

Introduction to Economics: Practice Quiz#1

Due: Friday, October 1st

MULTIPLE CHOICE. Circle the choice that best completes the statement or answers the question.

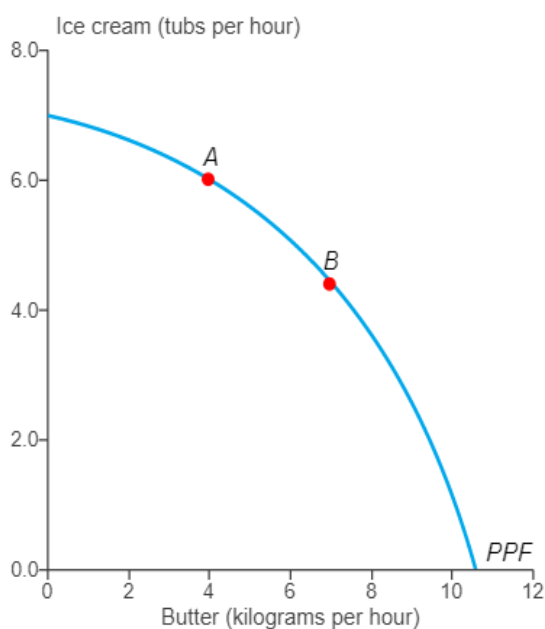
1. Suppose you have a \$20 iTunes gift card with which you can buy (download) songs or videos. Songs cost \$2.00 each and videos cost \$4.00 each. The opportunity cost of one video:
 - (a) increases as more videos are purchased
 - (b) is \$1.00
 - (c) is constant and equal to $\frac{1}{2}$ song
 - (d) is constant and equal to 2 songs
2. Which of the following illustrates scarcity?
 - (a) Megan want to buy a CD that costs \$25 but has only \$10 to spend.
 - (b) Ron will travel to New York City for Thanksgiving.
 - (c) I got a new dress from my mother.
 - (d) Mary loves watching movies.
3. Which of the following is an example of an incentive?
 - (a) Canada has a current unemployment rate of 7.5 percent.
 - (b) All conference volunteers would be offered free lunch on all three days.
 - (c) The Reserve Bank of India has raised interest rates.
 - (d) China is facing increasing labour costs.
4. Which of the following examples describes macroeconomics?
 - (a) Walmart has lowered the price of iPhones before the launch of the new iPhone 5S.
 - (b) Thanksgiving is celebrated on the second Monday of October every year.
 - (c) Alice Munro won the Nobel Prize in Literature in 2013.
 - (d) Canada's unemployment rate has increased by 0.4 percent.

5. Economics ____.
- (a) is a subject that studies only the choices of individuals and businesses
 - (b) divides into two main part– social economics and natural economics
 - (c) studies why we react to positive incentives but not to negative incentives
 - (d) is a subject that studies choices
6. Economics is primarily the study of:
- (a) how scarcity can be eliminated
 - (b) how firms manipulate prices
 - (c) how government influences resource allocation decisions
 - (d) the problem of scarce resources relative to human unlimited wants
7. Which of the following is an element of a centrally-planned economy?
- (a) the market decides what will be produced
 - (b) the market decides the distribution of income
 - (c) production decisions are centralized
 - (d) the market decides what will be produced
8. Which of the following is true of a market economy?
- (a) the government may fix a minimum wage
 - (b) people are paid fair wages for what they do
 - (c) it is also often called a “laissez-faire” economy
 - (d) there will be full employment
9. The phrase “ceteris paribus” is best expressed as:
- (a) “scarcity is a fact of life”
 - (b) “the Spice Girls rock”
 - (c) “all else equal”
 - (d) “everything affects everything else”
10. The principle of diminishing marginal utility states that when we consume more of a good:
- (a) the utility of an extra unit of the good rises
 - (b) we would pay more for an extra unit of the good
 - (c) our demand curve slopes downwards
 - (d) the utility of an extra unit of the good falls

11. You should decide to study an extra hour tonight
- (a) if the marginal cost of studying an extra hour exceeds its marginal benefit
 - (b) if the marginal benefit of studying an extra hour exceeds its marginal cost
 - (c) if you got a lower than expected grade on your last exam
 - (d) because studying harder will improve your test scores
12. Land is the _____ that we use to produce goods and services.
- (a) good
 - (b) tool
 - (c) financial capital
 - (d) gifts of nature or natural resources
13. Which of the following is an example of entrepreneurship
- (a) Facebook is a social networking site.
 - (b) Sam Walton created the multinational retail corporation brand Walmart in 1962
 - (c) Honda Civic and Toyota Corolla are the best-selling compact cars in North America
 - (d) Industrial output in China is increasing
14. The benefit of something is the _____. Benefit is determined by preferences— by what a person _____ and the intensity of those feelings.
- (a) highest valued alternative that must be given up to get it; wants to give up
 - (b) cost of the activity; likes and dislikes
 - (c) sum of the gain and loss that arises from the activity; prefers to gain or lose
 - (d) gain or pleasure it brings; likes and dislikes
15. Choose the correct statement.
- (a) Policy questions involve a blend of positive and normative questions
 - (b) Governments can make better decisions by using the tools of economics, but businesses require the tools of business administration, not economics.
 - (c) For a given goal, economics compares the total benefit from achieving the goal with its total cost to find the best use of the available resources.
 - (d) Economics can help with the normative part of a policy goal

16. Your decision to attend summer school is rational if ____.
- (a) your benefit from the summer school course is greater than its cost
 - (b) your benefit from the summer school course is less than its cost
 - (c) you need the course to graduate
 - (d) living in residence in the summer is cheaper than living in residence during the winter
17. People make rational choices by comparing ____.
- (a) whether a purchase should be made during the economic expansion or an economic recession
 - (b) the countries in which a good is produced
 - (c) the firms that make two similar goods
 - (d) benefits and costs
18. Amber has been spending six nights studying her physics tests and her current grade in the course is 55 percent. She decides to take a part-time job and study only five nights for her next test. As a result, after her next test, her grade falls to 50 percent. The marginal cost to Amber of working one night a week is ____.
- (a) 55 percentage points
 - (b) 5 percentage points
 - (c) 50 percentage points
 - (d) greater than 50 percentage points and less than 55 percentage points
19. What is your opportunity cost of remaining in school? By remaining in school, you are paying an opportunity cost that includes ____.
- (a) the money you spend on winter boots
 - (b) time you could have been playing soccer instead of studying
 - (c) the money you spend on iTunes
 - (d) the time you spend doing laundry
20. When Costco opened a gas bar just off Highway 401, the neighbourhood was swamped with cars as drivers lined up to get the discount of 10 cents a litre. The opportunity cost of a litre of gas is ____.
- (a) the amount of money that a consumer saves by buying gasoline at Costco
 - (b) the time you would have spent doing something other than waiting to buy gas
 - (c) the 10 cent discount on a litre of gasoline
 - (d) the pleasure that motorists receive from buying cheaper gasoline

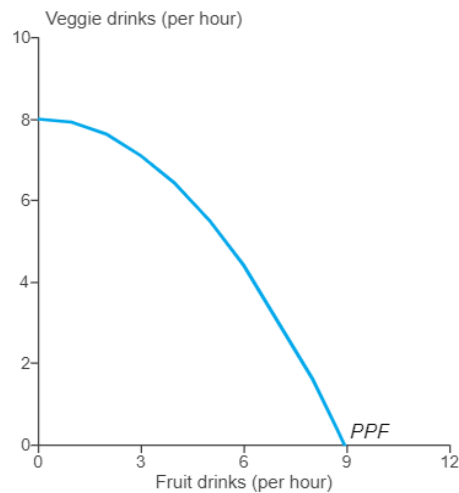
21. When you choose to spend more on going to the movies and less on going to concerts, you ____.
- (a) must tradeoff going to concerts for going to the movies, and you are facing a what tradeoff
 - (b) avoid scarcity by making the best choice
 - (c) do not need to tradeoff going to concerts for going to the movies
 - (d) get additional going to the movies free
22. The opportunity cost of a tub of ice cream is ____ at point A than at point B. The opportunity cost of a kilogram of butter is ____ at point B than at point A.



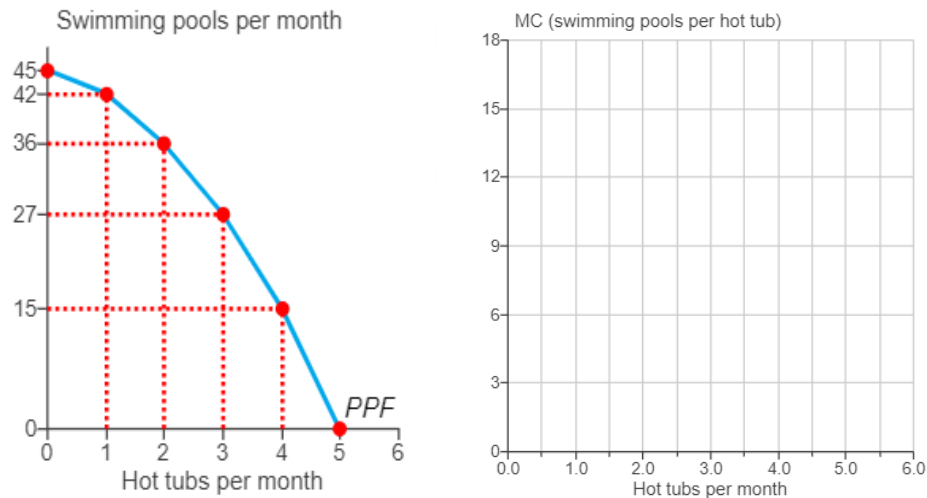
- (a) less; greater
 - (b) less; less
 - (c) greater; greater
 - (d) greater; less
23. Choose the correct statement.
- (a) Marginal benefit is the highest-valued alternative forgone.
 - (b) The more we have of any good, the more we are willing to pay for an additional unit.
 - (c) The basic reason why marginal benefit decreases as we consume more of a good is that we like variety
 - (d) Increasing marginal benefit is a universal feature of people's preferences.

COMPLETE SOLUTIONS. Show all your work, using correct terminology, for full marks. Use fully labelled diagrams and references to examples where appropriate.

24. The figure shows the production possibilities frontier for Suzie's Smoothies, a health-drink producer. Draw a point at which Suzie's Smoothies achieves production efficiency.

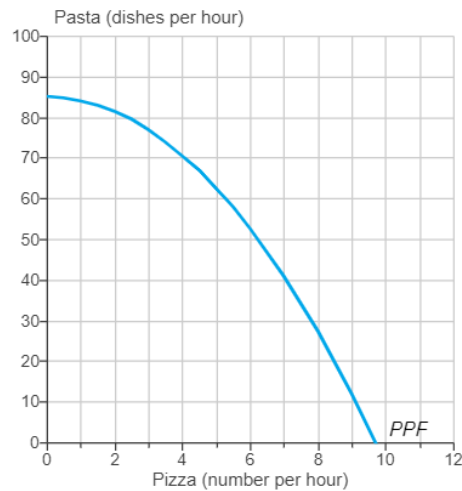


25. The graph below shows an economy's PPF.



In the right graph, draw three points to show the marginal cost of producing a hot tub when the number increases from 0 to 1, from 2 to 3, and from 4 to 5 hot tubs per month. Draw a marginal cost curve that is consistent with the PPF. Label it.

26. The figure shows the production possibilities frontier for Mario's, a pizza and pasta producer.



- (a) Draw a point at which the firm achieves production efficiency. Label it Efficient.
- (b) Draw a point that is attainable but inefficient. Label it inefficient.
27. The choice between military products and the provision of health care illustrates the problem of “opportunity cost”. Explain the nature of this problem, using a production possibility frontier to help you.