

**Practice for Chapter one  
Fall 2017**

1. The principle of opportunity cost is that
  - A) in a market economy, taking advantage of profitable opportunities involves some money cost.
  - B) the economic cost of using a factor of production is the alternative use of that factor that is given up.**
  - C) taking advantage of investment opportunities involves costs.
  - D) the cost of production varies depending on the opportunity for technological application.
  
2. In economics, choices must be made because we live in a world of
  - A) unemployment.
  - B) scarcity.**
  - C) greed.
  - D) unlimited resources.
  
3. Economists assume that individuals
  - A) behave in unpredictable ways.
  - B) will never take actions to help others.
  - C) prefer to live in a society that values fairness above all else.
  - D) are rational and respond to incentives.**
  
4. The idea that because of scarcity, producing more of one good or service means producing less of another good or service refers to the economic concept of
  - A) optimization.
  - B) efficiency.
  - C) trade-off.**
  - D) equity.
  
5. In a modern mixed economy, who decides what goods and services will be produced?
  - A) only the producers
  - B) only consumers
  - C) only the government
  - D) all of the above**
  
6. Microeconomics is the study of
  - A) how households and firms make choices.**
  - B) the economy as a whole.
  - C) the global economy.
  - D) topics such as unemployment, inflation, and economic growth.
  
7. When production reflects consumer preferences, \_\_\_\_\_ occurs.
  - A) allocative efficiency**
  - B) productive efficiency
  - C) equity
  - D) efficient central planning
  
- 8) The basic economic problem of \_\_\_\_\_ has always existed and will continue to exist.
  - A) scarcity**
  - B) efficiency
  - C) inflation
  - D) recession
  
- 9) By definition, economics is the study of
  - A) how to make money in the stock market.
  - B) how to make money in a market economy.
  - C) the choices people make to attain their goals, given their scarce resources.**
  - D) supply and demand.

10) An economic \_\_\_\_\_ is a simplified version of some aspect of economic life used to analyze an economic issue.

- A) market
- B) trade-off
- C) variable
- D) model

11) In economics, the term \_\_\_\_\_ refers to a group of buyers and sellers of a product and the arrangement by which they come together to trade.

- A) collective
- B) cooperative
- C) market
- D) trade-off

12) Economists assume that rational people do all of the following *except*

- A) use all available information as they act to achieve their goals.
- B) undertake activities that benefit others and hurt themselves.
- C) weigh the benefits and costs of all possible alternative actions.
- D) respond to economic incentives.

13) In economics, the term \_\_\_\_\_ means "additional" or "extra."

- A) allocative
- B) marginal
- C) equity
- D) optimal

14) Making optimal decisions "at the margin" requires

- A) making decisions according to one's whims and fancies.
- B) making consistently irrational decisions.
- C) weighing the costs and benefits of a decision before deciding if it should be pursued.
- D) making borderline decisions.

15) Automobile manufacturers produce a range of automobiles such as sports utility vehicles, luxury sedans, pickup trucks, and compact cars. What fundamental economic question are they addressing by making this range of products?

- A) How to produce goods that consumers want?
- B) Why produce a variety of automobiles?
- C) What to produce?
- D) Who to produce automobiles for?

16) Consider the following economic agents:

- a. the government
- b. consumers
- c. producers

Who, in a centrally planned economy, decides what goods and services will be produced with the scarce resources available in that economy?

- A) the government
- B) producers
- C) consumers
- D) consumers and producers
- E) the government, consumers, and producers

17) The machines workers have to work with are considered

- A) human capital.
- B) physical capital.
- C) entrepreneurship.
- D) financial capital.

18) Technology is defined as

- A) the process of developing and revising models.
- B) new innovations and creations.
- C) the processes used to produce goods and services.
- D) the process of recycling products.

19) In economics, the accumulated skills and training that workers have is known as

- A) human capital.
- B) entrepreneurship.
- C) physical capital.
- D) innovation.

20) Mr. Peabody chooses to invest in companies that produce goods and services at the lowest possible cost. Mr. Peabody is investing in companies that are

- A) allocatively efficient.
- B) productively efficient.
- C) guaranteed to make a profit.
- D) all of the above

**True or False. Highlight the true statement.**

1. Only individuals face scarcity; firms and the government do not.
2. The government makes all economic decisions in a market economy.
3. An economic model is a simplified version of reality used to analyze real-world economic situations.
4. The decision about what goods and services will be produced in a market economy is made by consumers and firms choosing which goods and services to buy or produce.
5. Assumptions, hypothesis, and data are part of an economic model.
6. One example of human capital is the amount of skills that you have
7. Positive analysis is concerned with "what ought to be," while normative analysis is concerned with "what is."
8. The government makes all economic decisions in a mixed economy.
9. In a centrally planned economy, the households and firms decide how economic resources will be allocated.