



Pool Canvas

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Name TestBanks Chapter 1 The Big Ideas
Description Question pool for TestBanks Chapter 1 The Big Ideas
Instructions

[Modify](#)[◀ Add Question Here](#)

Question 1 **0 points**

[Modify](#)[Remove](#)**Question**

In several cities around the country, schools are paying cash awards to students who do well on English and Math tests. This practice highlights the idea of:

Answer

pedagogical economics—the continuous assessment of student performance in an effort to maximize student efficiency.

hidden costs—the costs borne by taxpayers in the form of wasteful school spending.

incentives—the rewards and penalties that motivate behavior.

screening theory—the identification of individuals or groups based on various performance measures.

[◀ Add Question Here](#)

Question 2 **0 points**

[Modify](#)[Remove](#)**Question**

Suppose that there are three methods of financing the transportation of prisoners from Point A to Point B:
 I. The boat's captain is paid \$100 by the government for every live prisoner that is loaded on board at Point A.
 II. The boat's captain is paid \$100 by the government for every live prisoner that is unloaded at Point B.
 III. The boat's captain is paid \$800 by the government for every live prisoner that is loaded on board at Point A.
 Which financing method will result in the greatest number of prisoners surviving the trip?

Answer

I

II

III

All methods affect prisoner survival equally.

[◀ Add Question Here](#)

Question 3 **0 points**

[Modify](#)[Remove](#)**Question**

Recall the chapter opening story about the British sea captains and the convicted felons. In what way did economics use the idea of incentives to solve the problem of the high mortality rate on board the ships?

Answer

Payment (to ship captains) was to be offered for each prisoner that was taken aboard the ships.

Payment (to ship captains) was made independent of the regulations passed for prisoner welfare.

Regulations were passed so that prisoners could get better food, water, and medical care.

Payment (to ship captains) was made dependent on the survival rate of prisoners.

[◀ Add Question Here](#)

Question 4 **0 points**

[Modify](#)[Remove](#)**Question**

The main incentive for business activity is:

Answer

government subsidies.

technological advancement.

profit.

employment.

[◀ Add Question Here](#)

Question 5 **0 points**

[Modify](#)[Remove](#)**Question**

Recall the chapter opening story about the British sea captains and the convicted felons. Instead of paying the sea captains for each prisoner placed on board the ships in Great Britain, an economist suggested:

Answer

paying for each prisoner who walked off the ship in Australia.

paying for food and water to reduce costs of caring for prisoners during the transit.

doing nothing, since the suggested change would not matter.

that new regulations be passed to require prisoner safety and health.

[◀ Add Question Here](#)

Question 6

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Every day we rely on the work of millions of other people to provide us with food, clothing, and shelter. People work for our benefit because:

Answer

- people think at the margin.
- trade-offs are everywhere.
- they benefit by doing so.
- institutions require them to do so.

[◀ Add Question Here](#)

Question 7

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Economists think that people are self-interested:

Answer

- only when monetary incentives are present.
- because they respond to incentives in predictable ways.
- only rarely in response to incentives.
- unless they are being altruistic.

[◀ Add Question Here](#)

Question 8

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

The basic postulate of economics indicates that changes in incentives influence the:

Answer

- actions of producers but not consumers.
- actions of consumers but not producers.
- choices of individuals only when they buy and sell goods in the marketplace.
- choices of individuals with regard to a wide range of activities, including those generally perceived as social or political.

[◀ Add Question Here](#)

Question 9

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Suppose the U.S. government wants to encourage individuals to save more of their income. The easiest way for the government to realize this goal is to:

Answer

- pass a law requiring people to save a larger percentage of their income.
- decrease government spending in order to set an example for individuals.
- increase the tax rate on savings in order to encourage more savings.
- develop incentives such as tax breaks on savings in order to encourage more savings.

[◀ Add Question Here](#)

Question 10

Multiple Choice

0 points

[Modify](#)

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Question

Which of the following statements reflects Adam Smith's important insight into marketplace behavior?

Answer

- Society benefits when people and firms pursue their own self interests.
- Markets are usually an inefficient way of organizing economic activity.
- Greedy, self-interested behavior needs to be constrained to ensure strong economic growth.
- Trade restrictions on imported goods increase domestic employment.

[◀ Add Question Here](#)

Question 11

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

When it comes to getting the flu shot, most people consider _____, not _____.

Answer

- the social interest; their self-interest
- their public interest; their social interest
- their costs; their benefits
- their self-interest; the social interest

[◀ Add Question Here](#)

- Question 12 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Which of the following choices best illustrates the concept of Adam Smith's "invisible hand"?
- Answer** ✓
- A Vietnamese farmer grows rice; an exporter ships it to the United States, and a grocer in New York sells it to a customer.
 - A fishery's stock of fish becomes depleted due to overfishing as boats from around the world converge.
 - A government regulates a firm to clean up the pollutants it has released as part of its production process.
 - An apartment building is built, which provides much needed housing, on the site of the only playground for children in that town.
- [Add Question Here](#)
- Question 13 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Adam Smith's metaphor of the "invisible hand" refers to the notion that:
- Answer**
- greed is always good when externally motivated.
 - behavior based on self-interest can lead to an overall benefit to society.
 - market incentive can lead to negative side effects.
 - markets always align self-interest with social interest.
- [Add Question Here](#)
- Question 14 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
The idea that markets work efficiently:
- Answer** ✓
- refers to the fact that self-interest can be aligned with social interest.
 - means that trade-offs can be reduced through channeling greed toward good ends.
 - suggests that there is never any need for government regulation, taxes, or subsidies.
 - has been known for many centuries.
- [Add Question Here](#)
- Question 15 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Adam Smith sought to explain the concept of aligning self-interest with the promotion of society's overall interest by:
- Answer**
- using an analysis of wealth as productivity.
 - suggesting markets are led by an Invisible Hand.
 - arguing that markets were ineffective institutions.
 - admitting his own inability to explain how such alignment takes place.
- [Add Question Here](#)
- Question 16 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
When it comes to the safety of pharmaceutical drugs:
- Answer**
- the government should spare no expense in determining whether drugs are safe.
 - the government's lengthy testing to ensure the safety of new drugs may cost lives.
 - economic cost benefit analysis informs us that more safety is always better.
 - profit-driven pharmaceutical companies have no incentive to produce safe drugs.
- [Add Question Here](#)
- Question 17 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
In an effort to clean the air, many communities impose restrictions on the burning of garbage. This policy causes more garbage to be buried underground, potentially increasing groundwater contamination. What concept does this example represent?
- Answer** ✓
- trade-offs
 - marginal pollution
 - sunk costs
 - public provision
- [Add Question Here](#)
- Question 18 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Susan quits her administrative job, which pays \$40,000 a year, to finish her four-year college degree. Her annual college expenses are

\$8,000 for tuition, \$900 for books, and \$2,500 for food. The opportunity cost of attending college for the year is:

Answer

\$11,400.

\$8,900.

✓ \$48,700.

\$51,400.

◀ [Add Question Here](#)

Question 19 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

The opportunity cost of a choice is:

Answer ✓

the value of the opportunities lost.

the net value of the opportunities gained.

the difference between the benefits and costs of the choice.

sometimes positive or negative.

◀ [Add Question Here](#)

Question 20 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

The opportunity cost of winning a free ticket to the Super Bowl worth \$950 and attending the game is:

Answer

zero, since the ticket was free.

priceless, if the person really loves football.

✓ at least \$950, the lost market value of selling the ticket and the time to go.

zero, if the person would rather go to the game than do anything else.

◀ [Add Question Here](#)

Question 21 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

In the market for pharmaceuticals, the issue of “drug lag” illustrates which of the following ideas?

Answer

The longer a drug is tested for safety, the lower the opportunity cost in terms of lives lost.

If a drug is not tested for safety, it might kill more people.

Because of the higher the cost of testing a drug, it takes longer to make it, and more lives are lost.

✓ Lives are being lost because safe drugs that are still in the testing stage have not yet been approved.

◀ [Add Question Here](#)

Question 22 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

In the market for pharmaceuticals, the issue of “drug loss” illustrates which of the following ideas?

Answer

The longer a drug is tested for safety, the lower is the opportunity cost in terms of lives lost.

If a drug is not tested for safety, it might kill more people.

✓ Because of the higher the cost of testing a drug, fewer drugs are made, and more lives are lost.

Lives are being lost because safe drugs that are still in the testing stage have not been approved.

◀ [Add Question Here](#)

Question 23 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

You must decide whether to attend class tomorrow morning or take your friend to the airport. Your decision highlights the following “big idea” in economics.

Answer

Institutions matter.

Incentives matter.

Economics is fun.

✓ Trade-offs are everywhere.

◀ [Add Question Here](#)

Question 24 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Why do you think researchers sometimes find a positive relationship between the unemployment rate and college enrollment rates?

Answer

The opportunity cost of attending college rises during economic booms, leading to higher college enrollment rates.

✓ The opportunity cost of attending college rises during recessions, leading to higher college enrollment rates.

The opportunity cost of attending college falls during recessions, leading to higher college enrollment rates.

The opportunity cost of attending college falls during economic booms, leading to higher college enrollment rates.

[◀ Add Question Here](#)

Question 25 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Air travel from New York to Los Angeles costs \$800 and takes four hours. A bus ticket between the cities costs \$100 and takes 104 hours. Other things constant, the minimum value of one's time that would induce a rational individual to fly rather than drive would be:

Answer

✓ \$1 per hour.

✓ \$7 per hour.

\$12 per hour.

\$120 per hour.

[◀ Add Question Here](#)

Question 26 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

You are given a ticket to a Bob Dylan concert with a face value of \$50. You only value the ticket at \$40, sell it to a friend for \$40 and attend a U2 concert priced at \$60. The opportunity cost of attending the U2 concert is:

Answer

\$20 worth of alternative goods and services.

\$40 worth of alternative goods and services.

✓ \$50 worth of alternative goods and services.

\$60 worth of alternative goods and services.

[◀ Add Question Here](#)

Question 27 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

The opportunity cost of attending college is:

Answer

tuition and books.

travel expenses, tuition, and books.

psychic costs of missing your family and friends while in school.

✓ lost wages from not working full time.

[◀ Add Question Here](#)

Question 28 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

What you give up to obtain an item is called your:

Answer

✓ opportunity cost.

explicit cost.

true cost.

direct cost.

[◀ Add Question Here](#)

Question 29 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

The average tax on a professor's income of \$100,000 is 18 percent, and the marginal tax rate above \$100,000 is 45 percent. If the professor teaches during the summer and earns an additional \$10,000 (bringing her total earnings for the year to \$110,000), how much of the summer income does she keep after paying taxes?

Answer

\$4,500

\$1,800

\$6,300

✓ \$5,500

[◀ Add Question Here](#)

Question 30 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Imposing the death penalty on rapists may increase the number of murders, because:

Answer

the death penalty is not a deterrent to the behavior of a rapist.

✓ once a victim is raped there is no additional penalty imposed for also killing the victim.

rapists are irrational and place no value on the life of their victim.

rapists do not think about the consequences of their actions.

[◀ Add Question Here](#)

Question 31 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Deciding whether to study an additional hour for an exam by comparing the additional benefits to the additional costs of an extra hour of study is an example of:

Answer

normative analysis.

transformational thought.

marginal thinking.

None of the answers is correct.

[◀ Add Question Here](#)

Question 32 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Why do grocery stores offer “buy one, get one half off” specials?

I. It's a way to offer an incentive to consumers (who might not ordinarily buy two units of the same item) to buy the extra item.

II. They are thinking at the margin, and they stand to make additional profit even if they sell the second unit at a lower price than the first unit.

III. Government regulations require them to hold such promotions from time to time.

Answer

I only

II only

III only

I and II

[◀ Add Question Here](#)

Question 33 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Why do you think goods are sometimes marked in prices that end in 9s, for example “\$29.99” instead of \$30, or “\$9.99” instead of \$10?

I. Consumers respond to incentives—they view the products as cheaper and so they buy more.

II. Businesses are sneaky and add the extra cent onto taxes on the product.

III. It is a sales strategy that makes people think the product is on sale.

Answer

I only

II only

III only

I and III

[◀ Add Question Here](#)

Question 34 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

What is meant by the term *marginal revolution*?

Answer

the public disdain at the institution of marginal tax rates

the transformation in economic thought that occurred with the discovery of marginal thinking

the institution of the death penalty for drug dealers

the effect of policies on crime

[◀ Add Question Here](#)

Question 35 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

What is a plausible economic explanation as to why Braille “dots” are commonly found on drive-up automatic teller machines?

Answer

Blind people must be able use such machines, due to government regulations requiring such dots on the keys under the Americans with Disabilities Act.

The marginal cost of making two different types of keypads is substantial, and the benefit of providing keypads without the Braille dots is a mere inconvenience to ATM users.

The marginal cost of making the keys with the Braille dots is less than making the keys without the Braille dots.

There is no economic concept that explains why the keypads have Braille dots.

[◀ Add Question Here](#)

Question 36 ▾

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Joe runs a landscape business. He knows that providing landscaping services costs him \$100 per hour on average, while the cost of

providing such services is \$150 per hour after 5 PM (due to overtime pay, reduced productivity, and the added wear and tear on his equipment). A potential client offers Joe \$130 per hour to provide services but needs him to provide the services after 5PM due to circumstances at the property.

Answer

Joe should take the job, since \$130 exceeds his average cost of production.

Joe should take the job, since he is making a \$30 profit per hour.

Joe should decline the job, since he would lose \$150 per hour worked on the job.



Joe should decline the job, since he would lose \$20 per hour worked.

[◀ Add Question Here](#)

Question 37

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Suppose you have ordered a value meal at a local fast-food restaurant. The cashier asks if you would like to “super-size” your meal. In order to make an efficient decision, you should compare:

Answer

the total cost of the larger, “super-sized” meal versus the total benefits received.



the additional cost of the larger meal versus the additional benefits received.

the total cost of the larger meal versus the additional cost to the restaurant.

the benefits of the smaller meal versus the additional benefits obtained from consuming the “super-sized” meal.

[◀ Add Question Here](#)

Question 38

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

When deciding whether or not to undertake an activity, economists compare:

Answer

the total cost of the activity against the total benefit received.

the total benefit of the activity against the total cost of production.



the additional cost of the activity against the additional benefits received.

the average cost of the activity versus the total benefits received.

[◀ Add Question Here](#)

Question 39

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Suppose your teacher finishes class 30 minutes early on the day before an exam. She indicates that you may leave, or stay on for an optional study period which will last for the remaining 30 minutes of the scheduled class time. You should:

Answer

always choose to stay for the study period, since you have already paid for the class time.

only choose to stay if you like the instructor, since the value obtained is higher than if you disliked the instructor.



only choose to stay if the benefits gained from the extra study session exceed the cost of another 30 minutes in class.

only choose to stay for the study session if you do not plan to study on your own for the exam.

[◀ Add Question Here](#)

Question 40

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Which of the following arise as benefits from trade?

I. economies of scale

II. cost reduction from mass production

III. the division of knowledge

Answer

I only

II and III only

I and III only



I, II, and III

[◀ Add Question Here](#)

Question 41

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question

Two people benefit from trade:

I. if they both live in the same country.

II. regardless of where they live.

III. if they can negotiate directly with each other.

Answer

I only

I and III

II and III



II only

[◀ Add Question Here](#)Question 42 **Multiple Choice** 0 points[Modify](#) [Remove](#)**Question**

Which of these groups can benefit from trade?

- I. firms
- II. consumers
- III. workers

Answer

- I and II only
- I and III only
- II and III only
- I, II, and III

[◀ Add Question Here](#)Question 43 **Multiple Choice** 0 points[Modify](#) [Remove](#)**Question**

The Theory of Comparative Advantage recognizes that:

- I. very productive people can do everything.
- II. people can make more by specializing than by doing everything.
- III. the division of knowledge helps increase productivity.

Answer

- I, II, and III
- II and III only
- I and II only
- I and III only

[◀ Add Question Here](#)Question 44 **Multiple Choice** 0 points[Modify](#) [Remove](#)**Question**

A person has a comparative advantage in activity X when that person's:

Answer

- opportunity cost of performing that activity is very high.
- ability to perform that activity exceeds that of all other people.
- government negotiates a favorable trade agreement.
- opportunity cost is lower than other trading partners.

[◀ Add Question Here](#)Question 45 **Multiple Choice** 0 points[Modify](#) [Remove](#)**Question**

The real power of trade lies in people's ability to:

Answer

- get things they can't produce.
- get the lowest price possible.
- increase their consumption.
- specialize and increase production.

[◀ Add Question Here](#)Question 46 **Multiple Choice** 0 points[Modify](#) [Remove](#)**Question**

What causes countries to become wealthier over time?

Answer

- government central planning
- economic growth
- price controls on key natural resources
- restrictions on imported goods

[◀ Add Question Here](#)Question 47 **Multiple Choice** 0 points[Modify](#) [Remove](#)**Question**

What factor is responsible for ending malaria in the United States?

Answer

- inflation
- wealth
- the gold standard
- yardstick competition

[◀ Add Question Here](#)

Question 48 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Why are more people unhealthy in developing countries than in developed countries?

- I. Wealthier people are not attacked by mosquitoes.
- II. Wealthier people can pay for better treatments.
- III. Wealthier people can pay for better prevention of disease.

Answer

- I only
- II only
- III only
- II and III only

[◀ Add Question Here](#)

Question 49 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

The historical rise in living standards of American workers is primarily a result of:

Answer

- the influence of labor unions in America.
- tariff protection imposed by the American government.
- the enactment of minimum wage laws in America.
- the rise in American productivity.

[◀ Add Question Here](#)

Question 50 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

What are the institutions that help foster the appropriate incentives for economic growth?

Answer

- regulated labor and credit markets; and unions
- communal property rights and absence of a profit-loss system
- a dependable legal system, property rights, and competitive and open markets
- production and export quotas; and supply and demand

[◀ Add Question Here](#)

Question 51 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Wealthy countries tend to have _____ physical capital per worker and _____ human capital per worker.

Answer

- little; a lot of
- a lot of; little
- a lot of; a lot of
- no; a lot of

[◀ Add Question Here](#)

Question 52 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

An economy where entrepreneurs are free to experiment with new ideas and bring innovative products to the market will:

Answer

- help economic growth but not affect living standards.
- lead to improved living standards and increased economic growth.
- lead to increased living standards but stagnate economic growth.
- help stagnate living standards but increase economic growth.

[◀ Add Question Here](#)

Question 53 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

How can "good institutions" foster growth?

- I. They provide incentives for entrepreneurs to create and innovate.
- II. They provide financial support for organizations to acquire human and physical capital.
- III. They establish property rights, functioning legal systems, and open markets.

Answer

- I and II only
- II and III only
- III only
- I and III only

[◀ Add Question Here](#)

Question 54 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

How does self-interest relate to creativity by firms (in terms of production methods or product attributes)?

Answer

- Firms are interested in sharing their new ideas with the world.
- Firms innovate because they are interested in making a profit.
- Ideas can be used by everyone at the same time.
- All of the answers are correct.

[◀ Add Question Here](#)

Question 55 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Which of the following environments contains factors suitable for economic growth?

Answer

- well-functioning markets, specialization in one's comparative advantage, and good health care systems
- well-functioning competitive markets, property rights, and firm creativity
- development of physical and human capital per worker, and technological advancement
- All of the answers are correct.

[◀ Add Question Here](#)

Question 56 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

If North Korea and South Korea were both equally poor in 1950, why did South Korea develop so much faster?

Answer

- The two countries have different language, cultural, and historical backgrounds.
- North Korea has an economic system that develops incentives.
- South Korea has a more market-based economic system.
- South Korea began with a higher per capita GDP.

[◀ Add Question Here](#)

Question 57 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Among the most powerful institutions for supporting good incentives are:

- I. property rights.
- II. political stability.
- III. honest government.

Answer

- I only
- I and II only
- II and III only
- I, II, and III

[◀ Add Question Here](#)

Question 58 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

A dependable legal system and competitive, open markets help to:

Answer

- shape incentives that induce economic growth.
- reduce liberty and varied freedoms.
- bring about honest government and political stability.
- increase inefficiencies.

[◀ Add Question Here](#)

Question 59 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

The Great Depression was:

Answer

- a natural manifestation of competitive markets.
- cut short because of well-thought-out monetary policy.
- to date, the worst economic period in U.S. economic history.
- about as severe as the 2008–2009 recession.

[◀ Add Question Here](#)

Question 60 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)

Question

Booms and busts refer to the:

Answer ✓

- fluctuations in economic activity over time.
- theory of the second best.
- decreases in a nation's output growth over time.
- monetary inflation and deflation caused by the central bank.

[◀ Add Question Here](#)[Modify](#)[Remove](#)

Question 61

Multiple Choice**0 points****Question**

Recessions are marked by which of the following phenomena?

Answer

- falling wages
- falling national output
- rising unemployment
- ✓ All of the answers are correct.

[◀ Add Question Here](#)[Modify](#)[Remove](#)

Question 62

Multiple Choice**0 points****Question**

Which of the following phenomena occurred during the Great Depression?

Answer

- National output fell by 30 percent.
- Unemployment rose by 20 percentage points.
- The stock market fell to less than a third of its original value.
- ✓ All of the answers are correct.

[◀ Add Question Here](#)[Modify](#)[Remove](#)

Question 63

Multiple Choice**0 points****Question**

Monetary and fiscal policies:

Answer ✓

- can reduce the severity of economic busts.
- have always been well understood and ultimately led to the end of the Great Depression.
- when used properly, can end every recession.
- All of the answers are correct.

[◀ Add Question Here](#)[Modify](#)[Remove](#)

Question 64

Multiple Choice**0 points****Question**

Economists have discovered that economic booms and busts:

Answer

- are needless and can be eliminated.
- should be encouraged because they help make people better off.
- ✓ can be moderated but not eliminated.
- cause people to specialize so they become more productive.

[◀ Add Question Here](#)[Modify](#)[Remove](#)

Question 65

Multiple Choice**0 points****Question**

The central bank of the United States is:

Answer

- the Senate.
- the Department of Treasury.
- ✓ the Federal Reserve.
- Wall Street.

[◀ Add Question Here](#)[Modify](#)[Remove](#)

Question 66

Multiple Choice**0 points****Question**

In Zimbabwe, the government _____ the _____ money, which caused the country's severe inflation.

Answer

decreased; demand for

decreased; supply of

✓ increased; supply of

increased; demand for

◀ [Add Question Here](#)

[Modify](#)

[Remove](#)

Question 67

Multiple Choice

0 points

Question

Inflation is primarily caused by:

Answer

businesses raising their prices in response to increasing energy prices.

✓ the government printing too much money.

misguided fiscal policy.

economic downturns in GDP.

◀ [Add Question Here](#)

[Modify](#)

[Remove](#)

Question 68

Multiple Choice

0 points

Question

According to Milton Friedman, "Inflation is always and everywhere a _____."

Answer

capitalist problem

communist problem

✓ monetary phenomenon

situation caused by haphazard technological growth

◀ [Add Question Here](#)

[Modify](#)

[Remove](#)

Question 69

Multiple Choice

0 points

Question

Inflation can be defined as:

Answer

the general rise in the level of output in an economy.

the boom and bust cycles of an economy.

the rise and fall of the general level of prices in an economy.

✓ the increase in the general level of prices in an economy.

◀ [Add Question Here](#)

[Modify](#)

[Remove](#)

Question 70

Multiple Choice

0 points

Question

The Central Bank of the United States can:

Answer

minimize a recession.

regulate the money supply in the United States.

cause inflation if it increases the money supply too much and too fast.

✓ All of the answers are correct.

◀ [Add Question Here](#)

[Modify](#)

[Remove](#)

Question 71

Multiple Choice

0 points

Question

What is one cause of inflation?

Answer

the persistent rise in prices in the economy

✓ production's inability to keep up with spending in the economy

increased spending by people and the government.

economic growth without money growth

◀ [Add Question Here](#)

[Modify](#)

[Remove](#)

Question 72

Multiple Choice

0 points

Question

A policymaker wants to reduce inflation. In order to make an intelligent decision about how to do so, the policymaker:

Answer

should use a simple rule: once inflation is gone, it will always be gone.

✓ needs to know the causes of inflation, such as the government's printing too much money.

should find out if people are really better off as a result of the inflation.

should realize that inflation can be reduced without any costs.

[◀ Add Question Here](#)

Question 73 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Most economists believe that an increase in the supply of money results in:

Answer

- an increase in the demand for goods and services.
- higher unemployment in the short run.
- higher inflation in the long run.
- no change for the economy.

[◀ Add Question Here](#)

Question 74 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Which of the following statements is FALSE?

- I. The Federal Reserve can micromanage the economy with great precision.
- II. The Federal Reserve's decisions usually have an immediate effect on the economy's unemployment rate.
- III. Most economists believe that the Federal Reserve does more harm than good.

Answer

- I and II only
- II only
- II and III only
- I, II, and III

[◀ Add Question Here](#)

Question 75 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Which of the following choices explains why the Fed has a tough job?

Answer

- lags in the effects of monetary policy
- continuously changing economic conditions
- the inability to perfectly forecast the future
- All of the choices are correct.

[◀ Add Question Here](#)

Question 76 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Which of the following choices describes why the Fed might find it difficult to combat recessions?

- I. lags in the effects of monetary policy
- II. continuously changing economic conditions
- III. changes in the money supply, which do not always lead to expected changes in economic conditions.

Answer

- I and II only
- II and III only
- I and III only
- I, II, and III

[◀ Add Question Here](#)

Question 77 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

The decisions made by the Federal Reserve Bank sometimes result in negative effects on the economy because:

Answer

- the economy is weakened when the government interferes using monetary policy.
- the government uses money inefficiently when it comes to fiscal policy.
- the Fed finds that forecasting economic conditions is easy but controlling the money supply is difficult.
- too much money or too little money might induce inflation or unemployment due to bad timing of decisions.

[◀ Add Question Here](#)

Question 78 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question**

Economics:

Answer

- teaches us how to make the world a better place.
- increases our understanding of historical events.
- can help you better manage your finances.
- All of the answers are correct.

[◀ Add Question Here](#)

Question 79 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

An example of Adam Smith's invisible hand is self-interested business people developing a better keyboard for the blind in hopes of making large profits.

Answer

✓ True
False

[◀ Add Question Here](#)

Question 80 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

The opportunity cost of attending college includes tuition, room and board, cost of meals, and the lost opportunity to make money at a job.

Answer

True
✓ False

[◀ Add Question Here](#)

Question 81 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

With careful planning, we can usually get something that we like without having to give up something else that we like.

Answer

True
✓ False

[◀ Add Question Here](#)

Question 82 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

A marginal change is a small incremental adjustment to an existing plan of action.

Answer

✓ True
False

[◀ Add Question Here](#)

Question 83 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

Marginal thinking was simultaneously discovered by three economists—Stanley Jevons, Carl Menger, and Adam Smith.

Answer

True
✓ False

[◀ Add Question Here](#)

Question 84 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

Greater emphasis on self-sufficiency and trading less with foreign countries would increase incomes and living standards in the United States.

Answer

True
✓ False

[◀ Add Question Here](#)

Question 85 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

For countries to be wealthy, they need lots of physical and human capital per worker—which, in turn, depends on a system of private property rights, political stability, a just legal system, honest government, and competitive and open markets.

Answer

✓ True
False

[◀ Add Question Here](#)

Question 86 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

If two countries are initially at the same level of development, the institution of well-functioning markets can allow one country to develop faster than the other.

Answer

✓ True
False

[◀ Add Question Here](#)

Question 87 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

Economies MUST experience both booms and busts. All economists can do is work to limit the extent of the economic fluctuations.

Answer

✓ True
False

[◀ Add Question Here](#)

Question 88 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question**

Monetary and fiscal policies are among a government's tools for mitigating economic fluctuations.

Answer

✓ True
False

[◀ Add Question Here](#)

True/False

0 points

[Modify](#)[Remove](#)

Question 89 ▾

Question

When the government decreases the supply of money, there is an increase in the general level of prices.

Answer

True
 False

◀ [Add Question Here](#)

Question 90 ▾

True/False**0 points**

[Modify](#) [Remove](#)

Question

Central banks can cause inflation.

Answer

True
 False

◀ [Add Question Here](#)

Question 91 ▾

True/False**0 points**

[Modify](#) [Remove](#)

Question

In the long run, excess money printing by the government always causes inflation and economic busts.

Answer

True
 False

◀ [Add Question Here](#)

Question 92 ▾

True/False**0 points**

[Modify](#) [Remove](#)

Question

Inflation increases the value of money by increasing the purchasing power of money.

Answer

True
 False

◀ [Add Question Here](#)

Question 93 ▾

True/False**0 points**

[Modify](#) [Remove](#)

Question

Economics increases your understanding of the distant past, present events, and future possibilities.

Answer

True
 False

◀ [Add Question Here](#)

Question 94 ▾

Essay**0 points**

[Modify](#) [Remove](#)

Question

There are 10 Big Ideas in Chapter 1. List four of them.

Answer *A student could list any of the following four Big Ideas:*

*Incentives Matter
 Good Institutions Align Self-Interest with the Social Interest
 Trade-offs Are Everywhere
 Thinking at the Margin
 The Power of Trade
 The Importance of Wealth and Economic Growth
 Institutions Matter
 Economic Booms and Busts Cannot Be Avoided but Can Be Moderated
 Prices Rise When the Government Prints Too Much Money
 Central Banking Is a Hard Job*

◀ [Add Question Here](#)

Question 95 ▾

Essay**0 points**

[Modify](#) [Remove](#)

Question

How do self-interested “greedy” businesses benefit society?

Answer *The goal of business is to maximize profits, a self-interested pursuit. To maximize profits, however, requires that businesses cater to their customers' tastes and preferences. Cowen/Tabarrok discuss how supermarkets keep their shelves stocked with products from all over the world and how millions of other people provide the public with food, clothing, and shelter. Paraphrasing Adam Smith: people do these things out of their own self-interest to earn money, not from their own innate kindness. Thus, behavior out of self-interest helps bring a variety of products to the market in sufficient quantity.*

◀ [Add Question Here](#)

Question 96 ▾

Essay**0 points**

[Modify](#) [Remove](#)

Question

Let's assume that your favorite musician (who sells platinum records and has sold-out concerts) is a great cook. He makes splendid cakes and pies. He could sell these pies and cakes for \$30 each. Why doesn't he spend his whole day baking and cooking?

Answer *He does not spend the whole day baking and cooking because he can make a lot more money singing and signing record deals. The opportunity cost of baking pies would be too high.*

◀ [Add Question Here](#)

Question 97 ▾

Essay**0 points**

[Modify](#) [Remove](#)

Question

Define opportunity cost. What is the opportunity cost to you of attending college? What was your opportunity cost of coming to class today?

Answer *Opportunity cost is that which you must give up to obtain some item. The opportunity cost of a person attending college is the value of the best alternative use of that person's time and other resources used in the process. For most students this would be the income the student gives up by not working. A student's opportunity cost of coming to class was the value of the best opportunity the student gave up, such as sleep, a Frisbee game, or being with a girlfriend/boyfriend.*

◀ [Add Question Here](#)

Question 98 ▾

Essay**0 points**

[Modify](#) [Remove](#)

Question

Why do airlines sometimes advertise last-minute air sales at low prices? What economic principle are they applying?

Answer *The airlines are engaging in marginal thinking. They weigh the costs versus benefits of selling a ticket at a sale price. The marginal cost of a last-minute passenger will be a little extra paperwork, some extra jet fuel, and some refreshments on the aircraft. The marginal benefit (the incentive for the airline to offer the sale) of having the last-minute passenger is the extra revenue from serving that customer. If the marginal revenue is greater than the marginal cost, the airline will benefit from selling the air ticket on sale.*

[◀ Add Question Here](#)

Question 99 ▾

Essay

0 points

[Modify](#)

[Remove](#)

Question

Using the “thinking at the margin” concept explain a student's decision to wake up and attend an 8 AM class in the winter (the student is already registered for the class).

Answer *On the one hand, the student will stand to gain extra knowledge from the single session of the class. If the subject is interesting, and the teacher is good, this is equivalent to an hour of enjoyment and learning. On the other hand, the student is sleepy, and it is cold and uncomfortable outside. If the class has no attendance policy, and there is no exam scheduled and no assignment due, the student may feel that she has nothing to lose by missing one class. Weighing the marginal costs versus the marginal benefits, the student may thus opt to sleep in! A penalty associated with nonattendance when there is an exam scheduled or no assignment due raises the marginal cost of nonattendance.*

[◀ Add Question Here](#)

Question 100 ▾

Essay

0 points

[Modify](#)

[Remove](#)

Question

Why do you think economists generally support increased trade?

Answer *People will be better off if they can exchange things they value less for things that they value more. Doing so will make everyone involved in such trading activity better off.*

[◀ Add Question Here](#)

Question 101 ▾

Essay

0 points

[Modify](#)

[Remove](#)

Question

Wherein lies the power of trade?

Answer *The power of trade comes from people specializing in the activity of their comparative advantage and trading for more things than they could produce on their own.*

[◀ Add Question Here](#)

Question 102 ▾

Essay

0 points

[Modify](#)

[Remove](#)

Question

Using the concepts of incentives and good institutions, explain how a country might achieve economic growth.

Answer *Economic growth stems from having well-functioning markets, consumers who are wealthy enough to purchase the goods and services produced, development of physical and human capital per worker, good institutions, and technological advancement. If consumers can afford goods and services, and wealth is increasing, firms will have markets. Wealthy consumers also save more, which allows firms to invest more. Firms' primary incentive is profit. If firms see the possibility of sales and profit, they will innovate and use and create new technologies in production and product attributes. They will increase efficiency, and reduce waste. As firms and consumers become wealthier, more incentives arise for investment and the development of physical and human capital.*

However, investment will not occur adequately or efficiently if good institutions do not exist. Good institutions include well-established property rights, an honest government, a dependable legal system, and well-functioning markets.

[◀ Add Question Here](#)

Question 103 ▾

Essay

0 points

[Modify](#)

[Remove](#)

Question

Many industrialized nations have been pumping trillions of dollars into their economies in the form of stimulus packages, tax rebates, and bailouts, in order to stimulate additional consumer spending and business investment, and to ward off global recession. If a large portion of these funds are obtained through the printing of new money, explain whether or not this will help or hurt these economies in the long run.

Answer *If the stimulus packages and bailouts are able to increase both consumer spending and business investment, then it is more likely that these initiatives will be successful in warding off recession. However, if the funds for these stimulus packages are financed by the printing of new money, then this will most likely lead to increased inflation in the long run, hence dampening the expansionary effects of the stimulus.*

[◀ Add Question Here](#)

Question 104 ▾

Essay

0 points

[Modify](#)

[Remove](#)

Question

Explain why central banking is a hard job.

Answer *Too much money in the economy means that inflation will result. Not enough money in the economy is bad as well and can lead to a recession or a slowing of economic growth. The Fed is always trying to get it “just right” but some of the time it fails. Sometimes the failure is a mistake because forecasting where the economy is headed is very difficult. Central banking relies upon economic tools but in the final analysis it is as much an art as a science.*

[◀ Add Question Here](#)

OK