Multiple Choice Questions

1. Economics is the study of
   a. How much people should buy and the prices they should be willing to pay
   b. How much people should sell and the prices they should be willing to accept
   c. The allocation of the world's freely available resources and who should get them
   **D. The allocation and use of scarce resources to satisfy unlimited human wants**

2. Scarcity implies that the allocation scheme chosen by society can
   a. Not make more of any one good
   b. Typically make more of a good but at the expense of making less of another
   **C. Always make more of all goods simultaneously**

3. Production possibilities frontier models
   a. The choices we make in setting prices
   **B. The choices we make in setting output alternatives**
   c. The choices we make in setting wages
   d. The choices we make in setting incomes

4. A production possibilities frontier is a simple model of
   **A. Scarcity and allocation**
   b. Prices and output
   c. Production and costs
   d. Inputs and outputs

5. A simplifying assumption is typically made so as to
   **A. Make a point clearer by stripping away excess detail**
   b. Make a point clearer by adding sufficient detail to get things precise
   c. Divert attention from the real problem
   d. Make things look better than they really are
6. Something is scarce as long as
   a. There is a price that the market puts on the item
   **B. There is no freely available infinite source of the item**
   c. The government provides it
d. The market provides it

7. A resource
   a. Must come from the earth
   b. Only includes physical things
   **C. Is anything that we consume directly or use to make things we will ultimately consume**
d. A and C

8. The underlying reason that there are unattainable points on a production possibilities frontier diagram is that there
   a. Is government
   b. Are always choices that have to be made
   **C. Is a scarcity of resources within a fixed level of technology**
d. Is unemployment of resources

9. The underlying reason production possibilities frontiers are likely to be bowed out (rather than linear) is
   a. Choices have consequences
   b. There is always opportunity costs
   **C. Some resources and people can be better used producing one good rather than another**
d. There is always some level of unemployment

10. The optimization assumption suggests that people make
    a. Irrational decisions
    b. Unpredictable decisions
    **C. Decisions to make themselves as well off as possible**
d. Decisions without thinking very hard
11. The fact that we are operating at a point inside a bowed out production possibilities frontier, indicates there is
   a. Scarcity
   b. Constant opportunity cost
   C. Unemployment
   d. Increasing opportunity cost

12. If the production possibilities frontier is not bowed out but is a line, indicates there is
   a. Scarcity
   B. Constant opportunity cost
   c. Unemployment
   d. Increasing opportunity cost

13. The fact that the production possibilities frontier is bowed out indicates there is
   a. Scarcity
   b. Constant opportunity cost
   c. Unemployment
   D. Increasing opportunity cost

14. The fact that we cannot operate at a point outside a production possibilities frontier indicates there is
   A. Scarcity
   b. Constant opportunity cost
   c. Unemployment
   d. Increasing opportunity cost

15. Points on the Production Possibilities Frontier are
   A. Attainable
   b. Unattainable
   c. Associated with some unemployment
   d. Both A and C
16. Points inside the Production Possibilities Frontier are  
a. Attainable  
b. Unattainable  
c. Associated with some unemployment  
**D. Both A and C**

17. Points outside the Production Possibilities Frontier are  
a. Attainable  
**B. Unattainable**  
c. Associated with some unemployment  
d. Both A and C

Use the following to answer questions 18-22:

![Figure 1.1](image-url)

Figure 1.1
18. In Figure 1.1, which labeled points are attainable?
   a. Only A
   b. Only B and C
   c. Only D
   **D. A, B and C**

19. In Figure 1.1, which labeled points are unattainable?
   a. Only A
   b. Only B and C
   **C. Only D**
   d. A, B and C

20. In Figure 1.1, which labeled points represent the existence of unemployment?
   **A. Only A**
   b. Only B and C
   c. Only D
   d. A, B and C

21. In Figure 1.1, which labeled point indicates that there are sufficient resources and technology to produce the combination of goods represented by that point?
   a. Only A
   b. Only B and C
   c. Only D
   **D. A, B and C**

22. In Figure 1.1, which labeled point indicates that there are insufficient resources or technology to produce the combination of goods represented by that point?
   a. Only A
   b. Only B and C
   **C. Only D**
   d. A, B and C
Use the following to answer questions 23-27:

![Figure 1.2](image)

23. In Figure 1.2, which labeled points are attainable?
   a. Only A
   b. Only B and C
   c. Only D
   **D. A, B and C**

24. In Figure 1.2, which labeled points are unattainable?
   a. Only A
   b. Only B and C
   **C. Only D**
   d. A, B and C

25. In Figure 1.2, which labeled points represent the existence of unemployment?
   **A. Only A**
   b. Only B and C
   c. Only D
   d. A, B and C
26. In Figure 1.2, which labeled point indicates that there are sufficient resources and technology to produce the combination of goods represented by that point?
   a. Only A
   b. Only C
   c. Only D
   D. A, B and C

27. In Figure 1.2, which labeled point indicates that there are insufficient resources or technology to produce the combination of goods represented by that point?
   a. Only A
   b. Only C
   C. Only D
   d. A, B and C

Use the following to answer questions 28-31:

Figure 1.3 A, B and C
28. In Figure 1.3 A, B and C, which depicts the existence of opportunity cost?
   a. Figure A  
   b. Figure B  
   c. Figure C  
   D. All three figures show the existence of opportunity cost

29. In Figure 1.3 A, B and C, which depicts the existence of scarcity?
   a. Figure A  
   b. Figure B  
   c. Figure C  
   D. All three figures show the existence of scarcity

30. In Figure 1.3 A, B and C, which depicts the existence of constant opportunity cost?
   a. Figure A  
   B. Figure B  
   c. Figure C  
   d. All three figures show the existence of constant opportunity cost

31. In Figure 1.3 A, B and C, which depicts the existence of increasing opportunity cost?
   A. Figure A  
   b. Figure B  
   c. Figure C  
   d. All three figures show the existence of increasing opportunity cost
Chapter 01 - Economics: The Study of Opportunity Cost

Use the following to answer questions 32-37:

![Figure 1.4](image)

32. Using Figure 1.4 above you can tell that
   A. There is increasing opportunity cost
   b. There is unemployment
   c. There is constant opportunity cost
   d. The technology does not exist to produce 9 units of soda and 1 unit of pizza

33. Using Figure 1.4 above you can tell that
   a. The technology does not exist to produce 6 units of soda and 2 unit of pizza
   b. There is unemployment
   c. There is constant opportunity cost
   D. The technology does not exist to produce 9 units of soda and 3 unit of pizza

34. Using Figure 1.4 above we know the production of 6 units of soda and 2 units of pizza is
   a. Possible, but there would be unemployment
   B. Possible, but only if all resources were fully employed
   c. Impossible because we have the resources but do not have the technology
   d. Impossible because we have the technology but do not have the resources
35. Using Figure 1.4 above we know the production of 9 units of soda and 1 units of pizza is
a. Possible, but there would be unemployment
b. Possible, but only if all resources were fully employed
c. Impossible because we have the resources but do not have the technology
d. Impossible because we have the technology but do not have the resources

36. Using Figure 1.4 above we know the production of 9 units of soda and 3 units of pizza is
a. Possible, but there would be unemployment
b. Possible, but only if all resources were fully employed
c. Impossible because we either do not have the resources or the technology
   C. Impossible because we either do not have the resources or the technology
d. Undesirable

37. Using Figure 1.4 above we know the production of 4 units of soda and 2 units of pizza is
   A. Possible, but there would be unemployed resources
   b. Possible, but only if all resources were fully employed
   c. Impossible because we have the resources but do not have the technology
d. Impossible because we have the technology but do not have the resources

Use the following to answer questions 38-43:

![Figure 1.5](image-url)
38. Using Figure 1.5 above you can tell that
   a. There is increasing opportunity cost
   b. There is unemployment
   C. There is constant opportunity cost
   d. The technology does not exist to produce 6 units of soda and 1 unit of pizza

39. Using Figure 1.5 above you can tell that
   a. The technology does not exist to produce 4 units of soda and 1 unit of pizza
   b. There is unemployment
   c. There is increasing opportunity cost
   D. The technology does not exist to produce 3 units of soda and 3 unit of pizza

40. Using Figure 1.5 above we know the production of 3 units of soda and 2 units of pizza is
   a. Possible, but there would be unemployed
   B. Possible, but only if all resources were fully employed
   c. Impossible because we have the resources but do not have the technology
   d. Impossible because we have the technology but do not have the resources

41. Using Figure 1.5 above we know the production of 6 units of soda and 1 unit of pizza is
   a. Possible, but there would be unemployed resources
   B. Possible, but only if all resources were fully employed
   c. Impossible because we have the resources but do not have the technology
   d. Impossible because we have the technology but do not have the resources

42. Using Figure 1.5 above we know the production of 6 units of soda and 2 units of pizza is
   a. Possible, but there would be unemployed resources
   b. Possible, but only if all resources were fully employed
   C. Impossible because we either do not have the resources or the technology
   d. Undesirable
43. Using Figure 1.5 above we know the production of 2 units of soda and 2 units of pizza is **A.** Possible, but there would be unemployed resources  
b. Possible, but only if all resources were fully employed  
c. Impossible because we have the resources but do not have the technology  
d. Impossible because we have the technology but do not have the resources

Use the following to answer questions 44-49:

![Figure 1.6](image-url)

**Figure 1.6**

44. Using Figure 1.6 above you can tell that  
**A.** There is increasing opportunity cost  
b. There is unemployment  
c. There is constant opportunity cost  
d. The technology does not exist to produce 90 units of soda and 2 units of pizza
45. Using Figure 1.6 above you can tell that
a. The technology does not exist to produce 130 units of soda and 1 unit of pizza
b. There is unemployment
c. There is constant opportunity cost
d. The technology does not exist to produce 90 units of soda and 3 units of pizza

46. Using Figure 1.6 above we know the production of 90 units of soda and 2 units of pizza is
a. Possible, but there would be unemployed resources
b. Possible, but only if all resources were fully employed
c. Impossible because we have the resources but do not have the technology
d. Impossible because we have the technology but do not have the resources

47. Using Figure 1.6 above we know the production of 130 units of soda and 1 unit of pizza is
a. Possible, but there would be unemployed resources
b. Possible, but only if all resources were fully employed
c. Impossible because we have the resources but do not have the technology
d. Impossible because we have the technology but do not have the resources

48. Using Figure 1.6 above we know the production of 90 units of soda and 4 units of pizza is
a. Possible, but there would be unemployed resources
b. Possible, but only if all resources were fully employed
c. Impossible because we either do not have the resources or the technology
d. Undesirable

49. Using Figure 1.6 above we know the production of 90 units of soda and 1 units of pizza is
a. Possible, but there would be unemployed resources
b. Possible, but only if all resources were fully employed
c. Impossible because we have the resources but do not have the technology
d. Impossible because we have the technology but do not have the resources
Use the following to answer questions 50-55:

50. Using Figure 1.6 above you can tell that
   a. There is increasing opportunity cost
   b. There is unemployment
   C. There is constant opportunity cost
   d. The technology does not exist to produce 10 units of soda and 1 unit of pizza

51. Using Figure 1.6 above you can tell that
   A. The technology does not exist to produce 5 units of soda and 3 units of pizza
   b. There is unemployment
   c. There is increasing opportunity cost
   d. The technology does not exist to produce 10 units of soda and 1 units of pizza
52. Using Figure 1.6 above we know the production of 5 units of soda and 2 units of pizza is
   a. Possible, but there would be unemployed resources
   B. Possible, but only if all resources were fully employed
   c. Impossible because we have the resources but do not have the technology
   d. Impossible because we have the technology but do not have the resources

53. Using Figure 1.6 above we know the production of 10 units of soda and 1 unit of pizza is
   a. Possible, but there would be unemployed resources
   B. Possible, but only if all resources were fully employed
   c. Impossible because we have the resources but do not have the technology
   d. Impossible because we have the technology but do not have the resources

54. Using Figure 1.6 above we know the production of 10 units of soda and 2 units of pizza is
   a. Possible, but there would be unemployed resources
   b. Possible, but only if all resources were fully employed
   C. Impossible because we either do not have the resources or the technology
   d. Undesirable

55. Using Figure 1.6 above we know the production of 4 units of soda and 2 units of pizza is
   A. Possible, but there would be unemployed resources
   b. Possible, but only if all resources were fully employed
   c. Impossible because we have the resources but do not have the technology
   d. Impossible because we have the technology but do not have the resources

56. Chapter 1 entitled "Economics: The Study of Opportunity Cost" makes the point that we
   a. Can produce all we want of everything we want if we just work harder
   B. Face tradeoffs because we have limited resources
   c. Can avoid tradeoffs if we simply make the right decisions
   d. Both B and C
57. Imagine an economist ordering pizza by the slice. When deciding how many slices to order she would pick that number where the enjoyment of the _____ equals the enjoyment she could get from using the money on another good.
   a. First slice
   b. Last slice
   c. Average slice
   d. Total number of slices

58. Economic incentives can come from
   a. Markets
   b. Government programs
   c. Taxes
   D. All of the above

59. The statement that "since a farmer will make more money if he has a bumper crop means that all farmers would make more money if they all had bumper crops" would be an example of which of the following?
   a. The fallacy that correlation is the same as causation
   B. The fallacy of composition
   c. Truth in an obvious form
   d. A and B

60. Logging companies are always more profitable if they are able to harvest more (rather than less) lumber in a month. If you concluded from that fact that the logging industry is more profitable if all of the firms in the industry harvest more then you would be
   a. Right
   b. Wrong because causation and correlation are not the same
   C. Wrong and have fallen victim to the fallacy of composition
   d. Wrong because firms operate on jealousy
61. Every worker is better off making more money and having better benefits. If you concluded from that fact that all workers would be better off if a law were passed requiring a 25% increase in wages and benefits then you would be
a. Right
b. Wrong because causation and correlation are not the same
C. Wrong and have fallen victim to the fallacy of composition
d. Wrong because workers operate on jealousy

62. Many forms of seafood (lobster, crab legs etc.) are consumed by dipping the meat in melted garlic butter. If someone suggested that it would therefore be equally appealing to drink melted butter after having eaten garlic and unseasoned seafood, you would know they had fallen victim to which of the following?
a. The fallacy that correlation is the same as causation
B. The fallacy of composition
c. A logical tautology
d. Both A and B

63. Of course, all individual students are better off if they get better grades. If you were to conclude that all students would be better off if everyone received an "A" you would
a. Have fallen victim to the fallacy of scarcity
b. Be right
C. Have fallen victim to the fallacy of composition
d. Be mistaking correlation with causation

64. The fact that snow cones sales fall when snow accumulated from the sky suggests that snow cones sales and snow on the ground are
a. Directly correlated
B. Inversely correlated
c. Neither A nor B
d. Both A and B
65. If you were to conclude, after carefully examining data and using proper evaluation techniques, that a tax credit for attending college benefits the poor more than a tax deduction (of equal total cost to the government) would, you would have engaged in ________ analysis to reach that conclusion.
   a. Contra-indicative
   B. Positive
   c. Normative
   d. Creative

66. The fact that when the temperature rises snow shovel sales fall suggests the two are
   a. Directly correlated
   B. Inversely correlated
   c. Neither A or B
   d. Both A and B

67. The fact that when temperature rises snow cone sales rise suggests the two are
   A. Directly correlated
   b. Inversely correlated
   c. Neither A nor B
   d. Both A and B

68. The fact that as snow accumulates, snow shovel sales rise suggests the two are
   A. Directly correlated
   b. Inversely correlated
   c. Neither A or B
   d. Both A and B

69. The statement that Congress passed a tax bill and two months later a recession began, so the bill must have been poor policy is an example of
   A. The fallacy that correlation is the same as causation
   b. The fallacy of composition
   c. Truth in an obvious form
   d. Both A and B
70. The statement that Congress passed a tax bill and two months later a recession ended, so the bill must have been good policy is an example of
A. The fallacy that correlation is the same as causation
b. The fallacy of composition
c. Truth in an obvious form
d. Both A and B

71. If you concluded from the fact that the last three recessions have occurred while Republicans were President that their fiscal policies create recessions then you would be
a. Right
B. Wrong because causation and correlation are not the same
c. Wrong and have fallen victim to the fallacy of composition
d. Wrong because Democrats are much worse

72. Any mechanism by which buyers and sellers negotiate an exchange is a
a. Corporation
B. Market
c. Negotiable instrument
d. Brokerage

73. A mechanism by which buyers and sellers of labor and financial capital negotiate an exchange is a
a. Stock market
b. Bond market
C. Factor market
d. Brokerage

74. A mechanism by which buyers and sellers of goods and services negotiate an exchange is a
A. Goods and services market
b. Goods and services convention
c. Goods and services union
d. Factor market
75. A mechanism by which buyers and sellers of the currencies of the various countries negotiate an exchange is a
   a. Foreign bank
   b. Foreign stock market
   C. Foreign exchange market
   d. Foreign currency reserve

76. Buyers and sellers in the foreign exchange market negotiate an exchange of
   a. Foreign stocks
   b. Foreign banks
   c. Foreign government bonds
   D. Currencies of various countries

77. Buyers and sellers in a factor market might be negotiating an exchange of
   A. Labor or financial capital
   b. Goods for use by final consumers
   c. Services provided to final consumers
   d. Either B or C

78. Buyers and sellers in the market for goods and services might be negotiating an exchange of
   a. Labor or financial capital
   b. Goods for use by final consumers
   c. Services provided to final consumers
   D. Either B or C