

Student: \_\_\_\_\_

1. Economics is best defined as the study of:
  - A. prices and quantities.
  - B. inflation and interest rates.
  - C. how people make choices under the conditions of scarcity and the results of those choices.
  - D. wages and incomes.
2. Economic questions always deal with:
  - A. financial matters.
  - B. political matters.
  - C. insufficient resources.
  - D. choice in the face of limited resources.
3. The range of topics or issues that fit within the definition of economics is:
  - A. limited to market activities, e.g., buying soap.
  - B. limited to individuals and firms.
  - C. extremely wide, requiring only the ideas of choice and scarcity.
  - D. very limited.
4. The central concern of economics is:
  - A. poverty.
  - B. scarcity.
  - C. wealth accumulation.
  - D. overconsumption.
5. The scarcity principle indicates that:
  - A. no matter how much one has, it is never enough.
  - B. compared to 100 years ago, individuals have less time today.
  - C. with limited resources, having more of "this" means having less of "that".
  - D. because tradeoffs must be made, resources are therefore scarce.
6. The logical implication of the scarcity principle is that:
  - A. one will never be satisfied with what one has.
  - B. as wealth increases, making choices becomes less necessary.
  - C. as wealth decreases, making choices becomes less necessary.
  - D. choices must be made.
7. If all the world's resources were to magically increase a hundredfold, then:
  - A. the scarcity principle would still govern behavior.
  - B. economics would no longer be relevant.
  - C. the scarcity principle would disappear.
  - D. tradeoffs would become unnecessary.
8. The principle of scarcity applies to:
  - A. the poor exclusively.
  - B. all consumers.
  - C. all firms.
  - D. everyone—consumers, firms, governments, and nations.
9. At the very least, Joe Average and Bill Gates are both identically limited by:
  - A. their wealth.
  - B. the 24 hours that comprise a day.
  - C. their knowledge.
  - D. their influence.

10. Forest is a mountain man living in complete isolation in Montana. He is completely self-sufficient through hunting, fishing, and farming. He has not been in the city to buy anything in five years. One can infer:
  - A. the scarcity principle does not apply to Forest.
  - B. Forest is not required to make choices.
  - C. the scarcity principle still applies because more hunting means less fishing and farming.
  - D. Forest is very satisfied.
11. The scarcity principle applies to:
  - A. all decisions.
  - B. only market decisions, e.g., buying a car.
  - C. only non-market decisions, e.g., watching a sunset.
  - D. only the poor.
12. Chris has a one-hour break between classes every Wednesday. Chris can either stay at the library and study or go to the gym and work out. The decision Chris must make is:
  - A. not an economic problem because neither one costs money.
  - B. not an economic problem because it's an hour that is wasted no matter what Chris does.
  - C. an economic problem because the tuition Chris pays covers both the gym and the library.
  - D. an economic problem because Chris has only one hour during which he can study or work out.
13. Josh wants to go to the football game this weekend, but he has a paper due on Monday. It will take him the whole weekend to write the paper. Josh decided to stay home and work on the paper. According to the scarcity principle, the reason Josh didn't go to the game is that:
  - A. Josh prefers schoolwork to football games.
  - B. writing the paper is easier than going to the game.
  - C. Josh doesn't have enough time for writing the paper and going to the game.
  - D. it's too expensive to go to the game.
14. Whether studying the size of the U.S. economy or the number of children a couple will choose to have, the unifying concept is that wants are:
  - A. limited, resources are limited, and thus choices must be made.
  - B. unlimited, resources are limited, and thus choices must be made.
  - C. unlimited, resources are limited to some but not to others, and thus some people must make choices.
  - D. unlimited, resources are limited, and thus government needs to do more.
15. The cost-benefit principle indicates that an action should be taken:
  - A. if the total benefits exceed the total costs.
  - B. if the average benefits exceed the average costs.
  - C. if the net benefit (benefit minus cost) is zero.
  - D. if the extra benefit is greater than or equal to the extra costs.
16. When a person decides to pursue an activity as long as the extra benefits are at least equal to the extra costs, that person is:
  - A. violating the cost-benefit principle.
  - B. following the scarcity principle.
  - C. following the cost-benefit principle.
  - D. pursuing the activity too long.
17. Choosing to study for an exam until the extra benefit (improved score) equals the extra cost (mental fatigue) is:
  - A. not rational.
  - B. an application of the cost-benefit principle.
  - C. an application of the scarcity principle.
  - D. the relevant opportunity cost.

18. The scarcity principle tells us that \_\_\_\_\_, and the cost-benefit principle tells us \_\_\_\_\_.
- A. choices must be made; how to make the choices
  - B. choices must be made; that the costs can never outweigh the benefits of the choices
  - C. rare goods are expensive; that the costs should outweigh the benefits of the choices
  - D. rare goods are expensive; that the costs can never outweigh the benefits of the choices
19. According to the cost-benefit principle:
- A. the lowest cost activity usually gives the lowest benefit.
  - B. a person should always choose the activity with the lowest cost.
  - C. a person should always choose the activity with the greatest benefit.
  - D. the extra costs and benefits of an activity are more important considerations than the total costs and benefits.
20. A rational person is one who:
- A. is reasonable.
  - B. makes choices that are easily understood.
  - C. possesses well-defined goals and seeks to achieve them.
  - D. is highly cynical.
21. The seventh glass of soda that Tim consumes will produce an extra benefit of 10 cents and has an extra cost of zero (Tim is eating at the cafeteria). The cost-benefit principle predicts that Tim will:
- A. realize he has had too much soda to drink and go home.
  - B. drink the seventh glass and continue until the marginal benefit of drinking another glass of soda is zero.
  - C. volunteer to empty out the fountain.
  - D. not drink the seventh glass.
22. Janie must either mow the lawn or wash clothes, earning her a benefit of \$30 or \$45, respectively. She dislikes both equally and they both take the same amount of time. Janie will therefore choose to \_\_\_\_\_ because the economic surplus is \_\_\_\_\_.
- A. mow the lawn; greater
  - B. wash clothes; greater
  - C. mow the law; smaller
  - D. wash clothes; smaller
23. Dean decided to play golf rather than prepare for tomorrow's exam in economics. One can infer that:
- A. Dean has made an irrational choice.
  - B. Dean is doing poorly in his economics class.
  - C. the economic surplus from playing golf exceeded the surplus from studying.
  - D. the cost of studying was less than the cost of golfing.
24. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. No Name U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year.
- The opportunity cost of attending Elite U is:
- A. \$50,000
  - B. \$10,000
  - C. \$20,000
  - D. \$15,000

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The opportunity cost of attending State College is:

- A. \$30,000
- B. \$20,000
- C. \$15,000
- D. \$10,000

26. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year.

Larry maximizes his surplus by attending:

- A. Elite U, because \$60,000 is greater than the benefit at the other schools.
- B. State College, because the difference between the benefit and cost is greatest there.
- C. NoName U, because Larry has a full scholarship there.
- D. Elite U, because the opportunity costs of attending Elite U are the lowest.

27. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year.

Larry has decided to go to Elite U. Assuming that all of the values described are correct, for Larry to decide on Elite U, he must have:

- A. calculated his surplus from each choice and picked the one with the highest surplus.
- B. underestimated the benefits of attending No Name.
- C. miscalculated the surplus of attending Elite U.
- D. determined the opportunity cost of each choice and picked the one with the lowest opportunity cost.

28. Jen spends her afternoon at the beach, paying \$1 to rent a beach umbrella and \$11 for food and drinks rather than spending an equal amount of money to go to a movie. The opportunity cost of going to the beach is:

- A. the \$12 she spent on the umbrella, food and drinks.
- B. only \$1 because she would have spent the money on food and drinks whether or not she went to the beach.
- C. the movie she missed seeing.
- D. the movie she missed seeing plus the \$12 she spent on the umbrella, food and drinks.

29. Relative to a person who earns minimum wage, a person who earns \$30 per hour has:

- A. a lower opportunity cost of working longer hours.
- B. a higher opportunity cost of taking a day off.
- C. a lower opportunity cost of driving farther to work.
- D. the same opportunity cost of spending time on leisure activities.

30. The opportunity cost of an activity is the value of:

- A. an alternative forgone.
- B. the next-best alternative forgone.
- C. the least-best alternative forgone.
- D. the difference between the chosen activity and the next-best alternative forgone.

31. Amy is thinking about going to the movies tonight. A ticket costs \$7 and she will have to cancel her dog-sitting job that pays \$30. The cost of seeing the movie is:
- \$7.
  - \$30.
  - \$37.
  - \$37 minus the benefit of seeing the movie.
32. Economic surplus is:
- the benefit gained by taking an action.
  - the price paid to take an action.
  - the difference between the benefit gained and the cost incurred of taking an action.
  - the wage someone would have to earn in order to take an action.
33. The Governor of your state has cut the budget for the University and increased spending on Medicaid. This is an example of:
- the pitfalls of considering average costs instead of marginal costs.
  - poor normative economic decision making.
  - poor positive economic decision making.
  - choice in the face of limited resources.
34. Sally earned \$25,000 per year before she became a mother. After she became a mother, she told her employer that her opportunity cost of working is now \$50,000, and so she is not willing to work for anything less. Her decision is based on:
- the high cost of raising a child.
  - her desire to save for her child's college expenses.
  - her increased value to her employer.
  - the value she places on spending time with her child.
35. Alex received a four-year scholarship to State U. that covered tuition and fees, room and board, and books and supplies. As a result:
- attending State U. for four years is costless for Alex.
  - Alex has no incentive to work hard while at State U.
  - the cost of attending State U. is the amount of money Alex could have earned working for four years.
  - the cost of attending State U. is the sum of the benefits Alex would have had attending each of the four other schools to which Alex had been admitted.
36. Suppose Mary is willing to pay up to \$15,000 for a used Ford pick-up truck, but she finds one for \$12,000. Her \_\_\_\_\_ is \_\_\_\_\_.
- benefit; \$12,000
  - cost; \$15,000
  - economic surplus; \$3,000
  - economic surplus; \$12,000
37. In general, rational decision making requires one to choose the actions that yield the:
- largest total benefits.
  - smallest total costs.
  - smallest net benefits.
  - largest economic surpluses.
38. Suppose the most you would be willing to pay for a plane ticket home is \$250, but you buy one online for \$175. The economic surplus of buying the online ticket is:
- \$175.
  - \$250.
  - \$75.
  - \$0.

39. The use of economic models, like the cost-benefit principle, means economists believe that:
- A. this is exactly how people choose between alternatives.
  - B. this is a reasonable abstraction of how people choose between alternatives.
  - C. those who explicitly make decisions this way are smarter.
  - D. with enough education, all people will start to explicitly make decisions this way.
40. Jenna decides to see a movie that costs \$7 for the ticket and has an opportunity cost of \$20. After the movie, she says to one of her friends that the movie was not worth it. Apparently:
- A. Jenna failed to apply the cost-benefit model to her decision.
  - B. Jenna was not rational.
  - C. Jenna overestimated the benefits of the movie.
  - D. Jenna underestimated the benefits of the movie.
41. Most of us make sensible decisions most of the time, because:
- A. we know the cost-benefit principle.
  - B. subconsciously we are weighing costs and benefits.
  - C. most people know about the scarcity principle.
  - D. we conduct hypothetical mental auctions when we make decisions.
42. Suppose a person makes a choice that seems inconsistent with the cost-benefit principle. Which of the following statements represents the most reasonable conclusion to draw?
- A. The person (explicitly or implicitly) over-estimated the benefits or under-estimated the costs or both.
  - B. The cost-benefit principle is rarely true.
  - C. The person does not grasp how decisions should be made.
  - D. The person is simply irrational.
43. Economic models are intended to:
- A. apply to all examples equally well.
  - B. eliminate differences in the way people behave.
  - C. generalize about patterns in decision-making.
  - D. distinguish economics students from everyone else.
44. Economic models claim to be:
- A. reasonable abstractions of how people make choices, highlighting the most important factors.
  - B. exact replications of the decision-making process people use.
  - C. interesting chalkboard exercises with little applicability to the real world.
  - D. exceptionally accurate methods of predicting nearly all behavior of everyone.
45. The cost-benefit model used by economists is:
- A. unrealistic because it is too detailed and specific to apply to a variety of situations.
  - B. unrealistic because everyone can think of times when he or she violated the principle.
  - C. useful because everyone follows it all of the time.
  - D. useful because most people follow it most of the time.
46. Barry owns a clothing store in the mall and has asked two economic consultants to develop models of consumer behavior that he can use to increase sales. Barry should choose the model that:
- A. does not include simplifying assumptions.
  - B. is the most detailed and complex.
  - C. assumes that consumers apply the cost-benefit principle.
  - D. predicts that consumers will always prefer Barry's store to the competing stores.
47. Economists use abstract models because:
- A. every economic situation is unique, so it is impossible to make generalizations.
  - B. every economic situation is essentially the same, so specific details are unnecessary.
  - C. they are useful for describing general patterns of behavior.
  - D. computers have allowed economists to develop abstract models.

48. Most people make some decisions based on intuition rather than calculation. This is:
- A. irrational, because intuition is often wrong.
  - B. consistent with the economic model of decision-making, because calculating costs and benefits leads to decision-making pitfalls.
  - C. consistent with the economic model because people intuitively compare the relative costs and benefits of the choices they face.
  - D. inconsistent with the economic model, but rational because intuition takes into account non-financial considerations.
49. Moe has a big exam tomorrow. He considered studying this evening, but decided to go out with Curly instead. Since Moe always chooses rationally, it must be true that:
- A. the opportunity cost of studying tonight is less than the value Moe gets from spending time with Curly.
  - B. the opportunity cost of studying tonight is equal to the value Moe gets from spending time with Curly . minus the cost of earning a low grade on the exam.
  - C. Moe gets more benefit from spending time with Curly than from studying.
  - D. Moe gets less benefit from spending time with Curly than from studying.
50. If one fails to account for implicit costs in decision making, then applying the cost-benefit rule will be flawed because:
- A. the benefits will be overstated.
  - B. the costs will be understated.
  - C. the benefits will be understated.
  - D. the costs will be overstated.
51. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.
- If you do not use the frequent-flyer coupon to fly, should you go to Miami?
- A. Yes, your benefit is more than your cost.
  - B. No, your benefit is less than your cost.
  - C. Yes, your benefit is equal to your cost.
  - D. No, because there are no benefits in the trip.
52. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.
- What is the opportunity cost of using the coupon for the Miami trip?
- A. \$100
  - B. \$450
  - C. \$500
  - D. \$550

53. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.

If you use the frequent-flyer coupon to fly to Atlanta, would you get any economic surplus by making the trip?

- A. No, there is a loss of \$50.
- B. Yes, surplus of \$350.
- C. Yes, surplus of \$400.
- D. Yes, surplus of \$100.

54. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.

If the Chicago-Atlanta round-trip air fare is \$350, should you go to Miami?

- A. No, there is a loss of \$50.
- B. No, there is a loss of \$100.
- C. Yes, there is economic surplus of \$50.
- D. Yes, there is economic surplus of \$400.

55. Pat earns \$25,000 per year (after taxes), and Pat's spouse, Chris, earns \$35,000 (after taxes). They have two pre-school children. Childcare for their children costs \$12,000 per year. Pat has decided to stay home and take care of the children. Pat must:
- A. value spending time with the children by more than \$25,000.
  - B. value spending time with the children by more than \$12,000.
  - C. value spending time with the children by more than \$13,000.
  - D. value spending time with the children as much as does Chris.

56. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as the concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

Should you go to the concert instead of working Saturday?

- A. Yes, your benefit is more than your cost.
- B. No, your benefit is less than your cost.
- C. Yes, your benefit is equal to your cost.
- D. No, because there are no benefits in the concert.

57. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as the concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

What is the opportunity cost of going to the concert?

- A. \$1
- B. \$9
- C. \$35
- D. \$36

58. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as the concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

What is your opportunity cost, if you go to work on Saturday?

- A. \$0
- B. \$9
- C. \$35
- D. \$36

59. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as the concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

Your economic surplus of going to work on Saturday is:

- A. \$0
- B. \$1
- C. \$35
- D. \$36

60. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16.

The benefit to Matt of buying his books at the bookstore is \_\_\_\_\_.

- A. \$5
- B. \$9
- C. \$170
- D. \$175

61. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16.

The benefit to Matt was \_\_\_\_\_ from driving to campus to buy the concert ticket last week.

- A. \$2
- B. \$4
- C. \$9
- D. \$16

62. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16.

According to the cost-benefit principle:

Ait would not be rational for Matt to drive to campus to purchase the books because the \$5 saving is only . two percent of the cost of the books, and that is much less than the 25 percent he saved on the concert ticket.

B it would be rational for Matt to drive to campus to purchase the books because it costs less to buy the . books there than via the Internet.

Cit would be rational for Matt to drive to campus to purchase the books because the \$5 saving is more . than he saved by driving there to buy the concert ticket.

Dit would not be rational for Matt to drive to campus to purchase the books because the cost of gas and . his time must certainly be more than the \$5 he would save.

63. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16.

Assume the minimum that Matt would be willing to accept to drive to the university campus is equal to the amount he saved on the concert ticket. What would be the amount of his economic surplus if he bought his textbooks at the university bookstore rather than via the Internet?

- A. \$5  
B. \$1  
C. \$50  
D. \$20
64. The marginal benefit of an activity is the:  
A. same as the total benefits of the activity.  
B. total benefit divided by the level of the activity.  
C. extra benefit associated with an extra unit of the activity.  
D. total benefit associated with an extra unit of the activity.
65. If the marginal costs of 1, 2, and 3 hours of talking on the phone are \$50, \$75, and \$105 respectively, then the total costs are of 1, 2 and 3 hours of talking on the phone are:  
A. \$50, \$150, and \$315 respectively.  
B. \$50, \$41.67, and \$115 respectively.  
C. \$50, \$125, and \$230 respectively.  
D. \$50, \$175, and \$405 respectively.
66. If the total benefits of watching 1, 2, and 3 baseball games on TV are 100, 120, and 125 respectively, then the marginal benefits of watching 1, 2 and 3 baseball games on TV are:  
A. 100, 120, and 125 respectively.  
B. 100, 20, and 5 respectively.  
C. 100, 609, and 41.67 respectively.  
D. 100, 240, and 375 respectively.
67. The extra benefit that comes from an extra unit of activity is called the \_\_\_\_\_ of the activity.  
A. marginal benefit.  
B. marginal cost.  
C. average benefit.  
D. reservation benefit.
68. The marginal cost of an activity is the:  
A. change in the cost of the activity that results from an extra unit of the activity.  
B. same as the total cost of the activity.  
C. ratio of total cost to the level of the activity.  
D. change in the level of the activity divided by the change in the cost of the activity.
69. The extra cost that results from an extra unit of an activity is the:  
A. marginal benefit.  
B. marginal cost.  
C. reservation cost.  
D. same as the opportunity cost.
70. Dividing the total cost of  $n$  units of an activity by  $n$  reveals the:  
A. average benefit.  
B. marginal cost.  
C. units per cost.  
D. average cost.

71. You had to pay \$600 (non-refundable) for your meal plan for the Fall semester, which gives you up to 150 meals. If you eat all of the meals, your average cost for a meal equals:
- \$6.
  - \$5.
  - \$4.
  - \$0.25.
72. You had to pay \$600 (non-refundable) for your meal plan for Fall semester which gives you up to 150 meals. If you eat only 100 meals, your average cost for a meal equals:
- \$6.
  - \$5.
  - \$4.
  - \$0.25.
73. You had to pay \$600 (non-refundable) for your meal plan for Fall semester, which gives you up to 150 meals. If you eat only 100 meals, your marginal cost for the 100<sup>th</sup> meal is:
- \$6
  - \$4
  - \$0.25
  - \$0
74. The average benefit of an activity is the:
- total benefit of the activity divided by the number of units.
  - number of units divided by the total benefit of the activity.
  - number of units times the total benefit of the activity.
  - extra benefit for one additional unit of the activity.
75. You save \$10 on gas every week since you live close to the bus stop. You have class five days a week. What is your average benefit per day for living close to the bus stop?
- \$10
  - \$5
  - \$2
  - \$1.43
76. Your scholarship depends on your maintaining a 3.5 cumulative GPA. Your GPA for last semester was 3.6, which brought your cumulative GPA down. What must be true?
- Your marginal grades (last semester's grades) were higher than your overall GPA.
  - Your marginal grades (last semester's grades) were lower than your overall GPA.
  - If this semester's grades are the same as last semester's, your overall GPA will stay the same.
  - If this semester's grades are the same as last semester's, you might lose your scholarship.

77.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. The average cost of 4 units of this activity is:

- \$20
- \$25
- \$30
- \$40

78.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. The marginal cost of the 3<sup>rd</sup> unit of this activity is:

- A. \$30
- B. \$25
- C. \$20
- D. \$10

79.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. The average benefit of 3 units of activity is:

- A. \$80
- B. \$60
- C. \$40
- D. \$20

80.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. The marginal benefit of the 5<sup>th</sup> unit of activity is:

- A. \$60
- B. \$50
- C. \$5
- D. \$0

81.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is:

- A. 1
- B. 3
- C. 4
- D. 6

82.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. The average cost of 5 units of activity is:

- A. \$1
- B. \$2
- C. \$3
- D. \$4

83.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. The marginal cost of the 4<sup>th</sup> unit of activity is:

- A. \$1
- B. \$2
- C. \$3
- D. \$4

84.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. The average benefit of 4 units of activity is:

- A. \$4
- B. \$5
- C. \$6
- D. \$10

85.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. The marginal benefit of the 6<sup>th</sup> unit of activity is:

- A. \$1
- B. \$2
- C. \$4
- D. \$10

86.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is:

- A. 1
- B. 4
- C. 5
- D. 7

87. *Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The total value of donations raised by three employees is:

- A. \$43,899.
- B. \$45,000.
- C. \$48,911.
- D. \$51,963.

88. *Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The total labor cost of 4 employees is:

- A. \$21,500.
- B. \$22,000.
- C. \$38,000.
- D. \$43,121.

89. *Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The President of What's AMatterU decides to hire fundraisers as long as the average benefit exceeds the average cost, resulting in \_\_\_\_\_ employees being hired and a net benefit (total donations minus total labor costs) of \_\_\_\_\_.

- A. 5; \$17,080
- B. 5; \$67,080
- C. 4; \$60,000
- D. 4; \$22,000

90. *Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The marginal benefit (extra donations) of the 2<sup>nd</sup> employee is:

- A. \$42,426.
- B. \$21,213.
- C. \$12,426.
- D. \$11,337.

91. *Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The marginal labor cost (extra labor cost) of the 4<sup>th</sup> employee is:

- A. \$9,500.
- B. \$10,750.
- C. \$11,000.
- D. \$13,000.

92. *Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The Chairman of the Economics Department at What's AMatterU says that fundraisers should be hired as long as their marginal donations exceed their marginal labor costs.

Following this criterion, \_\_\_\_\_ employees are hired and net benefits are \_\_\_\_\_.

- A. 1; \$22,000
- B. 2; \$25,426
- C. 3; \$25,426
- D. 2; \$3,476

93. *Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The net benefit of hiring fundraisers is largest when \_\_\_\_\_ employees are hired.

- A. 4
- B. 3
- C. 2
- D. 1

94. Ginger bought a phone that came with a \$10 rebate. Ginger should fill out and mail in the rebate form if:

- A. the opportunity cost of the time and trouble of sending in the rebate form is *less* than \$10.
- B. the opportunity cost of the time and trouble of sending in the rebate form is *more* than \$10.
- C. she would have bought the phone without the rebate, and so sending in the rebate form involves no opportunity cost.
- D. Ginger's surplus from purchasing the phone was less than \$10.

95. Tony notes that an electronics store is offering a flat \$20 off all prices in the store. Tony reasons that if he wants to buy something with a price of \$50, it is a good offer, but if he wants to buy something with a price of \$500, it is not a good offer. This is an example of:
- A. inconsistent reasoning; saving \$20 is saving \$20.
  - B. the proper application of the cost-benefit principle.
  - C. rational choice because in the first case he saves 40% and in the second case he saves 4%.
  - D. marginal cost equals marginal benefit thinking.
96. Suppose a retail store was offering 10% off all prices on all goods. The incentive to take advantage of the 10% savings is:
- A. unrelated to the list price of one good.
  - B. inversely related to the list price of the good.
  - C. directly related to the list price of the good.
  - D. independent of the list price.
97. A firm employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard that costs \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.
- What is the marginal cost of producing the computers Pam assembles during her 3<sup>rd</sup> hour of work?
- A. \$1,200
  - B. \$1,240
  - C. \$2,400
  - D. \$2,440
98. A firm employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard that costs \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.
- What is the marginal cost of producing the computers Pam assembles during her 4<sup>th</sup> hour of work?
- A. \$1,200
  - B. \$1,240
  - C. \$2,400
  - D. \$2,440
99. A firm employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard that costs \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.
- The firm sells each computer for \$620. How many hours should the firm employ Pam to maximize its benefit from her employment?
- A. 0 hour
  - B. 1 hour
  - C. 3 hours
  - D. 4 hours

100. A firm employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard that costs \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.

The firm sells each computer for \$640. How many hours should the firm employ Pam to maximize its benefit from her employment?

- A. 1 hour
- B. 2 hours
- C. 3 hours
- D. 4 hours

101. If Jane works for 6 hours she can rent 12 apartments, and if she works for 7 hours she can rent 15 apartments. The marginal benefit of the 7<sup>th</sup> hour of Jane's work equals:

- A. 12 apartments.
- B. 15 apartments.
- C. 1 apartment.
- D. 3 apartments.

102. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

The marginal benefit of upgrading from a 600 Mhz computer to a 700 Mhz computer is:

- A. \$1,500.
- B. \$500.
- C. \$50.
- D. \$5.

103. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

The total benefit of an 800 Mhz computer is:

- A. \$400.
- B. \$800.
- C. \$1,900.
- D. \$2,200.

104. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

The total cost of a 700 Mhz computer is:

- A. \$1,000.
- B. \$900.
- C. \$200.
- D. \$100.

105. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

The marginal cost of upgrading from a 700 to an 800 Mhz computer is:

- A. \$500.
- B. \$400.
- C. \$200.
- D. \$100.

106. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

Application of the cost-benefit principle would lead one to purchase a \_\_\_\_\_ computer because \_\_\_\_\_.

- A. 900 Mhz; the total benefit exceeds the total cost
- B. 700 Mhz; the marginal benefit is \$500 and the marginal cost is \$100
- C. 600 Mhz; it is certainly fast enough
- D. 800 Mhz; the marginal benefits and marginal costs are equal

107. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

Choosing the 1,000 Mhz computer would be inefficient because:

- A. the marginal benefit is less than the marginal cost.
- B. the marginal benefit is equal to the marginal cost.
- C. it is impossible to tell the difference compared to a 600 Mhz computer.
- D. the marginal benefit is more than the marginal cost.

108. Jack has a ticket to see Bo Bice for which he paid \$30 yesterday. He takes an unpaid day off from work to get ready for the concert. When he arrives at the concert, five different people offer him \$70 for his ticket. Jack decides to keep his ticket. The cost to Jack of seeing Bo Bice is:
- \$30.
  - \$40.
  - \$70.
  - \$70 plus his forgone earnings.
109. Catherine and Nancy both own homes with lawns of similar size. Catherine mows her own lawn while Nancy hires someone to mow hers. Assume both women are rational decision makers. Which is the best explanation of the different decisions they make?
- The opportunity cost of Nancy's time is higher than the cost to her of hiring someone to mow the lawn.
  - Nancy can get her lawn mowed for less than Catherine.
  - Nancy doesn't own a lawnmower.
  - Nancy earns more than Catherine does.
110. What is the opportunity cost of living in a house that you already own?
- Zero, because you already own it.
  - That mostly depends on current mortgage rates.
  - The rent you could receive if you rented the house out to someone else.
  - The taxes you pay your local government.
111. Jody has purchased a non-refundable \$25 ticket to attend a Miley Cyrus concert on Friday evening. Subsequently, she is asked to go to dinner and dancing at no expense to her. If she uses cost-benefit analysis to choose between going to the concert and going on the date, she should:
- include only the entertainment value of the concert in the opportunity cost of going on the date.
  - include the cost of the ticket plus the entertainment value of the concert in the opportunity cost of going on the date.
  - include only the cost of concert ticket in the opportunity cost of going on the date.
  - include neither the cost of the ticket nor the entertainment value of the concert in the opportunity cost of going on the date.
112. You need a TV, DVD player, and CD player. The sale flyer from a store downtown shows that the TV that you want to buy is on sale for 10% off of the regular price this week. DVD and CD players are both on sale for 20% off next week. Last week you drove downtown to save \$30 on some concert tickets, a 15% savings. The regular prices for TVs, DVD players, and CD players are given in the table below.

|            |       |
|------------|-------|
| TV         | \$250 |
| DVD Player | \$120 |
| CD Player  | \$200 |

If nothing else has changed, should you drive downtown next week to buy the DVD player and the CD player?

- Yes, because you will save \$32.
- No, because you will save less than \$30.
- Yes, because you will save \$64.
- Yes, because it is always worth it to drive downtown to earn a 20% discount.

113. You need a TV, DVD player, and CD player. The sale flyer from a store downtown shows that the TV that you want to buy is on sale for 10% off of the regular price this week. DVD and CD players are both on sale for 20% off next week. Last week you drove downtown to save \$30 on some concert tickets, a 15% savings. The regular prices for TVs, DVD players, and CD players are given in the table below.

|            |       |
|------------|-------|
| TV         | \$250 |
| DVD Player | \$120 |
| CD Player  | \$200 |

Suppose instead that the DVD player is on sale for 20% off and the CD player is on sale for 5% off regular price. Should you drive downtown to buy the DVD and the CD player?

- A. Yes, because you will save \$24.  
 B. Yes, because you will save \$34.  
 C. Yes, because you will save \$64.  
 D. Yes, because it is always worth it to drive downtown to earn a 20% discount.
114. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

What is the total cost per day of hiring 3 cooks if they work 8 hour shifts?

- A. \$60  
 B. \$160  
 C. \$320  
 D. \$480
115. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

What is the dollar value of total production during an 8-hour shift if you hire 2 cooks?

- A. \$320  
 B. \$560  
 C. \$70  
 D. \$140

116. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

What is the average labor cost per pizza if you hire 4 cooks?

- A. \$6
- B. \$8
- C. \$10
- D. \$12

117. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

What is the average benefit per cook if you hire 2 cooks for one hour?

- A. 2 pizzas
- B. 2.5 pizzas
- C. 3 pizzas
- D. 3.5 pizzas

118. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

If you operate one hour every day, what is the marginal cost of hiring the 4<sup>th</sup> cook?

- A. \$10
- B. \$20
- C. \$40
- D. \$60

119. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

If you operate one hour every day, what is the marginal benefit of hiring the 3<sup>rd</sup> cook?

- A. \$10
- B. \$20
- C. \$30
- D. \$40

120. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

How many cooks should you hire to maximize your net benefit?

- A. 1
- B. 3
- C. 4
- D. 5

121. Positive economic principles are those that:

- A. are always correct.
- B. are influenced by political ideology.
- C. predict how people should behave.
- D. predict how people will behave.

122. One thing that distinguishes normative principles from positive principles is that:

- A. normative principles are pessimistic and positive principles are optimistic.
- B. normative principles reflect the social norms of the community, and positive principles reflect universal truths.
- C. normative principles tell us how people should make economic decisions, and positive principles tell us . how people actually do make decisions.
- D. normative principles tell us how people actually make economic decisions, and positive principles tell . us how people should make decisions.

123. Normative economics is concerned with how people \_\_\_\_\_ make decisions while positive economics is concerned with how people \_\_\_\_\_ make decisions.
- A. in the real world; in models
  - B. should; do
  - C. in power; in ordinary life
  - D. in ordinary life; in power
124. An editorial in the paper argues that students should only be allowed to attend school so long as the marginal cost of educating that student is less than the marginal benefit of that student's education. The writer's reasoning is an application of:
- A. positive economics.
  - B. negative economics.
  - C. normative economics.
  - D. economic naturalism.
125. The incentive principle states that a person is more likely to do something if:
- A. the opportunity costs are high.
  - B. the benefits from doing it increase.
  - C. everyone else is doing the same thing.
  - D. he is paid to do it.
126. The incentive principle is an example of:
- A. an economic decision-making pitfall.
  - B. over-estimating the benefits of an action.
  - C. a positive economic principle.
  - D. a normative economic principle.
127. If the government wanted to use the incentive principle to discourage smoking, it could:
- A. publicize the health risks associated with second-hand smoke.
  - B. increase taxes on cigarettes, effectively raising the price.
  - C. subsidize hospitals treating lung disease.
  - D. invest more money in health research.
128. According to the incentive principle:
- A. it is irrational to perform volunteer services.
  - B. people will always take the highest-paying job.
  - C. benefits are more important than costs in making a decision.
  - D. people tend to do more of something when the benefits are greater.
129. Microeconomics is distinguished from macroeconomics in that microeconomics focuses on:
- A. the performance of the national economy.
  - B. the overall price level.
  - C. choices made by individuals or groups in the context of individual markets.
  - D. how to improve the performance of the national economy.
130. Macroeconomics is distinguished from microeconomics by its concentration on:
- A. choices.
  - B. the performance of national economies and ways to improve upon their performance.
  - C. individual markets.
  - D. the level of prices in specific markets.
131. The study of individual choices and group behavior in individual markets defines:
- A. microeconomics.
  - B. economics.
  - C. the scarcity principle.
  - D. macroeconomics.

132. Which branch of economics is most likely to study differences in countries' growth rates?
- A. microeconomics
  - B. normative economics
  - C. macroeconomics
  - D. experimental economics
133. Which of the following would not be analyzed in microeconomics?
- A. How to make the largest profit?
  - B. Whether to study or watch TV tonight.
  - C. How an early freeze in California will affect the price of fruit?
  - D. Whether the federal budget should always be balanced.
134. Which of the following questions would not be answered in macroeconomics?
- A. What caused the great depression?
  - B. At what rate does the US economy typically grow?
  - C. Did the sharp increase in gasoline prices alter SUV sales?
  - D. How does government spending affect the economy?
135. By convention, there are two major divisions of economics, called:
- A. marginal benefit and marginal cost.
  - B. reservation price and opportunity cost.
  - C. microeconomics and macroeconomics.
  - D. rational economics and irrational economics.
136. A study that deals with the salaries of university professors would be considered:
- A. macroeconomics
  - B. microeconomics
  - C. economic naturalism
  - D. marginal benefit
137. Studying how Pat allocates her time between teaching classes and assisting undergraduate students is an example of:
- A. microeconomics.
  - B. macroeconomics.
  - C. individual economics.
  - D. economic naturalism.
138. In deciding the number of guitars to buy for his shop before the Christmas season, Mark is making a(n) \_\_\_\_\_ decision.
- A. microeconomic
  - B. macroeconomic
  - C. economic surplus
  - D. marginal choice
139. The impact of government policies on the building of new roads and highways would be studied in the field of:
- A. microeconomics.
  - B. macroeconomics.
  - C. government economics.
  - D. marginal economics.
140. Last year interest rates fell. The field of economics that would be most concerned with this is:
- A. microeconomics.
  - B. macroeconomics.
  - C. economic naturalism.
  - D. marginal economics.

141. An economic naturalist is described as someone who:
- A. uses economic arguments to protect forests and wetlands from development.
  - B. has a natural talent for drawing graphs.
  - C. applies economic insights to everyday life.
  - D. studies the process of natural selection in a marginal cost and marginal benefit framework.
142. With ATMs, it is possible to retrieve cash from the bank at any time. One hundred years ago, one could only get cash from the bank during business hours, say, 9 am to 3 pm. The difference has arisen because:
- A. flexibility was not valued 100 years ago.
  - B. it was impossible to provide 24-hour service 100 years ago.
  - C. the cost of providing 24-hour service is much lower today.
  - D. government forced banks to become more convenient.
143. The number of US households with access to the Internet and those with broadband connections is growing rapidly. As an economic naturalist, one could predict that when a major purchase is being considered, families will:
- A. always buy online.
  - B. never buy online.
  - C. collect more information before making the purchase because the cost of finding and acquiring it is lower.
  - D. collect more information before making the purchase because the benefit of information is now larger.
144. Every time you go to the grocery store, you try to choose the shortest line. But all of the lines always seem to be the same length. Why?
- A. The store manager tells the cashiers to speed up or slow down to maintain equal line lengths.
  - B. Everyone else is trying to choose the shortest line too.
  - C. The cashiers all work at the same speed.
  - D. Cashiers do not have an incentive to work faster.
145. Several years ago there were two systems for viewing movies at home: Sony's BetaMax machines and VCR machines that played VHS tapes. Despite the higher quality of BetaMax video, VHS became the dominant format. Once VHS tapes were the dominant format, BetaMax virtually disappeared from consumer markets. Why?
- A. Movie producers preferred VHS to BetaMax.
  - B. Consumers gained more benefit by using the same system that others used, allowing them to share movies.
  - C. Movie rental stores boycotted all Sony products.
  - D. BetaMax technology was obsolete.
146. Suppose there are two parallel highways between two cities with approximately equal traffic. What would you expect to happen if the state began charging tolls to drive on one of those highways?
- A. More drivers would drive on the non-toll road, making the toll road less congested.
  - B. More drivers would drive on the toll road making the non-toll road less congested.
  - C. Traffic would remain evenly divided between the two roads as drivers continuously sought the less-congested route.
  - D. Traffic would decrease on both roads.
147. During times of high unemployment, colleges often observe an increase in enrollment even if tuition remains unchanged. Why?
- A. Students do not know about the decision pitfalls and go to college even though the net benefit is negative.
  - B. The opportunity cost of attending college is lower because students are less likely to have good full-time jobs.
  - C. The opportunity cost of attending college is higher because good jobs are harder to find.
  - D. The benefit of attending college is lower because college graduates are less likely to find jobs upon graduation.

148. The last time gas prices increased drastically, sales of large Sport Utility Vehicles (SUVs) fell. What economic reason would explain this decrease in sales?
- A. SUVs were a fad and were no longer popular.
  - B. People who liked SUVs had already purchased one.
  - C. Higher gas prices increased the cost of owning a SUV.
  - D. The price of SUVs increased because it cost more to build them.
149. Curly used his frequent flyer miles to fly to visit Moe. Curly told Moe that it didn't cost him anything to visit. Is Curly correct?
- A. Yes, because Curly's frequent flyer miles made the trip free.
  - B. Yes, because Curly could stay at Moe's house for free.
  - C. No, because Curly could have used his frequent flyer miles to go somewhere else, but chose to visit Moe.
  - D. No, because Curly had to pay for earlier trips in order to earn the frequent flyer miles.
150. Some states have started giving tax credits to homeowners who install solar panels. This is an example of:
- A. A decision pitfall because homeowners will not properly account for the costs and benefits of installing solar panels.
  - B. Using the incentive principle to encourage homeowners to switch to solar energy.
  - C. Normative economics, because people should use clean sources of energy.
  - D. Macroeconomic policy because it involves government tax policy.
151. Pat can either drive to work, which takes half an hour and uses \$1.50 worth of gas, or take the bus, which takes an hour and costs \$1.00. How should Pat get to work?
- A. Pat should always take the bus because it costs \$0.50 less.
  - B. Pat should always drive because it saves half an hour.
  - C. Pat should drive if saving a half hour is worth \$0.50 or more.
  - D. Pat should take the bus if a half hour of time is worth \$0.50 or more.

# 1 Key

1. Economics is best defined as the study of:
- A. prices and quantities.
  - B. inflation and interest rates.
  - C.** how people make choices under the conditions of scarcity and the results of those choices.
  - D. wages and incomes.

Refer to the definition of economics.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #1  
else.*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something*

*Topic: Economics: Studying Choice in a World of Scarcity*

2. Economic questions always deal with:
- A. financial matters.
  - B. political matters.
  - C. insufficient resources.
  - D.** choice in the face of limited resources.

Refer to the definition of economics.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #2  
else.*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something*

*Topic: Economics: Studying Choice in a World of Scarcity*

3. The range of topics or issues that fit within the definition of economics is:
- A. limited to market activities, e.g., buying soap.
  - B. limited to individuals and firms.
  - C.** extremely wide, requiring only the ideas of choice and scarcity.
  - D. very limited.

Refer to the examples given for the scarcity principle.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #3  
else.*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something*

*Topic: Economics: Studying Choice in a World of Scarcity*

4. The central concern of economics is:
- A. poverty.
  - B.** scarcity.
  - C. wealth accumulation.
  - D. overconsumption.

Refer to the definition of economics.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #4*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

5. The scarcity principle indicates that:
- A. no matter how much one has, it is never enough.
  - B. compared to 100 years ago, individuals have less time today.
  - C.** with limited resources, having more of "this" means having less of "that".
  - D. because tradeoffs must be made, resources are therefore scarce.

Refer to the definition of the scarcity principle.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #5*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

6. The logical implication of the scarcity principle is that:
- A. one will never be satisfied with what one has.
  - B. as wealth increases, making choices becomes less necessary.
  - C. as wealth decreases, making choices becomes less necessary.
  - D.** choices must be made.

The scarcity principle implies that a person cannot have or do everything, but must choose from among alternatives.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #6*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

7. If all the world's resources were to magically increase a hundredfold, then:
- A.** the scarcity principle would still govern behavior.
  - B. economics would no longer be relevant.
  - C. the scarcity principle would disappear.
  - D. tradeoffs would become unnecessary.

Economists assume that we have boundless needs and wants.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #7*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

8. The principle of scarcity applies to:
- A. the poor exclusively.
  - B. all consumers.
  - C. all firms.
  - D.** everyone—consumers, firms, governments, and nations.

Refer to the examples of the scarcity principle given in the text.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #8*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

9. At the very least, Joe Average and Bill Gates are both identically limited by:
- A. their wealth.
  - B.** the 24 hours that comprise a day.
  - C. their knowledge.
  - D. their influence.

Both Bill Gates and Joe Average face the same 24-hour day time limit.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #9*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

10. Forest is a mountain man living in complete isolation in Montana. He is completely self-sufficient through hunting, fishing, and farming. He has not been in the city to buy anything in five years. One can infer:
- A. the scarcity principle does not apply to Forest.
  - B. Forest is not required to make choices.
  - C.** the scarcity principle still applies because more hunting means less fishing and farming.
  - D. Forest is very satisfied.

The scarcity principle applies to Forest's choices about how to use his time.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #10*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

11. The scarcity principle applies to:
- A.** all decisions.
  - B. only market decisions, e.g., buying a car.
  - C. only non-market decisions, e.g., watching a sunset.
  - D. only the poor.

Refer to the examples of the scarcity principle given in the text.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #11*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

12. Chris has a one-hour break between classes every Wednesday. Chris can either stay at the library and study or go to the gym and work out. The decision Chris must make is:
- A. not an economic problem because neither one costs money.
  - B. not an economic problem because it's an hour that is wasted no matter what Chris does.
  - C. an economic problem because the tuition Chris pays covers both the gym and the library.
  - D.** an economic problem because Chris has only one hour during which he can study or work out.

Chris has to make a trade-off: if Chris goes to the gym, Chris cannot also study and vice versa.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #12*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

13. Josh wants to go to the football game this weekend, but he has a paper due on Monday. It will take him the whole weekend to write the paper. Josh decided to stay home and work on the paper. According to the scarcity principle, the reason Josh didn't go to the game is that:
- A. Josh prefers schoolwork to football games.
  - B. writing the paper is easier than going to the game.
  - C.** Josh doesn't have enough time for writing the paper and going to the game.
  - D. it's too expensive to go to the game.

Josh has to make a trade-off: time is a scarce resource and so he must choose between two activities.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #13*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

14. Whether studying the size of the U.S. economy or the number of children a couple will choose to have, the unifying concept is that wants are:
- A. limited, resources are limited, and thus choices must be made.
  - B.** unlimited, resources are limited, and thus choices must be made.
  - C. unlimited, resources are limited to some but not to others, and thus some people must make choices.
  - D. unlimited, resources are limited, and thus government needs to do more.

Refer to the definition of the scarcity principle given in the text.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #14*

*Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.*

*Topic: Economics: Studying Choice in a World of Scarcity*

15. The cost-benefit principle indicates that an action should be taken:
- A. if the total benefits exceed the total costs.
  - B. if the average benefits exceed the average costs.
  - C. if the net benefit (benefit minus cost) is zero.
  - D.** if the extra benefit is greater than or equal to the extra costs.

Refer to the definition of the cost-benefit principle given in the text: the extra benefits and extra costs determine whether an action should be taken.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #15*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Economics: Studying Choice in a World of Scarcity*

16. When a person decides to pursue an activity as long as the extra benefits are at least equal to the extra costs, that person is:
- A. violating the cost-benefit principle.
  - B. following the scarcity principle.
  - C.** following the cost-benefit principle.
  - D. pursuing the activity too long.

Refer to the definition of the cost-benefit principle given in the text: the extra benefits and extra costs determine whether an action should be taken.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #16*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Economics: Studying Choice in a World of Scarcity*

17. Choosing to study for an exam until the extra benefit (improved score) equals the extra cost (mental fatigue) is:
- A. not rational.
  - B.** an application of the cost-benefit principle.
  - C. an application of the scarcity principle.
  - D. the relevant opportunity cost.

Considering the extra benefits and extra costs of an action is an example of using the cost-benefit principle.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #17*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Economics: Studying Choice in a World of Scarcity*

18. The scarcity principle tells us that \_\_\_\_\_, and the cost-benefit principle tells us \_\_\_\_\_.
- A.** choices must be made; how to make the choices
  - B. choices must be made; that the costs can never outweigh the benefits of the choices
  - C. rare goods are expensive; that the costs should outweigh the benefits of the choices
  - D. rare goods are expensive; that the costs can never outweigh the benefits of the choices

When faced with choice under scarcity, a rational person will use the cost-benefit tool.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #18*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

19. According to the cost-benefit principle:
- A. the lowest cost activity usually gives the lowest benefit.
  - B. a person should always choose the activity with the lowest cost.
  - C. a person should always choose the activity with the greatest benefit.
  - D.** the extra costs and benefits of an activity are more important considerations than the total costs and benefits.

Recall that the definition of the cost-benefit principle states that the extra benefits and extra costs determine whether an action should be taken.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #19*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

20. A rational person is one who:
- A. is reasonable.
  - B. makes choices that are easily understood.
  - C.** possesses well-defined goals and seeks to achieve them.
  - D. is highly cynical.

Refer to the definition of a rational person in the text.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #20*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

21. The seventh glass of soda that Tim consumes will produce an extra benefit of 10 cents and has an extra cost of zero (Tim is eating at the cafeteria). The cost-benefit principle predicts that Tim will:
- A. realize he has had too much soda to drink and go home.
  - B.** drink the seventh glass and continue until the marginal benefit of drinking another glass of soda is zero.
  - C. volunteer to empty out the fountain.
  - D. not drink the seventh glass.

At his seventh glass, the extra benefit is greater than the extra cost, so Tim should continue drinking soda.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #21*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

22. Janie must either mow the lawn or wash clothes, earning her a benefit of \$30 or \$45, respectively. She dislikes both equally and they both take the same amount of time. Janie will therefore choose to \_\_\_\_\_ because the economic surplus is \_\_\_\_\_.
- A. mow the lawn; greater
  - B.** wash clothes; greater
  - C. mow the law; smaller
  - D. wash clothes; smaller

Refer to the definition of economic surplus in the text. Because the activities have the same cost (Janie's time and her dislike) the activity with the greatest benefit will have the greatest surplus.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #22*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

23. Dean decided to play golf rather than prepare for tomorrow's exam in economics. One can infer that:
- A. Dean has made an irrational choice.
  - B. Dean is doing poorly in his economics class.
  - C.** the economic surplus from playing golf exceeded the surplus from studying.
  - D. the cost of studying was less than the cost of golfing.

A rational person will choose that activity that generates the largest possible economic surplus. When we observe a person making a choice, we assume that is the choice that generates the most economic surplus.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #23*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

24. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. No Name U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year.

The opportunity cost of attending Elite U is:

- A. \$50,000
- B. \$10,000
- C. \$20,000**
- D. \$15,000

Economic surplus is the benefit minus the cost of each choice. Larry's surplus, if he attended Elite U, would be  $\$60,000 - \$50,000 = \$10,000$ . Surplus if he attended State is  $\$40,000 - \$20,000 = \$20,000$ . Surplus at NoName is  $\$15,000 - 0 = \$15,000$ . If Larry attends Elite, he gives up his highest-surplus option, State College.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #24*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

25. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year.

The opportunity cost of attending State College is:

- A. \$30,000
- B. \$20,000
- C. \$15,000**
- D. \$10,000

Economic surplus is the benefit minus the cost of each choice. Larry's surplus, if he attended Elite U, would be  $\$60,000 - \$50,000 = \$10,000$ . Surplus if he attended State is  $\$40,000 - \$20,000 = \$20,000$ . Surplus at NoName is  $\$15,000 - 0 = \$15,000$ . If Larry attends State, he gives up his next-highest-surplus option, NoName.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #25*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

26. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year.

Larry maximizes his surplus by attending:

- A. Elite U, because \$60,000 is greater than the benefit at the other schools.
- B.** State College, because the difference between the benefit and cost is greatest there.
- C. NoName U, because Larry has a full scholarship there.
- D. Elite U, because the opportunity costs of attending Elite U are the lowest.

Economic surplus is the benefit minus the cost of each choice. Larry's surplus, if he attended Elite U, would be  $\$60,000 - \$50,000 = \$10,000$ . Surplus if he attended State is  $\$40,000 - \$20,000 = \$20,000$ . Surplus at NoName is  $\$15,000 - 0 = \$15,000$ .

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #26*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

27. Larry was accepted at three different graduate schools, and must choose one. Elite U costs \$50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at \$60,000 per year. State College costs \$30,000 per year, and offered Larry an annual \$10,000 scholarship. Larry values attending State College at \$40,000 per year. NoName U costs \$20,000 per year, and offered Larry a full \$20,000 annual scholarship. Larry values attending NoName at \$15,000 per year.

Larry has decided to go to Elite U. Assuming that all of the values described are correct, for Larry to decide on Elite U, he must have:

- A. calculated his surplus from each choice and picked the one with the highest surplus.
- B. underestimated the benefits of attending No Name.
- C.** miscalculated the surplus of attending Elite U.
- D. determined the opportunity cost of each choice and picked the one with the lowest opportunity cost.

Economic surplus is the benefit minus the cost of each choice. Larry's economic surplus if he attends Elite U is  $\$60,000 - \$50,000 = \$10,000$ . The other choices yield higher surplus: if he attends State it is  $\$40,000 - \$20,000 = \$20,000$ , and at NoName it is  $\$15,000 - 0 = \$15,000$ . If Larry chooses to attend Elite, he must have miscalculated his surplus.

*AACSB: Analytic  
Blooms: Evaluate  
Difficulty: 3 Hard  
Frank - Chapter 01 #27*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

28. Jen spends her afternoon at the beach, paying \$1 to rent a beach umbrella and \$11 for food and drinks rather than spending an equal amount of money to go to a movie. The opportunity cost of going to the beach is:
- A. the \$12 she spent on the umbrella, food and drinks.
  - B. only \$1 because she would have spent the money on food and drinks whether or not she went to the beach.
  - C.** the movie she missed seeing.
  - D. the movie she missed seeing plus the \$12 she spent on the umbrella, food and drinks.

The definition of opportunity cost is that it is the value of the activity you have given up. In this case, Jen gave up going to the movie in order to go to the beach.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #28*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

29. Relative to a person who earns minimum wage, a person who earns \$30 per hour has:
- A. a lower opportunity cost of working longer hours.
  - B.** a higher opportunity cost of taking a day off.
  - C. a lower opportunity cost of driving farther to work.
  - D. the same opportunity cost of spending time on leisure activities.

The definition of opportunity cost is that it is the value of the activity you have given up. Giving up a day of work "costs" the \$30-per-hour person more than it does the minimum wage person.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #29*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

30. The opportunity cost of an activity is the value of:
- A. an alternative forgone.
  - B.** the next-best alternative forgone.
  - C. the least-best alternative forgone.
  - D. the difference between the chosen activity and the next-best alternative forgone.

Opportunity cost is not the total value of all possible activities, but only the value of the alternative you give up.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #30*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

31. Amy is thinking about going to the movies tonight. A ticket costs \$7 and she will have to cancel her dog-sitting job that pays \$30. The cost of seeing the movie is:
- A. \$7.
  - B. \$30.
  - C. \$37.**
  - D. \$37 minus the benefit of seeing the movie.

Opportunity cost includes the implicit costs and the out-of-pocket costs given up to engage in an activity. Amy gave up the opportunity to earn \$30 plus \$7 in cash.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #31*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

32. Economic surplus is:
- A. the benefit gained by taking an action.
  - B. the price paid to take an action.
  - C. the difference between the benefit gained and the cost incurred of taking an action.**
  - D. the wage someone would have to earn in order to take an action.

Check the definition of economic surplus in the text.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #32*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

33. The Governor of your state has cut the budget for the University and increased spending on Medicaid. This is an example of:
- A. the pitfalls of considering average costs instead of marginal costs.
  - B. poor normative economic decision making.
  - C. poor positive economic decision making.
  - D. choice in the face of limited resources.**

Limited resources require agents to make trade-offs, or choices.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #33*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

34. Sally earned \$25,000 per year before she became a mother. After she became a mother, she told her employer that her opportunity cost of working is now \$50,000, and so she is not willing to work for anything less. Her decision is based on:
- A. the high cost of raising a child.
  - B. her desire to save for her child's college expenses.
  - C. her increased value to her employer.
  - D.** the value she places on spending time with her child.

The opportunity cost Sally incurs by working is the value of time spent at home with her child.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #34*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

35. Alex received a four-year scholarship to State U. that covered tuition and fees, room and board, and books and supplies. As a result:
- A. attending State U. for four years is costless for Alex.
  - B. Alex has no incentive to work hard while at State U.
  - C.** the cost of attending State U. is the amount of money Alex could have earned working for four years.
  - D the cost of attending State U. is the sum of the benefits Alex would have had attending each of the four other schools to which Alex had been admitted.

Even though Alex has no out-of-pocket costs, Alex has given up the value of foregone earnings.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #35*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

36. Suppose Mary is willing to pay up to \$15,000 for a used Ford pick-up truck, but she finds one for \$12,000. Her \_\_\_\_\_ is \_\_\_\_\_.
- A. benefit; \$12,000
  - B. cost; \$15,000
  - C.** economic surplus; \$3,000
  - D. economic surplus; \$12,000

Mary's benefit from owning the truck is \$15,000 and the cost is \$12,000. Benefit minus cost, or economic surplus, is \$3,000.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #36*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

37. In general, rational decision making requires one to choose the actions that yield the:
- A. largest total benefits.
  - B. smallest total costs.
  - C. smallest net benefits.
  - D.** largest economic surpluses.

Economic surplus is the benefit minus the cost.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #37*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

38. Suppose the most you would be willing to pay for a plane ticket home is \$250, but you buy one online for \$175. The economic surplus of buying the online ticket is:
- A. \$175.
  - B. \$250.
  - C.** \$75.
  - D. \$0.

Economic surplus is the benefit minus the cost.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #38*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

39. The use of economic models, like the cost-benefit principle, means economists believe that:
- A. this is exactly how people choose between alternatives.
  - B.** this is a reasonable abstraction of how people choose between alternatives.
  - C. those who explicitly make decisions this way are smarter.
  - D. with enough education, all people will start to explicitly make decisions this way.

Models are generalizations, used to understand and predict; they are not intended to exactly capture all features of human behavior.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #39*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

40. Jenna decides to see a movie that costs \$7 for the ticket and has an opportunity cost of \$20. After the movie, she says to one of her friends that the movie was not worth it. Apparently:
- A. Jenna failed to apply the cost-benefit model to her decision.
  - B. Jenna was not rational.
  - C. Jenna overestimated the benefits of the movie.**
  - D. Jenna underestimated the benefits of the movie.

Jenna may have expected the movie to be better when she decided to incur these costs, but was disappointed.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #40*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

41. Most of us make sensible decisions most of the time, because:
- A. we know the cost-benefit principle.
  - B. subconsciously we are weighing costs and benefits.**
  - C. most people know about the scarcity principle.
  - D. we conduct hypothetical mental auctions when we make decisions.

Refer to the text explanation of the use of economic models.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #41*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

42. Suppose a person makes a choice that seems inconsistent with the cost-benefit principle. Which of the following statements represents the most reasonable conclusion to draw?
- A. The person (explicitly or implicitly) over-estimated the benefits or under-estimated the costs or both.**
  - B. The cost-benefit principle is rarely true.
  - C. The person does not grasp how decisions should be made.
  - D. The person is simply irrational.

Economic models assume that most people make sensible decisions most of the time without having to explicitly apply the cost-benefit principle.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #42*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

43. Economic models are intended to:
- A. apply to all examples equally well.
  - B. eliminate differences in the way people behave.
  - C.** generalize about patterns in decision-making.
  - D. distinguish economics students from everyone else.

Recall the discussion of economic models from the text.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #43*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

44. Economic models claim to be:
- A.** reasonable abstractions of how people make choices, highlighting the most important factors.
  - B. exact replications of the decision-making process people use.
  - C. interesting chalkboard exercises with little applicability to the real world.
  - D. exceptionally accurate methods of predicting nearly all behavior of everyone.

Recall the discussion of economic models from the text.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #44*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

45. The cost-benefit model used by economists is:
- A. unrealistic because it is too detailed and specific to apply to a variety of situations.
  - B. unrealistic because everyone can think of times when he or she violated the principle.
  - C. useful because everyone follows it all of the time.
  - D.** useful because most people follow it most of the time.

Recall the discussion of economic models from the text.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #45*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

46. Barry owns a clothing store in the mall and has asked two economic consultants to develop models of consumer behavior that he can use to increase sales. Barry should choose the model that:
- A. does not include simplifying assumptions.
  - B. is the most detailed and complex.
  - C.** assumes that consumers apply the cost-benefit principle.
  - D. predicts that consumers will always prefer Barry's store to the competing stores.

Economic models assume that most people implicitly apply the cost-benefit principle most of the time.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #46*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

47. Economists use abstract models because:
- A. every economic situation is unique, so it is impossible to make generalizations.
  - B. every economic situation is essentially the same, so specific details are unnecessary.
  - C.** they are useful for describing general patterns of behavior.
  - D. computers have allowed economists to develop abstract models.

Recall the discussion of economic models from the text.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #47*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

48. Most people make some decisions based on intuition rather than calculation. This is:
- A. irrational, because intuition is often wrong.
  - B. consistent with the economic model of decision-making, because calculating costs and benefits leads to decision-making pitfalls.
  - C.** consistent with the economic model because people intuitively compare the relative costs and benefits of the choices they face.
  - D. inconsistent with the economic model, but rational because intuition takes into account non-financial considerations.

Recall the discussion of economic models from the text.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #48*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

49. Moe has a big exam tomorrow. He considered studying this evening, but decided to go out with Curly instead. Since Moe always chooses rationally, it must be true that:
- A. the opportunity cost of studying tonight is less than the value Moe gets from spending time with Curly.
  - B. the opportunity cost of studying tonight is equal to the value Moe gets from spending time with Curly minus the cost of earning a low grade on the exam.
  - C.** Moe gets more benefit from spending time with Curly than from studying.
  - D. Moe gets less benefit from spending time with Curly than from studying.

The opportunity cost of studying equals the value of time spent with Curly. When Moe rationally chooses to spend time with Curly, it must be because he values that activity by more than he values studying.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #49*

*Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if; but only if; its benefit is at least as great as its cost.*

*Topic: Applying the Cost-Benefit Principle*

50. If one fails to account for implicit costs in decision making, then applying the cost-benefit rule will be flawed because:
- A. the benefits will be overstated.
  - B.** the costs will be understated.
  - C. the benefits will be understated.
  - D. the costs will be overstated.

The cost includes both implicit and out-of-pocket costs.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #50*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

51. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.

If you do not use the frequent-flyer coupon to fly, should you go to Miami?

- A. Yes, your benefit is more than your cost.
- B.** No, your benefit is less than your cost.
- C. Yes, your benefit is equal to your cost.
- D. No, because there are no benefits in the trip.

If you don't use your frequent-flyer coupon, your total cost is  $\$600 + \$900 = \$1500$ , but your benefit is only \$1400.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #51*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

52. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.

What is the opportunity cost of using the coupon for the Miami trip?

- A. \$100
- B.** \$450
- C. \$500
- D. \$550

If you use the coupon for the Miami trip you lose the value of using it to go to Atlanta.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #52*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

53. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.

If you use the frequent-flyer coupon to fly to Atlanta, would you get any economic surplus by making the trip?

- A.** No, there is a loss of \$50.
- B. Yes, surplus of \$350.
- C. Yes, surplus of \$400.
- D. Yes, surplus of \$100.

The coupon's maximum value is \$500, which you could have applied to your Miami trip. Using it for a trip that would cost \$450 "sacrifices" \$50 of the coupon's value.

*AACSB: Analytic*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #53*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

54. Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have a frequent-flyer coupon worth \$500 that you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.

If the Chicago-Atlanta round-trip air fare is \$350, should you go to Miami?

- A. No, there is a loss of \$50.
- B. No, there is a loss of \$100.
- C.** Yes, there is economic surplus of \$50.
- D. Yes, there is economic surplus of \$400.

Use the coupon, which now has an opportunity cost of \$350 (your alternative use of the coupon). Your Miami trip now "costs"  $\$350 + \$100$  (the balance of the \$600 ticket price) +  $\$900 = \$1350$ . You value the trip at \$1400, so gain surplus of \$50.

*AACSB: Analytic*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #54*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

55. Pat earns \$25,000 per year (after taxes), and Pat's spouse, Chris, earns \$35,000 (after taxes). They have two pre-school children. Childcare for their children costs \$12,000 per year. Pat has decided to stay home and take care of the children. Pat must:
- A. value spending time with the children by more than \$25,000.
  - B. value spending time with the children by more than \$12,000.
  - C.** value spending time with the children by more than \$13,000.
  - D. value spending time with the children as much as does Chris.

Pat's implicit costs of working include foregoing time with the children. Pat gives up \$25,000 in salary and saves out-of-pocket childcare costs of \$12,000. For this to be a rational decision, the implicit costs of working must be greater than \$25,000, so Pat must value time with the children at more than \$13,000.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #55*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

56. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as the concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

Should you go to the concert instead of working Saturday?

- A. Yes, your benefit is more than your cost.
- B.** No, your benefit is less than your cost.
- C. Yes, your benefit is equal to your cost.
- D. No, because there are no benefits in the concert.

Concert benefit is \$35; foregone wages are 4 times \$9, or \$36. You should work. Alternatively, the opportunity cost of working is \$35, the wages you would earn are \$36.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #56*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

57. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as the concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

What is the opportunity cost of going to the concert?

- A. \$1
- B. \$9
- C. \$35
- D.** \$36

By attending the concert you lose wages of 4 times \$9, or \$36.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #57*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

58. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as the concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

What is your opportunity cost, if you go to work on Saturday?

- A. \$0
- B. \$9
- C. \$35**
- D. \$36

By going to work, you give up attending the concert, valued at \$35.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #58*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

59. You paid \$35 for a ticket (which is non-refundable) to see SPAM, a local rock band, in concert on Saturday. (Assume that you would not have been willing to pay any more than \$35 for this concert.) Your boss called and she is looking for someone to cover a shift on Saturday at the same time as the concert. You will have to work 4 hours and she will pay you time and a half, which is \$9/hr.

Your economic surplus of going to work on Saturday is:

- A. \$0
- B. \$1**
- C. \$35
- D. \$36

The benefit is \$36, and the foregone value is \$35. The surplus is, therefore,  $\$36 - \$35 = \$1$ .

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #59*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

60. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16.

The benefit to Matt of buying his books at the bookstore is \_\_\_\_\_.

- A. \$5**
- B. \$9
- C. \$170
- D. \$175

Matt saves \$5 by purchasing the books at the bookstore.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #60*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

61. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16.

The benefit to Matt was \_\_\_\_\_ from driving to campus to buy the concert ticket last week.

- A. \$2
- B. \$4**
- C. \$9
- D. \$16

Matt saved \$4 (25% of \$16) by purchasing the ticket at the bookstore.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #61*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

62. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16.

According to the cost-benefit principle:

A. it would not be rational for Matt to drive to campus to purchase the books because the \$5 saving is only two percent of the cost of the books, and that is much less than the 25 percent he saved on the concert ticket.

B. it would be rational for Matt to drive to campus to purchase the books because it costs less to buy the books there than via the Internet.

**C.** it would be rational for Matt to drive to campus to purchase the books because the \$5 saving is more than he saved by driving there to buy the concert ticket.

D. it would not be rational for Matt to drive to campus to purchase the books because the cost of gas and his time must certainly be more than the \$5 he would save.

Because Matt was willing to drive to school to save \$4 last week, we can assume that the cost of driving to school is no more than \$4, so he should be willing to drive to school to save \$5.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #62*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

63. Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of \$175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of \$170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of \$16.

Assume the minimum that Matt would be willing to accept to drive to the university campus is equal to the amount he saved on the concert ticket. What would be the amount of his economic surplus if he bought his textbooks at the university bookstore rather than via the Internet?

- A. \$5
- B. \$1**
- C. \$50
- D. \$20

Matt's driving costs are \$4 and he saved \$5, so the net surplus is \$1.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #63  
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

64. The marginal benefit of an activity is the:
- A. same as the total benefits of the activity.
  - B. total benefit divided by the level of the activity.
  - C. extra benefit associated with an extra unit of the activity.**
  - D. total benefit associated with an extra unit of the activity.

Marginal analysis involves considering only those extra costs and benefits associated with an activity.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #64  
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

65. If the marginal costs of 1, 2, and 3 hours of talking on the phone are \$50, \$75, and \$105 respectively, then the total costs are of 1, 2 and 3 hours of talking on the phone are:
- A. \$50, \$150, and \$315 respectively.
  - B. \$50, \$41.67, and \$115 respectively.
  - C. \$50, \$125, and \$230 respectively.**
  - D. \$50, \$175, and \$405 respectively.

To find total costs, add the extra, or marginal, costs at each step:  $50 + 75 = 125$ .  $125 + 105 = 230$ .

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #65  
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

66. If the total benefits of watching 1, 2, and 3 baseball games on TV are 100, 120, and 125 respectively, then the marginal benefits of watching 1, 2 and 3 baseball games on TV are:
- A. 100,120, and 125 respectively.
  - B.** 100, 20, and 5 respectively.
  - C. 100, 609, and 41.67 respectively.
  - D. 100, 240, and 375 respectively.

To find marginal benefits, find out how much more each unit adds to total benefits: the first hour adds 100 to 0, so 100; the second hour adds 20 (120 - 100); the third hour adds 5 (125 - 120).

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #66*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

67. The extra benefit that comes from an extra unit of activity is called the \_\_\_\_\_ of the activity.
- A.** marginal benefit.
  - B. marginal cost.
  - C. average benefit.
  - D. reservation benefit.

Marginal costs and benefits are those additional, or extra, costs or benefits of taking an action.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #67*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

68. The marginal cost of an activity is the:
- A.** change in the cost of the activity that results from an extra unit of the activity.
  - B. same as the total cost of the activity.
  - C. ratio of total cost to the level of the activity.
  - D. change in the level of the activity divided by the change in the cost of the activity.

Marginal costs and benefits are those additional, or extra, costs or benefits of taking an action.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #68*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

69. The extra cost that results from an extra unit of an activity is the:
- A. marginal benefit.
  - B.** marginal cost.
  - C. reservation cost.
  - D. same as the opportunity cost.

Marginal costs and benefits are those additional, or extra, costs or benefits of taking an action.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #69*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

70. Dividing the total cost of  $n$  units of an activity by  $n$  reveals the:
- A. average benefit.
  - B. marginal cost.
  - C. units per cost.
  - D. average cost.**

Average differs from marginal: average divides total by the number of units; marginal considers the extra gain or loss from one more unit.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #70*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

71. You had to pay \$600 (non-refundable) for your meal plan for the Fall semester, which gives you up to 150 meals. If you eat all of the meals, your average cost for a meal equals:
- A. \$6.
  - B. \$5.
  - C. \$4.**
  - D. \$0.25.

To find the average divide total by the number of units: here,  $\$600/150 = \$4$  per meal.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #71*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

72. You had to pay \$600 (non-refundable) for your meal plan for Fall semester which gives you up to 150 meals. If you eat only 100 meals, your average cost for a meal equals:
- A. \$6.**
  - B. \$5.
  - C. \$4.
  - D. \$0.25.

To find the average divide total by the number of units: here,  $\$600/100 = \$6$  per meal.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #72*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

73. You had to pay \$600 (non-refundable) for your meal plan for Fall semester, which gives you up to 150 meals. If you eat only 100 meals, your marginal cost for the 100<sup>th</sup> meal is:
- A. \$6
  - B. \$4
  - C. \$0.25
  - D. \$0**

Your non-refundable meal plan represents a sunk cost: no matter how many meals you eat, your marginal cost (once the \$600 has been paid) is 0.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #73*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

74. The average benefit of an activity is the:
- A.** total benefit of the activity divided by the number of units.
  - B. number of units divided by the total benefit of the activity.
  - C. number of units times the total benefit of the activity.
  - D. extra benefit for one additional unit of the activity.

Any average is the total divided by the number of units.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #74*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

75. You save \$10 on gas every week since you live close to the bus stop. You have class five days a week. What is your average benefit per day for living close to the bus stop?
- A. \$10
  - B. \$5
  - C.** \$2
  - D. \$1.43

\$10 divided by 5 days is \$2 per day.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #75*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

76. Your scholarship depends on your maintaining a 3.5 cumulative GPA. Your GPA for last semester was 3.6, which brought your cumulative GPA down. What must be true?
- A. Your marginal grades (last semester's grades) were higher than your overall GPA.
  - B.** Your marginal grades (last semester's grades) were lower than your overall GPA.
  - C. If this semester's grades are the same as last semester's, your overall GPA will stay the same.
  - D. If this semester's grades are the same as last semester's, you might lose your scholarship.

When an average is falling, it must be true that the last unit included in the total is less than the average over all prior units.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #76*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

77.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. The average cost of 4 units of this activity is:

- A. \$20
- B. \$25**
- C. \$30
- D. \$40

Total cost is 100, divided by 4 gives 25.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #77  
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

78.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. The marginal cost of the 3<sup>rd</sup> unit of this activity is:

- A. \$30
- B. \$25
- C. \$20**
- D. \$10

Total cost increased from \$40 to \$60, an increase of \$20.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #78  
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

79.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. The average benefit of 3 units of activity is:

- A. \$80
- B. \$60**
- C. \$40
- D. \$20

Total benefit is 180; 180 divided by 3 gives 60.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #79  
Topic: Three Important Decision Pitfalls*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

80.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. The marginal benefit of the 5<sup>th</sup> unit of activity is:

- A. \$60
- B. \$50
- C. \$5**
- D. \$0

Total benefits increased from 200 to 205.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #80  
Topic: Three Important Decision Pitfalls*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

81.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 30      | \$100         |
| 2                 | \$ 40      | \$160         |
| 3                 | \$ 60      | \$180         |
| 4                 | \$100      | \$200         |
| 5                 | \$150      | \$205         |
| 6                 | \$175      | \$210         |

Refer to the table above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is:

- A. 1
- B. 3**
- C. 4
- D. 6

Three units of the activity provide net benefits of 120, the most of all options given.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #81*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

82.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. The average cost of 5 units of activity is:

- A. \$1
- B. \$2
- C. \$3**
- D. \$4

Average is the total divided by the number of units: 15 divided by 5 is 3.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #82*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

83.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. The marginal cost of the 4<sup>th</sup> unit of activity is:

- A. \$1
- B. \$2
- C. \$3
- D. \$4**

An increase in cost from \$6 to \$10 is \$4.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #83  
Topic: Three Important Decision Pitfalls*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

84.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. The average benefit of 4 units of activity is:

- A. \$4
- B. \$5**
- C. \$6
- D. \$10

20 divided by 4 units is 5.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #84  
Topic: Three Important Decision Pitfalls*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

85.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. The marginal benefit of the 6<sup>th</sup> unit of activity is:

- A. \$1
- B. \$2
- C. \$4**
- D. \$10

Benefits increased from 24 to 28, an increase of 4.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #85  
Topic: Three Important Decision Pitfalls*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

86.

| Units of Activity | Total Cost | Total Benefit |
|-------------------|------------|---------------|
| 1                 | \$ 3       | \$10          |
| 2                 | \$ 4       | \$14          |
| 3                 | \$ 6       | \$16          |
| 4                 | \$10       | \$20          |
| 5                 | \$15       | \$24          |
| 6                 | \$21       | \$28          |
| 7                 | \$28       | \$29          |

Refer to the table above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is:

- A. 1
- B. 4**
- C. 5
- D. 7

Total benefit minus total cost is 10 when the level of activity is 4.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #86  
Topic: Three Important Decision Pitfalls*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

87.

*Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The total value of donations raised by three employees is:

- A. \$43,899.
- B. \$45,000.
- C. \$48,911.
- D. \$51,963.**

At 3, the average is \$17,321. Recover totals by multiplying the average times the number of units. \$17,321 times 3 is \$51,963.

AACSB: Analytic  
 Blooms: Apply  
 Difficulty: 3 Hard  
 Frank - Chapter 01 #87  
 Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
 Topic: Three Important Decision Pitfalls

88.

*Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The total labor cost of 4 employees is:

- A. \$21,500.
- B. \$22,000.
- C. \$38,000.**
- D. \$43,121.

Recover totals by multiplying the average times the number of units. \$9,500 times 4 is \$38,000.

AACSB: Analytic  
 Blooms: Apply  
 Difficulty: 3 Hard  
 Frank - Chapter 01 #88  
 Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
 Topic: Three Important Decision Pitfalls

89.

*Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The President of What's AMatterU decides to hire fundraisers as long as the average benefit exceeds the average cost, resulting in \_\_\_\_\_ employees being hired and a net benefit (total donations minus total labor costs) of \_\_\_\_\_.

- A. 5; \$17,080
- B. 5; \$67,080
- C. 4; \$60,000
- D. 4; \$22,000

Total donations are \$67,080 at 5 employees.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #89  
Topic: Three Important Decision Pitfalls*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

90.

*Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The marginal benefit (extra donations) of the 2<sup>nd</sup> employee is:

- A. \$42,426.
- B. \$21,213.
- C. \$12,426.
- D. \$11,337.

Total donations increased by \$12,213 when the second employee worked.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #90  
Topic: Three Important Decision Pitfalls*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

91.

*Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The marginal labor cost (extra labor cost) of the 4<sup>th</sup> employee is:

- A. \$9,500.
- B. \$10,750.
- C. \$11,000.**
- D. \$13,000.

Total labor costs of four employees is 4 times \$9,500 or \$38,000. Total labor costs of three employees is given as \$27,000.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #91  
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

92.

*Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The Chairman of the Economics Department at What's AMatterU says that fundraisers should be hired as long as their marginal donations exceed their marginal labor costs. Following this criterion, \_\_\_\_\_ employees are hired and net benefits are \_\_\_\_\_.

- A. 1; \$22,000
- B. 2; \$25,426**
- C. 3; \$25,426
- D. 2; \$3,476

At 2, marginal benefits exceed marginal costs, but at 3 the marginal benefit is less than the marginal cost.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #92  
Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

93.

*Fundraisers for What'sAMatterU*

| Fund Raising Employees | Total Donations | Average Donations | Total Labor Costs | Average Labor Costs |
|------------------------|-----------------|-------------------|-------------------|---------------------|
| 1                      | \$30,000        |                   |                   | \$8,000             |
| 2                      | \$42,426        |                   | \$17,000          |                     |
| 3                      |                 | \$17,321          | \$27,000          |                     |
| 4                      | \$60,000        |                   |                   | \$9,500             |
| 5                      |                 | \$13,416          | \$50,000          |                     |

Refer to the table above. The net benefit of hiring fundraisers is largest when \_\_\_\_\_ employees are hired.

- A. 4
- B. 3
- C. 2**
- D. 1

When more than 2 employees work, the marginal cost exceeds the marginal benefit.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #93*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

94. Ginger bought a phone that came with a \$10 rebate. Ginger should fill out and mail in the rebate form if:

- A.** the opportunity cost of the time and trouble of sending in the rebate form is *less* than \$10.
- B. the opportunity cost of the time and trouble of sending in the rebate form is *more* than \$10.
- C. she would have bought the phone without the rebate, and so sending in the rebate form involves no opportunity cost.
- D. Ginger's surplus from purchasing the phone was less than \$10.

Ginger should disregard the sunk cost of the phone and consider only the marginal benefit of receiving the rebate with the marginal cost of sending in the form.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #94*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

95. Tony notes that an electronics store is offering a flat \$20 off all prices in the store. Tony reasons that if he wants to buy something with a price of \$50, it is a good offer, but if he wants to buy something with a price of \$500, it is not a good offer. This is an example of:

- A.** inconsistent reasoning; saving \$20 is saving \$20.
- B. the proper application of the cost-benefit principle.
- C. rational choice because in the first case he saves 40% and in the second case he saves 4%.
- D. marginal cost equals marginal benefit thinking.

It is a common decision pitfall, or error, to consider proportions rather than the amount saved.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #95*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

96. Suppose a retail store was offering 10% off all prices on all goods. The incentive to take advantage of the 10% savings is:
- A. unrelated to the list price of one good.
  - B. inversely related to the list price of the good.
  - C.** directly related to the list price of the good.
  - D. independent of the list price.

10% of a larger number is a larger number.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #96*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

97. A firm employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard that costs \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.

What is the marginal cost of producing the computers Pam assembles during her 3<sup>rd</sup> hour of work?

- A. \$1,200
- B. \$1,240
- C. \$2,400
- D.** \$2,440

Pam produces 4 additional computers in her third hour. Four motherboards cost \$800, four hard drives cost \$400, four cases cost \$80, four monitors cost \$800, four keyboards cost \$240 and four mice cost \$80. The total cost for these parts is \$2400. Pam's time costs \$40 for that hour. The marginal cost during the third hour is \$2440.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #97*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

98. A firm employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard that costs \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.

What is the marginal cost of producing the computers Pam assembles during her 4<sup>th</sup> hour of work?

- A. \$1,200
- B. \$1,240**
- C. \$2,400
- D. \$2,440

Pam produces 2 additional computers in her third hour. 2 motherboards cost \$400, 2 hard drives cost \$200, 2 cases cost \$40, 2 monitors cost \$400, 2 keyboards cost \$120 and 2 mice cost \$40. The total cost for these parts is \$1200. Pam's time costs \$40 for that hour. The marginal cost during the fourth hour is \$1240.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #98*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

99. A firm employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard that costs \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.

The firm sells each computer for \$620. How many hours should the firm employ Pam to maximize its benefit from her employment?

- A. 0 hour
- B. 1 hour
- C. 3 hours
- D. 4 hours**

At four hours, the marginal benefit of hiring Pam (\$620 times 2 computers) is equal to the marginal cost of hiring her and paying for the parts necessary to build 2 computers (\$1240). At fewer hours, the marginal benefit is greater than the marginal cost, and at more than four hours the marginal benefit is less than the marginal cost.

*AACSB: Analytic*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #99*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

100. A firm employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive that costs \$100, a case that costs \$20, a monitor that costs \$200, a keyboard that costs \$60 and a mouse that costs \$20. The cost of employing Pam is \$40 per hour.

The firm sells each computer for \$640. How many hours should the firm employ Pam to maximize its benefit from her employment?

- A. 1 hour
- B. 2 hours
- C. 3 hours
- D. 4 hours**

At five hours, the marginal benefit of hiring Pam (\$640) equals the marginal cost of hiring her (\$40) and paying for the parts necessary to build a computer (\$600). At fewer hours, the marginal benefit is greater than the marginal cost, and at more than four hours the marginal benefit is less than the marginal cost.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #100*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

101. If Jane works for 6 hours she can rent 12 apartments, and if she works for 7 hours she can rent 15 apartments. The marginal benefit of the 7<sup>th</sup> hour of Jane's work equals:
- A. 12 apartments.
  - B. 15 apartments.
  - C. 1 apartment.
  - D. 3 apartments.**

Marginal benefit is the increase in total benefit from one more unit of activity.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #101*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

102. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

The marginal benefit of upgrading from a 600 Mhz computer to a 700 Mhz computer is:

- A. \$1,500.
- B. \$500.**
- C. \$50.
- D. \$5.

Benefits increased by \$500, from \$1000 to \$1500.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #102*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

103. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

The total benefit of an 800 Mhz computer is:

- A. \$400.
- B. \$800.
- C. \$1,900.**
- D. \$2,200.

Total benefit at 700 is \$1500. To find total benefit at 800, add the marginal benefit of \$400 to the \$1500.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #103*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

104. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

The total cost of a 700 Mhz computer is:

- A.** \$1,000.
- B. \$900.
- C. \$200.
- D. \$100.

Total cost at 600 is \$900. To find total cost at 700, add the marginal cost of \$100 to get \$1,000.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #104*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

105. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

The marginal cost of upgrading from a 700 to an 800 Mhz computer is:

- A. \$500.
- B.** \$400.
- C. \$200.
- D. \$100.

Total cost at 700 is \$1000: 900 plus the 100 marginal cost to go from 600 to 700. Total cost at 800 is \$1400, so the increase in cost is \$400.

*AACSB: Analytic  
Blooms: Analyze  
Difficulty: 3 Hard  
Frank - Chapter 01 #105*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

106. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

Application of the cost-benefit principle would lead one to purchase a \_\_\_\_\_ computer because \_\_\_\_\_.

- A. 900 Mhz; the total benefit exceeds the total cost
- B. 700 Mhz; the marginal benefit is \$500 and the marginal cost is \$100
- C. 600 Mhz; it is certainly fast enough
- D. 800 Mhz; the marginal benefits and marginal costs are equal**

At 800 Mhz both marginal cost and marginal benefit are \$400.

AACSB: Analytic  
 Blooms: Analyze  
 Difficulty: 3 Hard  
 Frank - Chapter 01 #106

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
 Topic: Three Important Decision Pitfalls

107. The following table shows the relationship between the speed of a computer's CPU and the benefits and costs. Assume that all other features of the computer are the same, i.e., CPU speed is the only source of variation.

| CPU Mhz | Total Benefit | Marginal Benefit | Total Cost | Marginal Cost |
|---------|---------------|------------------|------------|---------------|
| 600     | \$1,000       |                  | \$900      |               |
| 700     | \$1,500       |                  |            | \$100         |
| 800     |               | \$400            | \$1,400    |               |
| 900     | \$2,200       |                  | \$1,900    |               |
| 1,000   | \$2,400       |                  |            | \$600         |

Choosing the 1,000 Mhz computer would be inefficient because:

- A. the marginal benefit is less than the marginal cost.**
- B. the marginal benefit is equal to the marginal cost.
- C. it is impossible to tell the difference compared to a 600 Mhz computer.
- D. the marginal benefit is more than the marginal cost.

Marginal benefit at 1000 Mhz is \$200 and marginal cost is \$600, so increasing to 1,000 Mhz yields more additional cost than it would additional gain.

AACSB: Analytic  
 Blooms: Analyze  
 Difficulty: 3 Hard  
 Frank - Chapter 01 #107

Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
 Topic: Three Important Decision Pitfalls

108. Jack has a ticket to see Bo Bice for which he paid \$30 yesterday. He takes an unpaid day off from work to get ready for the concert. When he arrives at the concert, five different people offer him \$70 for his ticket. Jack decides to keep his ticket. The cost to Jack of seeing Bo Bice is:
- A. \$30.
  - B. \$40.
  - C. \$70.**
  - D. \$70 plus his forgone earnings.

The ticket price and the lost day's pay are sunk costs. Keeping the ticket when he has been offered \$70 for it represents an opportunity cost.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #108*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

109. Catherine and Nancy both own homes with lawns of similar size. Catherine mows her own lawn while Nancy hires someone to mow hers. Assume both women are rational decision makers. Which is the best explanation of the different decisions they make?
- A. The opportunity cost of Nancy's time is higher than the cost to her of hiring someone to mow the lawn.**
  - B. Nancy can get her lawn mowed for less than Catherine.
  - C. Nancy doesn't own a lawnmower.
  - D. Nancy earns more than Catherine does.

Assume that each is a rational decision maker and has chosen actions for which the marginal benefit outweighs the marginal cost.

*AACSB: Reflective Thinking*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #109*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

110. What is the opportunity cost of living in a house that you already own?
- A. Zero, because you already own it.
  - B. That mostly depends on current mortgage rates.
  - C. The rent you could receive if you rented the house out to someone else.**
  - D. The taxes you pay your local government.

Rent that you do not receive is an implicit cost.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Frank - Chapter 01 #110*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

111. Jody has purchased a non-refundable \$25 ticket to attend a Miley Cyrus concert on Friday evening. Subsequently, she is asked to go to dinner and dancing at no expense to her. If she uses cost-benefit analysis to choose between going to the concert and going on the date, she should:
- A.** include only the entertainment value of the concert in the opportunity cost of going on the date.
  - B. include the cost of the ticket plus the entertainment value of the concert in the opportunity cost of going on the date.
  - C. include only the cost of concert ticket in the opportunity cost of going on the date.
  - D. include neither the cost of the ticket nor the entertainment value of the concert in the opportunity cost of going on the date.

The price of the non-refundable ticket is a sunk cost.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #111*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

112. You need a TV, DVD player, and CD player. The sale flyer from a store downtown shows that the TV that you want to buy is on sale for 10% off of the regular price this week. DVD and CD players are both on sale for 20% off next week. Last week you drove downtown to save \$30 on some concert tickets, a 15% savings. The regular prices for TVs, DVD players, and CD players are given in the table below.

|            |       |
|------------|-------|
| TV         | \$250 |
| DVD Player | \$120 |
| CD Player  | \$200 |

If nothing else has changed, should you drive downtown next week to buy the DVD player and the CD player?

- A. Yes, because you will save \$32.
- B. No, because you will save less than \$30.
- C.** Yes, because you will save \$64.
- D. Yes, because it is always worth it to drive downtown to earn a 20% discount.

The information indicates that you are willing to drive downtown for at least \$30. You will save more than that by driving downtown when these items are on sale.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard  
Frank - Chapter 01 #112*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  
Topic: Three Important Decision Pitfalls*

113. You need a TV, DVD player, and CD player. The sale flyer from a store downtown shows that the TV that you want to buy is on sale for 10% off of the regular price this week. DVD and CD players are both on sale for 20% off next week. Last week you drove downtown to save \$30 on some concert tickets, a 15% savings. The regular prices for TVs, DVD players, and CD players are given in the table below.

|            |       |
|------------|-------|
| TV         | \$250 |
| DVD Player | \$120 |
| CD Player  | \$200 |

Suppose instead that the DVD player is on sale for 20% off and the CD player is on sale for 5% off regular price. Should you drive downtown to buy the DVD and the CD player?

- A. Yes, because you will save \$24.  
**B.** Yes, because you will save \$34.  
 C. Yes, because you will save \$64.  
 D. Yes, because it is always worth it to drive downtown to earn a 20% discount.

The information indicates that you are willing to drive downtown for at least \$30. You will save more than that by driving downtown when these items are on sale.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #113*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

114. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

What is the total cost per day of hiring 3 cooks if they work 8 hour shifts?

- A. \$60  
 B. \$160  
 C. \$320  
**D.** \$480

At \$20 per hour, an 8 hour day is \$160. For 3 cooks, the total is \$480.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #114*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

115. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

What is the dollar value of total production during an 8-hour shift if you hire 2 cooks?

- A. \$320
- B. \$560**
- C. \$70
- D. \$140

Two cooks make 7 pizzas per hour, or 56 pizzas in 8 hours. Each pizza sells for \$10, so the value of their production is \$560.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard*

*Frank - Chapter 01 #115*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

116. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

What is the average labor cost per pizza if you hire 4 cooks?

- A. \$6
- B. \$8**
- C. \$10
- D. \$12

Four cooks earn a total of \$80 per hour and make 10 pizzas, so labor costs are \$8 per pizza.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard*

*Frank - Chapter 01 #116*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

117. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

What is the average benefit per cook if you hire 2 cooks for one hour?

- A. 2 pizzas
- B. 2.5 pizzas
- C. 3 pizzas
- D. 3.5 pizzas**

Two cooks make 7 pizzas per hour. The average benefit is 3.5 pizzas.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #117*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

118. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

If you operate one hour every day, what is the marginal cost of hiring the 4<sup>th</sup> cook?

- A. \$10
- B. \$20**
- C. \$40
- D. \$60

Each cook is paid \$20 per hour so the additional cost of one more cook for an hour is \$20.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #118*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

119. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

If you operate one hour every day, what is the marginal benefit of hiring the 3<sup>rd</sup> cook?

- A. \$10
- B. \$20**
- C. \$30
- D. \$40

The third cook adds 2 pizzas to total production: production increases from 7 to 9. Each pizza sells for \$10, so 2 pizzas add \$20 in benefit.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard*

*Frank - Chapter 01 #119*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

120. You own a pizza shop called "Pizzas'R' Us". Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10. By hiring more cooks, you can increase your pizza production as shown in the following table.

| Number of cooks | Total production of pizzas each hour |
|-----------------|--------------------------------------|
| 0               | 0                                    |
| 1               | 4                                    |
| 2               | 7                                    |
| 3               | 9                                    |
| 4               | 10                                   |
| 5               | 10                                   |

How many cooks should you hire to maximize your net benefit?

- A. 1
- B. 3**
- C. 4
- D. 5

The third cook adds \$20 in benefit per hour and costs \$20 in wages per hour. When the marginal benefit just equals the marginal cost the net benefits are maximized.

*AACSB: Analytic  
Blooms: Apply  
Difficulty: 3 Hard*

*Frank - Chapter 01 #120*

*Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.*

*Topic: Three Important Decision Pitfalls*

121. Positive economic principles are those that:
- A. are always correct.
  - B. are influenced by political ideology.
  - C. predict how people should behave.
  - D.** predict how people will behave.

Refer to the definition in the text.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #121*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Normative Economics Versus Positive Economics*

122. One thing that distinguishes normative principles from positive principles is that:
- A. normative principles are pessimistic and positive principles are optimistic.
  - B. normative principles reflect the social norms of the community, and positive principles reflect universal truths.
  - C** normative principles tell us how people should make economic decisions, and positive principles tell us how people actually do make decisions.
  - D normative principles tell us how people actually make economic decisions, and positive principles tell us how people should make decisions.

Normative principles describe how people should behave; positive principles describe how they will behave.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #122*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Normative Economics Versus Positive Economics*

123. Normative economics is concerned with how people \_\_\_\_\_ make decisions while positive economics is concerned with how people \_\_\_\_\_ make decisions.
- A. in the real world; in models
  - B.** should; do
  - C. in power; in ordinary life
  - D. in ordinary life; in power

Normative principles describe how people should behave; positive principles describe how they will behave.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #123*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Normative Economics Versus Positive Economics*

124. An editorial in the paper argues that students should only be allowed to attend school so long as the marginal cost of educating that student is less than the marginal benefit of that student's education. The writer's reasoning is an application of:
- A. positive economics.
  - B. negative economics.
  - C. normative economics.**
  - D. economic naturalism.

Normative principles describe how people should behave; positive principles describe how they will behave. The editorial includes the word "should".

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #124*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Normative Economics Versus Positive Economics*

125. The incentive principle states that a person is more likely to do something if:
- A. the opportunity costs are high.
  - B. the benefits from doing it increase.**
  - C. everyone else is doing the same thing.
  - D. he is paid to do it.

The incentive principle states, in part, that economic agents are more likely to take an action if its benefit rises.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #125*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Normative Economics Versus Positive Economics*

126. The incentive principle is an example of:
- A. an economic decision-making pitfall.
  - B. over-estimating the benefits of an action.
  - C. a positive economic principle.**
  - D. a normative economic principle.

The incentive principle helps us predict behavior, but does not state that people should behave that way.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #126*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Normative Economics Versus Positive Economics*

127. If the government wanted to use the incentive principle to discourage smoking, it could:
- A. publicize the health risks associated with second-hand smoke.
  - B.** increase taxes on cigarettes, effectively raising the price.
  - C. subsidize hospitals treating lung disease.
  - D. invest more money in health research.

The incentive principle states, in part, that people are less likely to take an action if its cost rises.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #127*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Normative Economics Versus Positive Economics*

128. According to the incentive principle:
- A. it is irrational to perform volunteer services.
  - B. people will always take the highest-paying job.
  - C. benefits are more important than costs in making a decision.
  - D.** people tend to do more of something when the benefits are greater.

Benefits and costs are broadly defined. The incentive principle states that people will tend to do more as benefits rise and less as costs rise.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #128*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Normative Economics Versus Positive Economics*

129. Microeconomics is distinguished from macroeconomics in that microeconomics focuses on:
- A. the performance of the national economy.
  - B. the overall price level.
  - C.** choices made by individuals or groups in the context of individual markets.
  - D. how to improve the performance of the national economy.

Refer to the definitions in the textbook. Microeconomics focuses on individual choice.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #129*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

130. Macroeconomics is distinguished from microeconomics by its concentration on:
- A. choices.
  - B.** the performance of national economies and ways to improve upon their performance.
  - C. individual markets.
  - D. the level of prices in specific markets.

Refer to the definitions in the textbook. Macroeconomics focuses on national economies.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #130*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

131. The study of individual choices and group behavior in individual markets defines:  
**A.** microeconomics.  
B. economics.  
C. the scarcity principle.  
D. macroeconomics.

Refer to the definitions in the textbook. Microeconomics focuses on individual choice.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #131*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

132. Which branch of economics is most likely to study differences in countries' growth rates?  
A. microeconomics  
B. normative economics  
**C.** macroeconomics  
D. experimental economics

Refer to the definitions in the textbook. Macroeconomics focuses on national economies.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #132*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

133. Which of the following would not be analyzed in microeconomics?  
A. How to make the largest profit?  
B. Whether to study or watch TV tonight.  
C. How an early freeze in California will affect the price of fruit?  
**D.** Whether the federal budget should always be balanced.

The federal budget is a topic related to national economies, and therefore is a macroeconomic topic. The other issues relate to individual choices and so are microeconomic.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #133*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

134. Which of the following questions would not be answered in macroeconomics?  
A. What caused the great depression?  
B. At what rate does the US economy typically grow?  
**C.** Did the sharp increase in gasoline prices alter SUV sales?  
D. How does government spending affect the economy?

Macroeconomics focuses on national economies: SUV sales are an individual choice, so involves microeconomic decision-making.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #134*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

135. By convention, there are two major divisions of economics, called:
- A. marginal benefit and marginal cost.
  - B. reservation price and opportunity cost.
  - C. microeconomics and macroeconomics.**
  - D. rational economics and irrational economics.

The two main categories of economic study are macroeconomics and microeconomics.

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Frank - Chapter 01 #135*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

136. A study that deals with the salaries of university professors would be considered:
- A. macroeconomics
  - B. microeconomics**
  - C. economic naturalism
  - D. marginal benefit

Microeconomics focuses on individual choice.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #136*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

137. Studying how Pat allocates her time between teaching classes and assisting undergraduate students is an example of:
- A. microeconomics.**
  - B. macroeconomics.
  - C. individual economics.
  - D. economic naturalism.

Microeconomics focuses on individual choice.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #137*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

138. In deciding the number of guitars to buy for his shop before the Christmas season, Mark is making a(n) \_\_\_\_\_ decision.
- A. microeconomic**
  - B. macroeconomic
  - C. economic surplus
  - D. marginal choice

Microeconomics focuses on individual choice.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Frank - Chapter 01 #138*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

*Topic: Economics: Micro and Macro*

139. The impact of government policies on the building of new roads and highways would be studied in the field of:
- A.** microeconomics.
  - B. macroeconomics.
  - C. government economics.
  - D. marginal economics.

Microeconomics focuses on individual choice. Choices made by government agencies are still individual - and therefore microeconomic in nature. Macroeconomics focuses on overall national economic growth and factors that affect the overall economy.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #139*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economics: Micro and Macro*

140. Last year interest rates fell. The field of economics that would be most concerned with this is:
- A. microeconomics.
  - B.** macroeconomics.
  - C. economic naturalism.
  - D. marginal economics.

Macroeconomics focuses on overall national economic growth and factors that affect the overall economy.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Frank - Chapter 01 #140*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economics: Micro and Macro*

141. An economic naturalist is described as someone who:
- A. uses economic arguments to protect forests and wetlands from development.
  - B. has a natural talent for drawing graphs.
  - C.** applies economic insights to everyday life.
  - D. studies the process of natural selection in a marginal cost and marginal benefit framework.

The approach of the text is to apply economics to the world around you.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Frank - Chapter 01 #141*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economic Naturalism*

142. With ATMs, it is possible to retrieve cash from the bank at any time. One hundred years ago, one could only get cash from the bank during business hours, say, 9 am to 3 pm. The difference has arisen because:
- A. flexibility was not valued 100 years ago.
  - B. it was impossible to provide 24-hour service 100 years ago.
  - C.** the cost of providing 24-hour service is much lower today.
  - D. government forced banks to become more convenient.

Applying the incentive principle as an economic naturalist, observe that lower costs cause an increase in activity, in this case an increase in banking services.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #142*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economic Naturalism*

143. The number of US households with access to the Internet and those with broadband connections is growing rapidly. As an economic naturalist, one could predict that when a major purchase is being considered, families will:
- A. always buy online.
  - B. never buy online.
  - C.** collect more information before making the purchase because the cost of finding and acquiring it is lower.
  - D. collect more information before making the purchase because the benefit of information is now larger.

Applying the incentive principle as an economic naturalist, observe that lower costs cause an increase in activity, in this case an increase in searching for information.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #143*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economic Naturalism*

144. Every time you go to the grocery store, you try to choose the shortest line. But all of the lines always seem to be the same length. Why?
- A. The store manager tells the cashiers to speed up or slow down to maintain equal line lengths.
  - B.** Everyone else is trying to choose the shortest line too.
  - C. The cashiers all work at the same speed.
  - D. Cashiers do not have an incentive to work faster.

Applying the incentive principle as an economic naturalist, observe that people seek to reduce the cost of waiting.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #144*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economic Naturalism*

145. Several years ago there were two systems for viewing movies at home: Sony's BetaMax machines and VCR machines that played VHS tapes. Despite the higher quality of BetaMax video, VHS became the dominant format. Once VHS tapes were the dominant format, BetaMax virtually disappeared from consumer markets. Why?
- A. Movie producers preferred VHS to BetaMax.
  - B.** Consumers gained more benefit by using the same system that others used, allowing them to share movies.
  - C. Movie rental stores boycotted all Sony products.
  - D. BetaMax technology was obsolete.

Apply the incentive principle as an economic naturalist. More users of a system create additional benefits (sharing, compatibility). As more people acquired VHS systems, benefits increased so that even more people chose that system.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #145*

*their incentives.*

*Topic: Economic Naturalism*

146. Suppose there are two parallel highways between two cities with approximately equal traffic. What would you expect to happen if the state began charging tolls to drive on one of those highways?
- A.** More drivers would drive on the non-toll road, making the toll road less congested.
  - B. More drivers would drive on the toll road making the non-toll road less congested.
  - C. Traffic would remain evenly divided between the two roads as drivers continuously sought the less-congested route.
  - D. Traffic would decrease on both roads.

Applying the incentive principle as an economic naturalist, observe that higher costs on the toll road will cause fewer people to use that road.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #146*

*their incentives.*

*Topic: Economic Naturalism*

147. During times of high unemployment, colleges often observe an increase in enrollment even if tuition remains unchanged. Why?
- A. Students do not know about the decision pitfalls and go to college even though the net benefit is negative.
  - B.** The opportunity cost of attending college is lower because students are less likely to have good full-time jobs.
  - C. The opportunity cost of attending college is higher because good jobs are harder to find.
  - D. The benefit of attending college is lower because college graduates are less likely to find jobs upon graduation.

Applying the incentive principle as an economic naturalist, an increase in an activity is most likely due to a decrease in cost or an increase in benefit. In this case, the only answer choice that makes sense is a decrease in cost.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #147*

*their incentives.*

*Topic: Economic Naturalism*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives.*

148. The last time gas prices increased drastically, sales of large Sport Utility Vehicles (SUVs) fell. What economic reason would explain this decrease in sales?
- A. SUVs were a fad and were no longer popular.
  - B. People who liked SUVs had already purchased one.
  - C.** Higher gas prices increased the cost of owning a SUV.
  - D. The price of SUVs increased because it cost more to build them.

Applying the incentive principle as an economic naturalist, an increase in cost will cause a decrease in an activity.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #148*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economic Naturalism*

149. Curly used his frequent flyer miles to fly to visit Moe. Curly told Moe that it didn't cost him anything to visit. Is Curly correct?
- A. Yes, because Curly's frequent flyer miles made the trip free.
  - B. Yes, because Curly could stay at Moe's house for free.
  - C.** No, because Curly could have used his frequent flyer miles to go somewhere else, but chose to visit Moe.
  - D. No, because Curly had to pay for earlier trips in order to earn the frequent flyer miles.

Applying the scarcity principle as an economic naturalist, Curly gave up something of value (a different trip with his frequent flyer miles) to visit Moe.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #149*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economic Naturalism*

150. Some states have started giving tax credits to homeowners who install solar panels. This is an example of:
- A. A decision pitfall because homeowners will not properly account for the costs and benefits of installing solar panels.
  - B.** Using the incentive principle to encourage homeowners to switch to solar energy.
  - C. Normative economics, because people should use clean sources of energy.
  - D. Macroeconomic policy because it involves government tax policy.

Applying the incentive principle as an economic naturalist, the tax credit is intended to decrease the cost to homeowners of using solar energy. Decreasing its cost is likely to increase the use of solar panels.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #150*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economic Naturalism*

151. Pat can either drive to work, which takes half an hour and uses \$1.50 worth of gas, or take the bus, which takes an hour and costs \$1.00. How should Pat get to work?
- A. Pat should always take the bus because it costs \$0.50 less.
  - B. Pat should always drive because it saves half an hour.
  - C.** Pat should drive if saving a half hour is worth \$0.50 or more.
  - D. Pat should take the bus if a half hour of time is worth \$0.50 or more.

Applying the cost-benefit principle as an economic naturalist, Pat should take the action for which the net benefit is greatest.

*AACSB: Analytic*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Frank - Chapter 01 #151*

*their incentives.*

*Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining*

*Topic: Economic Naturalism*

# 1 Summary

| <u>Category</u>   | <u># of Questions</u> |
|---|-----------------------|
| AACSB: Analytic   | 150                   |
| AACSB: Reflective Thinking  | 1                     |
| Blooms: Analyze   | 20                    |
| Blooms: Apply   | 52                    |
| Blooms: Evaluate  | 1                     |
| Blooms: Remember  | 29                    |
| Blooms: Understand  | 49                    |
| Difficulty: 1 Easy  | 29                    |
| Difficulty: 2 Medium  | 49                    |
| Difficulty: 3 Hard  | 73                    |
| Frank - Chapter 01  | 151                   |
| Learning Objective: 01-01 Explain and apply the Scarcity Principle; which says that having more of any good thing necessarily requires having less of something else.                 | 14                    |
| Learning Objective: 01-02 Explain and apply the Cost-Benefit Principle; which says that an action should be taken if, but only if, its benefit is at least as great as its cost.      | 35                    |
| Learning Objective: 01-03 Discuss three important pitfalls that occur when applying the Cost-Benefit Principle inconsistently.  | 71                    |
| Learning Objective: 01-04 Explain and apply the Incentive Principle; which says that if you want to predict peoples behavior; a good place to start is by examining their incentives. | 31                    |
| Topic: Applying the Cost-Benefit Principle  | 32                    |
| Topic: Economic Naturalism  | 11                    |
| Topic: Economics: Micro and Macro   | 12                    |
| Topic: Economics: Studying Choice in a World of Scarcity  | 17                    |
| Topic: Normative Economics Versus Positive Economics  | 8                     |
| Topic: Three Important Decision Pitfalls  | 71                    |