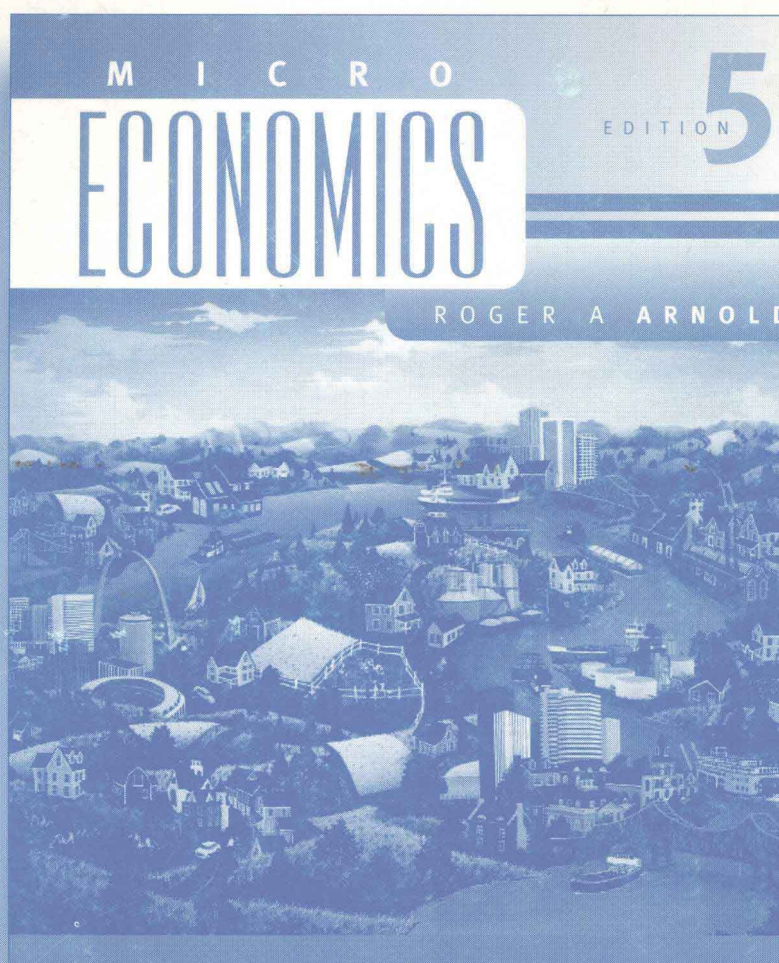


TEST BANK

Microeconomics

Fifth Edition



Arnold

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Microeconomics

Fifth Edition

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Test Bank to accompany Microeconomics, 5e

By Roger A. Arnold

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Chapter 1

What Economics Is About

1. The author of the text defines economics as the
- a. science of efficiency.
 - b. science of scarcity.
 - c. study of markets.
 - d. study of human activity.

Answer: b

2. Economics deals with the actions of
- a. individuals only.
 - b. societies only.
 - c. both individuals and societies.
 - d. neither individuals nor societies.

Answer: c

3. When economists speak of scarcity, they are referring to the
- a. condition in which society is not employing all its resources in an efficient way.
 - b. condition in which people's wants outstrip the limited resources available to satisfy those wants.
 - c. economic condition that exists in only very poor countries of the world.
 - d. condition in which society produces too many frivolous goods and not enough socially desirable goods.

Answer: b

4. Which of the following items is a good?
- a. leisure time
 - b. jeans
 - c. pizzas
 - d. cars
 - e. all of the above

Answer: e

5. There would be no subject of economics (and you would have to drop this course immediately!) if
- a. wants were finite.
 - b. resources were finite.
 - c. wants were infinite.
 - d. resources were infinite.

Answer: d

6. Which of the following is not one of the categories of resources?
- a. labor
 - b. government
 - c. capital
 - d. entrepreneurship

Answer: b

7. What is defined as produced goods used as inputs for the production of other goods?
- a. natural resources
 - b. services
 - c. capital
 - d. entrepreneurs
- Answer: c
8. "Entrepreneurship" is
- a. the talent for organizing the use of land, labor and capital, among other things.
 - b. skill in influencing government regulators and legislators.
 - c. accumulated technical knowledge in using labor and capital.
 - d. knowledge of the particular natural resources to be found in a given area.
- Answer: a
9. Some years ago, chemists at 3M Corporation were trying to create a super-strong glue. Somehow they got their molecules twisted and came up with one of the weakest glues ever made. But, rather than pouring it down the drain, they tried coating some paper with it. Voila! The "Post-It Note" was born. In this case, 3M was acting as
- a. a utility.
 - b. a rationer.
 - c. an entrepreneur.
 - d. an abstraction.
- Answer: c
10. The physical and mental talents people bring to production processes comprise the resource called
- a. entrepreneurship.
 - b. natural resources.
 - c. capital.
 - d. labor.
- Answer: d
11. Choice is fundamentally a consequence of
- a. living in a world where there are both goods and bads.
 - b. how wealthy one is.
 - c. scarcity.
 - d. opportunity cost.
- Answer: c
12. There would be no scarcity if
- a. wants were finite.
 - b. resources were finite.
 - c. wants were infinite.
 - d. resources were infinite.
- Answer: d

13. The headline in the newspaper reads “County Supervisors Debate Building New Schools.” The headline relates closest to which economic concept?
- goods and bads
 - utility
 - choice
 - ceteris paribus
- Answer: c
14. The opportunity cost of attending college is
- the money one spends on college tuition, books, and so forth.
 - the highest valued alternative one forfeits to attend college.
 - the least valued alternative one forfeits to attend college.
 - equal to the salary one will earn when one graduates from college.
- Answer: b
15. Here are three things you could do if you do not attend your next-door neighbor’s barbecue: watch television with some friends (you value this at \$8), read a good novel (you value this at \$4), or go in to work (you could earn \$6 during the barbecue). The opportunity cost of going to your neighbor’s barbecue is
- \$6, because this is the only alternative of the three where you actually receive a monetary payment.
 - \$4, because this is the lowest dollar figure.
 - \$8, because this is the highest valued alternative forfeited.
 - \$18, because this is the total dollar sum of the alternatives forfeited.
- Answer: c
16. It usually takes less time to buy a six-pack of 7-Up, a loaf of bread, and a half-gallon of ice cream at a small convenience store (such as a 7-Eleven) than at a large, full-service grocery store. Which of the following persons is most likely to buy these items at a convenience store?
- a person with high opportunity cost of time
 - a person with low opportunity cost of time
 - a person who is lazy
 - There is not enough information to answer the question.
- Answer: a
17. It takes one hour to fly between Las Vegas and Los Angeles, and the price of an airline ticket is \$60. It takes five hours to drive between Las Vegas and Los Angeles, and the price of a bus ticket is \$20. Under what condition would it be cheaper (in terms of lower opportunity costs) to fly than to take the bus?
- under no conditions
 - under the condition that one values his or her time at \$15 per hour
 - under the condition that one values his or her time at \$6 per hour
 - under the condition that one values his or her time at \$5 per hour
 - There is not enough information to answer the question.
- Answer: b

18. The higher the opportunity cost of attending college,
- the more likely an individual will go to college.
 - the more economics classes an individual will take at college.
 - the fewer economics classes an individual will take at college.
 - the less likely an individual will go to college.
- Answer: d
19. A theory is
- built on the major factors or variables that the theorist believes explain some event.
 - a simplified abstract representation of the real world.
 - used to understand the real world.
 - a and b
 - a, b, and c
- Answer: e
20. The terms “theory” and “_____” are synonymous.
- model
 - assumption
 - abstract
 - hypothesis
- Answer: a
21. Theory A uses one variable or critical factor to explain and predict economic events 1 through 8. Theory B uses two variables or critical factors to explain and predict economic events 1-8. Both theories explain and predict economic events 1 through 8 equally well. Which theory would economists say is a better theory?
- theory A
 - theory B
 - Economists would say the two theories are equal.
 - There is not enough information to answer the question.
- Answer: a
22. Which of the following statements is false?
- A theory consists of variables, assumptions, hypotheses, and predictions.
 - A variable can take on different values.
 - A hypothesis is a conditional statement.
 - If predictions are logically deduced from assumptions, the predictions are necessarily true.
 - none of the above
- Answer: d
23. An “if-then” statement about how two real-world variables relate is called
- a theory.
 - an assumption.
 - a hypothesis.
 - a model.
- Answer: c

30. Superstitions are generally the result of
- taking association to be causation.
 - the fallacy of composition.
 - making invalid assumptions.
 - holding all other things constant.
- Answer: a
31. “What’s good for General Motors is good for the nation” is an example of
- taking assumption to be causation.
 - a *ceteris paribus* statement.
 - the fallacy of composition.
 - disguising a normative statement as a positive one.
- Answer: c
32. Which of the following best represents the fallacy of composition?
- What is true for one is false for all.
 - What is good for one is bad for all.
 - What is good (or true) for one is good (or true) for all.
 - The more high-calorie food a person eats, the greater his or her weight will be, *ceteris paribus*.
- Answer: c
33. If there is a fire in a crowded movie theater and you (and only you) run to the exit, you will get out more quickly than if you had walked to the exit. It follows that if you are better off running to the exit, so is everyone else in the theater. This is an example of
- the fallacy of composition.
 - the *ceteris paribus* condition.
 - association.
 - causation.
- Answer: a
34. *Ceteris paribus* means
- one variable too many.
 - the correct relationship specified.
 - assuming economic motives.
 - all other things held constant.
 - different things in different contexts.
- Answer: d
35. Which of the following statements uses the term *ceteris paribus* correctly?
- In economics, there are numerous theories, *ceteris paribus*.
 - New York City is a major American city, *ceteris paribus*.
 - The price of pineapples is low in Hawaii, *ceteris paribus*.
 - The more ice cream you eat, the more weight you will gain, *ceteris paribus*.
 - none of the above
- Answer: d

36. If an economist says “the higher the price of oranges, the fewer oranges individuals will buy, *ceteris paribus*,” this means that
- individuals don’t like high-priced oranges.
 - as the price of oranges rises, individuals’ preferences change and they no longer like oranges as much as they once did.
 - as the price of oranges rises, individuals’ preferences do not change, nor does anything else, but individuals buy fewer oranges in direct response to the higher price of oranges.
 - the higher the price of oranges, the fewer oranges individuals will buy, assuming that people have economic motives.

Answer: c

37. Which of the following is an example of a positive statement?
- The U.S. public should devote more resources to education.
 - The poor should pay lower taxes and the rich should pay higher taxes.
 - Soap operas should be taken off television.
 - If you drop a ball from the top of a building, it will fall to the ground.

Answer: d

38. Attempts to determine “what is” are part of _____ economics.
- positive
 - normative
 - positive and normative
 - neither positive nor normative

Answer: a

39. Which of the following statements is false?
- Positive economists always agree with each other.
 - Normative economics do not always agree with each other.
 - Normative economics involves value judgments and opinions.
 - none of the above

Answer: a

40. Microeconomics is the branch of economics that deals with
- highly aggregated markets or the entire economy.
 - the production side of the economy.
 - the buying side of the economy.
 - human behavior and choices as they relate to relatively small units—an individual, a firm, an industry.

Answer: d

41. Which of the following is a microeconomics topic?
- the study of how prices are determined in the computer industry
 - the study of unemployment in the economy
 - the study of how changes in the nation’s money supply affect the nation’s output
 - a and c
 - b and c

Answer: a

42. Which of the following is a positive macroeconomic statement?
- a. The central bank should increase the nation's money supply.
 - b. The increase in the nation's money supply helped push the nation's unemployment rate down in the short run.
 - c. Ford Motor Company's new advertising campaign ended up hurting General Motors' sales.
 - d. The local government ought to spend more on recreational facilities.
- Answer: b
43. Which of the following is a normative macroeconomics statement?
- a. The central bank should increase the nation's money supply.
 - b. The increase in the nation's money supply helped push the nation's unemployment rate down in the short run.
 - c. Ford Motor Company's new advertising campaign ended up hurting General Motors' sales.
 - d. The local government ought to spend more on recreational facilities.
- Answer: a
44. Which of the following is a positive microeconomics statement?
- a. The central bank should increase the nation's money supply.
 - b. The increase in the nation's money supply helped push the nation's unemployment rate down in the short run.
 - c. Ford Motor Company's new advertising campaign ended up hurting General Motors's sales.
 - d. The local government ought to spend more on recreational activities.
- Answer: c
45. The condition in an economy that makes a "rationing device" a necessity is the fact that
- a. the economy is organized around free markets.
 - b. the economy is centrally planned by the government.
 - c. there is a scarcity.
 - d. there are fewer types of goods than there are people in the economy.
- Answer: c
46. The latest Santana CD is available for \$16.99. Is this price a rationing device?
- a. No, stores will sell the CD to anyone having the required number of dollars.
 - b. Yes, many will not buy the CD because they are unwilling to sacrifice other things \$16.99 will buy.
 - c. No, for price to be a rationing device, it must be so high that only one unit of the item is sold.
 - d. Yes, the CD that one person purchases cannot be simultaneously owned by any other person.
- Answer: b
47. What is the most prominent rationing device you will find at your campus bookstore?
- a. price
 - b. long lines at the checkout
 - c. limited quantities in stock of each item
 - d. anti-theft tags on the high-priced items
- Answer: a

48. "Competition" is the struggle of people to get more of the economy's
- a. resources.
 - b. capital.
 - c. factors of production.
 - d. rationing device.
- Answer: d
49. In every economy people vie for the economy's rationing device, a process called
- a. competition.
 - b. entrepreneurship.
 - c. marginal benefit.
 - d. positive economics.
- Answer: a
50. Scarcity means
- a. wants are greater than the limited resources available to satisfy these wants.
 - b. wants are less than the limited resources available to satisfy these wants.
 - c. resources are infinite.
 - d. wants are limited.
 - e. both c and d
- Answer: a
51. Choice implies
- a. opportunity cost.
 - b. efficiency.
 - c. inefficiency.
 - d. utility.
 - e. disutility.
- Answer: a
52. Opportunity cost is the value of
- a. the next best forfeited alternative.
 - b. the chosen alternative.
 - c. a free good.
 - d. an economic good.
- Answer: a
53. The purpose of the *ceteris paribus* condition is to allow economists to
- a. determine the relationship among several variables.
 - b. determine the impact of several variables on another variable.
 - c. isolate the impact of one variable on several variables.
 - d. isolate the relationship between two variables.
- Answer: d
54. Theories are
- a. descriptions of the real world.
 - b. abstractions from the real world.
 - c. complexities of the real world.
 - d. predictions about the real world.
 - e. all of the above
- Answer: b

55. Positive economics deals with

- a. what is.
- b. what should be.
- c. relatively small units in the economy.
- d. aggregates or the entire economy.

Answer: a

56. Normative economics deals with

- a. what is.
- b. what should be.
- c. relatively small units in the economy.
- d. aggregates or the entire economy.

Answer: b

57. Microeconomics deals with

- a. what is.
- b. what should be.
- c. relatively small units in the economy.
- d. aggregates or the entire economy.

Answer: c

58. Macroeconomics deals with

- a. what is.
- b. what should be.
- c. relatively small units in the economy.
- d. aggregates or the entire economy.

Answer: d

59. Which of the following illustrates someone believing that association is causation?

- a. Jane washed her car in the morning and it rained in the afternoon, which means Jane's washing her car caused it to rain.
- b. Ted gets home from work faster by driving through the city streets at 5:00 p.m. rather than taking the freeway which means that everyone will get home faster by driving through the city streets at 5:00 p.m. rather than taking the freeway.
- c. Jill hit her head on the cabinet door and now has a lump on her head at the point of impact, which means the lump caused the blow to the head.
- d. both a and c

Answer: a

60. Which of the following is an example of the fallacy of composition?

- a. Jane washed her car in the morning and it rained in the afternoon, which means Jane's washing her car caused it to rain.
- b. Ted gets home from work faster by driving through the city streets at 5:00 p.m. rather than taking the freeway, which means that everyone will get home faster by driving through the city streets at 5:00 p.m. rather than taking the freeway.
- c. Jill hit her head on the cabinet door and now has a lump on her head at the point of impact, which means the blow to the head caused the lump.
- d. Joan wished her brother bad luck during an argument last night and he wrecked his car today, which means Joan's wishing her brother bad luck caused him to wreck his car.

Answer: b

61. Variables are magnitudes that
- a. are constant or fixed.
 - b. can assume different values.
 - c. are always increasing.
 - d. are always decreasing.
 - e. are always positive values.

Answer: b

62. Positive economics is concerned with
- a. value judgments.
 - b. opinions.
 - c. cause-effect relationships.
 - d. observations that cannot be proved.
 - e. both c and d

Answer: c

63. Normative economics is concerned with
- a. value judgments.
 - b. opinions.
 - c. cause-effect relationships.
 - d. observations that can be proved.
 - e. both a and b

Answer: e

64. Logical deduction is the process by which the theorist moves from the
- a. hypotheses, to the assumptions, to the predictions.
 - b. assumptions, to the variables, to the predictions.
 - c. assumptions, to the hypotheses, to the predictions.
 - d. variables, to the hypotheses, to the predictions.
 - e. variables, to the assumptions, to the predictions.

Answer: c

65. In economics, a synonym for utility is
- a. usefulness.
 - b. satisfaction.
 - c. sacrifice.
 - d. a service.

Answer: b

66. Thinking of “what would have been” is key to identifying the _____ of “what is.”
- a. utility
 - b. marginal benefit
 - c. scarcity
 - d. opportunity cost

Answer: d

67. Suppose the federal government steps up its program of highway repair and renovation. Millions of people see tangible benefits from this. Economists remind us that those same people eventually must pay higher taxes to fund the highway project, which points out the _____ the project.
- a. resources used in
 - b. opportunity cost of
 - c. marginal benefits of
 - d. rationing device used in
- Answer: b
68. The synonym economists commonly use for “additional” is
- a. capital.
 - b. rational.
 - c. marginal.
 - d. economic.
- Answer: c
69. Decision making “at the margin” means making a choice based on _____ of a decision.
- a. the total benefits
 - b. the total costs
 - c. comparing the total benefits and costs
 - d. comparing the additional benefits and costs
- Answer: d
70. Several years ago, a bookstore chain extended its closing time from 9 p.m. to 10 p.m. Now it is considering a further extension to 11 p.m. In making this marginal decision, the results of having gone from 9 p.m. to 10 p.m. are
- a. irrelevant.
 - b. relevant if the marginal costs and benefits were unequal.
 - c. relevant since they are part of the calculation of total costs and benefits.
 - d. relevant if the marginal costs and benefits were equal.
- Answer: a
71. At the optimal level of an activity, its marginal benefit must
- a. be zero.
 - b. be greater than zero.
 - c. equal the marginal cost.
 - d. exceed the marginal cost.
- Answer: c
72. Which of the following is a positive statement?
- a. The temperature is too high today.
 - b. The temperature is 105 degrees today.
 - c. It is too hot to jog today.
 - d. I enjoy summer evenings when it cools off.
- Answer: b

73. Choice is a consequence of
- a. opportunity cost.
 - b. sacrifice.
 - c. formulating hypotheses.
 - d. scarcity.
 - e. none of the above

Answer: d

74. In economics, scarcity implies
- a. disutility.
 - b. utility.
 - c. choice.
 - d. *ceteris paribus*.
 - e. a, c, and d

Answer: c

75. The condition often used in economics to isolate the relationship between two variables is
- a. association.
 - b. causation.
 - c. abstraction.
 - d. *ceteris paribus*.
 - e. efficiency.

Answer: d

76. Which statement is correct?
- a. Economic theories cannot be tested.
 - b. Economic theories do not need to be tested.
 - c. Economic theories are abstractions from reality.
 - d. Economic theories are always true in the real world.

Answer: c

77. All sellers would like to raise the price of what they sell. But an unintended effect of this could be _____ in units sold large enough to _____ their total revenue.
- a. an increase; raise
 - b. an increase; lower
 - c. a decrease; raise
 - d. a decrease; lower

Answer: d

78. Most states have instituted mandatory seatbelt laws to reduce traffic fatalities. An economist may point out that an unintended effect of these laws is
- a. an increase in the price of automobiles, further reducing fatalities.
 - b. an increase in driving speed, increasing the number of accidents.
 - c. a decrease in driving speed, further reducing fatalities.
 - d. a reduction in the actual use of seatbelts, increasing fatalities.

Answer: d

79. A mandatory seatbelt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.13 to 0.09 while raising the number of accidents per period from 312,000 to any more than
- 324,480.
 - 450,667.
 - 518,992.
 - 579,400.

Answer: b

80. A mandatory seatbelt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.11 to 0.08 while raising the number of accidents per period from 264,000 to any more than
- 271,920.
 - 312,775.
 - 363,000.
 - 412,500.

Answer: c

81. A mandatory seatbelt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.10 to 0.06 while raising the number of accidents per period from 232,700 to any more than
- 242,000.
 - 246,662.
 - 352,611.
 - 387,833.

Answer: d

82. The usefulness of a theory is determined by
- the realism of its hypothesis.
 - the realism of its assumptions.
 - the realism of its variables.
 - how well it predicts.
 - all of the above

Answer: d

83. An economic theory is tested by
- the Testing Committee of the American Economic Association.
 - examining the realism of its assumptions.
 - deriving statistical equations.
 - comparing its predictions with the facts.
 - all of the above

Answer: d

84. In order to test an economic theory, it is necessary to
- collect data.
 - perform controlled experiments on people.
 - first delete the *ceteris paribus* condition.
 - remove whatever unrealistic assumptions are in the theory.
 - none of the above

Answer: a