

Chapter 1 Limits, Alternatives, and Choices

CHAPTER 1

Limits, Alternatives, and Choices

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1. The key economic concept that serves as the basis for the study of economics is:

- A) inflation.
- B) unemployment.
- C) money.
- D) scarcity.

Ans: D Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time

Page: 2 Subtopic: The individual Type: Application

2. As a consequence of the condition of scarcity:

- A) there is never enough of anything.
- B) production has to be centrally planned.
- C) things which are plentiful have relatively high prices.
- D) individuals and communities have to make choices among alternatives.

Ans: D Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time

Page: 2 Subtopic: The individual Type: Application

3. In every economic system, choices must be made because resources are:

- A) infinite, but economic wants are finite.
- B) finite, but economic wants are insatiable.
- C) unlimited, but economic wants are limited.
- D) limited, and so are economic wants.

Ans: B Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time

Page: 2 Subtopic: The individual Type: Application

4. Opportunity cost is best defined as:

- A) marginal cost minus marginal benefit.
- B) the time spent on an economic activity.
- C) the value of the best foregone alternative.
- D) the money cost of an economic decision.

Ans: C Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time

Page: 2 Subtopic: The individual Type: Application

5. Tammie makes \$150 a day as a bank clerk. She takes off two days of work without pay to fly to another city to attend the concert of her favourite music group. The cost of transportation for the trip is \$250. The cost of the concert ticket is \$50. The opportunity cost of Tammie's trip to the concert is:

- A) \$300.
- B) \$450.
- C) \$500.
- D) \$600.

Ans: D Level: Moderate Main Topic: 1.1 Ten key concepts to retain for a life time

Page: 2 Subtopic: The individual Type: Calculation

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6. When a provincial government chooses to build more roads, the required resources are no longer available for spending on public education. This dilemma illustrates the concept of:

- A) marginal analysis.
- B) full employment.
- C) full production.
- D) opportunity cost.

Ans: D Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time
Page: 2 Subtopic: The individual Type: Application

7. Specialization and trade are beneficial to society because:

- A) the output of economic goods may be increased with no increase in resources.
- B) scarce resources are utilized more efficiently.
- C) a division of labour lowers prices for products.
- D) all of the above are correct.

Ans: D Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time
Page: 2 Subtopic: Interaction among individuals Type: Application

8. When economists describe "a market," they mean:

- A) a place where stocks and bonds are traded.
- B) information networks that allow individuals to keep in touch with each other.
- C) a hypothetical place where the production of goods and services takes place.
- D) a mechanism which coordinates actions of consumers and producers to establish equilibrium prices and quantities.

Ans: D Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time
Page: 2 Subtopic: Interaction among individuals Type: Definition

9. The institution that coordinates actions of consumers and producers to establish prices for goods and services is known as:

- A) a market.
- B) a monopoly.
- C) an economic system.
- D) consumer sovereignty.

Ans: A Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time
Page: 2 Subtopic: Interaction among individuals Type: Definition

10. A major argument for economic growth is that it:

- A) creates an equal distribution of income.
- B) protects common property resources.
- C) leads to a higher standard of living.
- D) reduces the amount of taxation.

Ans: C Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time
Page: 2 Subtopic: Economy as a whole and the standard of living
Type: Application

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11. One of the basic economic defences of economic growth rests on the conclusion that:
- A) growth makes workers less obsolete and more secure in employment.
 - B) growth reduces the cost of "common property" resources to society.
 - C) growth makes the gap between unlimited wants and scarce resources less acute.
 - D) a growth-oriented society confers a "work and look to the future" attitude on the members of society.

Ans: C Level: Moderate Main Topic: 1.1 Ten key concepts to retain for a life time
Page: 2 Subtopic: Economy as a whole and the standard of living
Type: Application

12. Concern about the general level of prices in an economy is primarily a concern about the economic goal of:
- A) economic efficiency.
 - B) economic security.
 - C) price-level stability.
 - D) equity.

Ans: C Level: Easy Main Topic: 1.1 Ten key concepts to retain for a life time
Page: 2 Subtopic: Economy as a whole and the standard of living Type: Application

13. Assume that a tradeoff exists in the short run between inflation and unemployment. This relationship means that:
- A) a low rate of unemployment causes a low rate of inflation.
 - B) a high rate of inflation causes a low rate of unemployment.
 - C) less unemployment can be achieved with more inflation.
 - D) less unemployment can be achieved with less inflation.

Ans: C Level: Moderate Main Topic: 1.1 Ten key concepts to retain for a life time
Page: 2 Subtopic: Economy as a whole and the standard of living
Type: Application

14. The study of economics is primarily concerned with:
- A) keeping private businesses from losing money.
 - B) demonstrating that capitalistic economies are superior to socialistic economies.
 - C) choices which are made in seeking to use scarce resources efficiently.
 - D) determining the most equitable distribution of society's output.

Ans: C Level: Easy Main Topic: 1.2 The economic way of thinking
Page: 3 Subtopic: Scarcity and choice Type: Definition

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15. The assertion that "There is no free lunch" means:

- A) there are always tradeoffs between economic goals.
- B) all production involves the use of scarce resources and thus the sacrifice of alternative goods.
- C) marginal analysis is not used in economic reasoning.
- D) choices do not need be made if behaviour is rational.

Ans: B Level: Easy Main Topic: 1.2 The economic way of thinking Page: 3
Subtopic: Scarcity and choice Type: Definition

16. The study of economics exists because:

- A) government interferes with the efficient allocation of scarce resources.
- B) resources are scarce in relation to human material wants.
- C) the market system is an obstacle to the efficient use of plentiful resources to satisfy constrained wants.
- D) resources are overly abundant as compared to wants; thus, an allocation problem exists.

Ans: B Level: Easy Main Topic: 1.2 The economic way of thinking Page: 3
Subtopic: Scarcity and choice Type: Application

17. Economics may best be defined as:

- A) the interaction between macro and micro considerations.
- B) the study of the behaviour of people and institutions in the production, distribution, and consumption of scarce goods.
- C) the empirical testing of value judgments through the use of induction and deduction.
- D) the use of policy to refute facts and hypotheses.

Ans: B Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4
Subtopic: Purposeful behaviour Type: Definition

18. Purposeful behaviour suggests that:

- A) everyone will make identical choices.
- B) resource availability exceeds material wants.
- C) individuals will make different choices because their information and constraints differ.
- D) an individual's economic goals cannot involve tradeoffs.

Ans: C Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4
Subtopic: Purposeful behaviour Type: Definition

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19. "Consumers spend their incomes to get the maximum benefit or satisfaction from the goods and services they purchase." This is a reflection of:

- A) resource scarcity and the necessity of choice.
- B) purposeful behaviour.
- C) marginal costs which exceed marginal benefits.
- D) the tradeoff problem which exists between competing goals.

Ans: B Level: Moderate Main Topic: 1.2 The economic way of thinking

Page: 4 Subtopic: Purposeful behaviour Type: Application

20. The "economic perspective" refers to:

- A) macroeconomic phenomena, but not microeconomic phenomena.
- B) microeconomic phenomena, but not macroeconomic phenomena.
- C) the making of rational decisions in a context of marginal costs and marginal benefits.
- D) unlimited resources in a context of limited material wants.

Ans: C Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4

Subtopic: Marginal analysis: Benefits and costs Type: Definition

21. The "economic perspective" entails:

- A) rational behaviour by individuals and institutions.
- B) a comparison of marginal benefits and marginal costs in decision making.
- C) the altering of behaviour when marginal benefits and marginal costs change.
- D) all of the above.

Ans: D Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4

Subtopic: Marginal analysis: Benefits and costs Type: Application

22. The economic perspective used in customer decision making at fast-food restaurants is reflected in:

- A) customers selecting the shortest line.
- B) customers leaving rather than waiting if all lines are long.
- C) all customer lines tending to be of equal length.
- D) all of the above.

Ans: D Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4

Subtopic: Marginal analysis: Benefits and costs Type: Application

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23. How is the economic perspective reflected in lines for fast food?
- A) Customers select the shortest line because they have perfect information.
 - B) Customers select the shortest line because they believe it will reduce their time cost of obtaining food.
 - C) Lines will typically be of unequal length because of the inefficiencies in counter service.
 - D) The set of food choices is often too complex for most customers and thus creates long lines.

Ans: B Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4
Subtopic: Marginal analysis: Benefits and costs Type: Application

24. From an economic perspective, when consumers leave a fast-food restaurant because the lines to be served are too long, they have concluded that the:
- A) marginal cost of waiting is less than the marginal benefit of being served.
 - B) marginal cost of waiting is greater than the marginal benefit of being served.
 - C) management is exhibiting irrational behaviour by not maximizing profits.
 - D) management is making an assumption that other things are equal.

Ans: B Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4
Subtopic: Marginal analysis: Benefits and costs Type: Application

25. Consumers might leave a fast-food restaurant without being served because:
- A) they are misinformed about the marginal cost and marginal benefits of the food being served.
 - B) they conclude that the marginal cost (monetary plus time costs) exceeds the marginal benefit.
 - C) the environment is not conducive to a rational choice.
 - D) the lines waiting for service are not of equal length.

Ans: B Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4
Subtopic: Marginal analysis: Benefits and costs Type: Application

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26. At fast-food restaurants:

- A) consumers enjoy complete and accurate information.
- B) decisions are usually made by trial and error.
- C) decisions entail comparisons of marginal costs and marginal benefits.
- D) benefits always exceed costs.

Ans: C Level: Easy Main Topic: 1.2 The economic way of thinking Page: 4
Subtopic: Marginal analysis: Benefits and costs Type: Application

27. Economics involves "marginal analysis" because:

- A) most decisions involve changes in the status quo.
- B) marginal benefits always exceed marginal costs.
- C) marginal costs always exceed marginal benefits.
- D) much economic behaviour is irrational.

Ans: A Level: Easy Main Topic: 1.2 The economic way of thinking Page: 5
Subtopic: Marginal analysis: Benefits and costs Type: Application

28. You should decide to go to a movie:

- A) if the marginal cost of the movie exceeds its marginal benefit.
- B) if the marginal benefit of the movie exceeds its marginal cost.
- C) if your income will allow you to buy a ticket.
- D) because movies are inherently good products.

Ans: B Level: Easy Main Topic: 1.2 The economic way of thinking Page: 5
Subtopic: Marginal analysis: Benefits and costs Type: Application

29. Marginal costs exist because:

- A) the decision to produce more of some product means the sacrifice of other products.
- B) wants are scarce relative to resources.
- C) households and businesses make rational decisions.
- D) most decisions do not involve sacrifices or tradeoffs.

Ans: A Level: Easy Main Topic: 1.2 The economic way of thinking Page: 5
Subtopic: Marginal analysis: Benefits and costs Type: Application

30. Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact:

- A) is an example of irrational behaviour.
- B) implies that reading should be taught through phonics rather than the whole language method.
- C) contradicts the economic perspective.
- D) implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.

Ans: D Level: Moderate Main Topic: 1.2 The economic way of thinking Page: 5
Subtopic: Marginal analysis: Benefits and costs Type: Application

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31. The process of developing hypotheses, testing them against facts, and using the results to construct theories is called:

- A) opportunity cost calculation.
- B) the scientific method.
- C) marginal analysis.
- D) microeconomics.

Ans: B Level: Easy Main Topic: 1.3 Theories, principles, and models Page: 5
Type: Definition

32. A "hypothesis" is:

- A) a fundamental truth which all economists accept.
- B) a tentative, untested principle.
- C) the same as a normative statement.
- D) always the result of induction.

Ans: B Level: Easy Main Topic: 1.3 Theories, principles, and models Page: 5
Type: Definition

33. From the perspective of economists, which term provides the highest degree of confidence for explaining economic behaviour?

- A) an economic principle or a law
- B) a fact
- C) a hypothesis
- D) an assumption

Ans: A Level: Easy Main Topic: 1.3 Theories, principles, and models Page: 5
Type: Definition

34. In constructing models, economists:

- A) make simplifying assumptions.
- B) include all available information.
- C) must use mathematical equations.
- D) attempt to duplicate the real world.

Ans: A Level: Easy Main Topic: 1.3 Theories, principles, and models Page: 5
Type: Definition

35. Economic models:

- A) are of limited use because they cannot be tested empirically.
- B) are limited to variables which are directly related to one another.
- C) emphasize basic economic relationships by abstracting from the complexities of the real world.
- D) are unrealistic and therefore of no practical consequence.

Ans: C Level: Easy Main Topic: 1.3 Theories, principles, and models Page: 5
Type: Definition

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36. An economic model is:

- A) a value judgment.
- B) a fact.
- C) built using theory.
- D) built on correlations.

Ans: C Level: Easy Main Topic: 1.3 Theories, principles, and models Page: 5
Type: Application

37. The term "ceteris paribus" means:

- A) that if event A precedes event B, A has caused B.
- B) that economics deals with facts, not values.
- C) other things equal.
- D) prosperity inevitably follows recession.

Ans: C Level: Easy Main Topic: 1.3 Theories, principles, and models Page: 5
Type: Definition

38. Suppose an economist says that "Other things equal, the lower the price of bananas, the greater the amount of bananas purchased." This statement indicates that:

- A) the quantity of bananas purchased determines the price of bananas.
- B) all factors other than the price of bananas (for example, consumer tastes and incomes) are assumed to be constant.
- C) economists can conduct controlled laboratory experiments.
- D) one cannot generalize about the relationship between the price of bananas and the quantity purchased.

Ans: B Level: Moderate Main Topic: 1.3 Theories, principles, and models
Page: 5 Type: Application

39. The term "other things equal" means that:

- A) the associated statement is normative.
- B) many variables affect the variable under consideration.
- C) a number of relevant variables are assumed to be constant.
- D) when variable X increases so does related variable Y.

Ans: C Level: Easy Main Topic: 1.3 Theories, principles, and models
Page: 5-6 Type: Definition

40. The basic purpose of the "other things equal" assumption is to:

- A) allow one to reason about the relationship between variables X and Y without the intrusion of variable Z.
- B) allow one to focus upon micro variables by ignoring macro variables.
- C) allow one to focus upon macro variables by ignoring micro variables.
- D) determine whether X causes Y or vice versa.

Ans: A Level: Easy Main Topic: 1.3 Theories, principles, and models
Page: 5-6 Type: Definition

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41. Microeconomics is concerned with:

- A) the aggregate or total levels of income, employment, and output.
- B) a detailed examination of specific economic units which comprise the economic system.
- C) the concealing of detailed information about specific segments of the economy.
- D) the establishing of an overall view of the operation of the economic system.

Ans: B Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Microeconomics Type: Definition

42. Microeconomics:

- A) is concerned with the aggregate or total levels of income, employment, and output.
- B) is not concerned with details, but only with the overall "big picture" of the economy.
- C) is concerned with individual economic units and specific markets.
- D) describes the aggregate flows of output and income.

Ans: C Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Microeconomics Type: Definition

43. Which of the following is a microeconomic statement?

- A) The real domestic output increased by 2.5 percent last year.
- B) Unemployment was 8.3 percent of the labour force last year.
- C) The price of personal computers declined last year.
- D) The general price level increased by 4 percent last year.

Ans: C Level: Moderate Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Microeconomics Type: Application

44. Macroeconomics approaches the study of economics from the viewpoint of:

- A) the entire economy.
- B) governmental units.
- C) the operation of specific product and resource markets.
- D) individual firms.

Ans: A Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Macroeconomics Type: Definition

45. Which of the following is associated with macroeconomics?

- A) an examination of the incomes of the University of Toronto Business School graduates
- B) an empirical investigation of the general price level and unemployment rates in the 1990s
- C) a study of the trend of pecan prices since World War II
- D) a case study of pricing and production in the textbook industry

Ans: B Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Macroeconomics Type: Application

Chapter 1 Limits, Alternatives, and Choices

46. The problems of aggregate inflation and unemployment are:

- A) major topics of macroeconomics.
- B) not relevant to the Canadian economy.
- C) major topics of microeconomics.
- D) peculiar to socialistic economies.

Ans: A Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Macroeconomics Type: Application

47. Which of the following statements pertains to macroeconomics?

- A) Because the minimum wage was raised, Mrs. Beepath decided to enter the labour force.
- B) A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.
- C) The national productivity rate grew by 1.4 percent last year.
- D) The Pumpkin Center Chartered Bank increased its interest rate on consumer loans by 1 percent.

Ans: C Level: Moderate Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Macroeconomics Type: Application

48. Macroeconomics can best be described as the:

- A) analysis of how a consumer tries to spend income.
- B) study of the large aggregates of the economy or the economy as a whole.
- C) analysis of how firms attempt to maximize their profits.
- D) study of how supply and demand determine prices in individual markets.

Ans: B Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Macroeconomics Type: Definition

49. Which of the following is a macroeconomic statement?

- A) The gross profits of all Canadian businesses were \$50 billion last year.
- B) The price of beef declined by 3 percent last year.
- C) General Motors' profits increased in 1998.
- D) The productivity of steelworkers increased by 1 percent in 1998.

Ans: A Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Macroeconomics Type: Application

50. A positive statement is one which is:

- A) derived by induction.
- B) derived by deduction.
- C) subjective and is based on a value judgment.
- D) objective and is based on facts.

Ans: D Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Positive and normative economics Type: Definition

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51. Which of the following is a positive statement?

- A) The humidity is too high today.
- B) It is too hot to jog today.
- C) The temperature is 30 degrees today.
- D) I enjoy summer evenings when it cools off.

Ans: C Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Positive and normative economics Type: Application

52. A positive statement is concerned with:

- A) some goal which is desirable to society.
- B) what should be.
- C) what is.
- D) the formulation of economic policy.

Ans: C Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6 Subtopic: Positive and normative economics Type: Definition

53. A normative statement is one which:

- A) is based on the law of averages.
- B) pertains only to microeconomics.
- C) pertains only to macroeconomics.
- D) is based upon value judgments.

Ans: D Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6-7 Subtopic: Positive and normative economics Type: Definition

54. Which of the following is a normative statement?

- A) The temperature is high today.
- B) The humidity is high today.
- C) It is too hot to play tennis today.
- D) It will cool off later this evening.

Ans: C Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6-7 Subtopic: Positive and normative economics Type: Application

55. Normative statements are concerned with:

- A) facts and theories.
- B) what ought to be.
- C) what is.
- D) rational choice involving costs and benefits.

Ans: B Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6-7 Subtopic: Positive and normative economics Type: Definition

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56. Most of the disagreement among economists involves:

- A) facts.
- B) theories.
- C) positive statements.
- D) normative statements.

Ans: D Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6-7 Subtopic: Positive and normative economics Type: Application

57. "Economics is concerned with using scarce productive resources efficiently in attempting to satisfy society's material wants." This statement is:

- A) positive, but incorrect.
- B) positive and correct.
- C) normative, but incorrect.
- D) normative and correct.

Ans: B Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6-7 Subtopic: Positive and normative economics Type: Application

58. Ben says that "An increase in the tax on beer will raise its price." Holly argues that "Taxes should be increased on beer because college students drink too much." We can conclude that:

- A) Ben's statement is normative, but Holly's is positive.
- B) Holly's statement is normative, but Ben's is positive.
- C) Both statements are normative.
- D) Both statements are positive.

Ans: B Level: Moderate Main Topic: 1.4 Microeconomics and Macroeconomics

Page: 6-7 Subtopic: Positive and normative economics Type: Application

59. The individuals and society both face an economic problem. This problem arises from the fact that:

- A) wants are limited but the resources are not.
- B) resources are scarce relative to individual's wants.
- C) individuals and institutions behave only in their self-interest.
- D) both wants and resources are unlimited.

Ans: B Level: Easy Main Topic: 1.5 The Economic problem

Page: 7 Subtopic: Limited income Type: Application

60. The individual's limited income problem:

- A) persists only because countries have failed to achieve continuous full employment.
- B) exists because material wants are limited.
- C) has been solved in all industrialized nations.
- D) has been eliminated in affluent societies such as Canada and the United States.

Ans: B Level: Easy Main Topic: 1.5 The economic problem Page: 7

Subtopic: Limited income Type: Application

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61. When the economist says that material wants are insatiable, this means that:
- A) economic resources are valuable only because they can be used to produce consumer goods.
 - B) economic resources—land, labour, capital, and entrepreneurial ability—are scarce.
 - C) these wants are virtually unlimited and therefore incapable of complete satisfaction.
 - D) the structure of consumer demand varies from time to time and from country to country.

Ans: C Level: Easy Main Topic: 1.5 The Economic problem
Page: 7-8 Subtopic: Unlimited wants Type: Definition

62. As used in economics, the notion of scarce resources means that:
- A) mineral deposits are only available in finite amounts.
 - B) resources are not so plentiful that all individuals' material wants can be fulfilled.
 - C) some resources are free while others have price tags on them.
 - D) the quantities available of some resources exceed the demand for them.

Ans: B Level: Easy Main Topic: 1.5 The Economic problem
Page: 7-8 Subtopic: Unlimited wants Type: Definition

63. The budget line shows:
- A) the amount of product A which a consumer is willing to give up to obtain one more unit of product B.
 - B) all possible combinations of two goods which can be purchased, given money income and the prices of the goods.
 - C) all equilibrium points on an indifference map.
 - D) all possible combinations of two goods which yield the same level of utility to the consumer.

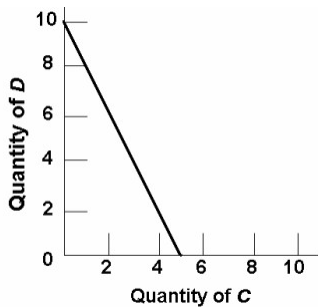
Ans: B Level: Easy Main Topic: 1.5 The Economic problem
Page: 8 Subtopic: The budget line Type: Definition

64. The price ratio of the two products is the:
- A) marginal rate of substitution.
 - B) slope of the budget line.
 - C) point of tangency for equilibrium.
 - D) elasticity of demand for the two products.

Ans: B Level: Easy Main Topic: 1.5 The Economic problem Page: 8-9
Subtopic: The budget line Type: Definition

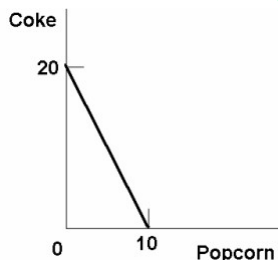
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65. Refer to the budget line shown in the diagram below. If the consumer's money income is \$20, the:



- A) prices of C and D cannot be determined.
B) price of C is \$2 and the price of D is \$4.
C) consumer can obtain a combination of 5 units of both C and D.
D) price of C is \$4 and the price of D is \$2.
Ans: D Level: Difficult Main Topic: 1.5 The Economic problem
Page: 8-9 Subtopic: The budget line Type: Graphic

66. Refer to the diagram below, suppose you have a money income of \$10 all of which you spend on Coke and boxes of popcorn. The prices of Coke and popcorn respectively are:



- A) \$.50 and \$1.00.
B) \$1.00 and \$.50.
C) \$1.00 and \$2.00.
D) \$.40 and \$.50.
Ans: A Level: Moderate Main Topic: 1.5 The Economic problem
Page: 8-9 Subtopic: The budget line Type: Graphic

67. In moving along a given budget line:

- A) the prices of both products and money income are assumed to be constant.
B) each point on the line will be equally satisfactory to consumers.
C) money income varies, but the prices of the two goods are constant.
D) the prices of both products are assumed to vary, but money income is constant.

Ans: A Level: Easy Main Topic: 1.5 The Economic problem
Page: 8-9 Subtopic: The budget line Type: Application

Chapter 1 Limits, Alternatives, and Choices

68. In drawing a budget line it is assumed that:

- A) consumer preferences are fixed.
- B) the prices of the two products are variable.
- C) money income is fixed.
- D) consumer willingness to substitute between the two products is fixed.

Ans: C Level: Easy Main Topic: 1.5 The Economic problem

Page: 8-9 Subtopic: The budget line Type: Application

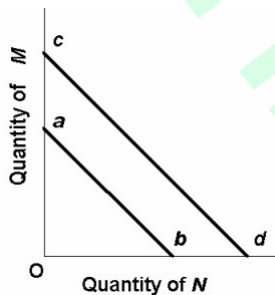
69. Any combination of goods lying outside of the budget line:

- A) implies that the consumer is not spending all of his income.
- B) yields less utility than any point on the budget line.
- C) yields less utility than any point inside the budget line.
- D) is unattainable, given the consumer's income.

Ans: D Level: Easy Main Topic: 1.5 The Economic problem

Page: 8-9 Subtopic: The budget line Type: Application

70. The budget line shift from cd to ab in the below figure is consistent with:



- A) decreases in the prices of both M and N.
- B) an increase in the price of M and a decrease in the price of N.
- C) a decrease in money income.
- D) an increase in money income.

Ans: C Level: Easy Main Topic: 1.5 The Economic problem

Page: 9 Subtopic: The budget line Type: Graphic

71. A leftward shift of a consumer's budget line to a position parallel with the original one could indicate that the:

- A) price of one product has decreased in relation to the other.
- B) prices of both products have decreased in the same proportion.
- C) marginal utilities derived from both products have decreased.
- D) consumer's money income has increased but the prices of both products have increased proportionately more.

Ans: D Level: Moderate Main Topic: 1.5 The Economic problem

Page: 9 Subtopic: The budget line Type: Application

Chapter 1 Limits, Alternatives, and Choices

72. Which of the following statements is not correct?

- A) A reduction in money income will shift the budget line to the right.
- B) A reduction in money income accompanied by an increase in product prices will necessarily shift the budget line to the left.
- C) An increase in product prices will shift the budget line to the left.
- D) An increase in money income will shift the budget line to the right.

Ans: A Level: Moderate Main Topic: 1.5 The Economic problem

Page: 9 Subtopic: The budget line Type: Application

73. The society must also make choices under conditions of scarcity. This problem arises from the fact that:

- A) Society's wants are limited but the resources are not.
- B) resources are scarce relative to society's wants.
- C) societies behave only in their self-interest.
- D) society's wants and resources are both unlimited.

Ans: B Level: Easy Main Topic: 1.5 The Economic problem

Page: 10 Subtopic: Society's economic problem Type: Application

74. The fundamental problem of economics is:

- A) to establish a democratic political framework for the provision of social goods and services.
- B) the establishment of prices which accurately reflect the relative scarcities of products and resources.
- C) the scarcity of productive resources relative to material wants.
- D) to achieve a more equitable distribution of money income in order to mitigate poverty.

Ans: C Level: Easy Main Topic: 1.5 The Economic problem Page: 10

Subtopic: Scarce resources Type: Application

75. Economic resources are also called:

- A) free gifts of nature.
- B) consumption goods.
- C) units of money capital.
- D) factors of production.

Ans: D Level: Easy Main Topic: 1.5 The Economic problem Page: 10

Subtopic: Scarce resources Type: Definition

76. Money is not considered to be an economic resource because:

- A) money, as such, is not productive.
- B) idle money balances do not earn interest income.
- C) the terms of trade can be determined in non-monetary terms.
- D) money is a free gift of nature.

Ans: A Level: Easy Main Topic: 1.5 The Economic problem Page: 10

Subtopic: Resource categories Type: Application

Chapter 1 Limits, Alternatives, and Choices

77. Which of the following is real capital?

- A) a pair of stockings
- B) a dump truck
- C) a savings account
- D) a share of Nortel stock

Ans: B Level: Easy Main Topic: 1.5 The Economic problem Page: 10
Subtopic: Resource categories Type: Definition

78. The main function of the entrepreneur is to:

- A) make routine pricing decisions.
- B) innovate.
- C) purchase capital.
- D) create market demand.

Ans: B Level: Easy Main Topic: 1.5 The Economic problem Page: 11
Subtopic: Resource categories Type: Definition

79. The following production possibilities table represents an economy which is producing two products, tanks and autos. Refer to the table, in moving from possibility C to D, the cost of a tank in terms of autos is:

Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1000	950	850	650	350	0

- A) 50.
- B) 100.
- C) 200.
- D) 300.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity cost Page: 11-12 Subtopic: Production possibilities table
Type: Calculation

Use the following to answer questions 80-82:

(The following economy produces two products.)

Production Possibilities Table

Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

Chapter 1 Limits, Alternatives, and Choices

80. Refer to the above table. A change from possibility C to B means that:

- A) 1 unit of steel is given up to get 75 units of wheat.
- B) 2 units of steel are given up to get 75 units of wheat.
- C) 1 unit of steel is given up to get 15 more units of wheat.
- D) 2 units of steel are given up to get 15 more units of wheat.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities table
Type: Calculation

81. Refer to the above table. In moving from possibility C to D, the cost of a unit of steel in terms of a unit of wheat is:

- A) 10.
- B) 20.
- C) 25.
- D) 30.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities table
Type: Calculation

82. Refer to the above table. A change from possibility B to C means that:

- A) 10 units of wheat are given up to get one more unit of steel.
- B) 15 units of wheat are given up to get one more unit of steel.
- C) 15 units of wheat are equal to one unit of steel.
- D) 75 units of wheat are equal to one unit of steel.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities table
Type: Calculation

83. The production possibilities curve represents which of the following?

- A) the amount of goods attainable with variable resources
- B) the maximum amount of goods attainable with variable resources
- C) maximum combinations of goods attainable with fixed resources
- D) the amount of goods attainable if prices decline

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Definition

Chapter 1 Limits, Alternatives, and Choices

84. The production possibilities curve represents:

- A) the maximum amount of labour and capital available for production.
- B) combinations of goods and services among which consumers are indifferent.
- C) maximum combinations of products available with fixed resources and technology.
- D) the maximum rate of growth of capital and labour in an economy.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Definition

85. The construction of a production possibilities curve assumes:

- A) the quantities of all resources are fixed.
- B) technology is fixed.
- C) full employment and full production are being realized.
- D) all of the above.

Ans: D Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Definition

86. Assume an economy is operating at some point on its production possibilities curve which shows civilian and military goods. If the output of military goods is increased, the output of civilian goods:

- A) will remain unchanged.
- B) may be either increased or decreased.
- C) must be decreased.
- D) must also be increased.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Application

87. The production possibilities curve shows:

- A) the various combinations of two goods which can be produced when society uses its scarce resources efficiently.
- B) the minimum outputs of two goods which will sustain a society.
- C) the various combinations of two goods which can be produced when some resources are unemployed.
- D) the ideal, but unattainable, combinations of two goods which would maximize consumer satisfactions.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Definition

Chapter 1 Limits, Alternatives, and Choices

88. The negative slope of the production possibilities curve is a graphical way of indicating that:

- A) any economy "can have its cake and eat it too."
- B) to produce more of one product we must accept less of another.
- C) the principle of increasing opportunity costs does not apply to the economy as a whole.
- D) consumers buy more when prices are low than they do when prices are high.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Application

89. If an economy is operating on its production possibilities curve for consumer goods and capital goods, this means that:

- A) it is impossible to produce more consumer goods.
- B) resources cannot be reallocated between the two goods.
- C) it is impossible to produce more capital goods.
- D) more consumer goods can only be produced at the cost of fewer capital goods.

Ans: D Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Application

90. In drawing a production possibilities curve we hold constant:

- A) the money supply.
- B) the consumer price index.
- C) both technology and resource supplies
- D) resource supplies only.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Application

91. The production possibilities curve tells us:

- A) what specific combinations of two products is most desired by society.
- B) that costs do not change as society varies its output.
- C) costs are irrelevant in a society which has fixed resources.
- D) what combinations of two goods can be produced with society's available resources.

Ans: D Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Definition

Chapter 1 Limits, Alternatives, and Choices

92. When an economy is operating with maximum efficiency, the production of more of commodity A will mean the production of less of commodity B because:

- A) of the law of decreasing opportunity costs.
- B) material wants are insatiable.
- C) resources are limited.
- D) resources are not specialized and are imperfectly shiftable.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Application

93. The production possibilities curve:

- A) shows all of those levels of production which are consistent with a stable price level.
- B) indicates that any combination of goods lying outside the curve is economically inefficient.
- C) is a frontier between all combinations of two goods which can be produced and those combinations which cannot be produced.
- D) shows all of those combinations of two goods which are most preferred by society.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Definition

94. The production possibilities curve illustrates the basic principle that:

- A) the production of more of any one good will in time require smaller and smaller sacrifices of other goods.
- B) an economy will automatically seek that level of output at which all of its resources are employed.
- C) if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
- D) an economy's capacity to produce increases in proportion to its population size.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Application

95. A production possibilities curve illustrates:

- A) scarcity.
- B) market prices.
- C) consumer preferences.
- D) the distribution of income.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Application

Chapter 1 Limits, Alternatives, and Choices

96. A production possibilities curve shows:

- A) that resources are unlimited.
- B) that people prefer one of the goods more than the other.
- C) the maximum amounts of two goods which can be produced assuming the full and efficient use of available resources.
- D) combinations of capital and labour necessary to produce specific levels of output.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Definition

97. In drawing the production possibilities curve we assume that:

- A) technology is fixed.
- B) unemployment exists.
- C) economic resources are unlimited.
- D) wants are limited.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Application

98. Which of the following is assumed in constructing a typical production possibilities curve?

- A) the economy is using its resources inefficiently.
- B) resources are perfectly shiftable among alternative uses.
- C) production technology is fixed.
- D) the economy is engaging in international trade.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Definition

99. Which of the following is not correct? A typical production possibilities curve:

- A) indicates how much of two products a society can produce.
- B) reveals how much each additional unit of one product will cost in terms of the other product.
- C) specifies how much of each product society should produce.
- D) indicates that to produce more of one product society must give up larger and larger amounts of the other product.

Ans: C Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve
Type: Definition

Chapter 1 Limits, Alternatives, and Choices

100. Which one of the following statements is correct?

- A) Relative scarcity is no longer a central notion in economics because we are in an age of abundance.
- B) Most production possibilities curves are convex as viewed from the origin.
- C) The production possibilities curve shows society's preferences for consumer goods relative to capital goods.
- D) The central concept underlying the production possibilities curve is that of limited resources.

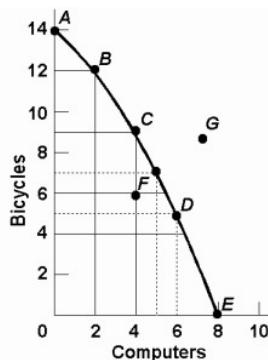
Ans: D Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Application

101. The typical production possibilities curve is:

- A) an upward sloping line which is concave to the origin.
- B) a downward sloping line which is convex to the origin.
- C) a downward sloping line which is concave to the origin.
- D) a straight upward sloping line.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 12 Subtopic: Production possibilities curve Type: Definition

102. Refer to the diagram below. Points A, B, C, D, and E show:

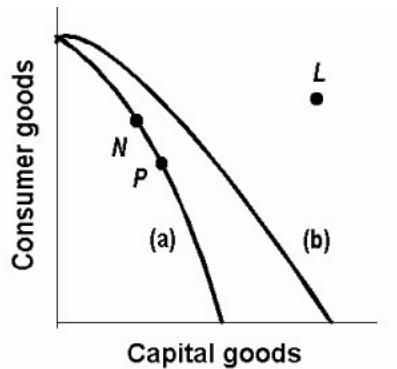


- A) that the opportunity cost of bicycles increases, while that of computers is constant.
- B) combinations of bicycles and computers which society can produce by using its resources efficiently.
- C) that the opportunity cost of computers increases, while that of bicycles is constant.
- D) that society's demand for computers is greater than its demand for bicycles.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 13 Subtopic: Production possibilities curve Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

103. Refer to the following production possibilities curves. Curve (a) is the current curve for the economy. Given production possibilities curve (a), the combination of capital and consumer goods indicated by point L:



- A) would entail substantial unemployment.
- B) would entail an inefficient use of society's resources.
- C) is beyond the productive capacity of this society.
- D) suggests the productive capacity of the system is declining.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 13 Subtopic: Production possibilities curve Type: Graphic

104. A point on the frontier of the production possibilities curve is:

- A) attainable and the economy is efficient.
- B) attainable, but the economy is inefficient.
- C) unattainable, but the economy is inefficient.
- D) unattainable and the economy is efficient.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 13 Subtopic: Production possibilities curve Type: Definition

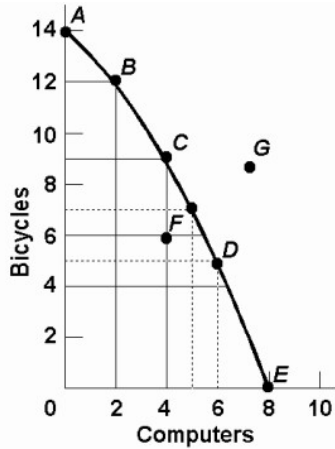
105. A point inside the production possibilities curve is:

- A) attainable and the economy is efficient.
- B) attainable, but the economy is inefficient.
- C) unattainable, but the economy is inefficient.
- D) unattainable and the economy is efficient.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 13 Subtopic: Production possibilities curve Type: Application

Chapter 1 Limits, Alternatives, and Choices

Use the following to answer questions 106-109:



106. Refer to the above diagram. The combination of computers and bicycles shown by point G is:

- A) attainable, but too costly.
- B) unattainable, given currently available resources and technology.
- C) attainable, but involves unemployment.
- D) irrelevant because it is inconsistent with consumer preferences.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 13 Subtopic: Production possibilities curve Type: Graphic

107. Refer to the above diagram. The combination of computers and bicycles shown by point F:

- A) is unattainable, given currently available resources and technology.
- B) is attainable, but entails economic inefficiency.
- C) is irrelevant because it is inconsistent with consumer preferences.
- D) suggests that opportunity costs are constant.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 13 Subtopic: Production possibilities curve Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

108. Refer to the above diagram. If society is currently producing the combination of bicycles and computers shown by point D, the production of 2 more units of bicycles:

- A) cannot be realized because resources are fully employed.
- B) will cost 1 unit of computers.
- C) will cost 2 units of computers.
- D) will cause some resources to become unemployed.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Calculation

109. Refer to the above diagram. The movement down the production possibilities curve from point A to point E suggests that the production of:

- A) computers, but not bicycles, is subject to increasing opportunity costs.
- B) bicycles, but not computers, is subject to increasing opportunity costs.
- C) both bicycles and computers is subject to constant opportunity costs.
- D) both bicycles and computers is subject to increasing opportunity costs.

Ans: D Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

110. The slope of the typical production possibilities curve:

- A) is positive.
- B) increases as one moves southeast along the curve.
- C) is constant as one moves down the curve.
- D) decreases as one moves southeast along the curve.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

111. The production possibilities curve has:

- A) a positive slope which increases as we move along it from left to right.
- B) a negative slope which increases as we move along it from left to right.
- C) a negative slope which decreases as we move along it from left to right.
- D) a negative slope which is constant as we move along it from left to right.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

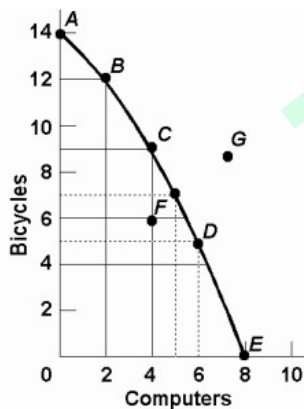
Chapter 1 Limits, Alternatives, and Choices

112. The law of increasing opportunity costs states that:

- A) if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of other goods to do so.
- B) the sum of the costs of producing a particular good cannot rise above the current market price of that good.
- C) if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative amount.
- D) if the prices of all the resources devoted to the production of goods increase, the cost of producing any particular good will increase at the same rate.

Ans: A Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Definition

Use the following to answer questions 113-114:



113. Refer to the above diagram. This production possibilities curve is:

- A) convex to the origin because opportunity costs are constant.
- B) linear because opportunity costs are constant.
- C) concave to the origin because of increasing opportunity costs.
- D) convex to the origin because of increasing opportunity costs.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

114. Refer to the above diagram. If society is currently producing 9 units of bicycles and 4 units of computers and it now decides to increase computer output to 6, the cost:

- A) will be 4 units of bicycles.
- B) will be 2 units of bicycles.
- C) will be zero because unemployed resources are available.
- D) of doing so cannot be determined from the information given.

Ans: A Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Graphic

115. The concept of opportunity cost:

- A) is irrelevant in socialistic economies because of central planning.
- B) suggests that the use of resources in any particular line of production means that alternative outputs must be forgone.
- C) is irrelevant if the production possibilities curve is shifting to the right.
- D) suggests that insatiable wants can be fulfilled.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Definition

116. Which of the following is not an illustration of the idea of opportunity cost?

- A) A growing economy can produce more consumer goods and more capital goods at the same time.
- B) If I buy a pizza, I will not be able to afford a movie.
- C) Resources devoted to consumer goods production are not available for capital goods production.
- D) The land a Manitoba farmer plants in wheat is not available for corn production.

Ans: A Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

117. Opportunity costs is best defined as:

- A) the monetary price of any productive resource.
- B) the amount of labour which must be used to produce one unit of any product.
- C) the ratio of the prices of imported goods to the prices of exported goods.
- D) the amount of one product which must be given up to produce one more unit of another product.

Ans: D Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Definition

Chapter 1 Limits, Alternatives, and Choices

Use the following to answer questions 118-120:

Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina

Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

South Cantina

Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

118. Refer to the above tables. If South Cantina is producing at production alternative D, the opportunity cost of the third unit of capital goods is:

- A) 3 units of consumer goods.
- B) 4 units of consumer goods.
- C) 5 units of consumer goods.
- D) 6 units of consumer goods.

Ans: D Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

119. Refer to the above tables. If North Cantina is producing at production alternative B, the opportunity cost of the eleventh unit of consumer will be:

- A) 10 units of capital goods.
- B) $\frac{1}{4}$ of a unit of capital goods.
- C) 8 units of capital goods.
- D) $\frac{1}{8}$ of a unit of capital goods.

Ans: D Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

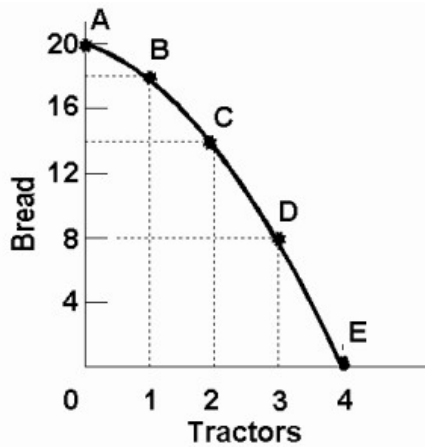
120. Refer to the above tables. The opportunity cost of the fifth unit of capital goods:

- A) is higher in North Cantina than in South Cantina.
- B) is the same in North Cantina and South Cantina.
- C) is lower in North Cantina than in South Cantina.
- D) cannot be determined from the information provided.

Ans: A Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

Chapter 1 Limits, Alternatives, and Choices

Use the following to answer questions 121-122:



121. Refer to the above diagram. Starting at point A, the opportunity cost of producing each successive unit of tractors is:

- A) a constant 2 units of bread.
- B) 2, 4, 6, and 8 units of bread.
- C) 8, 6, 4, and 2 units of bread.
- D) the reciprocal of the output of tractors.

Ans: B Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Graphic

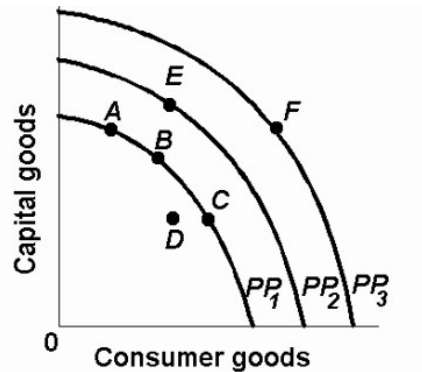
122. Refer to the above diagram. Starting at point E, the production of successive units of bread will cost:

- A) a constant 8 units of tractors.
- B) a constant 6 units of tractors.
- C) $\frac{1}{8}$, $\frac{1}{6}$, $\frac{1}{4}$, and $\frac{1}{2}$ units of tractors.
- D) $\frac{1}{2}$, $\frac{1}{4}$, $\frac{1}{6}$, and $\frac{1}{8}$ units of tractors.

Ans: C Level: Difficult Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

123. Refer to the diagram below. The concept of opportunity cost is best represented by the:



- A) shift of the production possibilities curve from PP_1 to PP_2 .
- B) move from B on PP_1 to E on PP_2 .
- C) move from B on PP_1 to C on PP_1 .
- D) move from D inside PP_1 to B on PP_1 .

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Graphic

124. The fact that the slope of the production possibilities curve becomes steeper as we move down along the curve indicates that:

- A) the principle of increasing opportunity costs is relevant.
- B) society's resources are limited.
- C) the opportunity cost of producing each product is constant.
- D) resources are perfectly shiftable between alternative uses.

Ans: A Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

Chapter 1 Limits, Alternatives, and Choices

Use the following to answer questions 125-126:

Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

125. Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:

- A) 4 units of capital goods.
- B) 2 units of capital goods.
- C) 3 units of capital goods.
- D) $\frac{1}{3}$ of a unit of capital goods.

Ans: D Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

126. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:

- A) the amount of consumer goods which must be sacrificed to get more capital goods diminishes beyond a point.
- B) larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
- C) the production possibilities data would graph as a straight downsloping line.
- D) the economy's resources are presumed to be scarce.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Application

Chapter 1 Limits, Alternatives, and Choices

127. Refer to the table below. In moving from possibility A to F, the cost of a unit of steel in terms of a unit of wheat:

(The following economy produces two products.)

Production Possibilities

Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

- A) increases.
- B) decreases.
- C) remains constant.
- D) increases from A to B, and decreases from B to F.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

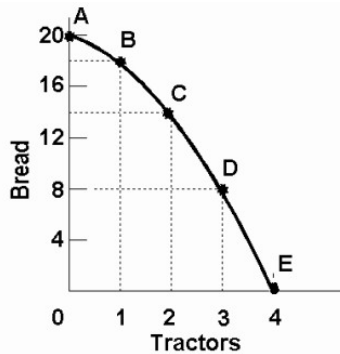
128. A typical concave production possibilities curve implies:

- A) that economic resources are scarce.
- B) that society must choose among various attainable combinations of goods.
- C) increasing opportunity costs.
- D) all of the above.

Ans: D Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Definition

Chapter 1 Limits, Alternatives, and Choices

129. Refer to the diagram below. This production possibilities curve is constructed such that:



- A) resources are presumed to be perfectly shiftable as between bread and tractors.
- B) the opportunity cost of bread diminishes as more bread is produced.
- C) the opportunity cost of tractors diminishes as more bread is produced.
- D) the opportunity cost of both bread and tractors in terms of each other increases as more of each is produced.

Ans: D Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Graphic

130. The law of increasing opportunity costs exists because:

- A) resources are not equally efficient in producing various goods.
- B) the value of the dollar has diminished historically because of persistent inflation.
- C) wage rates invariably rise as the economy approaches full employment.
- D) consumers tend to value any good more highly when they have little of it.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

131. The law of increasing opportunity costs is reflected in a production possibilities curve which is:

- A) an upward sloping straight line.
- B) a downward sloping straight line.
- C) concave to the origin.
- D) convex to the origin.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

Chapter 1 Limits, Alternatives, and Choices

Use the following to answer questions 132-135:

The production possibilities curve below shows the hypothetical relationship between the production of capital goods and consumer goods in an economy.

Products	Production Alternatives				
	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumer goods	22	18	13	7	0

132. Refer to the above table. What is the opportunity cost of producing the third unit of capital goods?

- A) 4 units of consumer goods
- B) 5 units of consumer goods
- C) 6 units of consumer goods
- D) 7 units of consumer goods

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

133. Refer to the above table. What is the total opportunity cost of producing two units of capital goods?

- A) 4 units of consumer goods
- B) 5 units of consumer goods
- C) 9 units of consumer goods
- D) 13 units of consumer goods

Ans: C Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

134. Refer to the above table. What is the opportunity cost of producing the fourth unit of capital goods?

- A) 6 units of consumer goods
- B) 7 units of consumer goods
- C) 15 units of consumer goods
- D) 22 units of consumer goods

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

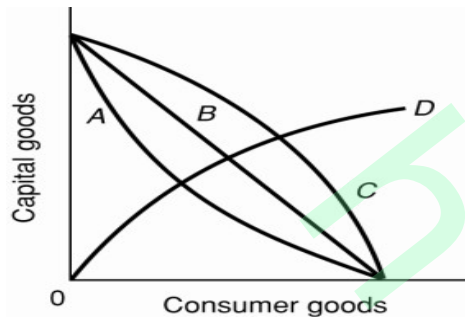
Chapter 1 Limits, Alternatives, and Choices

135. Refer to the above table. What is the total opportunity cost of producing three units of capital goods?

- A) 6 units of consumer goods
- B) 7 units of consumer goods
- C) 15 units of consumer goods
- D) 22 units of consumer goods

Ans: C Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Calculation

Use the following to answer questions 136-137:



136. Refer to the above diagram. As it relates to production possibilities analysis, the law of increasing opportunity cost is reflected in curve:

- A) A.
- B) B.
- C) C.
- D) D.

Ans: C Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Graphic

137. Refer to the above diagram. Curve B is a:

- A) production possibilities curve indicating constant opportunity costs.
- B) production possibilities curve indicating increasing opportunity costs.
- C) demand curve indicating that the quantity of consumer goods demanded increases as the price of capital falls.
- D) technology frontier curve.

Ans: A Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs
Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

138. If the production possibilities curve is a straight line:

- A) the two products will sell at the same market prices.
- B) economic resources are perfectly shiftable between the production of the two products.
- C) the two products are equally important to consumers.
- D) equal quantities of the two products will be produced at each possible point on the curve.

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

139. A nation's production possibilities curve is "bowed out" from the origin because:

- A) resources are not equally efficient in producing every good.
- B) the originator of the idea drew it this way and modern economists follow this convention.
- C) resources are scarce.
- D) wants are virtually unlimited.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

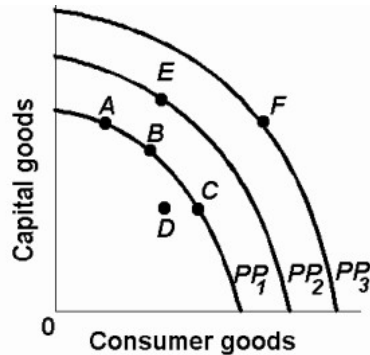
140. If the production possibilities curve were a straight downsloping line, this would suggest that:

- A) resources are perfectly shiftable between the production of these two goods.
- B) it is possible to produce more of both products.
- C) both products are equally capable of satisfying consumer wants.
- D) the two products have identical prices.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Application

Chapter 1 Limits, Alternatives, and Choices

141. Refer to the diagram below. The concave shape of each production possibilities curve indicates that:



- A) resources are perfectly substitutable.
- B) wants are virtually unlimited.
- C) prices are constant.
- D) resources are not equally suited for alternative uses.

Ans: D Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Law of increasing opportunity costs Type: Graphic

142. The marginal benefit curve is:

- A) upward sloping because of increasing marginal opportunity costs.
- B) upward sloping because successive units of a specific product yield less and less extra utility.
- C) downward sloping because of increasing marginal opportunity costs.
- D) downward sloping because successive units of a specific product yield less and less extra utility.

Ans: D Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Optimal allocation Type: Definition

143. The marginal cost curve is:

- A) upsloping because of increasing marginal opportunity costs.
- B) upsloping because successive units of a specific product yield less and less extra utility.
- C) downsloping because of increasing marginal opportunity costs.
- D) downsloping because successive units of a specific product yield less and less extra utility.

Ans: A Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 14 Subtopic: Optimal allocation Type: Definition

Chapter 1 Limits, Alternatives, and Choices

144. The output of compact disc players should be:

- A) reduced if marginal benefits exceed marginal costs.
- B) reduced if marginal costs exceed marginal benefits.
- C) increased if marginal costs exceed marginal benefits.
- D) reduced to zero if their unit costs exceed the unit costs of alternative products.

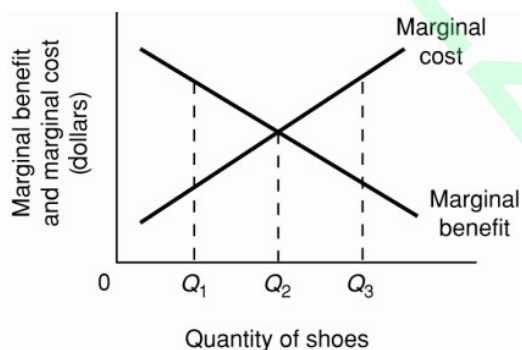
Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 15 Subtopic: Optimal allocation
Type: Application

145. If the output of product X is such that marginal benefit equals marginal cost:

- A) the correct amount of resources is being allocated to X's production.
- B) the value of producing X and the value of producing alternative products with available resources is the same.
- C) there can be no net gain to society by allocating either more or less resources to producing X.
- D) all of the above are true.

Ans: D Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 15 Subtopic: Optimal allocation
Type: Definition

Use the following to answer questions 146-148:



146. Refer to the above diagram for athletic shoes. The optimal output of shoes:

- A) is Q_1 .
- B) is Q_2 .
- C) is Q_3 .
- D) is greater than Q_3 .

Ans: B Level: Easy Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 15 Subtopic: Optimal allocation
Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

147. Refer to the above diagram for athletic shoes. If the current output of shoes is Q_1 , then:
- A) society would consider additional units of shoes to be more valuable than alternative products.
 - B) society would consider additional units of shoes to be less valuable than alternative products.
 - C) society would experience a net loss by producing more shoes.
 - D) resources are being allocated efficiently to the production of shoes.
- Ans: A Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 15 Subtopic: Optimal allocation
Type: Application

148. Refer to the above diagram for athletic shoes. If the current output of shoes is Q_3 , then:
- A) resources are being allocated efficiently to the production of shoes.
 - B) society would consider additional units of shoes to be more valuable than alternative products.
 - C) society would consider additional units of shoes to be less valuable than alternative products.
 - D) society would experience a net gain by producing more shoes.
- Ans: C Level: Moderate Main Topic: 1.6 The production possibilities model and increasing opportunity costs Page: 15 Subtopic: Optimal allocation
Type: Application

Use the following to answer questions 149-151:

Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

149. Refer to the above table. As compared to production alternative D, the choice of alternative C would:
- A) tend to generate a more rapid growth rate.
 - B) be unattainable.
 - C) entail unemployment.
 - D) tend to generate a slower growth rate.
- Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

Chapter 1 Limits, Alternatives, and Choices

150. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:

- A) is irrelevant because the economy is capable of producing a larger total output.
- B) will result in the maximum rate of growth available to this economy.
- C) would involve an inefficient use of the economy's scarce resources.
- D) is unobtainable in this economy.

Ans: C Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

151. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:

- A) achieve economic growth.
- B) use its resources more efficiently than the data in the table now indicate.
- C) allocate its available resources most efficiently among alternative uses.
- D) achieve the full employment of available resources.

Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

Use the following to answer questions 152-153:

Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

South Cantina Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

Chapter 1 Limits, Alternatives, and Choices

152. Refer to the above tables. Suppose that North Cantina is producing 2 units of capital goods and 17 units of consumer goods while South Cantina is producing 2 units of capital goods and 21 units of consumer goods. We can conclude that:
- A) North Cantina is fully and efficiently using its resources, but South Cantina is not.
 - B) South Cantina is fully and efficiently using its resources, but North Cantina is not.
 - C) neither South Cantina nor North Cantina are fully and efficiently using their resources.
 - D) both South Cantina and North Cantina are fully and efficiently using their resources.

Ans: B Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

153. Refer to the above tables. Suppose that resources in North Cantina and South Cantina are identical in quantity and quality. We can conclude that:
- A) South Cantina has better technology than North Cantina in producing both capital and consumer goods.
 - B) North Cantina has better technology than South Cantina in producing both capital and consumer goods.
 - C) North Cantina is growing more rapidly than South Cantina.
 - D) North Cantina has better technology than South Cantina in producing consumer goods.

Ans: D Level: Difficult Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

154. Refer to the table below. According to the production possibilities schedule for the economy which produces two products, a combination of four tanks and 650 autos is:

Production Possibilities						
Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1000	950	850	650	350	0

- A) attainable, but involves an efficient use of society's resources.
- B) attainable, but would not be in the best interests of a strong national defence.
- C) not attainable because it is not listed in the schedule.
- D) not attainable because society does not have sufficient resources to produce this combination.

Ans: D Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

Chapter 1 Limits, Alternatives, and Choices

155. Assume that a change in government policy results in the increased production of both consumer goods and investment goods. It can be concluded that:
- A) the economy was suffering from unemployment and/or the inefficient use of resources before the policy change.
 - B) the economy's production possibilities curve has been shifted to the left as a result of the policy decision.
 - C) this economy's production possibilities curve is convex (bowed inward) as viewed from the origin.
 - D) the law of increasing opportunity costs does not apply in this society.

Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy

Type: Application

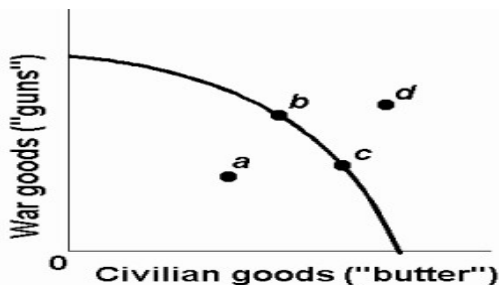
156. Refer to the diagram. This economy will experience unemployment if it produces at point:



- A) A.
- B) B.
- C) C.
- D) D.

Ans: D Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Graphic

Use the following to answer questions 157-158:



Chapter 1 Limits, Alternatives, and Choices

157. Refer to the above production possibilities curve. At the onset of World War II Canada had large amounts of idle human and property resources. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A) c to point b.
- B) b to point c.
- C) a to point b.
- D) c to point d.

Ans: C Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Graphic

158. Refer to the above production possibilities curve. At the onset of World War II the Soviet Union was already at full employment. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A) c to point b.
- B) b to point c.
- C) a to point b.
- D) c to point d.

Ans: A Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Graphic

159. Any point inside the production possibilities curve indicates:

- A) the realization of allocative efficiency.
- B) that resources are imperfectly shiftable among alternative uses.
- C) the presence of inflationary pressures.
- D) that more output could be produced with available resources.

Ans: D Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

160. Unemployment and/or productive inefficiencies:

- A) cause the production possibilities curve to shift outward.
- B) can exist at any point on a production possibilities curve.
- C) can both be illustrated by a point outside the production possibilities curve.
- D) can both be illustrated by a point inside the production possibilities curve.

Ans: D Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

Chapter 1 Limits, Alternatives, and Choices

161. A point inside a production possibilities curve may indicate:

- A) unemployment.
- B) the inefficient use of resources.
- C) failure to use the best available technology.
- D) all of the above.

Ans: D Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

162. Assume an economy is incurring unemployment and failing to realize least-cost production. The immediate effect of resolving these problems will be to:

- A) move the level of actual output closer to the economy's production possibilities curve.
- B) create a less equal distribution of income.
- C) shift its production possibilities curve to the left.
- D) shift its production possibilities curve to the right.

Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

163. If an economy is operating inside its production possibilities curve for consumer goods and capital goods, this means that it:

- A) can only produce more consumer goods by producing fewer capital goods.
- B) can only produce more capital goods by producing fewer consumer goods.
- C) can produce more of both consumer goods and capital goods by using its resources more efficiently.
- D) must improve its technology to produce more output.

Ans: C Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

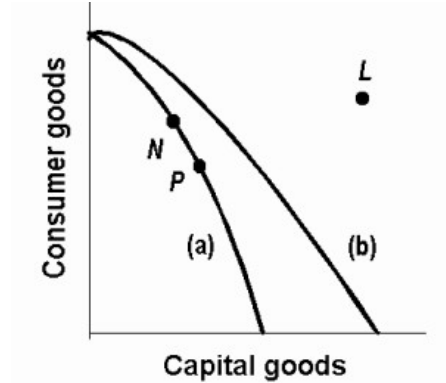
164. Which of the following will not require an outward shift of the production possibilities curve?

- A) an upgrading of the quality of a nation's human resources
- B) the reduction of unemployment
- C) an increase in the quantity of a society's labour force
- D) the improvement of a society's technological knowledge

Ans: B Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

Chapter 1 Limits, Alternatives, and Choices

Use the following to answer questions 165-166:



165. Refer to the above production possibilities curves. Curve (a) is the current curve for the economy. The movement from curve (a) to curve (b) suggests:

- A) a movement from unemployment to full employment.
- B) an improvement in capital goods technology but not in consumer goods technology.
- C) an improvement in consumer goods technology but not in capital goods technology.
- D) a decline in the total output of this society.

Ans: B Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

166. Refer to the above production possibilities curves. Curve (a) is the current curve for the economy. Other things being equal, society's current choice of point P on curve (a) will:

- A) allow it to achieve more rapid economic growth than would the choice of point N.
- B) entail a slower rate of economic growth than would the choice of point N.
- C) entail the same rate of growth as would the choice of point N.
- D) be unobtainable because it exceeds the productive capacity of the economy.

Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy
Type: Application

Chapter 1 Limits, Alternatives, and Choices

167. The basic difference between consumer goods and capital goods is that
- A) consumer goods are produced in the private sector and capital goods are produced in the public sector.
 - B) an economy that commits a relatively large proportion of its resources to capital goods must accept a lower growth rate.
 - C) the production of capital goods is not subject to the law of increasing opportunity costs.
 - D) consumer goods satisfy wants directly while capital goods satisfy wants indirectly.
- Ans: D Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Definition

168. Which of the following would be most likely to shift the production possibilities curve to the right?
- A) a sudden and substantial expansion of consumer wants
 - B) an improvement in the literacy level and general level of education
 - C) a decline in the size of the population and labour force
 - D) shifting resources from butter to gun production
- Ans: B Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

169. Which of the following will not shift a nation's production possibilities curve?
- A) the acquisition of more education and training by its labour force
 - B) the widespread application of irrigation to its agricultural land
 - C) an increase in the rate of unemployment
 - D) the discovery of new super-conductivity materials which makes manufacturing more efficient
- Ans: C Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

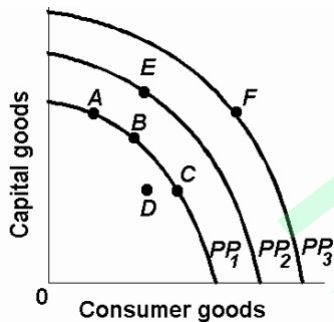
170. Which of the following will shift the production possibilities curve to the right?
- A) an increase in the unemployment rate from 6 to 8 percent
 - B) a decline in the efficiency with which the present labour force is allocated
 - C) a decrease in the unemployment rate from 8 to 6 percent
 - D) a technological advance which allows farmers to produce more output from given inputs
- Ans: D Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

Chapter 1 Limits, Alternatives, and Choices

171. Other things equal, which of the following would shift an economy's production possibilities curve to the left?
- A) the discovery of a low-cost means of generating and storing solar energy
 - B) the entrance of more women into the labour force
 - C) a law requiring mandatory retirement from the labour force at age 55
 - D) an increase in the proportion of total output which consists of capital or investment goods

Ans: C Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

Use the following to answer questions 172-173:



172. Refer to the above diagram. An improvement in technology will:
- A) shift the production possibilities curve from PP_1 to PP_2 .
 - B) shift the production possibilities curve from PP_2 to PP_1 .
 - C) move the economy from A to C along PP_1 .
 - D) move the economy from A, B, or C on PP_1 to D.

Ans: A Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

173. Refer to the above diagram. Which one of the following would shift the production possibilities curve from PP_1 to PP_2 ?

- A) immigration of skilled workers into the economy
- B) worsening of the AIDS epidemic
- C) an increase in consumer prices
- D) a reduction in the age of retirement.

Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Graphic

174. Which situation would most likely shift the production possibilities curve for a nation in an outward direction?

- A) a decrease in the quality of products
- B) an increase in the supply of resources
- C) a decrease in the state of technology
- D) an increase in the amount of discrimination

Ans: B Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

175. Which situation would most likely cause a nation's production possibilities curve to shift inward?

- A) the construction of more capital goods
- B) a decrease in discrimination based on race
- C) an increase in the number of skilled immigrant workers
- D) the destruction from bombing and warfare in a losing military conflict

Ans: D Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

176. All of the following could immediately or eventually lead to an inward shift of a nation's production possibilities curve, except:

- A) an increase in the amount of discrimination.
- B) a decline in the birth rate.
- C) an increase in the average skill level of all occupational groups.
- D) depletion and reduced availability of major energy resources.

Ans: C Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

Chapter 1 Limits, Alternatives, and Choices

177. Some agricultural sub-Saharan nations of Africa have over-farmed and overgrazed their land to the extent that significant portions of it have turned into desert. This suggests that:
- A) the concavity of the production possibilities curves of such nations has increased.
 - B) the production possibilities curves of such nations have shifted inward.
 - C) the production possibilities curves of such nations have shifted outward.
 - D) these nations are operating at some point outside of their production possibilities curves.

Ans: B Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Subtopic: A growing economy Type: Application

178. Which of the following statements, if any, is correct for a nation which is producing only consumption and capital goods?
- A) Other things equal, the more consumer goods a nation produces, the greater will be its future growth rate.
 - B) Other things equal, the more capital goods a nation produces, the greater will be its future growth rate.
 - C) There is no general relationship between the current division of output between consumer and capital goods and the future growth rate.
 - D) None of the above statements is correct.

Ans: B Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 18 Subtopic: Present choices and future possibilities Type: Application

179. In recent years Germany has been investing a larger proportion of its domestic output than has Canada. As a result, we would expect:
- A) a higher rate of growth of domestic output in Germany than in Canada.
 - B) greater rightward shifts in Germany's production possibilities curve as compared to Canada.
 - C) that in the long run living standards would rise more rapidly in Germany than in Canada.
 - D) all of the above to happen.

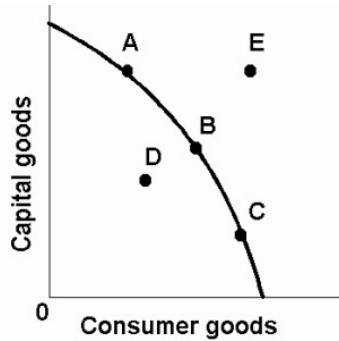
Ans: D Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 18 Subtopic: Present choices and future possibilities Type: Application

180. Deltonia produces both consumer and capital goods. If it reduces the percentage of its output devoted to capital goods, then:
- A) its rate of growth will tend to decline.
 - B) its production possibilities curve will necessarily shift to the left.
 - C) it must also reduce the percentage of its output devoted to consumer goods.
 - D) its rate of growth will tend to increase.

Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 18 Subtopic: Present choices and future possibilities Type: Application

Chapter 1 Limits, Alternatives, and Choices

181. Refer to the diagram below. Other things equal, this economy will achieve the most rapid rate of growth if:



- A) the ratio of capital to consumer goods is minimized.
- B) it chooses point C.
- C) it chooses point B.
- D) it chooses point A.

Ans: D Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 18 Subtopic: Present choices and future possibilities
Type: Graphic

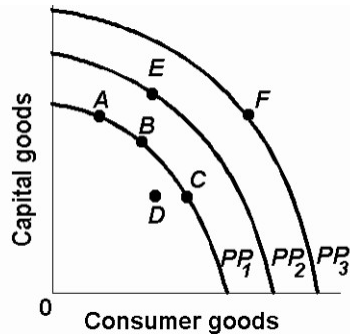
182. The future location of the economy's production possibilities curve will be affected by:

- A) the current division of domestic output between consumption and capital goods.
- B) the rate of technological progress.
- C) the growth of the economy's supplies of resources.
- D) all of the above.

Ans: D Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 18 Subtopic: Present choices and future possibilities
Type: Application

Chapter 1 Limits, Alternatives, and Choices

183. Refer to the diagram. Which of the following positions relative to PP_1 would be the most likely to result in a future production possibilities curve of PP_3 , rather than PP_2 ?



- A) A.
- B) B.
- C) C.
- D) D.

Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 18 Subtopic: Present choices and future possibilities
Type: Graphic

184. Through specialization and international trade a nation:

- A) can achieve some combination of goods lying outside its production possibilities curve.
- B) can move from a high consumption-low investment to a high investment-low consumption point on its production possibilities curve.
- C) will achieve some combination of goods lying within its production possibilities curve.
- D) will cause its production possibilities curve to shift leftward.

Ans: A Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 19 Subtopic: A qualification: International trade
Type: Application

185. A country can achieve some combination of goods outside its production possibilities curve by:

- A) idling some of its resources.
- B) specializing and engaging in international trade.
- C) buying the debt (bonds and stocks) of foreign nations.
- D) producing more consumption goods and fewer capital goods.

Ans: B Level: Easy Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 19 Subtopic: A qualification: International trade
Type: Application

Chapter 1 Limits, Alternatives, and Choices

186. The "fallacy of composition" states that:

- A) because economic systems are comprised of so many diverse economic units economic laws are necessarily inexact.
- B) the anticipation of a particular event can affect the nature or composition of that event when it occurs.
- C) what is true for the individual must necessarily be true for the group.
- D) because event A precedes event B, A is necessarily the cause of B.

Ans: C Level: Easy Main Topic: Last word Page: 20 Type: Definition

187. The safest way for an individual to leave a burning theatre is to run for the nearest exit; it is therefore also the best means of escape for a large audience. This illustrates the:

- A) "after this, therefore because of this" fallacy.
- B) correlation fallacy.
- C) fallacy of composition.
- D) fallacy of limited decisions.

Ans: C Level: Easy Main Topic: Last word Page: 20 Type: Application

188. Which of the following has to do with the notion that generalizations that apply to individuals are also always valid for a group?

- A) the law of large numbers
- B) the law of averages
- C) the fallacy of composition
- D) the post hoc, ergo propter hoc fallacy

Ans: C Level: Easy Main Topic: Last word Page: 20 Type: Definition

189. The "fallacy of composition" states that:

- A) generalizations relevant to microeconomics never pertain to macroeconomics.
- B) expectations give rise to self-fulfilling prophecies.
- C) generalizations pertaining to individuals always pertain to the group.
- D) quantifiable economic goals are always incompatible with one another.

Ans: C Level: Easy Main Topic: Last word Page: 20 Type: Definition

190. "If you leave a football game at the end of the third quarter, you will avoid traffic and get home more quickly. Therefore, everyone should leave the game early." This illustrates the:

- A) moral hazard problem.
- B) adverse selection problem.
- C) fallacy of limited decisions.
- D) fallacy of composition.

Ans: D Level: Easy Main Topic: Last word Page: 20 Type: Application

Chapter 1 Limits, Alternatives, and Choices

191. The fallacy of composition is essentially the error of:
- A) omitting relevant variables in constructing a model.
 - B) reasoning from the general to the particular.
 - C) confusing cause and effect in economic relationships.
 - D) generalizing from the particular to the general.
- Ans: D Level: Easy Main Topic: Last word Page: 20 Type: Definition
192. What pitfall to objective thinking is reflected in a person's view that oil companies are price-gouging the consumer?
- A) definition
 - B) post hoc fallacy
 - C) loaded terminology
 - D) confusing correlation and causation
- Ans: C Level: Easy Main Topic: Last word Page: 20 Type: Application
193. What pitfall to objective thinking is reflected when a person states that "capitalists don't care about workers and greedy individuals"?
- A) abstraction
 - B) loaded terminology
 - C) the fallacy of composition
 - D) confusing correlation and causation
- Ans: B Level: Easy Main Topic: Last word Page: 20 Type: Application
194. Which is an example of "loaded terminology"?
- A) tentative hypothesis
 - B) market forces
 - C) creeping socialism
 - D) entrepreneurial functions
- Ans: C Level: Easy Main Topic: Last word Page: 20 Type: Application
195. What pitfall to economic thinking is reflected in the following statement? "Free trade agreements only lead to the exporting of Canadian jobs to other countries."
- A) definition
 - B) loaded terminology
 - C) the fallacy of composition
 - D) abstraction
- Ans: B Level: Easy Main Topic: Last word Page: 20 Type: Application
196. The "after this, therefore because of this" fallacy states that:
- A) positive statements are always followed by normative judgments.
 - B) positive statements can never be proven true or false.
 - C) if one acts on one's expectations, those expectations will always be fulfilled.
 - D) cause and effect can be determined merely by observing the sequence of events.
- Ans: D Level: Moderate Main Topic: Last word Page: 20 Type: Definition

Chapter 1 Limits, Alternatives, and Choices

197. Which of the following best illustrates the post hoc, ergo propter hoc fallacy?
- A) Because it was 30 degrees today, I worked up a sweat playing tennis.
 - B) I took the day off work to go to the beach and that's why it rained.
 - C) Because it rained at the football game, my new sweater got wet.
 - D) Because I have studied diligently this semester, my grade average has improved.
- Ans: B Level: Moderate Main Topic: Last word Page: 20 Type: Application
198. The "after this, therefore because of this" fallacy states that:
- A) because event A precedes event B, A is necessarily the cause of B.
 - B) the very attempt to accomplish a certain objective may create conditions which prohibit the achievement of that goal.
 - C) events may drastically alter plans; one's intentions and actual accomplishments may differ considerably.
 - D) generalizations which are accurate at the level of microeconomics may be inaccurate at the level of macroeconomics.
- Ans: A Level: Moderate Main Topic: Last word Page: 20 Type: Definition
199. Which of the following has to do with the problem of distinguishing cause and effect in economic reasoning?
- A) the law of large numbers
 - B) the law of averages
 - C) the post hoc fallacy
 - D) the fallacy of composition
- Ans: C Level: Easy Main Topic: Last word Page: 20 Type: Definition
200. The post hoc fallacy and the correlation problem both relate to:
- A) the calculation of marginal costs and marginal benefits of any economic activity.
 - B) the issue of determining causation.
 - C) the frequent inability of households and businesses to behave rationally.
 - D) the tradeoff problem associated with competing goals.
- Ans: B Level: Easy Main Topic: Last word Page: 20 Type: Definition
201. If variables X and Y are positively correlated, this means that:
- A) X is the cause of Y.
 - B) Y is the cause of X.
 - C) causation necessarily exists, but we don't know whether X or Y is the cause.
 - D) causation may or may not exist between X and Y.
- Ans: D Level: Moderate Main Topic: Last word Page: 20 Type: Application
202. Purposeful behaviour implies that everyone will make identical choices.
- Ans: False Level: Easy Main Topic: 1.2 The economic way of thinking
Page: 4 Type: Definition

Chapter 1 Limits, Alternatives, and Choices

203. Rational individuals may make different choices because their information and circumstances differ.
Ans: True Level: Easy Main Topic: 1.2 The economic way of thinking
Page: 4 Type: Application
204. Certain inherently desirable products such as education and health care should be produced so long as resources are available.
Ans: False Level: Moderate Main Topic: 1.2 The economic way of thinking
Page: 4 Type: Application
205. Marginal analysis means that decision-makers compare the extra benefits with the extra costs of a specific choice.
Ans: True Level: Easy Main Topic: 1.2 The economic way of thinking
Page: 4-5 Type: Definition
206. Choices entail marginal costs because resources are scarce.
Ans: True Level: Easy Main Topic: 1.2 The economic way of thinking
Page: 4-5 Type: Definition
207. If economic theories are solidly based on relevant facts, then there can be no question as to the character of appropriate economic policy.
Ans: False Level: Easy Main Topic: 1.3 Theories, principles, and models
Page: 5 Type: Definition
208. The fact that economic generalizations are abstract renders them impractical and useless.
Ans: False Level: Easy Main Topic: 1.3 Theories, principles, and models
Page: 5 Type: Application
209. Macroeconomics explains the behaviour of individual households and business firms; microeconomics is concerned with the behaviour of aggregates or the economy as a whole.
Ans: False Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics
Page: 6 Type: Definition
210. Positive statements are expressions of value judgments.
Ans: False Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics
Page: 6 Type: Definition
211. Normative statements are expressions of facts.
Ans: False Level: Easy Main Topic: 1.4 Microeconomics and Macroeconomics
Page: 6 Type: Definition

Chapter 1 Limits, Alternatives, and Choices

212. Individuals face an economic problem but not the society.

Ans: False Level: Easy Main Topic: 1.5 The economic problem Page: 7
Type: Application

213. The entrepreneur's sole function is to combine other resources (land, labour, and capital) in the production of some good or service.

Ans: False Level: Easy Main Topic: 1.5 The economic problem Page: 10
Type: Definition

214. Products and services are scarce because resources are scarce.

Ans: True Level: Easy Main Topic: 1.5 The economic problem Page: 10
Type: Definition

215. The process by which capital goods are accumulated is known as investment.

Ans: True Level: Easy Main Topic: 1.5 The economic problem Page: 11
Type: Definition

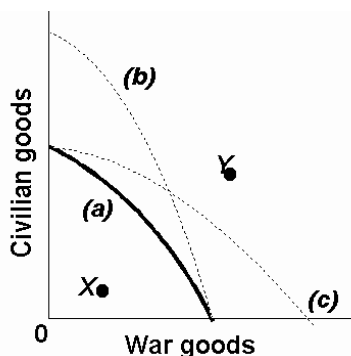
216. The production possibilities curve shows various combinations of two products which an economy can produce when achieving full employment and productive efficiency.

Ans: True Level: Easy Main Topic: 1.6 Production possibilities model and increasing opportunity costs Page: 12 Type: Definition

217. An economy will always operate at some point on its production possibilities curve.

Ans: False Level: Moderate Main Topic: 1.6 Production possibilities model and increasing opportunity costs Page: 12 Type: Application

Use the following to answer questions 218-220:



218. Refer to the above production possibilities curves. Given production possibilities curve (a), point Y indicates that society is failing to use available resources efficiently.

Ans: False Level: Moderate Main Topic: 1.6 Production possibilities model and increasing opportunity costs Page: 12 Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

219. Refer to the above production possibilities curves. The movement from curve (a) to curve (b) implies an increase in the quantity and/or quality of society's productive resources.

Ans: True Level: Difficult Main Topic: 1.6 Production possibilities model and increasing opportunity costs Page: 12 Type: Graphic

220. Refer to the above production possibilities curves. Given production possibilities curve (a), the combination of civilian and war goods indicated by point X is unattainable to this economy.

Ans: False Level: Easy Main Topic: 1.6 Production possibilities model and increasing opportunity costs Page: 12 Type: Graphic

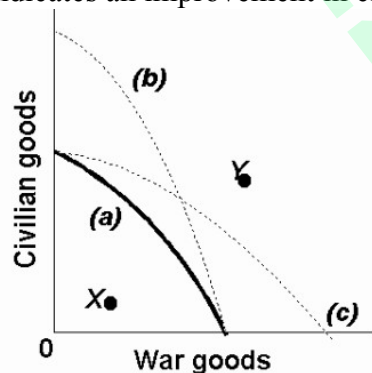
221. An economy cannot produce at a point outside of its production possibilities curve because human material wants are insatiable.

Ans: False Level: Moderate Main Topic: 1.6 Production possibilities model and increasing opportunity costs Page: 13 Type: Definition

222. Although sleeping in on a work day or school day has an opportunity cost, sleeping late on the weekend does not.

Ans: False Level: Difficult Main Topic: 1.6 Production possibilities model and increasing opportunity costs Page: 13 Type: Application

223. Refer to the production possibilities curves. The movement from curve (a) to curve (c) indicates an improvement in civilian goods technology but not in war goods technology.



Ans: False Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Type: Graphic

224. The present choice of position on the production possibilities curve will not influence the future location of the curve.

Ans: False Level: Moderate Main Topic: 1.7 Economic growth, present choices, and future possibilities Page: 16-17 Type: Definition

Chapter 1 Limits, Alternatives, and Choices

225. Economists:

- A) always put the independent variable on the horizontal axis and the dependent variable on the vertical axis.
- B) always put the dependent variable on the horizontal axis and the independent variable on the vertical axis.
- C) are somewhat arbitrary in assigning independent and dependent variables to the horizontal and vertical axes.
- D) measure the slope of a line differently than do mathematicians.

Ans: C Level: Easy Main Topic: A1.1 Graphs and their meanings Page: 24-27
Type: Definition

226. If we say that two variables are directly related, this means that:

- A) the relationship between the two is purely random.
- B) an increase in one variable is associated with a decrease in the other variable.
- C) an increase in one variable is associated with an increase in the other variable.
- D) the two graph as a downsloping line.

Ans: C Level: Easy Main Topic: A1.1 Graphs and their meanings Page: 24-27
Type: Definition

227. If we say that two variables are inversely related, this means that:

- A) the two graph as an upsloping line.
- B) an increase in one variable is associated with a decrease in the other.
- C) an increase in one variable is associated with an increase in the other.
- D) the resulting relationship can be portrayed by a straight line parallel to the horizontal axis.

Ans: B Level: Easy Main Topic: A1.1 Graphs and their meanings
Page: 24-27 Type: Definition

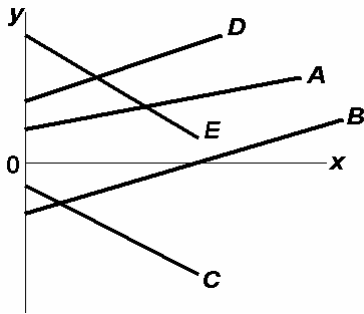
228. Which of the following statements is correct?

- A) The value of the independent variable is determined by the value of the dependent variable.
- B) The value of the dependent variable is determined by the value of the independent variable.
- C) The dependent variable designates the "cause" and the independent variable the "effect."
- D) Dependent variables graph as upsloping lines; independent variables graph as downward sloping lines.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings
Page: 24-27 Type: Definition

Chapter 1 Limits, Alternatives, and Choices

Use the following to answer questions 229-232:



229. Refer to the above diagram. Which line(s) show(s) a positive relationship between x and y ?

- A) A only
- B) both A and D
- C) A, B, and D
- D) both C and E

Ans: C Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

230. Refer to the above diagram. Which line(s) show(s) a negative relationship between x and y ?

- A) A only
- B) both A and D
- C) A, B, and D
- D) both C and E

Ans: D Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

231. Refer to the above diagram. Which line(s) show(s) a positive vertical intercept?

- A) A and D only
- B) B and C only
- C) A, D, and E
- D) A, D, and B

Ans: C Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

232. Refer to the above diagram. Which line(s) show(s) a negative vertical intercept?

- A) C only
- B) both C and E
- C) B, C, and E
- D) both B and C

Ans: D Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

233. If two variables are inversely related, then as the value of one variable:

- A) increases, the value of the other may either increase or decrease.
- B) decreases, the value of the other decreases.
- C) increases, the value of the other decreases.
- D) increases, the value of the other increases.

Ans: C Level: Easy Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Definition

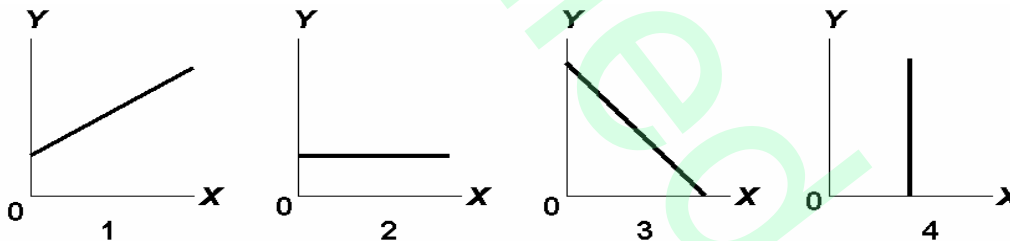
234. If a positive relationship exists between x and y :

- A) an increase in x will cause y to decrease.
- B) a decrease in x will cause y to increase.
- C) the relationship will graph as an upsloping line.
- D) the vertical intercept must be positive.

Ans: C Level: Easy Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Definition

Use the following to answer questions 235-237:



235. Answer on the basis of the relationships shown in the above four figures. The amount of Y is directly related to the amount of X in:

- A) both 1 and 3.
- B) both 1 and 2.
- C) 2 only.
- D) 1 only.

Ans: D Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

236. Answer on the basis of the relationships shown in the above four figures. The amount of Y is inversely related to the amount of X in:

- A) 2 only.
- B) both 1 and 3.
- C) 3 only.
- D) 1 only.

Ans: C Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

237. Answer on the basis of the relationships shown in the above four figures. The amount of Y is unrelated to the amount of X in:

- A) both 2 and 4.
- B) 3 only.
- C) 2 only.
- D) 1.

Ans: C Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

238. If price (P) and quantity (Q) are directly related, this means that:

- A) a change in Q will alter P, but a change in P will not alter Q.
- B) if P increases, Q will decrease.
- C) if P increases, Q will also increase.
- D) an increase in P will cause Q to change, but the direction in which Q changes cannot be predicted.

Ans: C Level: Easy Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Definition

Use the following to answer questions 239-242:

Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment so that investment would be zero. But if the interest rate were 16 percent, businesses would find it profitable to invest \$10 billion. If the interest rate were 12 percent, \$20 billion would be invested. Assume that total investment continues to increase by \$10 billion for each successive 4 percentage point decline in the interest rate.

Chapter 1 Limits, Alternatives, and Choices

239. Refer to the above information. Which of the following is an accurate verbal statement of the described relationship?

- A) There is no regular or dependable relationship between business investment and the interest rate.
- B) The amount of business investment is unaffected by changes in the interest rate.
- C) Investment spending by businesses varies inversely with the interest rate.
- D) Investment spending by businesses varies directly with the interest rate.

Ans: C Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Application

240. Refer to the above information. Using i and I to indicate the interest rate and investment (in billions of dollars) respectively, which of the following is the correct tabular presentation of the described relationship?

(A)		(B)		(C)		(D)	
i	I	i	I	i	I	i	I
20	\$50	24	\$10	20	\$0	20	\$10
16	40	20	20	16	10	16	20
12	30	16	30	12	20	12	30
8	20	12	40	8	30	8	40
4	10	8	50	4	40	4	50
0	0	4	60	0	50	0	60

- A) column (A)
- B) column (B)
- C) column (C)
- D) column (D)

Ans: C Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Application

241. Refer to the above information. Which of the following correctly expresses the indicated relationship as an equation?

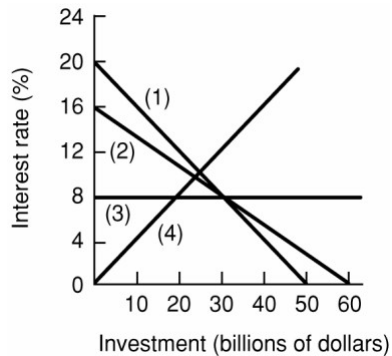
- A) $i = 20 - 4I$.
- B) $i = 20 - .4I$.
- C) $i = 24 - .4I$.
- D) $i = 20 - 10I$.

Ans: B Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Formula

Chapter 1 Limits, Alternatives, and Choices

242. Refer to the above information, Which of the following is the correct graphical presentation of the indicated relationship?



- A) line 4
- B) line 3
- C) line 2
- D) line 1

Ans: D Level: Difficult Main Topic: A1.1 Graphs and their meanings
Page: 24-27 Type: Graphic

Use the following to answer questions 243-245:

<u>After-tax income</u>	<u>Consumption</u>
\$1000	\$900
2000	1800
3000	2700
4000	3600
5000	4500

243. The above data suggest that:
- A) consumption varies inversely with after-tax income.
 - B) consumption varies directly with after-tax income.
 - C) consumption and after-tax income are unrelated.
 - D) a tax increase will increase consumption.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings
Page: 24-27 Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

244. The above data indicates that:

- A) consumers spend 80 percent of their after-tax incomes.
- B) consumers spend 90 percent of their after-tax incomes.
- C) a tax reduction will reduce consumption.
- D) the relationship between consumption and after-tax income is random.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Calculation

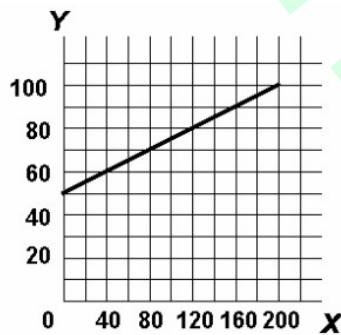
245. The above data suggest that:

- A) a policy of tax reduction will increase consumption.
- B) a policy of tax increases will increase consumption.
- C) tax changes will have no impact on consumption.
- D) after-tax income should be lowered to increase consumption.

Ans: A Level: Easy Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

Use the following to answer questions 246-249:



246. Refer to the above diagram. The variables X and Y are:

- A) inversely related.
- B) directly related.
- C) unrelated.
- D) negatively related.

Ans: B Level: Easy Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

247. Refer to the above diagram. The vertical intercept:

- A) is 40.
- B) is 50.
- C) is 60.
- D) cannot be determined from the information given.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

248. Refer to the above diagram. The slope of the line:

- A) is $-\frac{1}{4}$.
- B) is $+\frac{1}{4}$.
- C) is .40.
- D) cannot be determined from the information given.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

249. Refer to the above diagram. The equation which shows the relationship between Y and X is:

- A) $Y = 50 + \frac{1}{4} X$.
- B) $X = \frac{1}{4} Y$.
- C) $Y = .4X$.
- D) $Y = \frac{1}{4} X - 50$.

Ans: A Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Formula

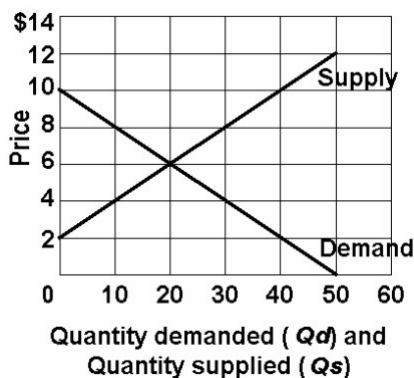
250. The slope of a straight line can be determined by:

- A) comparing the absolute horizontal change to the absolute vertical change between two points on the line.
- B) comparing the absolute vertical change to the absolute horizontal change between two points on the line.
- C) taking the reciprocal of the vertical intercept.
- D) comparing the percentage vertical change to the percentage horizontal change between two points on the line.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Definition

Use the following to answer questions 251-255:



Chapter 1 Limits, Alternatives, and Choices

251. Refer to the above graph. Which of the following statements is correct?

- A) Quantity demanded and quantity supplied are independent of price.
- B) Price and quantity demanded are directly related.
- C) Price and quantity supplied are directly related.
- D) Price and quantity supplied are inversely related.

Ans: C Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

252. Refer to the above graph. Which of the following schedules correctly reflects "demand"?

(A)		(B)		(C)		(D)	
P	Qd	P	Qd	P	Qd	P	Qd
\$12	0	\$14	0	\$14	60	\$12	0
10	0	12	0	12	50	10	10
8	10	10	20	10	40	8	20
6	20	8	40	8	30	6	30
4	30	6	60	6	20	4	40
2	40	4	80	4	10	2	50

- A) schedule (A)
- B) schedule (B)
- C) schedule (C)
- D) schedule (D)

Ans: A Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

253. Refer to the above graph. Which of the following schedules correctly reflects "supply"?

(A)		(B)		(C)		(D)	
P	Qs	P	Qs	P	Qs	P	Qs
\$12	50	\$14	50	\$12	50	\$12	0
10	30	12	40	10	40	10	0
8	10	10	30	8	30	8	10
6	0	8	20	6	20	6	20
4	0	6	10	4	10	4	30
2	0	4	0	2	0	2	40

- A) schedule (A)
- B) schedule (B)
- C) schedule (C)
- D) schedule (D)

Ans: C Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

254. Refer to the above graph. Using Q_d for quantity demanded and P for price, which of the following equations correctly states the demand for this product?

- A) $P = Q_d/10$.
- B) $P = 50 - P/2$.
- C) $P = 10 - .2Q_d$.
- D) $P = 10 - 2Q_d$.

Ans: C Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Formula

255. Refer to the above graph. Using Q_s for quantity supplied and P for price, which of the following equations correctly states the supply of this product?

- A) $P = 4 + .2Q_s$.
- B) $P = 60/Q_s$.
- C) $P = 10Q_s - 2P$.
- D) $P = 2 + .2Q_s$.

Ans: D Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Formula

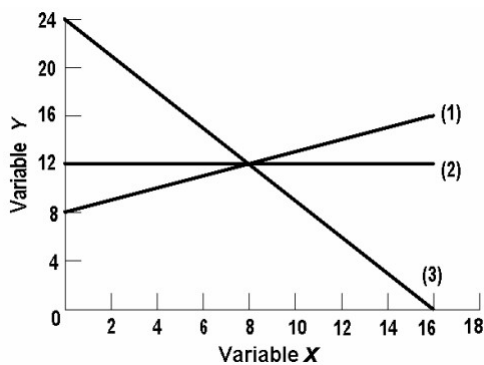
256. Assume a household would consume \$100 worth of goods and services per week if its weekly income were zero and would spend an additional \$80 per week for each \$100 of additional income. Letting C represent consumption and Y represent income, the equation which summarizes this relationship is:

- A) $C = 80 + 100Y$.
- B) $C = 100 + .8Y$.
- C) $C = 100 + 80Y$.
- D) $C = 80 + .1Y$.

Ans: B Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Formula

Use the following to answer questions 257-262:



Chapter 1 Limits, Alternatives, and Choices

257. In line (1) on the above graph, the variables x and y are:

- A) nonlinearly related.
- B) positively related.
- C) negatively related.
- D) inversely related.

Ans: B Level: Easy Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

258. In line (3) on the above graph, variables x and y are:

- A) directly related.
- B) negatively related.
- C) positively related.
- D) nonlinearly related.

Ans: B Level: Easy Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

259. The linear equation for line (1) on the above graph is:

- A) $y = 8 + 2x$.
- B) $y = 8 + .5x$.
- C) $x = 8 + .5y$.
- D) $y = 8 - 2x$.

Ans: B Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Formula

260. The slope of line (2) on the above graph is:

- A) 0.
- B) .66.
- C) .75.
- D) 1.50.

Ans: A Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

261. The linear equation for line (3) on the above graph is:

- A) $y = 24 - 1.5x$.
- B) $y = 16 - .5x$.
- C) $y = 24 - .66x$.
- D) $y = 24 - .75x$.

Ans: A Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Formula

Chapter 1 Limits, Alternatives, and Choices

262. The vertical intercept of line (2) on the above graph is:

- A) 8.
- B) 12.
- C) 16.
- D) 24.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings
Page: 24-27 Type: Graphic

263. If the equation $y = 5 + 6x$ was graphed, the:

- A) slope would be -5.
- B) slope would be +5.
- C) slope would be +6.
- D) vertical intercept would be +6.

Ans: C Level: Moderate Main Topic: A1.1 Graphs and their meanings
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264. If the equation $y = 15 - 4x$ was plotted, the:

- A) vertical intercept would be -4.
- B) vertical intercept would be +4.
- C) vertical intercept would be +9.
- D) slope would be -4.

Ans: D Level: Moderate Main Topic: A1.1 Graphs and their meanings
Page: 24-27 Type: Graphic

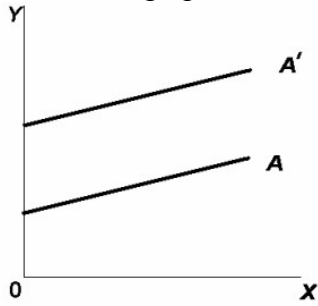
265. If the equation $y = -10 + 2.5x$ was plotted

- A) the vertical intercept would be -10.
- B) the slope would be +2.5.
- C) it would graph as an upsloping line.
- D) all of the above would be true.

Ans: D Level: Difficult Main Topic: A1.1 Graphs and their meanings
Page: 24-27 Type: Graphic

Chapter 1 Limits, Alternatives, and Choices

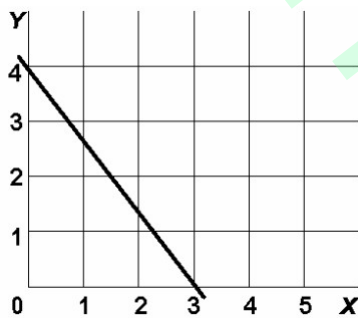
266. Refer to the graph, the movement from line A to line A' represents a change in:



- A) the slope only.
- B) the intercept only.
- C) both the slope and the intercept.
- D) neither the slope nor the intercept.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings
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Use the following to answer questions 267-269:



267. In the above diagram variables x and y are:

- A) both dependent variables.
- B) directly related.
- C) inversely related.
- D) unrelated.

Ans: C Level: Easy Main Topic: A1.1 Graphs and their meanings
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268. In the above diagram the vertical intercept and slope are:

- A) 4 and $-1\frac{1}{3}$ respectively.
- B) 3 and $-1\frac{1}{3}$ respectively.
- C) 3 and $+\frac{3}{4}$ respectively.
- D) 4 and $+\frac{3}{4}$ respectively.

Ans: A Level: Moderate Main Topic: A1.1 Graphs and their meanings
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Chapter 1 Limits, Alternatives, and Choices

269. In the above diagram the equation for this line is:

- A) $y = 4 - 1\frac{1}{3}x$.
- B) $y = 3 + \frac{3}{4}x$.
- C) $y = 4 - \frac{3}{4}x$.
- D) $y = 4 + 1\frac{1}{3}x$.

Ans: A Level: Difficult Main Topic: A1.1 Graphs and their meanings

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270. If we are considering the relationship between two variables and release the "other things equal" assumption, we would expect:

- A) the relationship to change from direct to inverse.
- B) the line representing that relationship on a graph to change locations.
- C) the data points representing the relationship to become more randomly scattered.
- D) the relationship to change from inverse to direct.

Ans: B Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Application

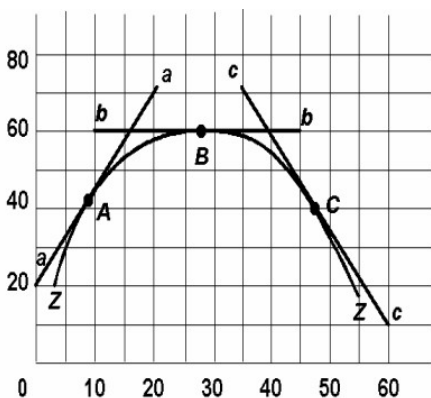
271. The amount of pizzas that consumers want to buy per week is reflected in the equation $P = 15 - .02Q_d$, where Q_d is the amount of pizzas purchased per week and P is the price of pizzas. On the basis of this information we can say that:

- A) if pizzas were free, people would consume 800 per week.
- B) more pizzas will be purchased at a high price than at a low price.
- C) if the price of pizzas is \$6, then 150 will be purchased.
- D) 50 fewer pizzas will be purchased per week for every \$1 increase in price.

Ans: D Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Application

Use the following to answer question 272:



Chapter 1 Limits, Alternatives, and Choices

272. Refer to the above diagram. The slope of curve ZZ at point B is:

- A) infinity.
- B) zero.
- C) one.
- D) none of the above.

Ans: B Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

273. The slope of a line parallel to the vertical axis is:

- A) zero.
- B) one.
- C) infinite.
- D) one-half.

Ans: C Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Graphic

274. The slope of a line parallel to the horizontal axis is:

- A) zero.
- B) one.
- C) infinite.
- D) one-half.

Ans: A Level: Moderate Main Topic: A1.1 Graphs and their meanings

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275. The measured slope of a line:

- A) is independent of how the two variables are denominated.
- B) will be affected by how the two variables are denominated.
- C) necessarily diminishes as one moves rightward on the line.
- D) necessarily increases as one moves rightward on the line.

Ans: B Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Application

Chapter 1 Limits, Alternatives, and Choices

276. Slope of lines are especially important in economics because:

- A) they measure marginal changes.
- B) they always tell us something about profits.
- C) positive slopes are always preferred to negative slopes.
- D) they always relate to resource and output scarcity.

Ans: A Level: Moderate Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Application

277. In a linear equation relating income and consumption, you know that the intercept is \$1,000 and the slope of the line is .4. If income is \$20,000, then consumption is:

- A) \$8,000.
- B) \$9,000.
- C) \$10,000.
- D) \$11,000.

Ans: B Level: Difficult Main Topic: A1.1 Graphs and their meanings

Page: 24-27 Type: Calculation