

ECO2305—001 Chapter Review Questions for MT1. Instructor Suabtrirat.

1. The chapter review is an *optional* assignment. Do it at the end of each chapter's lecture.
2. Due to test bank randomization, some questions may *coincide* with sample or actual exam. Doing them may help to improve your exam grade. However, please understand how to solve them; do not memorize an answer choice.
3. Questions are categorized by chapter. The number of questions per chapter may be *unequal* due to test bank randomization. It does *not* indicate chapter weight on the actual exam. See the table below.

Chapter	Questions Number							
1	1	2	4	8	11	16	26	
2	7	12	15	18	21	22	27	29
3	10	13	14	17	23	28	30	
4	3	5	6	9	19	20	24	25

1. John is an athlete. He has \$120 to spend and wants to buy either a heart rate monitor or new running shoes. Both the heart rate monitor and running shoes cost \$120, so he can only buy one. This illustrates the principle that
 - a. trade can make everyone better off.
 - b. people face trade-offs.
 - c. rational people think at the margin.
 - d. people respond to incentives.
2. Which of the following statements about markets is most accurate?
 - 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 fail 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.

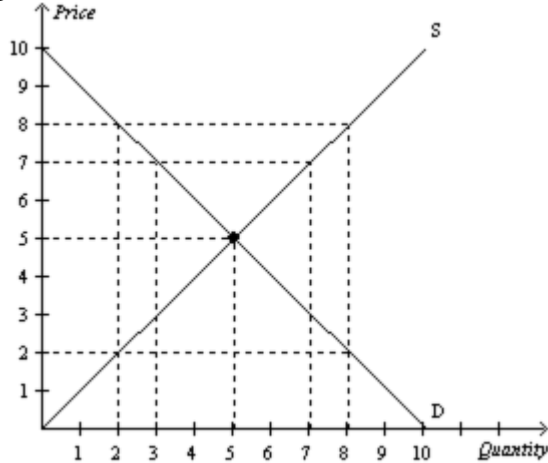
Figure 4-16



3. **Refer to Figure 4-16.** The shift from S to S' in the market for peaches could be caused by a(n)
 - a. increase in the price of peaches.
 - b. decrease in the price of pears.
 - c. increase in income.
 - d. decrease in the labor costs of the workers who pick peaches.

4. The “invisible hand” refers to
- how central planners made economic decisions.
 - how the decisions of households and firms lead to desirable market outcomes.
 - the control that large firms have over the economy.
 - government regulations without which the economy would be less efficient.

Figure 4-17



5. Refer to Figure 4-17. At a price of
- \$8, there is a surplus of 6 units.
 - \$5, there is neither a shortage nor a surplus.
 - \$2, there is a shortage of 6 units.
 - All of the above are correct.
6. The law of demand states that, other things equal, when the price of a good
- falls, the demand for the good rises.
 - rises, the quantity demanded of the good rises.
 - rises, the demand for the good falls.
 - falls, the quantity demanded of the good rises.
7. When describing the opportunity cost of two producers, economists use the term
- natural advantage.
 - trading advantage.
 - comparative advantage.
 - absolute advantage.
8. Economics deals primarily with the concept of
- scarcity.
 - money.
 - poverty.
 - banking.

9. Today's supply curve for iPods could shift in response to a change in
- today's price of iPods.
 - the expected future price of iPods.
 - the number of buyers of iPods.
 - All of the above are correct.
10. When an economist points out that you and millions of other people are interdependent, he or she is referring to the fact that we all
- rely upon the government to provide us with the basic necessities of life.
 - rely upon one another for the goods and services we consume.
 - have similar tastes and abilities.
 - are concerned about one another's well-being.
11. In a market economy, economic activity is guided by
- the government.
 - corporations.
 - central planners.
 - self-interest and prices.
12. In the circular-flow diagram, firms produce
- goods and services using factors of production.
 - output using inputs.
 - factors of production using goods and services.
 - Both (a) and (b) are correct.
13. The production possibilities frontier illustrates
- the combinations of output that an economy should produce.
 - the combinations of output that an economy should consume.
 - the combinations of output that an economy can produce.
 - All of the above are correct.
14. Trade can make everybody better off because it
- increases cooperation among nations.
 - allows people to specialize according to comparative advantage.
 - requires some workers in an economy to be retrained.
 - reduces competition among domestic companies.
15. One way to characterize the difference between positive statements and normative statements is as follows:
- Positive statements tend to reflect optimism about the economy and its future, whereas normative statements tend to reflect pessimism about the economy and its future.
 - Positive statements offer descriptions of the way things are, whereas normative statements offer opinions on how things ought to be.
 - Positive statements involve advice on policy matters, whereas normative statements are supported by scientific theory and observation.
 - Economists outside of government tend to make normative statements, whereas government-employed economists tend to make positive statements.

16. Economists are particularly adept at understanding that people respond to
- laws.
 - incentives.
 - punishments more than rewards.
 - rewards more than punishments.
17. If the United States decides to trade with Yemen, we know that
- Yemen will benefit, but trade with a less developed country could not benefit the United States.
 - it will not benefit Yemen because workers in the United States are more productive.
 - Yemen and the United States can both benefit.
 - it will not benefit either country because their cultural differences are too vast.
18. Factors of production are
- the mathematical calculations firms make in determining their optimal production levels.
 - social and political conditions that affect production.
 - the physical relationships between economic inputs and outputs.
 - inputs into the production process.
19. Which of the following statements is correct?
- Buyers determine supply, and sellers determine demand.
 - Buyers determine demand, and sellers determine supply.
 - Buyers determine both demand and supply.
 - Sellers determine both demand and supply.
20. Assume the market for tennis balls is perfectly competitive. When one tennis ball producer exits the market,
- the price of tennis balls increases.
 - the price of tennis balls decreases.
 - the price of tennis balls does not change.
 - there is no longer a market for tennis balls.
21. Microeconomics is the study of
- how money affects the economy.
 - how individual households and firms make decisions.
 - how government affects the economy.
 - how the economy as a whole works.
22. The opportunity cost of an item is
- the number of hours needed to earn money to buy the item.
 - what you give up to get that item.
 - usually less than the dollar value of the item.
 - the dollar value of the item.

23. A professor spends 10 hours per day giving lectures and writing papers. For the professor, a graph that shows his various possible mixes of output (lectures given per day and papers written per day) is called his
- line of tastes.
 - trade-off curve.
 - production possibilities frontier.
 - consumption possibilities frontier.
24. A demand curve shows the relationship
- between income and quantity demanded.
 - between price and income.
 - between price and quantity demanded.
 - among income, price, and quantity demanded.
25. When drawing a demand curve,
- demand is measured along the vertical axis, and price is measured along the horizontal axis.
 - quantity demanded is measured along the vertical axis, and price is measured along the horizontal axis.
 - price is measured along the vertical axis, and demand is measured along the horizontal axis.
 - price is measured along the vertical axis, and quantity demanded is measured along the horizontal axis.
26. While pollution regulations yield the benefit of a cleaner environment and the improved health that comes with it, the regulations come at the cost of reducing the incomes of the regulated firms' owners, workers, and customers. This statement illustrates the principle that
- trade can make everyone better off.
 - rational people think at the margin.
 - people face tradeoffs.
 - people respond to incentives.
27. Economists make assumptions to
- mimic the methodologies employed by other scientists.
 - minimize the number of experiments that yield no useful data.
 - minimize the likelihood that some aspect of the problem at hand is being overlooked.
 - focus their thinking on the essence of the problem at hand.
28. The most obvious benefit of specialization and trade is that they allow us to
- work more hours per week than we otherwise would be able to work.
 - consume more goods than we otherwise would be able to consume.
 - spend more money on goods that are beneficial to society, and less money on goods that are harmful to society.
 - consume more goods by forcing people in other countries to consume fewer goods.
29. "Prices rise when the quantity of money rises rapidly" is an example of a
- negative economic statement.
 - positive economic statement.
 - normative economic statement.
 - statement that contradicts one of the basic principles of economics.

30. Total output in an economy increases when each person specializes because
- a. there is less competition for the same resources.
 - b. each person spends more time producing that product in which he or she has a comparative advantage.
 - c. a wider variety of products will be produced within each country due to specialization.
 - d. government necessarily plays a larger role in the economy due to specialization.