

Practice Test Chapter 1

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. Scarcity exists when
- there is less than an infinite amount of a resource or good.
 - there is less of a good or resource available than people wish to have.
 - society can meet the wants of every individual.
 - the price of a good rises.
- _____ 2. When the government redistributes income from the rich to the poor,
- efficiency is improved.
 - both rich people and poor people benefit directly.
 - people work less and produce fewer goods and services.
 - rich people consume fewer goods and poor people consume more goods, resulting in no real change.
- _____ 3. People make decisions at the margin by
- following tradition.
 - comparing costs and benefits.
 - experience.
 - calculating dollar costs.
- _____ 4. Which of the following is important for policy makers to consider when designing public policy?
- the possibility that policies might change behavior
 - the direct effect of policies
 - the indirect effect of policies
 - all of the above
- _____ 5. Which is the most accurate statement about trade?
- Trade makes some nations better off and others worse off.
 - Trade can make every nation better off.
 - Trading for a good can make a nation better off only if the nation cannot produce that good.
 - Trade helps rich nations and hurts poor nations.
- _____ 6. If Canada is better than the U.S. at producing hockey sticks, but the U.S. is better than Canada at producing roller blades,
- the U.S. should impose a tariff on Canadian hockey sticks in order to protect jobs in the U.S. roller blade industry.
 - the U.S. should sell roller blades to Canada, and should buy Canadian hockey sticks.
 - the U.S. should subsidize its hockey stick industry so that it can compete with Canadian hockey sticks.
 - the U.S. should put a quota on the amount of Canadian hockey sticks imported.
- _____ 7. Which of the following is the best statement about markets?
- Markets are usually a good way to organize economic activity.
 - Markets are usually inferior to central planning as a way to organize economic activity.

- c. Markets are flawed and are therefore not an acceptable way to organize economic activity.
 - d. Markets are a good way to organize economic activity in developed nations, but not in less-developed nations.
- _____ 8. In a market economy,
- a. firms decide whom to hire and what to produce.
 - b. profit and self-interest guide the decisions of firms and households.
 - c. households decide which firms to work for and what to buy with their incomes.
 - d. all of the above.
- _____ 9. In a market economy, economic activity is guided by
- a. the government.
 - b. prices.
 - c. central planners.
 - d. corporations.
- _____ 10. The tradeoff between inflation and unemployment is called
- a. the Laffer curve.
 - b. the Lorenz curve.
 - c. the Demand curve.
 - d. the Phillips curve.
- _____ 11. Approximately what percentage of the world's economies experience scarcity?
- a. 25%
 - b. 50%
 - c. 75%
 - d. 100%
- _____ 12. Which of the following best defines efficiency?
- a. absolute fairness
 - b. equal distribution
 - c. minimum waste
 - d. consumer sovereignty
- _____ 13. Mallory decides to spend 3 hours working overtime rather than watching a video with her friends. She earns \$8 an hour. Her opportunity cost of working is
- a. the \$24 she earns working.
 - b. the \$24 minus the enjoyment she would have received from watching the video.
 - c. the enjoyment she would have received had she watched the video.
 - d. nothing, since she would have received less than \$24 of enjoyment from the video.
- _____ 14. Mike has spent \$500 purchasing and repairing an old fishing boat, which he expects to sell for \$800 once the repairs are complete. He discovers that he needs an additional repair, which will cost \$400, in order to complete the repairs. He can sell the boat as it is now for \$300. What should he do?
- a. He should cut his losses and take the \$300.
 - b. He should never sell something for less than it cost.
 - c. He should complete the repairs and sell the boat.
 - d. It doesn't matter which action he takes; the outcome is the same either way.

