

Business Economics 4th edition Mankiw Test Bank

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Chapter_1_What_is_Business_Economics

1. When the government redistributes income with taxes and welfare, the economy becomes more efficient.

- a. True
- b. False

ANSWER: False

2. When economists say, "There is no such thing as a free lunch," they mean that all economic decisions involve trade-offs.

- a. True
- b. False

ANSWER: True

3. Adam Smith's "invisible hand" concept describes how corporate business reaches into the pockets of consumers like an "invisible hand."

- a. True
- b. False

ANSWER: False

4. Rational people act only when the marginal benefit of the action exceeds the marginal cost.

- a. True
- b. False

ANSWER: True

5. When a jet flies overhead, the noise it generates is an externality.

- a. True
- b. False

ANSWER: True

6. A tax on alcoholic drinks raises the price of alcoholic drinks and provides an incentive for consumers to drink more.

- a. True
- b. False

ANSWER: False

7. High and persistent inflation can be caused by excessive growth in the quantity of money in the economy.

- a. True
- b. False

ANSWER: True

8. In the short run, a reduction in inflation tends to cause a reduction in unemployment.

- a. True
- b. False

ANSWER: False

9. An individual farmer is likely to have market power in the market for wheat.

- a. True
- b. False

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ANSWER: False

10. Workers in the countries of Western Europe have a relatively high standard of living because those countries have relatively high minimum wage rates.

- a. True
- b. False

ANSWER: False

11. Which of the following involve a trade-off?

- a. Taking a nap.
- b. All of these answers involve trade-offs.
- c. Watching a football game on Saturday afternoon.
- d. Going to university.
- e. Buying a new car.

ANSWER: b

12. Trade-offs are required because wants are unlimited and resources are

- a. economical.
- b. unlimited.
- c. efficient.
- d. marginal.
- e. scarce.

ANSWER: e

13. Economics is the study of how

- a. society manages its unlimited resources.
- b. to reduce our wants until we are satisfied.
- c. society manages its scarce resources.
- d. to fully satisfy our unlimited wants.
- e. to avoid having to make trade-offs.

ANSWER: c

14. A rational person does not act unless

- a. the action is ethical.
- b. the action produces marginal costs that exceed marginal benefits.
- c. the action produces marginal benefits that exceed marginal costs.
- d. the action makes money for the person.
- e. none of these answers.

ANSWER: c

15. Raising taxes and increasing welfare payments to the poor

- a. reduces market power.
- b. proves that there is such a thing as a free lunch.
- c. improves efficiency at the expense of equity.

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- d. none of these answers.
- e. improves equity at the expense of efficiency.

ANSWER: e

16. Suppose you find €20. If you choose to use the €20 to go to a football match, your opportunity cost of going to the game is

- a. nothing, because you found the money.
- b. €20 (because you could have used the €20 to buy other things) plus the value of your time spent at the game.
- c. €20 (because you could have used the €20 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.
- d. €20 (because you could have used the €20 to buy other things).
- e. none of these answers.

ANSWER: b

17. Foreign trade:

- a. increases the scarcity of resources.
- b. makes a country more equitable.
- c. allows a country to have a greater variety of products at a lower cost than if it tried to produce everything at home.
- d. allows a country to avoid trade-offs.

ANSWER: c

18. Since people respond to incentives, we would expect that, if the average salary of accountants increases by 50% while the average salary of teachers increases by 20%, then

- a. fewer students will take degree courses in accounting and more will take education courses.
- b. fewer students will take degree courses in education and more will take accounting courses.
- c. fewer students will attend university.
- d. none of these answers.

ANSWER: b

19. Which of the following activities is most likely to produce an externality?

A student:

- a. eats a hamburger in the student union.
- b. reads a novel for pleasure.
- c. sits at home and watches TV.
- d. has a party in her room in the student hall of residence.

ANSWER: d

20. Which of the following statements is true about a market economy?

- a. With a large enough computer, central planners could guide production more efficiently than markets.
- b. Market participants act as if guided by an invisible hand to produce outcomes that maximize social welfare.
- c. The strength of a market system is that it tends to distribute resources evenly across consumers.
- d. Taxes help prices communicate costs and benefits to producers and consumers.

ANSWER: b

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21. Workers in Western Europe enjoy a high standard of living because
- a. the countries of Western Europe have set high minimum wage rates.
 - b. unions in Western Europe keep the wage high.
 - c. none of these answers.
 - d. the countries of Western Europe have protected their industries from foreign competition.
 - e. workers in Western Europe are highly productive.

ANSWER: e

22. High and persistent inflation is caused by
- a. trade unions increasing wages too much.
 - b. a government introducing a one off tax on fuel .
 - c. governments increasing the quantity of money too much.
 - d. regulations raising the cost of production too much.

ANSWER: c

23. You are planning to run a hot dog stand during a forthcoming fair. You originally estimated that you will generate sales revenue of €2,000 and you have already spent €1,000 building the hot dog stand. The hot dog stand is nearly completed but now you estimate total sales to be only €800 because the fair clashes with a major music festival in a nearby location. You can complete the hot dog stand for another €300. Your decision rule should be to complete the hot dog stand as long as the cost to complete the stand is less than

- a. €300.
- b. €100.
- c. €500.
- d. none of these answers.
- e. €800.

ANSWER: e

24. Which of the following is not part of the opportunity cost of going on holiday?

The money you:

- a. spent on a theatre show.
- b. could have made if you had stayed at home and worked.
- c. spent on airline tickets.
- d. spent on another opportunity.

ANSWER: d

25. Productivity can be increased by
- a. improving the education of workers.
 - b. raising union wages.
 - c. raising minimum wages.
 - d. restricting trade with foreign countries.

ANSWER: a

26. Explain why using opportunity cost as a measure of the 'cost' of something is better than using a money value to an economist.

ANSWER: Answers will vary

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27. Outline one example of the principle of 'thinking at the margin.'

ANSWER: Answers will vary

28. When are markets not a good way to organize economic activity?

ANSWER: Answers will vary

29. Explain why property rights are important for the functioning of a free market economy.

ANSWER: Answers will vary.