

Name \_\_\_\_\_

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) Which of the following is a normative economic statement? 1) \_\_\_\_\_  
 A) When the price of wheat falls, the quantity of wheat purchased rises.  
 B) The price of wheat is too low.  
 C) The current low price of wheat is the result of increased worldwide supply.  
 D) When the price of wheat falls, the cost of wheat-based products falls.
- 2) Suppose that some teachers have decided that economic and financial uncertainty have made the prospect of retiring more risky, and therefore carry a higher cost than not retiring. By using all available information as they act to achieve their goals, these teachers are exemplifying the economic idea that 2) \_\_\_\_\_  
 A) people are rational.  
 B) people respond to economic incentives.  
 C) optimal decisions are made at the margin.  
 D) equity is more important than efficiency.
- 3) The branch of economics which studies how households and firms interact in markets is called 3) \_\_\_\_\_  
 A) positive economics. B) macroeconomics.  
 C) normative economics. D) microeconomics.
- 4) You explain to your roommate Surya, who makes beaded headbands, about an economic theory which asserts that consumers will purchase more of a product at lower prices than they will at higher prices. She contends that the theory is incorrect because over the past two years she has lowered the price of her headbands and yet has seen a decrease in sales. How would you respond to Surya? 4) \_\_\_\_\_  
 A) I will explain to her that there are some omitted variables that have contributed to a decrease in her sales such as changes in income.  
 B) I will explain to her that she is making the error of reverse causality: it is the decrease in demand that has caused her to lower her prices.  
 C) Surya is right; she has evidence to back her claim. The theory must be erroneous.  
 D) Surya is making the mistake of assuming that correlation implies causation.
- 5) Which of the following is an example of an activity undertaken by an entrepreneur? 5) \_\_\_\_\_  
 A) deciding whether to purchase a gasoline-powered automobile or an electric vehicle  
 B) running for a seat on the city council  
 C) starting your own cigar manufacturing business  
 D) being appointed as the head of a charitable organization

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

- 6) Even if the population declines, scarcity will still exist. 6) \_\_\_\_\_

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 7) Multiple Choice 7) \_\_\_\_\_  
 A) Answer Choice B) Answer Choice C) Answer Choice D) Answer Choice

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 8) Suppose the extra cost to a pet store of advertising one additional day each week in the local newspaper is \$450. Then, the pet store should advertize that one additional day each week if doing so brings in additional revenue of \$450 or more each week. 8) \_\_\_\_\_

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 9) What is the difference between positive economic analysis and normative economic analysis? Give one example each of a positive and normative economic issue or question or statement.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Table 1-3

Extra Hours Open	Total Revenue (dollars)
1	\$70
2	120
3	160
4	184
5	200
6	210

Santiago runs a comic book store in the town of East Arbor. He is debating whether he should extend his hours of operation. Santiago figures that his sales revenue will depend on the number of extra hours the store is open as shown in the table above. He would have to hire a worker for those extra hours at a wage rate of \$18 per hour.

- 10) Refer to Table 1-3. What is Santiago's marginal cost if he decides to stay open for an extra two hours instead of one hour? 10) \_\_\_\_\_  
A) \$18                                      B) \$36                                      C) \$38                                      D) \$102

Scenario 1-2

Suppose a hat manufacturer currently sells 2,000 hats per week and makes a profit of \$5,000 per week. The plant owner observes, "Although the last 300 hats we produced and sold increased our revenue by \$1,000 and our costs by \$1,100, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of hats."

- 11) Refer to Scenario 1-2. Using marginal analysis terminology, another economic term for the incremental cost of producing the last 300 hats is 11) \_\_\_\_\_  
A) marginal cost.                                      B) explicit cost.  
C) operating cost.                                      D) Any of the above terms are correct.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 12) In the market for factors of production, firms earn income by selling factors of production to households. 12) \_\_\_\_\_

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 13) Which of the following statements about economic resources is true? 13) \_\_\_\_\_
- A) All economic resources are man-made.
  - B) Economic resources are used only by businesses.
  - C) Economic resources include financial capital and money.
  - D) Economic resources are also called factors of production.

**Table 1-1**

Extra Hours Open	Total Revenue (dollars)
1	\$50
2	75
3	95
4	110
5	120
6	125

Lydia runs a small nail salon in the town of New Hope. She is debating whether she should extend her hours of operation. Lydia figures that her sales revenue will depend on the number of extra hours the nail salon is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of \$10 per hour.

- 14) *Refer to Table 1-1.* What is Lydia's marginal benefit if she decides to stay open for an extra two hours instead of one hour? 14) \_\_\_\_\_
- A) \$25
  - B) \$50
  - C) \$75
  - D) \$125
- 15) Economists reason that the optimal decision is to continue any activity up to the point where the 15) \_\_\_\_\_
- A) marginal benefit equals the marginal cost.
  - B) marginal benefit is greater than the marginal cost.
  - C) marginal benefit is zero.
  - D) marginal cost is zero.

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

- 16) What is the difference between product markets and factor markets?

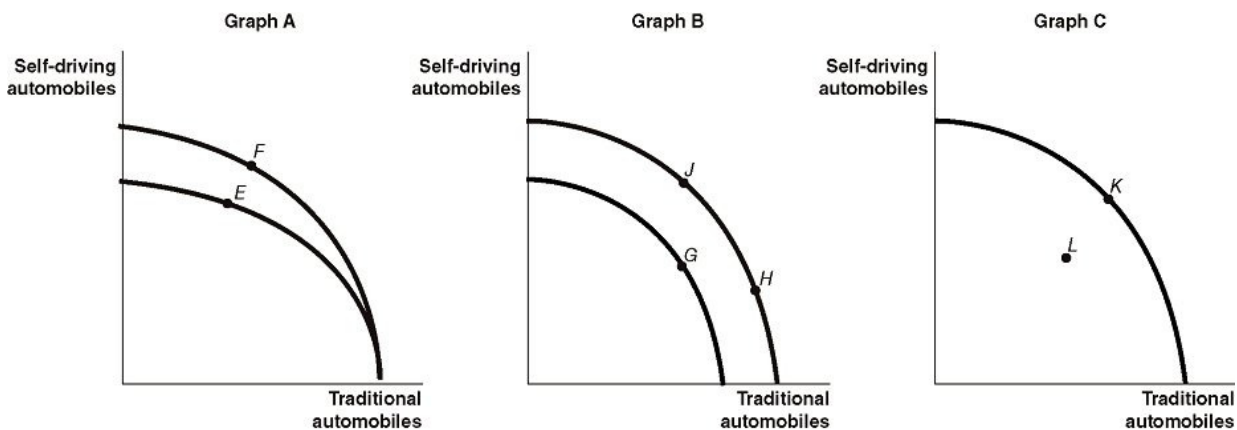
Table 2-16

	One Motorcycle	One Guitar
Ireland	10 hours	2.5 hours
Scotland	9 hours	2 hours

- 17) Refer to Table 2-16. This table shows the number of labor hours required to produce a motorcycle and a guitar in Ireland and Scotland.
- Which country has an absolute advantage in the production of motorcycles?
  - Which country has an absolute advantage in the production of guitars?
  - What is Ireland's opportunity cost of producing one motorcycle?
  - What is Scotland's opportunity cost of producing one motorcycle?
  - What is Ireland's opportunity cost of producing one guitar?
  - What is Scotland's opportunity cost of producing one guitar?
  - If each country specializes in the production of the product in which it has a comparative advantage, which country should produce motorcycles?
  - If each country specializes in the production of the product in which it has a comparative advantage, which country should produce guitars?

**MULTIPLE CHOICE.** Choose the one alternative that best completes the statement or answers the question.

Figure 2-7



Apple recently announced that the company is exploring the electric vehicle market, and is looking to produce vehicles as early as 2020. Assume Apple chooses to produce both traditional electric-engine vehicles and self-driving electric-engine vehicles. Figure 2-7 shows changes to its production possibilities frontier in response to new developments and different strategic production decisions.

- 18) Refer to Figure 2-7. Assume a technological advancement greatly reduces the cost to produce self-driving vehicles. This is best represented by the
- movement from G to H in Graph B.
  - movement from H to J in Graph B.
  - movement from K to L in Graph C.
  - movement from E to F in Graph A.
- 18) \_\_\_\_\_

**Table 2-11**

	<b>One Motorcycle</b>	<b>One Guitar</b>
Ireland	20 hours	4 hours
Scotland	8 hours	2 hours

Table 2-11 shows the number of labor hours required to produce a motorcycle and a guitar in Ireland and Scotland.

- 19) *Refer to Table 2-11.* Ireland has a comparative advantage in the production of \_\_\_\_\_  
 A) motorcycles. B) both products.  
 C) guitars. D) neither product.
- 20) Which of the following would shift a nation's production possibilities frontier outward? \_\_\_\_\_  
 A) discovering a cheap way to convert sunshine into electricity  
 B) an increase in demand for the nation's products  
 C) a law requiring workers to retire at age 50  
 D) a decrease in the unemployment rate
- 21) For each bottle of wine that Italy produces, it gives up the opportunity to make 10 pounds of cheese. France can produce 1 bottle of wine for every 25 pounds of cheese it produces. Which of the following is true about the comparative advantage between the two countries? \_\_\_\_\_  
 A) France has the comparative advantage in wine.  
 B) Italy has the comparative advantage in cheese.  
 C) France has the comparative advantage in wine and cheese.  
 D) Italy has the comparative advantage in wine.

**Table 2-8**

	<b>One Digital Camera</b>	<b>Wheat (per pound)</b>
China	100 hours	4 hours
South Korea	60 hours	3 hours

Table 2-8 shows the number of labor hours required to produce a digital camera and a pound of wheat in China and South Korea.

- 22) *Refer to Table 2-8.* What is China's opportunity cost of producing one pound of wheat? \_\_\_\_\_  
 A) 0.04 units of a digital camera B) 4 digital cameras  
 C) 25 digital cameras D) 40 digital cameras
- 23) Which of the following statements about a simple circular flow model is *false*? \_\_\_\_\_  
 A) Producers are buyers in the factor market.  
 B) Households are buyers in the product market.  
 C) Producers are buyers in the factor market and sellers in the product market.  
 D) Households are neither buyers nor sellers in the input market.

Table 2-2

Production choices for Billie's Bedroom Shop

Choice	Quantity of Pillows Produced	Quantity of Blankets Produced
A	36	0
B	27	7
C	18	14
D	9	21
E	0	28

- 24) Refer to Table 2-2. Assume Billie's Bedroom Shop only produces pillows and blankets. Billie faces \_\_\_\_\_ opportunity costs in the production of pillows and blankets. 24) \_\_\_\_\_  
A) negative                      B) increasing                      C) decreasing                      D) constant
- 25) Refer to Table 2-2. Assume Billie's Bedroom Shop only produces pillows and blankets. A combination of 9 pillows and 21 blankets would appear 25) \_\_\_\_\_  
A) along Billie's production possibilities frontier.  
B) inside Billie's production possibilities frontier.  
C) outside Billie's production possibilities frontier.  
D) at the vertical intercept of Billie's production possibilities frontier.

## Answer Key

Testname:

- 1) B
- 2) A
- 3) D
- 4) A
- 5) C
- 6) TRUE
- 7) A
- 8) TRUE
- 9) Positive economic analysis is concerned with what is. Positive economic analysis reaches conclusions based on verifiable statements. Normative economic analysis, on the other hand, is concerned with what ought to be. Normative analysis reaches conclusions based on opinions. (Students will give many different examples.)
- 10) A
- 11) A
- 12) FALSE
- 13) D
- 14) A
- 15) A
- 16) Product markets are markets for goods and services. Factor markets are markets for the factors of production, which are the inputs used to make goods and services.
- 17)
  - a. Scotland has an absolute advantage in the production of motorcycles.
  - b. Scotland has an absolute advantage in the production of guitars.
  - c. Ireland's opportunity cost of producing one motorcycle is 4 guitars.
  - d. Scotland's opportunity cost of producing one motorcycle is 4.5 guitars
  - e. Ireland's opportunity cost of one guitar is 0.25 motorcycles.
  - f. Scotland's opportunity cost of one guitar is 0.22 motorcycles.
  - g. Ireland should specialize in producing motorcycles.
  - h. Scotland should specialize in producing guitars.
- 18) D
- 19) C
- 20) A
- 21) D
- 22) A
- 23) D
- 24) D
- 25) A