

Module 1

Multiple Choice

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

- _____ 1. The study of a single firm and how it determines prices would fall under:
- A. macroeconomics.
 - B. microeconomics.
 - C. economic growth.
 - D. fiscal policy.
 - E. the Federal Reserve.
- _____ 2. Although water is very abundant in most places, it is scarce because:
- A. it has no alternative uses.
 - B. there is not enough of it to meet all needs at zero cost.
 - C. it is a free good.
 - D. scarce goods in general are not all that costly.
 - E. it is a public good.
- _____ 3. A resource is anything that:
- A. can be used in production.
 - B. you pay for.
 - C. is in scarce supply.
 - D. can be consumed.
 - E. requires technology to harvest.
- _____ 4. Intel finds it difficult to hire enough skilled computer engineers. This statement best represents the economic concept of:
- A. resources are scarce.
 - B. people usually exploit opportunities to make themselves better off.
 - C. there are gains from trade.
 - D. one person's spending is another person's income.
 - E. economies tend to move toward equilibrium.
- _____ 5. "In Colorado, there has been a drought, and rural communities are fighting with urban areas over water." This statement best represents the economic concept of:
- A. resources are scarce.
 - B. resources should be used as efficiently as possible to achieve society's goals.
 - C. when markets don't achieve efficiency, government intervention can improve society's welfare.
 - D. government policies can change spending.
 - E. markets usually lead to efficiency.

Name: _____

- _____ 6. You can either spend \$100 on a new economics textbook or a new CD player. If you choose to buy the new economics textbook, the opportunity cost is:
- A. \$100.
 - B. the new economics textbook.
 - C. both the \$100 and the new CD player.
 - D. impossible to determine.
 - E. the new CD player.
- _____ 7. For an economist, the cost of something is:
- A. the amount of money you paid for it.
 - B. what you gave up to get it.
 - C. always equal to its market value.
 - D. the quantity of resources used to produce it.
 - E. the value of your hourly wage.
- _____ 8. Which of the following is *not* one of the four basic principles for understanding individual choice?
- A. Resources are scarce.
 - B. The real cost of something is the money that you must pay to get it.
 - C. "How much?" is a decision at the margin.
 - D. People usually take advantage of opportunities to make themselves better off.
 - E. Markets usually lead to efficiency.
- _____ 9. The best measure of the opportunity cost of any choice is:
- A. the monetary cost of that choice.
 - B. whatever you have given up to make that choice, even if no monetary costs are involved.
 - C. the cost associated with not taking full advantage of the opportunity offered by that choice.
 - D. your hourly wage.
 - E. the cost associated with producing the item you choose to buy.
- _____ 10. The cost of leaving a championship soccer match before it ends is _____, while the cost of staying for the entire match is _____.
- A. the opportunity cost of not seeing the winning goal with two minutes to go; zero—the ticket to the match is already paid so there is no cost
 - B. the opportunity cost of not seeing the winning goal with two minutes to go; the opportunity cost of what else you could have done during that time
 - C. zero—you don't have to pay to leave; zero—the ticket to the match is already paid so there is no cost
 - D. the cost of the ticket; also the cost of the ticket
 - E. zero—you don't have to pay to leave; the opportunity cost of what else you could have done during that time

Name: _____

ID: A

- _____ 11. Zoe's grandparents are excited about finally paying off their mortgage, because, as they say, "Our cost of housing is now zero." Zoe should explain to them the economic principle of:
- A. marginal analysis: if the additional cost of housing is zero, then their additional benefit is also zero.
 - B. opportunity cost: by living in the house, they are giving up the opportunity to sell the house, buy a smaller one, and pocket the difference.
 - C. efficiency: if their cost of housing is now zero, they should let Zoe move in without charging her any rent. Zoe is better off, and her grandparents aren't hurt.
 - D. equity: it is unfair that some people are still paying off their mortgage.
 - E. negative externalities; by living in the house, her grandparents are denying another family the enjoyment of living in the house.
- _____ 12. A new startup airline is offering free round-trip tickets to anywhere to the first 600 people who enter the office on the airline's first day of business. You arrive 24 hours before they are scheduled to open to be sure to get the free tickets, and you buy food from vendors while waiting in line. The cost of the tickets to you is:
- A. zero.
 - B. just the cost of food while you wait in line.
 - C. the cost of food while you wait in line plus the opportunity cost of your time.
 - D. the actual value of the ticket.
 - E. the cost of food while you wait in line plus the opportunity cost of your time plus the actual value of the ticket.
- _____ 13. The cost of going to college is:
- A. tuition and the cost of housing.
 - B. tuition, the cost of housing, and the cost of books.
 - C. tuition, the cost of housing, the cost of books, and forgone income.
 - D. forgone income only.
 - E. tuition only.
- _____ 14. Which of the following demonstrates how people respond to incentives to make themselves better off?
- A. More students major in economics when they hear that salaries for economists are rising.
 - B. Students are assigned dorm rooms through a lottery system.
 - C. Students are encouraged to donate blood because it is the "right thing to do."
 - D. Students and faculty are encouraged to wear college apparel to support the college athletic teams.
 - E. The government randomly selects some travelers at airports for more thorough security screenings.
- _____ 15. Which of the following principles underlie the economics of individual choices?
- A. There are gains from trade.
 - B. Markets move toward equilibrium.
 - C. People usually exploit opportunities to make themselves better off.
 - D. Resources should be used as efficiently as possible to achieve society's goals.
 - E. One person's spending is another person's income.

Name: _____

- _____ 16. Which of these is one of the four principles of individual choice?
- A. Resources are usually renewable.
 - B. The real cost of something is impossible to measure.
 - C. People take advantage of opportunities to make themselves better off only if there is no risk involved.
 - D. Resources are scarce.
 - E. The government redistributes income through progressive taxation.
- _____ 17. Which of the following methods of reducing pollution is likely to be most effective?
- A. Appealing to the polluter to "be a good citizen"
 - B. Publicizing the harmful effects of pollution
 - C. Reducing the gasoline tax so that the price of gasoline falls.
 - D. Reducing the number of environmental protection officers employed by the government.
 - E. Imposing on firms that pollute a per-unit tax on pollution generated
- _____ 18. Economists tend to believe that to change people's behavior you must:
- A. appeal to their concern for society.
 - B. change their incentives.
 - C. legislate the change.
 - D. appeal to their religious values.
 - E. encourage them to vote.
- _____ 19. "Your local health club is offering a free one-year membership for the person who attends the most yoga classes in March. This results in more people attending yoga." This statement best represents the economic concept of:
- A. the real cost of something is what you must give up to get it.
 - B. people usually exploit opportunities to make themselves better off.
 - C. there are gains from trade.
 - D. markets move toward equilibrium.
 - E. markets usually lead to efficiency.
- _____ 20. When someone says resources are scarce, this suggests that:
- A. lower-income individuals must be especially careful about the choices they make.
 - B. choices need to be made in order to utilize resources in the best manner possible.
 - C. additional resources could be found if there were additional funds allocated to the effort.
 - D. we can use resources for whatever purpose we choose.
 - E. wealthy individuals must pay higher taxes so that the government can balance its budget.
- _____ 21. Which of the following is an example of a normative statement?
- A. The rate of unemployment is 4%.
 - B. A high rate of economic growth is good for the country.
 - C. The federal government spends half of its budget on national defense.
 - D. Millions of Americans lack health insurance.
 - E. Higher labor productivity will increase our standard of living.

Name: _____

- _____ 22. Which of the following is an example of a normative statement?
- A. The rate of unemployment is 4%.
 - B. A high rate of economic growth creates more jobs for the country.
 - C. The federal government spends half of its budget on national defense.
 - D. Everyone in America deserves to be covered by national health insurance.
 - E. High school graduation rates in the U.S. are lower than they are in some European nations.
- _____ 23. Macroeconomics focuses on:
- A. the economy as a whole.
 - B. individual decisions.
 - C. wages.
 - D. the allocation of scarce resources.
 - E. consumer behavior.
- _____ 24. The topics studied in macroeconomics include:
- A. the price of a motorcycle.
 - B. the wages of engineers.
 - C. the average price level in the economy.
 - D. how much ice cream consumers buy.
 - E. the environmental impact of an oil spill.
- _____ 25. Which of the following would most likely be a microeconomic question?
- A. Should I go to business school or take a job?
 - B. Have wages been rising more slowly than consumer prices have been rising?
 - C. What government policies should be adopted to promote full employment and growth in the economy as a whole?
 - D. What determines the level of output for the economy as whole?
 - E. If taxes are lowered, will the national debt rise or fall?

Module 1
Answer Section

MULTIPLE CHOICE

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|-----|------------------------|--------|--------|---------------|
| 1. | ANS: B | PTS: 1 | DIF: E | REF: Module 1 |
| | SKL: Definitional | | | |
| 2. | ANS: B | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Concept-Based | | | |
| 3. | ANS: A | PTS: 1 | DIF: E | REF: Module 1 |
| | SKL: Definitional | | | |
| 4. | ANS: A | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |
| 5. | ANS: A | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |
| 6. | ANS: E | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |
| 7. | ANS: B | PTS: 1 | DIF: E | REF: Module 1 |
| | SKL: Definitional | | | |
| 8. | ANS: E | PTS: 1 | DIF: E | REF: Module 1 |
| | SKL: Fact-Based | | | |
| 9. | ANS: B | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |
| 10. | ANS: B | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |
| 11. | ANS: B | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |
| 12. | ANS: C | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |
| 13. | ANS: C | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Concept-Based | | | |
| 14. | ANS: A | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Concept-Based | | | |
| 15. | ANS: C | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Definitional | | | |
| 16. | ANS: D | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Definitional | | | |
| 17. | ANS: E | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Concept-Based | | | |
| 18. | ANS: B | PTS: 1 | DIF: E | REF: Module 1 |
| | SKL: Fact-Based | | | |
| 19. | ANS: B | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |
| 20. | ANS: B | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Critical Thinking | | | |

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|-----|------------------------|--------|--------|---------------|
| 21. | ANS: B | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Concept-Based | | | |
| 22. | ANS: D | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Concept-Based | | | |
| 23. | ANS: A | PTS: 1 | DIF: M | REF: Module 1 |
| | SKL: Definitional | | | |
| 24. | ANS: C | PTS: 1 | DIF: E | REF: Module 1 |
| | SKL: Fact-Based | | | |
| 25. | ANS: A | PTS: 1 | DIF: E | REF: Module 1 |
| | SKL: Critical Thinking | | | |