A.** the scarcity principle would still govern behavior.  
B. economics would no longer be relevant.  
C. the scarcity principle would disappear.  
D. tradeoffs would become unnecessary.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #7  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity

8. The principle of scarcity applies to  
A. the poor exclusively.  
B. all consumers.  
C. all firms.  
**D.** everyone; consumers, firms, governments, and nations.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #8  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity

9. At the very least, Joe Average and Bill Gates are both identically limited by  
A. their wealth.  
**B.** the 24 hours that comprise a day.  
C. their knowledge.  
D. their influence.

AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #9  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity

10. Forest is a mountain man living in complete isolation in Montana. He is completely self-sufficient through hunting, fishing, and farming. He has not been in the city to buy anything in five years. One can infer  
A. the scarcity principle does not apply to Forest.  
B. Forest is not required to make choices.  
**C.** the scarcity principle still applies because more hunting means less fishing and farming.  
D. Forest is very satisfied.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #10  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity

11. The scarcity principle applies to  
**A.** all decisions.  
B. only market decisions, e.g., buying a car.  
C. only non-market decisions, e.g., watching a sunset.  
D. only the poor.

AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #11  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity

12. Chris has a one-hour break between classes every Wednesday. Chris can either stay at the library and study or go to the gym and work out. This is  
A. not an economic problem, because neither one costs money.  
B. not an economic problem, because it's an hour that is wasted no matter what Chris does.  
C. an economic problem because the tuition Chris pays covers both the gym and the library.  
**D.** an economic problem, because the one-hour time limit means Chris must make a choice.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #12  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity

13. Josh wants to go to the football game this weekend, but he has a paper due on Monday. It will take him the whole weekend to write the paper. Josh decided to stay home and work on the paper. According to the scarcity principle, the reason Josh didn't go to the game is that
- A. Josh prefers schoolwork to football games
  - B. writing the paper is easier than going to the game
  - C.** Josh doesn't have enough time for writing the paper and going to the game
  - D. it's too expensive to go to the game

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #13  
Learning Objective: 1-1*

*Section: Economics: Studying Choice in a World of Scarcity*

14. Whether studying the size of the U.S. economy or the number of children a couple will choose to have, the unifying concept is that wants are
- A. limited, resources are limited, and thus tradeoffs must be made.
  - B.** unlimited, resources are limited, and thus tradeoffs must be made.
  - C. unlimited, resources are limited to some but not to others and thus some people must make tradeoffs.
  - D. unlimited, resources are limited, and thus government needs to do more.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #14  
Learning Objective: 1-1*

*Section: Economics: Studying Choice in a World of Scarcity*

15. The cost-benefit principle indicates that an action should be taken
- A. if the total benefits exceed the total costs.
  - B. if the average benefits exceed the average costs.
  - C. if the net benefit (benefit minus cost) is zero.
  - D.** if the extra benefit is greater than or equal to the extra costs.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #15  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

16. When a person decides to pursue an activity as long as the extra benefits are at least equal to the extra costs, that person is
- A. violating the cost-benefit principle.
  - B. following the scarcity principle.
  - C.** following the cost-benefit principle.
  - D. pursuing the activity too long.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #16  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

17. Choosing to study for an exam until the extra benefit (improved score) equals the extra cost (mental fatigue) is
- A. not rational.
  - B.** an application of the cost-benefit principle.
  - C. an application of the scarcity principle.
  - D. the relevant opportunity cost.

*AACSB: Reflective Thinking Skills  
Blooms: Application  
Frank - Chapter 001 #17  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

18. The scarcity principle indicates that \_\_\_\_\_ and the cost-benefit principle indicates \_\_\_\_\_.
- A.** choices must be made; how to make the choices
  - B. choices must be made; the costs can never outweigh the benefits of the choices
  - C. rare goods are expensive; the costs should outweigh the benefits of the choices
  - D. rare goods are expensive; the costs can never outweigh the benefits of the choices

*AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #18  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

19. According to the cost-benefit principle,
- A. the lowest cost activity usually gives the lowest benefit.
  - B. a person should always choose the activity with the lowest cost.
  - C. a person should always choose the activity with the greatest benefit.
  - D.** the extra costs and benefits of an activity are more important considerations than the total costs and benefits.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #19  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

20. A rational person is one who
- A. is reasonable.
  - B. makes choices that are easily understood.
  - C.** possesses well-defined goals and seeks to achieve them.
  - D. is highly cynical.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #20  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

21. The 7<sup>th</sup> glass of soda that Tim consumes will produce an extra benefit of 10 cents and has an extra cost of zero (Tim is eating at the cafeteria). The cost-benefit principle predicts that Tim will
- A. realize he has had too much soda to drink and go home.
  - B.** drink the 7<sup>th</sup> glass and continue until the marginal benefit of drinking another glass of soda is zero.
  - C. volunteer to empty out the fountain.
  - D. not drink the 7<sup>th</sup> glass.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #21  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

22. Janie must either mow the lawn or wash clothes, earning her a benefit of \$30 or \$45, respectively. She dislikes both equally and they both take the same amount of time. Janie will therefore choose to \_\_\_\_\_ because the economic surplus is \_\_\_\_\_.
- A. mow; greater
  - B.** wash; greater
  - C. mow; smaller
  - D. wash; smaller

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #22  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

23. Dean decided to play golf rather than prepare for his exam in economics that is the day after tomorrow. One can infer that
- A. Dean has made an irrational choice.
  - B. Dean is doing poorly in his economics class.
  - C.** the economic surplus from playing golf exceeded the surplus from studying.
  - D. the cost of studying was less than the cost of golfing.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #23  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

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

Frank - Chapter 001

24. The opportunity cost of attending Elite U is
- A. \$50,000
  - B. \$10,000
  - C.** \$20,000
  - D. \$15,000

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #24  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

25. The opportunity cost of attending State College is
- A. \$30,000
  - B. \$20,000
  - C.** \$15,000
  - D. \$10,000

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #25  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

26. Larry maximizes his surplus by attending
- A. Elite U, because \$60,000 is greater than the benefit at the other schools.
  - B.** State College, because the difference between the benefit and cost is greatest there.
  - C. NoName U, because Larry has a full scholarship there.
  - D. Elite U, because the opportunity costs of attending Elite U are the lowest.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #26  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

27. Larry has decided to go to Elite U. He must have
- A. calculated his surplus from each choice and picked the one with the highest surplus.
  - B. underestimated the benefits of attending NoName.
  - C.** overestimated the benefits of attending Elite U.
  - D. determined the opportunity cost of each choice and picked the one with the lowest opportunity cost.

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #27  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle



28. Jen spends her afternoon at the beach, paying \$1 to rent a beach umbrella and \$11 for food and drinks rather than spending an equal amount of money to go to a movie. The opportunity cost of going to the beach is:
- A. the \$12 she spent on the umbrella, food and drinks.
  - B. only \$2 because she would have spent the money on food and drinks whether or not she went to the beach.
  - C.** the movie she missed seeing.
  - D. the movie she missed seeing plus the \$12 she spent on the umbrella, food and drinks.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #28  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

29. Relative to a person who earns minimum wage, a person who earns \$30 per hour has
- A. a lower opportunity cost of working longer hours.
  - B.** a higher opportunity cost of taking a day off.
  - C. a lower opportunity cost of driving farther to work.
  - D. the same opportunity cost of spending time on leisure activities.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #29  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

30. The opportunity cost of an activity is the value of
- A. an alternative forgone.
  - B.** the next-best alternative forgone.
  - C. the least-best alternative forgone.
  - D. the difference between the chosen activity and the next-best alternative forgone.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #30  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

31. Amy is thinking about going to the movies tonight. A ticket costs \$7 and she will have to cancel her dog-sitting job that pays \$30. The cost of seeing the movie is
- A. \$7.
  - B. \$30.
  - C.** \$37.
  - D. \$37 minus the benefit of seeing the movie.

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #31  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

32. Economic surplus is
- A. the benefit gained by taking an action.
  - B. the price paid to take an action.
  - C.** the difference between the benefit gained and the cost incurred of taking an action.
  - D. the wage someone would have to earn in order to take an action.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #32  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

33. The Governor of your state has cut the budget for the University and increased spending on Medicaid. This is an example of
- A. the pitfall of considering average costs instead of marginal costs.
  - B. poor normative economic decision making.
  - C. poor positive economic decision making.
  - D.** choice in the face of limited resources.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #33  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

34. Sally earned \$25,000 per year before she became a mother. After she became a mother she told her employer that she would not be willing to work for anything less than \$50,000. Her decision is based on
- A. the high cost of raising a child.
  - B. her desire to save for her child's college expenses.
  - C. her increased value to her employer.
  - D.** the value she places on spending time with her child.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #34  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

35. Alex received a four-year scholarship to State U. that covered tuition and fees, room and board, and books and supplies. As a result
- A. attending State U. for four years is costless for Alex.
  - B. Alex has no incentive to work hard while at State U.
  - C.** the cost of attending State U. is the amount of money Alex could have earned working for four years.
  - D the cost of attending State U. is the sum of the benefits Alex would have had attending each of the four other schools to which Alex had been admitted.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #35  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

36. Suppose Mary is willing to pay up to \$15,000 for a used Ford pick-up truck, but she finds one for \$12,000. Her \_\_\_\_\_ is \_\_\_\_\_.
- A. benefit; \$12,000
  - B. cost; \$15,000
  - C.** economic surplus; \$3,000
  - D. economic surplus; \$12,000

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #36  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

37. In general, rational decision making requires one to choose the actions that yield the
- A. largest total benefit.
  - B. smallest total cost.
  - C. smallest net benefit.
  - D.** largest economic surplus.

*AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #37  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

38. Suppose the most you would be willing to pay for a plane ticket home is \$250, but you buy one online for \$175. The economic surplus of buying the online ticket is:
- A. \$175.
  - B. \$250.
  - C. \$75.**
  - D. \$0.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #38  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

39. The use of economic models, like the cost-benefit principle, means economists believe that
- A. this is exactly how people choose between alternatives.
  - B. this is a reasonable abstraction of how people choose between alternatives.**
  - C. those who explicitly make decisions this way are smarter.
  - D. with enough education, all people will start to explicitly make decisions this way.

*AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #39  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

40. Jenna decides to see a movie that costs \$7 for the ticket and has an opportunity cost of \$20. After the movie, she says to one of her friends that the movie was not worth it. Apparently,
- A. Jenna failed to apply the cost-benefit model to her decision.
  - B. Jenna was not rational.
  - C. Jenna overestimated the benefits of the movie.**
  - D. Jenna underestimated the benefits of the movie.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #40  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

41. Most of us make sensible decisions most of the time, because
- A. we know the cost-benefit principle.
  - B. subconsciously we are weighing costs and benefits.**
  - C. most people know about the scarcity principle .
  - D. we conduct hypothetical mental auctions when we make decisions.

*AACSB: Reflective Thinking Skills  
Blooms: Understanding  
Frank - Chapter 001 #41  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

42. Suppose a person makes a choice that seems inconsistent with the cost-benefit principle. Which of the following statements represents the most reasonable conclusion to draw?
- A. The person (explicitly or implicitly) over-estimated the benefits or under-estimated the costs or both.**
  - B. The cost-benefit principle is rarely true.
  - C. The person does not grasp how decisions should be made.
  - D. The person is simply irrational.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #42  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

43. Economic models are intended to
- A. apply to all examples equally well.
  - B. eliminate differences in the way people behave.
  - C.** generalize about patterns in decision-making.
  - D. distinguish economics students from everyone else.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #43  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

44. Economic models claim to be a(n)
- A.** reasonable abstraction of how people make choices, highlighting the most important factors.
  - B. exact replication of the decision-making process people use.
  - C. interesting chalkboard exercise with little applicability to the real world.
  - D. exceptionally accurate method of predicting nearly all behavior of everyone.

AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #44  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

45. The cost-benefit model used by economists is
- A. unrealistic because it is too detailed and specific to apply to a variety of situations.
  - B. unrealistic because everyone can think of times when he or she violated the principle.
  - C. useful because everyone follows it all of the time.
  - D.** useful because most people follow it most of the time.

AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #45  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

46. Barry owns a clothing store in the mall and has asked two economic consultants to develop models of consumer behavior that he can use to increase sales. Barry should choose the model that
- A. does not include simplifying assumptions.
  - B. is the most detailed and complex.
  - C.** assumes that consumers apply the cost-benefit principle.
  - D. predicts that consumers will always prefer Barry's store to the competing stores.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #46  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

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

AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #47  
Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

48. Most people make some decisions based on intuition rather than calculation. This is
- A. irrational, because intuition is often wrong.
  - B. consistent with the economic model of decision-making, because calculating costs and benefits leads to decision-making pitfalls.
  - C.** consistent with the economic model because people intuitively compare the relative costs and benefits of the choices they face.
  - D. inconsistent with the economic model but rational, because intuition takes into account non-financial considerations.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #48  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

49. Moe has a big exam tomorrow. He considered studying this evening, but decided to go out with Curly instead. Since Moe always chooses rationally, it must be true that
- A. the opportunity cost of studying tonight is less than the value Moe gets from spending time with Curly.
  - B. the opportunity cost of studying tonight is equal to the value Moe gets from spending time with Curly minus the cost of earning a low grade on the exam.
  - C.** Moe gets more benefit from spending time with Curly than from studying.
  - D. Moe gets less benefit from spending time with Curly than from studying.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #49  
Learning Objective: 1-2*

*Section: Applying the Cost-Benefit Principle*

50. If one fails to account for opportunity costs in decision making, then applying the cost-benefit rule will be flawed because
- A. the benefits will be overstated.
  - B.** the costs will be understated.
  - C. the benefits will be understated.
  - D. the costs will be overstated.

*AACSB: Analytical Skills  
Blooms: Comprehension  
Frank - Chapter 001 #50  
Learning Objective: 1-5*

*Section: Three Important Decision Pitfalls*

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

*Frank - Chapter 001*

51. If you do not use the frequent-flyer coupon to fly, should you go to Miami?
- A. Yes, your benefit is more than your cost
  - B.** No, your benefit is less than your cost
  - C. Yes, your benefit is equal to your cost
  - D. No, because there are no benefits in the trip

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #51  
Learning Objective: 1-5*

*Section: Three Important Decision Pitfalls*

52. What is the opportunity cost of using the coupon for the Miami trip?
- A. \$100
  - B. \$450**
  - C. \$500
  - D. \$550

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #52  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

53. If you use the frequent-flyer coupon to fly to Atlanta, would you get any economic surplus by making the trip?
- A. No, there is a loss of \$50.**
  - B. Yes, surplus of \$350.
  - C. Yes, surplus of \$400.
  - D. Yes, surplus of \$100.

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #53  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

54. If the Chicago-Atlanta round-trip air fare is \$350, should you go to Miami?
- A. No, there is a loss of \$50.
  - B. No, there is a loss of \$100.
  - C. Yes, there is economic surplus of \$50.**
  - D. Yes, there is economic surplus of \$400.

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #54  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

55. Pat earns \$25,000 per year (after taxes), and Pat's spouse, Chris, earns \$35,000 (after taxes). They have two pre-school children. Childcare for their children costs \$12,000 per year. Pat has decided to stay home and take care of the children. Pat must
- A. value spending time with the children by more than \$25,000.
  - B. value spending time with the children by more than \$12,000.
  - C. value spending time with the children by more than \$13,000.**
  - D. value spending time with the children as much than does Chris.

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #55  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

You paid \$35 for a ticket (which is non-refundable) to see JAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as your concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

Frank - Chapter 001

56. Should you go to the concert instead of working Saturday?
- A. Yes, your benefit is more than your cost
  - B. No, your benefit is less than your cost**
  - C. Yes, your benefit is equal to your cost
  - D. No, because there are no benefits in the concert

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #56  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

57. What is the opportunity cost of going to the concert?  
A. \$1  
B. \$9  
C. \$35  
**D. \$36**

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #57  
Learning Objective: 1-5  
Section: Three Important Decision Pitfalls*

58. What is your opportunity cost, if you go to work on Saturday?  
A. \$0  
B. \$9  
**C. \$35**  
D. \$36

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #58  
Learning Objective: 1-5  
Section: Three Important Decision Pitfalls*

59. Your economic surplus of going to work on Saturday is  
A. \$0  
**B. \$1**  
C. \$35  
D. \$36

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #59  
Learning Objective: 1-4  
Section: Three Important Decision Pitfalls*

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

*Frank - Chapter 001*

60. Matt's benefit of buying his books at the bookstore is \_\_\_\_\_.  
**A. \$5**  
B. \$9  
C. \$170  
D. \$175

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #60  
Learning Objective: 1-4  
Section: Three Important Decision Pitfalls*

61. Matt's benefit was \_\_\_\_ from driving to campus to buy the concert ticket last week.  
A. \$2  
**B. \$4**  
C. \$9  
D. \$16

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #61  
Learning Objective: 1-4  
Section: Three Important Decision Pitfalls*

62. According to the cost-benefit principle:  
A. it would not be rational for Matt to drive to campus to purchase the books because the \$5 saving is only two percent of the cost of the books, and that is much less than the 25 percent he saved on the concert ticket.  
B. it would be rational for Matt to drive to campus because it costs less to buy the books there than via the Internet.  
**C.** it would be rational for Matt to drive to campus because the \$5 saving is more than he saved by driving there to buy the concert ticket.  
D. it would not be rational for Matt to drive to campus to purchase the books because the cost of gas and his time must certainly be more than the \$5 he would save.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #62  
Learning Objective: 1-4

Section: Three Important Decision Pitfalls

63. Assume the minimum that Matt would be willing to accept to drive to the university campus is equal to the amount he saved on the concert ticket. What would be the amount of his economic surplus if he bought his textbooks at the university bookstore rather than via the Internet?  
A. \$5  
**B.** \$1  
C. \$50  
D. \$20

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #63  
Learning Objective: 1-4

Section: Three Important Decision Pitfalls

64. The marginal benefit of an activity is the  
A. same as the total benefits of the activity.  
B. total benefit divided by the level of the activity.  
**C.** extra benefit associated with an extra unit of the activity.  
D. total benefit associated with an extra unit of the activity .

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #64  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls

65. If the marginal costs of 1, 2, and 3 hours of talking on the phone are \$50, \$75, and \$105, then the total costs are  
A. \$50, \$150, and \$315.  
B. \$50, \$41.67, and \$115.  
**C.** \$50, \$125, and \$230.  
D. \$50, \$175, and \$405.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #65  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls

66. If the total benefits of watching 1, 2, and 3 baseball games on TV are 100, 120, and 125 then the marginal benefits are  
A. 100, 120, and 125.  
**B.** 100, 20, and 5.  
C. 100, 609, and 41.67.  
D. 100, 240, and 375.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #66  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls



67. The extra benefit that comes from an extra unit of activity is called the \_\_\_\_\_ of the activity.  
**A.** marginal benefit.  
B. marginal cost.  
C. average benefit.  
D. reservation benefit.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #67  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

68. The marginal cost of an activity is the  
**A.** change in the cost of the activity that results from an extra unit of the activity.  
B. same as the total cost of the activity.  
C. ratio of total cost to the level of the activity.  
D. change in the level of the activity divided by the change in the cost of the activity.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #68  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

69. The extra cost that results from an extra unit of an activity is the  
A. marginal benefit.  
**B.** marginal cost.  
C. reservation cost.  
D. same as the opportunity cost.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #69  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

70. Dividing the total cost of n units of an activity by n reveals the  
A. average benefit.  
B. marginal cost.  
C. units per cost.  
**D.** average cost.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #70  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

71. You had to pay \$600 (non-refundable) for your meal plan for the Fall semester which gives you up to 150 meals. If you eat all of the meals, your average cost for a meal equals  
A. \$6.  
B. \$5.  
**C.** \$4.  
D. \$0.25.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #71  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

72. You had to pay \$600 (non-refundable) for your meal plan for Fall semester which gives you up to 150 meals. If you eat only 100 meals, your average cost for a meal  
**A.** \$6.  
B. \$5.  
C. \$4.  
D. \$0.25.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #72  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

73. You had to pay \$600 (non-refundable) for your meal plan for Fall semester which gives you up to 150 meals. If you eat only 100 meals, your marginal cost for the 100<sup>th</sup> meal is
- A. \$6
  - B. \$4
  - C. \$0.25
  - D. \$0**

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #73  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

74. The average benefit of an activity is the
- A.** total benefit of the activity divided by the number of units.
  - B. number of units divided by the total benefit of the activity.
  - C. number of units times the total benefit of the activity.
  - D. extra benefit for one additional unit of the activity.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #74  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

75. You save \$10 on gas every week since you live close to the bus stop. You have class five days a week. What is your average benefit per day for living close to the bus stop?
- A. \$10
  - B. \$5
  - C. \$2**
  - D. \$1.43

*AACSB: Reflective Thinking Skills  
Blooms: Application  
Frank - Chapter 001 #75  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

76. Your scholarship depends on your maintaining a 3.5 cumulative GPA. Your GPA for last semester was 3.6, which brought your cumulative GPA down. What must be true?
- A. Your marginal grades (last semester's grades) were higher than your overall GPA.
  - B.** Your marginal grades were lower than your overall GPA.
  - C. If this semester's grades are the same as last semester's, your overall GPA will stay the same.
  - D. If this semester's grades are the same as last semester's, you might lose your scholarship.

*AACSB: Reflective Thinking Skills  
Blooms: Application  
Frank - Chapter 001 #76  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

Units of Activity	Total Cost	Total Benefit
1	\$30	\$100
2	\$40	\$160
3	\$60	\$180
4	\$100	\$200
5	\$150	\$205
6	\$175	\$210

77. Refer to the figure above. The average cost of 4 units of activity is
- A. \$20
  - B. \$25**
  - C. \$30
  - D. \$40

*Frank - Chapter 001*

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #77  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

78. Refer to the figure above. The marginal cost of the 3<sup>rd</sup> unit of activity is
- A. \$30
  - B. \$25
  - C. \$20**
  - D. \$10

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #78  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

79. Refer to the figure above. The average benefit of 3 units of activity is
- A. \$80
  - B. \$60**
  - C. \$40
  - D. \$20

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #79  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

80. Refer to the figure above. The marginal benefit of the 5<sup>th</sup> unit of activity is
- A. \$60
  - B. \$50
  - C. \$5**
  - D. \$0

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #80  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

81. Refer to the figure above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is
- A. 1
  - B. 3**
  - C. 4
  - D. 6

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #81  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

Units of Activity	Total Cost	Total Benefit
1	\$3	\$10
2	\$4	\$14
3	\$6	\$16
4	\$10	\$20
5	\$15	\$24
6	\$21	\$28
7	\$28	\$29

82. Refer to the figure above. The average cost of 5 units of activity is
- A. \$1
  - B. \$2
  - C. \$3**
  - D. \$4

*Frank - Chapter 001*

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #82  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

83. Refer to the figure above. The marginal cost of the 4<sup>th</sup> unit of activity is
- A. \$1
  - B. \$2
  - C. \$3
  - D. \$4**

AACSB: Analytical Skills  
 Blooms: Analysis  
 Frank - Chapter 001 #83  
 Learning Objective: 1-6  
 Section: Three Important Decision Pitfalls

84. Refer to the figure above. The average benefit of 4 units of activity is
- A. \$4
  - B. \$5**
  - C. \$6
  - D. \$10

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #84  
 Learning Objective: 1-6  
 Section: Three Important Decision Pitfalls

85. Refer to the figure above. The marginal benefit of the 6<sup>th</sup> unit of activity is
- A. \$1
  - B. \$2
  - C. \$4**
  - D. \$10

AACSB: Analytical Skills  
 Blooms: Analysis  
 Frank - Chapter 001 #85  
 Learning Objective: 1-6  
 Section: Three Important Decision Pitfalls

86. Refer to the figure above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is
- A. 1
  - B. 4**
  - C. 5
  - D. 7

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #86  
 Learning Objective: 1-6  
 Section: Three Important Decision Pitfalls

*Fundraisers for What'sAMatterU*

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

87. Refer to the figure above. Total donations raised by three employees is
- A. \$43,899.
  - B. \$45,000.
  - C. \$48,911.
  - D. \$51,963.**

Frank - Chapter 001

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #87  
 Learning Objective: 1-6  
 Section: Three Important Decision Pitfalls

88. Refer to the figure above. The total labor cost of 4 employees is
- A. \$21,500.
  - B. \$22,000.
  - C.** \$38,000.
  - D. \$43,121.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #88  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls

89. Refer to the figure above. The President of What'sAMatterU decides to hire fundraisers as long as the average benefit exceeds the average cost, resulting in \_\_\_\_\_ employees being hired and a net benefit (total donations minus total labor costs) of \_\_\_\_\_.
- A.** 5; \$17,080
  - B. 5; \$67,080
  - C. 4; \$60,000
  - D. 4; \$22,000

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #89  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls

90. Refer to the figure above. The marginal benefit (extra donations) of the 2<sup>nd</sup> employee is
- A. \$42,426.
  - B. \$21,213.
  - C.** \$12,426.
  - D. \$11,337.

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #90  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls

91. Refer to the figure above. The marginal labor cost (extra labor cost) of the 4<sup>th</sup> employee is
- A. \$9,500.
  - B. \$10,750.
  - C.** \$11,000.
  - D. \$13,000.

AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #91  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls

92. Refer to the figure above. The Chairman of the Economics Department at What'sAMatterU says that fundraisers should be hired as long as their marginal donations exceed their marginal labor costs. Following this criterion, \_\_\_\_\_ employees are hired and net benefits are \_\_\_\_\_.
- A. 1; \$22,000
  - B.** 2; \$25,426
  - C. 3; \$25,426
  - D. 2; \$3,476

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #92  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls

93. Refer to the figure above. The net benefit of hiring fundraisers is largest when \_\_\_\_\_ employees are hired.
- A. 4
  - B. 3
  - C. 2**
  - D. 1

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #93  
Learning Objective: 1-6*

*Section: Three Important Decision Pitfalls*

94. Ginger bought an MP3 player that came with a \$10 rebate. Ginger should fill out and mail in the rebate form if
- A.** the opportunity cost of the time and trouble of sending in the rebate forms is **less** than \$10.
  - B. the opportunity cost of the time and trouble of sending in the rebate forms is **more** than \$10.
  - C. she would have bought the MP3 player without the rebate, and so sending in the rebate involves no opportunity cost.
  - D. Ginger's surplus from purchasing the MP3 player was less than \$10.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #94  
Learning Objective: 1-6*

*Section: Three Important Decision Pitfalls*

95. Tony notes that an electronics store is offering a flat \$20 off all prices in the store. Tony reasons that if he wants to buy something with a price of \$50 that it is a good offer, but if he wants to buy something with a price of \$500 it is not a good offer. This is an example of
- A.** inconsistent reasoning; saving \$20 is saving \$20.
  - B. the proper application of the cost-benefit principle.
  - C. rational choice because in the first case he saves 40% and in the second case he saves 4%.
  - D. marginal cost equals marginal benefit thinking.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #95  
Learning Objective: 1-4*

*Section: Three Important Decision Pitfalls*

96. Suppose a retail store was offering 10% off all prices on all goods. The incentive to take advantage of the 10% savings is
- A. unrelated to the list price of one good.
  - B. inversely related to the list price of the good.
  - C.** directly related to the list price of the good.
  - D. independent of the list price.

*AACSB: Reflective Thinking Skills  
Blooms: Application  
Frank - Chapter 001 #96  
Learning Objective: 1-4*

*Section: Three Important Decision Pitfalls*

IBM employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard at \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.

*Frank - Chapter 001*

97. What is the marginal cost of producing the computers Pam assembles during her 3<sup>rd</sup> hour of work?
- A. \$1,200
  - B. \$1,240
  - C. \$2,400
  - D. \$2,440**

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #97  
Learning Objective: 1-6*

*Section: Three Important Decision Pitfalls*

98. What is the marginal cost of producing the computers Pam assembles during her 4<sup>th</sup> hour of work?
- A. \$1,200
  - B. \$1,240**
  - C. \$2,400
  - D. \$2,440

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #98  
Learning Objective: 1-6*

*Section: Three Important Decision Pitfalls*

99. IBM sells each computer for \$620. How many hours should IBM employ Pam to maximize its benefit from her employment?
- A. 1 hour
  - B. 2 hours
  - C. 3 hours
  - D. 4 hours**

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #99  
Learning Objective: 1-6*

*Section: Three Important Decision Pitfalls*

100. IBM sells each computer for computers \$640. How many hours should IBM employ Pam to maximize its benefit from her employment?
- A. 2 hours
  - B. 3 hours
  - C. 4 hours
  - D. 5 hours**

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #100  
Learning Objective: 1-6*

*Section: Three Important Decision Pitfalls*

101. If Jane works for 6 hours she can rent 12 apartments, and if she works for 7 hours she can rent 15 apartments. The marginal benefit of the 7<sup>th</sup> hour of Jane's work equals:
- A. 12 apartments.
  - B. 15 apartments.
  - C. 1 apartment.
  - D. 3 apartments.**

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #101  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

CPU Mhz	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost
600	\$1,000		\$900	
700	\$1,500			\$100
800		\$400	\$1,400	
900	\$2,200		\$1,900	
1,000	\$2,400			\$600

Frank - Chapter 001

102. The marginal benefit of upgrading from a 600 Mhz computer to a 700 Mhz computer is
- A. \$1,500.
  - B. \$500.**
  - C. \$50.
  - D. \$5.

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #102  
 Learning Objective: 1-6

Section: Applying the Cost-Benefit Principle

103. The total benefit of an 800 Mhz computer is
- A. \$400.
  - B. \$800.
  - C. \$1,900.**
  - D. \$2,200.

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #103  
 Learning Objective: 1-6

Section: Applying the Cost-Benefit Principle

104. The total cost of a 700 Mhz computer is
- A. \$1,000.**
  - B. \$900.
  - C. \$200.
  - D. \$100.

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #104  
 Learning Objective: 1-6

Section: Applying the Cost-Benefit Principle

105. The marginal cost of upgrading from a 700 to an 800 Mhz computer is
- A. \$500.
  - B. \$400.**
  - C. \$200.
  - D. \$100.

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #105  
 Learning Objective: 1-6

Section: Three Important Decision Pitfalls

106. Application of the cost-benefit principle would lead one to purchase a \_\_\_\_\_ computer because \_\_\_\_\_.
- A. 900 Mhz; the total benefit exceeds the total cost
  - B. 700 Mhz; the marginal benefit is \$500 and the marginal cost is \$100
  - C. 600 Mhz; it is certainly fast enough
  - D. 800 Mhz; the marginal benefits and marginal costs are equal**

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #106  
 Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle



107. Choosing the 1,000 Mhz computer would be inefficient because
- A.** the marginal benefit is less than the marginal cost.
  - B. the marginal benefit is equal to the marginal cost.
  - C. it is impossible to tell the difference compared to a 600 Mhz computer.
  - D. the marginal benefit is more than the marginal cost.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #107  
Learning Objective: 1-6

Section: Three Important Decision Pitfalls

108. Jack has a ticket to see Bo Bice for which he paid \$30 yesterday. He takes an unpaid day off from work to get ready for the concert. When he arrives at the concert, 5 different people offer him \$70 for his ticket. The cost to Jack of seeing Bo Bice is
- A. \$30.
  - B. \$40.
  - C.** \$70.
  - D. \$70 plus his forgone earnings.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #108  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

109. Catherine and Nancy both own homes with similar size lawns. Catherine mows her own lawn while Nancy hires someone to mow hers. Assume both women are rational decision makers. Which is the best explanation of the different decisions they make?
- A.** The opportunity cost of Nancy's time is higher than her cost to hire someone to mow the lawn.
  - B. Nancy can get her lawn mowed for less than Catherine.
  - C. Nancy doesn't own a lawnmower.
  - D. Nancy earns more than Catherine does.

AACSB: Reflective Thinking Skills  
Blooms: Analysis  
Frank - Chapter 001 #109  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

110. What is the opportunity cost of living in a house that you already own?
- A. Zero, because you already own it.
  - B. That mostly depends on current mortgage rates.
  - C.** The rent you could receive if you rented the house out to someone else.
  - D. The taxes you pay your local government.

AACSB: Reflective Thinking Skills  
Blooms: Analysis  
Frank - Chapter 001 #110  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

111. Jody has purchased a non-refundable \$25 ticket to attend a Savage Garden concert on Friday evening. Subsequently, she is asked to go to dinner and dancing at no expense to her. If she uses cost-benefit analysis to choose between going to the concert and going on the date, she should
- A.** include only the entertainment value of the concert in the opportunity cost of going on the date.
  - B. include the cost of the ticket plus the entertainment value of the concert in the opportunity cost of going on the date.
  - C. include only the cost of concert ticket in the opportunity cost of going on the date.
  - D. include neither the cost of the ticket nor the entertainment value of the concert in the opportunity cost of going on the date.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #111  
Learning Objective: 1-5

Section: Three Important Decision Pitfalls

Sean studied 5 hours for his first Economics test and his test score was 85; 6 hours for his second Economics test and scored 90; and 7 hours for his third Economics test and scored 95. He also studied 5 hours for his first Math test and his test score was 68; 6 hours for his second Math test and scored 78; and 7 hours for his third Math test and scored 88.

Frank - Chapter 001

112. The average benefit per hour studied for the Economics tests was \_\_\_\_\_ and the average benefit per hour studied for the Math tests was \_\_\_\_\_ .
- A.** 15; 13
  - B. 5; 10
  - C. 13; 15
  - D. 10; 5

AACSB: Analytical Skills  
 Blooms: Analysis  
 Frank - Chapter 001 #112  
 Learning Objective: 1-6

Section: Three Important Decision Pitfalls

113. Sean's marginal benefit from the seventh hour spent studying Economics is
- A.** 5
  - B. 10
  - C. 15
  - D. 45

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #113  
 Learning Objective: 1-6

Section: Three Important Decision Pitfalls

114. Sean's marginal benefit from the seventh hour spent studying Math is:
- A. 5
  - B.** 10
  - C. 15
  - D. 78

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #114  
 Learning Objective: 1-6

Section: Three Important Decision Pitfalls

115. If Sean has already spent 5 hours studying Economics and 5 hours studying Math, he should spend the next hour
- A. Studying Math for half an hour and Economics for half an hour
  - B. Studying only Economics
  - C.** Studying only Math
  - D. Studying Economics for 45 minutes and Math for 15 minutes

AACSB: Analytical Skills  
 Blooms: Analysis  
 Frank - Chapter 001 #115  
 Learning Objective: 1-6

Section: Three Important Decision Pitfalls

You need a TV, DVD player, and CD player. The sale flyer you got in the mail shows the TV that you want to buy is 10% off regular price this week. DVD and CD players are 20% off next week. Last week you drove downtown to save \$30 on some concert tickets, a 15% savings. The regular prices for TVs, DVD players, and CD players are:

TV	\$250
DVD Player	\$120
CD Player	\$200

Frank - Chapter 001

116. Should you drive downtown next week to buy the DVD player and the CD player?
- A. Yes, because you will save \$32
  - B. No, because you will save less than \$30
  - C.** Yes, because you will save \$64
  - D. Yes, because it is always worth it to drive downtown to earn a 20% discount

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #116  
 Learning Objective: 1-4

Section: Three Important Decision Pitfalls

117. If the regular price for the TV is \$300, should you drive downtown to buy the TV this week?
- A.** Yes, because you will save \$30.
  - B. No, because next week's discount on the DVD player and CD player will save you even more.
  - C. Yes, because you will save \$60.
  - D. Yes, because it is always worth it to drive downtown to earn a 10% discount.

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #117  
 Learning Objective: 1-4

Section: Three Important Decision Pitfalls

118. Suppose instead that the DVD player is 20% off and the CD player is 5% off regular price. Should you drive downtown to buy the VCR and the CD player?
- A. Yes, because you will save \$24.
  - B.** Yes, because you will save \$34.
  - C. Yes, because you will save \$64.
  - D. Yes, because it is always worth it to drive downtown to earn a 20% discount.

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #118  
 Learning Objective: 1-4

Section: Three Important Decision Pitfalls

You own a pizza shop called "Pizza'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10 a pie. By hiring more cooks, you can increase your pizza production as shown in the following table.

Number of cooks	Total production of pizzas each hour
0	0
1	4
2	7
3	9
4	10
5	10

119. What is the total cost per day of hiring 3 cooks if they work 8 hour shifts?
- A. \$60
  - B. \$160
  - C. \$320
  - D.** \$480

Frank - Chapter 001

AACSB: Analytical Skills  
 Blooms: Application  
 Frank - Chapter 001 #119  
 Learning Objective: 1-2

Section: Applying the Cost-Benefit Principle

120. What is the dollar value of total production each 8-hour shift if you hire 2 cooks?  
A. \$320  
**B. \$560**  
C. \$70  
D. \$140

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #120  
Learning Objective: 1-2  
Section: Applying the Cost-Benefit Principle*

121. What is the average labor cost per pizza if you hire 4 cooks?  
A. \$6  
**B. \$8**  
C. \$10  
D. \$12

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #121  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

122. What is the average benefit per pizza if you hire 2 cooks?  
A. \$4  
B. \$6  
C. \$8  
**D. \$10**

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #122  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

123. If you operate one hour every day what is the marginal cost of the 3rd cook?  
A. \$10  
**B. \$20**  
C. \$40  
D. \$60

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #123  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

124. If you operate one hour every day what is the marginal benefit of the 3rd cook?  
A. \$10  
**B. \$20**  
C. \$30  
D. \$40

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #124  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

125. How many cooks should you hire to maximize your net benefit?  
A. 1  
**B. 3**  
C. 4  
D. 5

*AACSB: Analytical Skills  
Blooms: Analysis  
Frank - Chapter 001 #125  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls*

126. Microeconomics is distinguished from macroeconomics in that microeconomics focuses on
- A. the performance of the national economy.
  - B. the overall price level.
  - C.** choices made by individuals or groups in the context of individual markets.
  - D. how to improve the performance of the national economy.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #126  
Learning Objective: 1-3

Section: Economics: Micro and Macro

127. Macroeconomics is distinguished from microeconomics by its concentration on
- A. choices.
  - B.** the performance of national economies and ways to improve upon their performance.
  - C. individual markets.
  - D. the level of prices in specific markets.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #127  
Learning Objective: 1-3

Section: Economics: Micro and Macro

128. The study of individual choices and group behavior in individual markets defines
- A.** microeconomics.
  - B. economics.
  - C. the scarcity principle.
  - D. macroeconomics.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #128  
Learning Objective: 1-3

Section: Economics: Micro and Macro

129. Which branch of economics is most likely to study differences in countries' growth rates?
- A. microeconomics
  - B. normative economics
  - C.** macroeconomics
  - D. experimental economics

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #129  
Learning Objective: 1-3

Section: Economics: Micro and Macro

130. Which of the following decisions would not be part of microeconomics?
- A. How to make the largest profit.
  - B. Whether to study or watch TV tonight.
  - C. How an early freeze in California will affect the price of fruit.
  - D.** Whether the federal budget should always be balanced.

AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #130  
Learning Objective: 1-3

Section: Economics: Micro and Macro

131. Which of the following questions would not be part of macroeconomics?
- A. What caused the great depression?
  - B. At what rate does the US economy typically grow?
  - C.** Did the sharp increase in gasoline prices alter SUV sales?
  - D. How does government spending affect the economy?

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #131  
Learning Objective: 1-3

Section: Economics: Micro and Macro

132. By convention there are two major divisions of economics, called
- A. marginal benefit and marginal cost.
  - B. reservation price and opportunity cost.
  - C.** microeconomics and macroeconomics.
  - D. rational economics and irrational economics.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #132  
Learning Objective: 1-3

Section: Economics: Micro and Macro

133. The study that deals with the salaries of university professors would be considered
- A. macroeconomics
  - B.** microeconomics
  - C. economic naturalism
  - D. marginal benefit

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #133  
Learning Objective: 1-3

Section: Economics: Micro and Macro

134. Studying how Pat allocates her time between teaching classes and assisting undergrad students is an example of
- A.** microeconomics
  - B. macroeconomics
  - C. individual economics
  - D. economic naturalism

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #134  
Learning Objective: 1-3

Section: Economics: Micro and Macro

135. In deciding the number of guitars to buy for his shop before the Christmas season, Mark is making a(n) \_\_\_\_\_ decision.
- A.** microeconomic
  - B. macroeconomic
  - C. economic surplus
  - D. marginal choice

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #135  
Learning Objective: 1-3

Section: Economics: Micro and Macro

136. Studying government policies towards building new roads and highways is
- A.** microeconomics
  - B. macroeconomics
  - C. government economics
  - D. marginal economics

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #136  
Learning Objective: 1-3

Section: Economics: Micro and Macro

137. Last year interest rates fell. It was the focus of
- A. microeconomics
  - B.** macroeconomics
  - C. economic naturalism
  - D. marginal economics

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #137  
Learning Objective: 1-3

Section: Economics: Micro and Macro

138. Positive economic principles are those that
- A. are always correct.
  - B. are not influenced by political ideology.
  - C. predict how people should behave.
  - D.** predict how people will behave.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #138  
Learning Objective: 1-3

Section: Normative Economics Versus Positive Economics

139. One thing that distinguishes normative principles from positive principles is that
- A. normative principles are pessimistic and positive principles are optimistic.
  - B. normative principles reflect the social norms of the community, and positive principles reflect universal truths.
  - C.** normative principles tell us how people should make economic decisions, and positive principles tell us how people actually do make decisions.
  - D. normative principles tell us how people actually make economic decisions, and positive principles tell us how people should make decisions.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #139  
Learning Objective: 1-3

Section: Normative Economics Versus Positive Economics

140. Normative economics is concerned with how people \_\_\_\_\_ make decisions while positive economics is concerned with how people \_\_\_\_\_ make decisions.
- A. in the real world; in models
  - B.** should; do
  - C. in power; in ordinary life
  - D. in ordinary life; in power

AACSB: Reflective Thinking Skills  
Blooms: Knowledge  
Frank - Chapter 001 #140  
Learning Objective: 1-3

Section: Normative Economics Versus Positive Economics

141. An editorial in the paper argues that students should only be allowed to attend school so long as the marginal cost of educating that student is less than the marginal benefit of that student's education. The writer's reasoning is an application of
- A. positive economics.
  - B. negative economics.
  - C.** normative economics.
  - D. economic naturalism.

AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #141  
Learning Objective: 1-6

Section: Normative Economics Versus Positive Economics

142. The incentive principle states that a person is more likely to do something if
- A. the opportunity costs are high.
  - B.** the benefits from doing it increase.
  - C. everyone else is doing the same thing.
  - D. he is paid to do it.

AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #142  
Learning Objective: 1-3

Section: Normative Economics Versus Positive Economics

143. The incentive principle is an example of
- A. an economic decision-making pitfall
  - B. over-estimating the benefits of an action.
  - C.** a positive economic principle.
  - D. a normative economic principle.

*AACSB: Analytical Skills  
Blooms: Knowledge  
Frank - Chapter 001 #143  
Learning Objective: 1-3*

*Section: Normative Economics Versus Positive Economics*

144. If the government wanted to use the incentive principle to discourage smoking, it would
- A. publicize the health risks associated with second-hand smoke.
  - B.** increase taxes on cigarettes, raising the price of a pack.
  - C. subsidize hospitals for treating lung disease.
  - D. invest more money in health research.

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #144  
Learning Objective: 1-3*

*Section: Normative Economics Versus Positive Economics*

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

*AACSB: Analytical Skills  
Blooms: Application  
Frank - Chapter 001 #145  
Learning Objective: 1-3*

*Section: Normative Economics Versus Positive Economics*

146. An economic naturalist is described as someone who
- A. uses economic arguments to protect forests and wetlands from development.
  - B. has a natural talent for drawing graphs.
  - C.** applies economic insights to everyday life.
  - D. studies the process of natural selection in a marginal cost and marginal benefit framework.

*AACSB: Analytical Skills  
Blooms: Understanding  
Frank - Chapter 001 #146  
Learning Objective: 1-3*

*Section: Economic naturalism*

147. With ATMs it is possible to retrieve cash from the bank at any time. One hundred years ago, one could only get cash from the bank during business hours, say, 9 am to 3 pm. The difference is because
- A. flexibility was not valued 100 years ago.
  - B. it was impossible to provide 24 hour a day service 100 years ago.
  - C.** the cost of providing 24 hour a day service is much lower today.
  - D. government forced banks to become more convenient.

*AACSB: Reflective Thinking Skills  
Blooms: Application  
Frank - Chapter 001 #147  
Learning Objective: 1-3  
Section: Economic naturalism*



148. The number of US households with access to the Internet and those with broadband connections is growing rapidly. As an economic naturalist, one could predict that when a major purchase is being considered, families will
- A. always buy online.
  - B. never buy online.
  - C.** collect more information before making the purchase because the cost of finding and acquiring it is lower.
  - D. collect more information before making the purchase because the benefit of information is now larger.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 001 #148*

*Learning Objective: 1-3*

*Section: Economic naturalism*

149. Every time you go to the grocery store, you try to choose the shortest line. But all of the lines always seem to be the same length. Why?
- A. The store manager tells the cashiers to speed up or slow down to maintain equal line lengths.
  - B.** Everyone else is trying to choose the shortest line, too.
  - C. The cashiers all work at the same speed.
  - D. Cashiers do not have an incentive to work faster.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 001 #149*

*Learning Objective: 1-3*

*Section: Economic naturalism*

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