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
   a. there is less than an infinite amount of a resource or good.
   b. there is less of a good or resource available than people wish to have.
   c. society can meet the wants of every individual.
   d. the price of a good rises.

2. When the government redistributes income from the rich to the poor,
   a. efficiency is improved.
   b. both rich people and poor people benefit directly.
   c. people work less and produce fewer goods and services.
   d. rich people consume fewer goods and poor people consume more goods, resulting in no real change.

3. People make decisions at the margin by
   a. following tradition.
   b. comparing costs and benefits.
   c. experience.
   d. calculating dollar costs.

4. Which of the following is important for policy makers to consider when designing public policy?
   a. the possibility that policies might change behavior
   b. the direct effect of policies
   c. the indirect effect of policies
   d. all of the above

5. Which is the most accurate statement about trade?
   a. Trade makes some nations better off and others worse off.
   b. Trade can make every nation better off.
   c. Trading for a good can make a nation better off only if the nation cannot produce that good.
   d. 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,
   a. the U.S. should impose a tariff on Canadian hockey sticks in order to protect jobs in the U.S. roller blade industry.
   b. the U.S. should sell roller blades to Canada, and should buy Canadian hockey sticks.
   c. the U.S. should subsidize its hockey stick industry so that it can compete with Canadian hockey sticks.
   d. 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?
   a. Markets are usually a good way to organize economic activity.
   b. 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.