

BUSI 100 – Answer Guide 1

CHAPTER 1: Economic Problems and Economic Goals CHAPTER 2: Scarcity and Choice: The Economic Problem

This Assignment is a Multiple Choice Question Assignment

Marks: 1 mark per question.

1. Answer: (2)

Paul's tradeoff is the benefit to his grades from studying for an hour or the \$10 he could have earned. Because people face tradeoffs, making decisions requires comparing the costs and benefits of alternative courses of action. In this case, Paul chooses to play basketball rather than study or work, giving up the study time and losing the wages.

2. Answer: (1)

Principle #3 in Chapter 1 highlights that rational people think at the margin. A rational decision maker takes an action if and only if the marginal benefit of the action exceeds the cost. The example of what price to charge passengers who fly standby illustrates that an airline can raise its profits by thinking at the margin. If a plane has empty seats, the cost of adding one more passenger is small. As long as the standby passenger pays more than the marginal cost, selling this individual a ticket is profitable.

3. Answer: (4)

By increasing the money supply, it stimulates the overall level of spending and thus the demand for goods and services. The higher demand, in turn, causes firms to raise their prices and increase the quantity of goods produced and services provided. This causes a demand for hiring new employees and thus increases employment.

4. Answer: (1)

Economists cannot experiment with monetary policies in order to test theories and generate observations. Instead, they must wait for changes to occur independently in the market and observe the results.

5. Answer: (2)

Using the circular-flow diagram, an increase in the consumption level of goods and services will lead to increased production for the firms in order to keep up with the increased demand as well as increased revenue. Households will also benefit as the firm's increased production will lead to more labour hours, and more use of any of the household's land or capital used by the firm, thus increasing household income.

6. Answer: (3)

Economist Adam Smith made a famous observation: households and firms interacting in markets act as if they are guided by an "invisible hand" that leads them to desirable market outcomes. Prices are the instrument with which the invisible hand directs the economy. Because households and firms look at prices when deciding what to buy and sell, they take into account the social benefits and costs of their actions. As a result, prices guide these individual decision-makers to reach outcomes that, in many cases, maximize the welfare of society as a whole.

7. Answer: (2)

Before the seatbelt law was enacted, driving safely had a large marginal benefit because drivers had no other protection aside from their safe driving. After the seatbelt law was enacted, drivers perceived their safe driving to be less crucial to their safety because there was a seatbelt to add a layer of protection. As a result, the marginal benefit of driving safely decreased, which resulted in more automobile collisions.

8. Answer: (1)

In a market economy, the decisions of a central planner are replaced by the decisions of millions of firms and households. Firms and households interact in the marketplace, where prices and self-interest guide their decisions. Thus, firms will produce things that other people are willing to pay for.

9. Answer: (2)

Principle #5 in Chapter 1 illustrates that trade can make everyone better off. Countries can benefit from the ability to trade with one another. Trade allows countries to specialize in what they do best and to enjoy a greater variety of goods and services.

10. Answer: (2)

Athletes who drop out of school and play professional sports to earn a lot of money are well aware that their opportunity cost of university is very high. The opportunity cost is what must be given up to obtain something else. In this case, individuals are giving up their education for the potential to earn considerably more money.

11. Answer: (1)

A production possibilities frontier is a graph that shows the combinations of output that an economy can possibly produce given the available factors of production and the available production technology. The graph shows the opportunity cost of obtaining more of a good as the amount of the other good that must be given up. The graph relates two different goods to one another.

12. Answer: (3)

Economists make assumptions to help make the study of economics easier to understand. However, economists make different assumptions to answer different questions. What might be a useful assumption in one circumstance might not be useful in other circumstances. The art in scientific thinking is deciding which assumptions to make.

13. Answer: (1)

Rent control is a ceiling placed on the rents that landlords may charge their tenants. As we will discuss further in a later lesson, almost all economists believe that rent control adversely affects the availability and quality of housing and is an expensive way to help the most needy members of society. Rent controls do not provide an example of economic equity.

14. Answer: (4)

A shift in the production possibilities frontier is often created by a technological advance in the production of clothing. Since the vertical axis point does not change, there has been no advancement in the food industry. The availability of more labour and capital does not directly translate into a shift in the production possibilities frontier.

15. Answer: (3)

Both A and D can be produced efficiently. Point B can be produced, however it is not efficient. Since Point C lies outside the production possibilities frontier it cannot be produced efficiently given the economies resources.

16. Answer: (2)

A demand curve traces out the effect of a good's price on the quantity of the good consumers want to buy. The demand curve slopes downward because the price and the quantity demanded are negatively related.

17. Answer: (1)

The movement from point A to point B is a movement along the same demand curve and represents a change in the quantity demanded. The consumer will buy the same number of CDs at each price, but as the price falls, the consumer moves along the demand curve. In contrast, the movement from point A to point C is a change in demand. This shift indicates that the consumers will buy more CDs at each price.

18. Answer: (2)

$$\text{The slope} = \frac{\Delta y}{\Delta x} = \frac{10 - 15}{30 - 20} = -\frac{5}{10} = -\frac{1}{2}$$

19. Answer: (2)

A shift in the curve occurs when a variable that is not named on either axis changes. Income is not on the x-axis or the y-axis of the graph, so when income changes, the demand curve shifts. A change in the price of CDs or the quantity of CDs will result in a movement along the demand curve.

20. Answer: (3)

A shift in the curve occurs when a variable that is not named on either axis changes. A change in the variables on the x-axis or y-axis represents a movement along the demand curve.

20 Total Marks