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

1) Economic scarcity arises from
   A) limited resources and limitless wants.   B) exploration.
   C) inefficient production.                D) limited wants and limitless resources.

2) Fundamental economic problems basically arise from
   A) our wants exceeding our scarce resources.
   B) the fact that society has more than it needs.
   C) the unequal distribution of income.
   D) turmoil in the stock market.

3) The study of the decisions of individual units in the economy is known as
   A) macroeconomics.                     B) microeconomics.
   C) \textit{ceteris paribus} study.      D) the study of incentives.

4) The branch of economics that deals with the analysis of the whole economy is called
   A) microeconomics.                    B) marginal analysis.
   C) \textit{ceteris paribus} analysis.   D) macroeconomics.

5) Which of the following is correct? Factors of production are
   A) the inputs used to produce goods and services.
   B) land, labor, the price system, and capital.
   C) the fundamental source of abundance.
   D) only land and labor.

6) Opportunity cost is best defined as
   A) how much money is paid for something, taking inflation into account.
   B) how much money is paid for something.
   C) all the alternatives that are given up to get something.
   D) the highest-valued alternative that is given up to get something.
7) After you graduate, you have decided to accept a position working at the Bureau of Labor Statistics for $35,000.00 a year. The two other offers you received were working for Wal-Mart for $28,000 and working for Ernst and Young consulting for $32,000. What is the opportunity cost of accepting the position at the Bureau of Labor Statistics?
   A) the $32,000 you would have been paid working for Ernst and Young and the $28,000 you would have been paid working for Wal-Mart
   B) the $28,000 you would have been paid working for Wal-Mart
   C) the $35,000 you are paid for working at the Bureau of Labor Statistics
   D) the $32,000 you would have been paid working for Ernst and Young

8) The marginal benefit is the
   A) additional cost from one more unit of an activity.
   B) forgone opportunity.
   C) additional gain from one more unit of an activity.
   D) loss of the highest-valued alternative.

9) A cost due to an increase in activity is called
   A) an incentive loss.
   B) a negative marginal benefit.
   C) a marginal cost.
   D) the total cost.

10) A lawn service is deciding whether to add an additional employee to its summer crew. The marginal cost of hiring this worker depends on the
    A) the additional revenue created by having an additional worker.
    B) total amount paid to previously hired workers.
    C) total amount paid to the new worker.
    D) the total amount paid to all the workers, both the new one and the previously hired workers.

11) To decide whether to go to the beach for spring break, you should
    A) not make the fallacy of composition.
    B) unscramble cause and effect.
    C) not make the post hoc fallacy.
    D) compare marginal cost to the marginal benefit of taking the trip.

12) A positive statement is a statement about
    A) what is.
    B) what is desirable.
    C) what should be but is not.
    D) what is and what should be.
13) Normative economic statements
   A) deal with economic hypotheses that are not well-established laws.
   B) describe what ought to be.
   C) describe what is rather than what ought to be.
   D) describe the process of economic policy-making.

14) The statement "Unemployment should be kept at or below a level of 6 percent" is
   A) a positive statement.      B) an assumption.
   C) a normative statement.    D) a prediction.

15) The term *ceteris paribus* means
   A) all other things remaining equal.      B) value free and testable.
   C) the study of scarcity and choice.      D) the greatest good for all.

16) The fallacy of composition is the false belief that
   A) the *ceteris paribus* condition does not apply.
   B) what is true for each part is also true for the whole.
   C) because event A occurred after event B, event A caused event B.
   D) because event A occurred before event B, event A caused event B.

17) The ________ describes the mistake of reasoning that event A causes event B just because event A occurs prior to event B.
   A) fallacy of composition      B) fallacy of supposition
   C) *post hoc* fallacy         D) *ceteris paribus* fallacy

18) The production possibilities frontier represents
   A) combinations of goods and services among which consumers are indifferent.
   B) the maximum rate of growth of capital and labor in a country.
   C) the maximum levels of production that can be attained.
   D) the maximum amount of labor and capital available to society.

19) Suppose the country of Popcorn produces only jets and corn. If Popcorn cannot produce any more jets without giving up corn, we say that Popcorn has achieved
   A) the lowest marginal cost.      B) the highest opportunity cost.
   C) the highest marginal benefit.  D) production efficiency.
20) A reduction in the amount of unemployment
   A) moves the economy’s point of production closer to the production possibilities frontier.
   B) shifts the production possibilities frontier outward.
   C) moves the economy’s point of production further away from the production possibilities frontier.
   D) moves the economy’s point of production along the production possibilities frontier.

21) Suppose a country, when operating on its PPF, can produce 2 tons of butter and 200 cars OR 3 tons of butter and 150 cars. The opportunity cost of 1 ton of butter is
   A) 200 cars.  
   B) 300 cars.  
   C) 50 cars.  
   D) 0.75 cars.

22) The figure above illustrates that if this country wishes to have $F_2 - F_1$ additional food by moving from point $A$ to point $B$, it will
   A) require that all the unemployed resources in the country be put to work.
   B) have to find additional workers, because the country already is operating on its production possibilities frontier.
   C) have to sacrifice $C_1 - C_2$ clothing in order to free the resources necessary to produce the additional food.
   D) be unable to do so until additional technological progress is made.

23) Increasing opportunity cost while moving along a production possibilities frontier is the result of
   A) the fact that it is more difficult to use resources efficiently the more society produces.
   B) firms’ needs to produce profits.
   C) the fact that resources are not equally productive in alternative uses.
   D) taxes.
24) The fact of increasing opportunity costs means that a production possibilities frontier will
   A) bow outward.
   B) shift outward over time.
   C) reach a maximum and then gradually decrease.
   D) be a straight line.

   Production possibilities

<table>
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<tr>
<th>Possibility</th>
<th>Pizza (per hour)</th>
<th>Soda (cases per hour)</th>
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<tr>
<td>A</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>95</td>
</tr>
<tr>
<td>C</td>
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<td>D</td>
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</tr>
<tr>
<td>F</td>
<td>5</td>
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</table>

25) In the above table, the opportunity cost of the 2nd pizza is
   A) 95 cases of soda.  B) 80 cases of soda.
   C) 0 cases of soda.  D) 15 cases of soda.
1) A  
   Topic: Scarcity

2) A  
   Topic: Scarcity

3) B  
   Topic: Microeconomics and Macroeconomics

4) D  
   Topic: Microeconomics and Macroeconomics

5) A  
   Topic: Factors of Production

6) D  
   Topic: Opportunity Cost

7) D  
   Topic: Opportunity Cost

8) C  
   Topic: Marginal Benefit

9) C  
   Topic: Marginal Cost

10) C  
    Topic: Marginal Cost

11) D  
    Topic: Marginal Benefit/Marginal Cost

12) A  
    Topic: Positive and Normative

13) B  
    Topic: Positive and Normative

14) C  
    Topic: Positive and Normative

15) A  
    Topic: Ceteris Paribus

16) B  
    Topic: Fallacy of Composition

17) C  
    Topic: Post Hoc Fallacy

18) C  
    Topic: Production Possibilities Frontier

19) D  
    Topic: Production Efficiency

20) A  
    Topic: Production Efficiency

21) C  
    Topic: Opportunity Cost

22) C  
    Topic: Opportunity Cost

23) C  
    Topic: Increasing Opportunity Cost

24) A  
    Topic: Increasing Opportunity Cost

25) D  
    Topic: Opportunity Cost