

BUSI 100

Answer Guide 1

Chapter 1: Ten Principles of Economics Chapter 2: Thinking Like an Economist

Marks: 1 mark per question.

1. Answer: (1)

Productivity is the amount of goods and services produced from each unit of labour input. Country B is more productive than Country A because each worker produces more widgets. Countries that are more productive, usually have a higher standard of living compared to less productive countries (in this case, Country B has a higher standard of living than Country A).

2. Answer: (1)

This is a normative statement, as it is prescriptive, showing what should be or ought to be. Normative statements usually make claims. This is in contrast to a positive statement, which may instead read, "Higher property taxes cause reduced household consumption". Positive statements may be verified via data analysis and examining evidence.

3. Answer: (2)

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 goods produced and services provided. This causes a demand for hiring new employees and thus increases employment.

4. Answer: (1)

Using the circular-flow diagram, an increase in production levels by firms will increase the income of households, as firms utilize a household's labour, land, and capital. Because firms now produce more goods and services that can be sold to households, they will increase their revenue.

5. 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.

6. Answer: (4)

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.

7. Answer: (2)

Option (2) looks at a macroeconomic topic, referring to the more general, total economic impact of higher national saving. Options (1), (3), and (4) relate to microeconomics on the basis that they refer to household/firm decisions. They look at more focused economic impacts.

8. Answer: (3)

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.

9. Answer: (1)

The opportunity cost of going to the theatre with your friend includes the money you spend on your ticket, and the time you gave up to attend the theatre. The time you took out to attend the theatre could have been spent doing something else, i.e., working a job. By going to the theatre, you have given up other alternatives that you could spend the time and money on.

10. Answer: (4)

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: (4)

Because prices have been stagnant and not rising over past decade, one could infer that inflation is low in this market. Inflation exists in markets when there is an overall increase in the prices in the economy.

12. Answer: (2)

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 neediest members of society. Rent controls do not provide an example of economic equity.

14. Answer: (4)

A technology improvement in the construction of apartments would cause this shift (pivot) in the curve. A technology improvement allows the economy to produce more apartments for any given number of mobile homes produced. Options (1) and (2) would cause the economy to increase its overall production capabilities, causing a shift of the entire curve outwards. Option (3) would cause the curve to shift outward along the x-axis only, indicating that the economy can produce more mobile homes for any given number of apartments produced.

15. Answer: (2)

The production possibilities curve shows the combination of outputs the firm can produce. Because the firm needs three arrows for each bow, the firm should produce more arrows than bows, which is represented by point A. In other words, they should utilize more resources for arrow production. Furthermore, as point A is located on the curve, it is the most optimal usage of resources. Point D is also an optimal usage of resources, but in this case, they are producing more bows than arrows, which does not fit their business model of three arrows to one bow.

16. Answer: (3)

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: (2)

The movement from point A to point C 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 B is a change in demand. This shift indicates that the consumers will buy more CDs at each price.

18. Answer: (4)

$$\text{Slope} = \frac{\Delta y}{\Delta x} = \frac{\text{First y-coordinate} - \text{Second y-coordinate}}{\text{First x-coordinate} - \text{Second x-coordinate}} = \frac{4 - 6}{30 - 20} = -\frac{2}{10} = -\frac{1}{5}$$

19. Answer: (3)

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)

If True North increases production of detached housing units from 100 to 200 units, it must not construct 100 additional units of apartments. In other words, it must give up 100 apartment units to build 100 detached housing units.

20 Total Marks