Fall 2012 Macro
Practice Problems
Chapter 1

1. Resources are
   a. scarce for households but plentiful for economies.
   b. plentiful for households but scarce for economies.
   c. scarce for households and scarce for economies.
   d. plentiful for households and plentiful for economies.
ANS: C

2. In considering how to allocate its scarce resources among its various members, a household considers
   a. each member’s abilities.
   b. each member’s efforts.
   c. each member’s desires.
   d. all of the above
ANS: D

3. The overriding reason as to why households and societies face many decisions is that
   a. resources are scarce.
   b. goods and services are not scarce.
   c. incomes fluctuate with business cycles.
   d. people, by nature, tend to disagree.
ANS: A

4. Approximately what percentage of the world's economies experience scarcity?
   a. 25%
   b. 50%
   c. 75%
   d. 100%
ANS: D

5. Economics is the study of
   a. production methods.
   b. how society manages its scarce resources.
   c. how households decide who performs which tasks.
   d. the interaction of business and government.
ANS: B

6. The principle that "people face tradeoffs" applies to
   a. individuals.
   b. families.
   c. societies.
   d. All of the above are correct.
ANS: D

7. The opportunity cost of an item is
   a. the number of hours needed to earn money to buy the item.
   b. what you give up to get that item.
   c. usually less than the dollar value of the item.
   d. the dollar value of the item.
8. High-school athletes who skip college to become professional athletes  
   a. obviously do not understand the value of a college education.  
   b. usually do so because they cannot get into college.  
   c. understand that the opportunity cost of attending college is very high.  
   d. are not making a rational decision since the marginal benefits of college outweigh the marginal costs of college for high-school athletes.  
ANS: C

9. Mallory decides to spend three 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.  
ANS: C

10. Moira decides to spend two hours taking a nap rather than attending her classes. Her opportunity cost of napping is  
   a. the value of the knowledge she would have received had she attended class.  
   b. the $30 she could have earned if she had worked at her job for those two hours.  
   c. the value of her nap less the value of attending class.  
   d. nothing, since she would value sleep more than attendance at class.  
ANS: A

11. The opportunity cost of going to college is  
   a. the total spent on food, clothing, books, transportation, tuition, lodging, and other expenses.  
   b. the value of the best opportunity a student gives up to attend college.  
   c. zero for students who are fortunate enough to have all of their college expenses paid by someone else.  
   d. zero, since a college education will allow a student to earn a larger income after graduation.  
ANS: B

12. A rational decision maker takes an action only if the  
   a. marginal benefit is less than the marginal cost.  
   b. marginal benefit is greater than the marginal cost.  
   c. average benefit is greater than the average cost.  
   d. marginal benefit is greater than both the average cost and the marginal cost.  
ANS: B

13. Making rational decisions "at the margin" means that people  
   a. make those decisions that do not impose a marginal cost.  
   b. evaluate how easily a decision can be reversed if problems arise.  
   c. compare the marginal costs and marginal benefits of each decision.  
   d. always calculate the marginal dollar costs for each decision.  
ANS: C
14. The marginal benefit Randy gets from eating a fourth cheeseburger at a picnic is
   a. the total benefit Randy gets from eating four cheeseburgers minus the total benefit Randy gets from eating three cheeseburgers.
   b. the same as the total benefit of eating four cheeseburgers.
   c. less than the marginal cost of eating the fourth cheeseburger since he chose to eat the fourth cheeseburger.
   d. the total benefit Randy gets from eating five cheeseburgers minus the total benefit John gets from eating four cheeseburgers.

ANS: A

15. You are considering staying in college another semester so that you can complete a major in economics. In deciding whether or not to stay you should
   a. compare the total cost of your education to the total benefits of your education.
   b. compare the total cost of your education to the benefits of staying one more semester.
   c. compare the cost of staying one more semester to the benefits of staying one more semester.
   d. compare the total benefits of your education to the cost of staying one more semester.

ANS: C

16. Which is the most accurate statement about trade?
   a. Trade can make every nation better off.
   b. Trade makes some nations better off and others worse off.
   c. Trading for a good can make a nation better off only if the nation cannot produce that good itself.
   d. Trade helps rich nations and hurts poor nations.

ANS: A

17. If the United States decides to trade with Mexico, we know that
   a. Mexico will benefit, but trade with a less developed country could not benefit the United States.
   b. it will not benefit Mexico because workers in the United States are more productive.
   c. Mexico and the United States can both benefit.
   d. it will not benefit either country because their cultural differences are too vast.

ANS: C

18. The "invisible hand" directs economic activity through
   a. advertising.
   b. prices.
   c. central planning.
   d. government regulations.

ANS: B

19. The invisible hand refers to
   a. how central planners made economic decisions.
   b. how the decisions of households and firms lead to desirable market outcomes.
   c. the control that large firms have over the economy.
   d. government regulations without which the economy would be less efficient.

ANS: B

20. Prices usually reflect
a. only the value of a good to society.
b. only the cost to society of making a good.
c. both the value of a good to society and the cost to society of making the good.
d. neither the value of a good to society nor the cost to society of making the good.
ANS: C

21. One reason we need government, even in a market economy, is that
   a. there is insufficient market power in the absence of government.
   b. property rights are too strong in the absence of government.
   c. the invisible hand is not perfect.
   d. Both a and b are correct.
ANS: C

22. The term "productivity"
   a. means the same thing as "efficiency."
   b. is seldom used by economists, as its meaning is not precise.
   c. refers to the quantity of goods and services produced from each unit of labor input.
   d. refers to the variety of goods and services from which households can choose when they shop.
ANS: C

23. The income of a typical worker in a country is most closely linked to which of the following?
   a. population
   b. productivity
   c. market power
   d. government policies
ANS: B

24. Inflation is defined as
   a. a period of rising productivity in the economy.
   b. a period of rising income in the economy.
   c. an increase in the overall level of output in the economy.
   d. an increase in the overall level of prices in the economy.
ANS: D

25. Large or persistent inflation is almost always caused by
   a. excessive government spending.
   b. excessive growth in the quantity of money.
   c. foreign competition.
   d. higher-than-normal levels of productivity.
ANS: B