Test Bank for Economic Analysis of Social Issues v3 1st Edition by Grant

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Chapter 1: Fundamental Concepts in Economics

MULTIPLE CHOICE

1. Economics is the study of how ________ manages its ________ resources to satisfy its wants.
   a. society; unlimited
   b. society; scarce
   c. a household; unlimited
   d. a household; scarce

   ANS: B DIF: Easy REF: Section 1.1

2. What is the fundamental focus of economics?
   a. maximizing profits for businesses
   b. analyzing how individuals and societies allocate scarce resources to satisfy unlimited wants
   c. studying the history of economic thought
   d. exploring the impact of climate change on the global economy

   ANS: B DIF: Easy REF: Section 1.1

3. Why is the question “What to produce?” important in economic decision-making?
   a. It determines how society’s scarce resources will be used.
   b. It influences the distribution of income in society.
   c. It focuses on cost minimization.
   d. It explores the role of government in the economy.

   ANS: A DIF: Moderate REF: Section 1.1

4. In a centrally planned economy, who typically makes decisions about what will be produced and who will consume the goods and services?
   a. individual consumers
   b. private businesses and corporations
   c. government authorities
   d. market forces and competition

   ANS: C DIF: Moderate REF: Section 1.1

5. How might advancements in technology impact the answers to the key economic questions over time?
   a. by reducing the importance of consumer preferences in decision-making
   b. by increasing the role of government in resource allocation
   c. by influencing the types of goods and services produced and changing how they are distributed
   d. by allowing society to produce more things from the same number of resources

ANS: D DIF: Hard REF: Section 1.1

6. Imagine a society that prioritizes environmental sustainability. How might this influence the choices made in answering the key economic questions?
   a. It may lead to increased production of goods with disposable packaging.
   b. It could result in a focus on renewable energy sources and eco-friendly products.
   c. It might encourage wasteful consumption patterns.
   d. It would have no impact on economic decisions.

   ANS: B DIF: Hard REF: Section 1.1

7. In 2020, Pfizer and Moderna developed COVID-19 vaccines. The government decided to give them first to the elderly and then to critical workers. That decision was a __________ decision.
   a. *what*
   b. *for whom*
   c. *why*
   d. *how*

   ANS: B DIF: Moderate REF: Section 1.1

8. In 2020, Pfizer and Moderna developed COVID-19 vaccines. The government funded the development and then created vaccination centers to enable millions to receive the vaccine in a few short weeks. The process of getting everyone immunized best typifies a _________ economy.
   a. market
   b. command
   c. mixed
   d. sovereign

   ANS: C DIF: Moderate REF: Section 1.1

9. Compare and contrast the economic decision-making process in a command economy with that of a market economy regarding what to produce and who gets to consume.
   a. Command economies focus on maximizing individual choice, while market economies prioritize centralized planning.
   b. Both command and market economies rely on the same principles for resource allocation.
   c. Command economies are characterized by government control, while market economies emphasize individual preferences and competition.
   d. Market economies have strict regulations, while command economies operate with minimal government intervention.

   ANS: C DIF: Moderate REF: Section 1.1

10. An economy's resources include:
   a. raw materials
   b. factories and machinery
   c. human knowledge

d. All of the available are true.

ANS: D DIF: Easy REF: Section 1.1

11. Economies can be organizations, such as:
    a. households
    b. individual states of the United States
    c. entire countries
    d. households, states, and countries

ANS: D DIF: Easy REF: Section 1.1

4. Which of the following is a key question that must be addressed by an economy?
    a. What will be made with our resources?
    b. How much will we spend producing products?
    c. Where will we produce our products?
    d. When should we produce our products?

ANS: A DIF: Moderate REF: Section 1.1

12. Which of the following is a key question that must be addressed by an economy?
    a. Why should we produce a product?
    b. When should we replenish our resources?
    c. How will we distribute our products?
    d. What should we do when we use up all our resources?

ANS: C DIF: Moderate REF: Section 1.1

13. In a market system, the ultimate decision about what to produce is left to:
    a. buyers
    b. the government
    c. sellers
    d. households

ANS: C DIF: Easy REF: Section 1.1

14. In a command economy, the ultimate decision about what to produce is left to:
    a. buyers
    b. the government
    c. sellers
    d. households

ANS: B DIF: Easy REF: Section 1.1

15. In a mixed economy, the ultimate decision about what to produce is left to:
    a. buyers
    b. the government
    c. sellers

d. All of the available. are true.

ANS: D DIF: Easy REF: Section 1.1

16. Economies where production and distribution decisions are made by the government are called:
    a. command economies
    b. market economies
    c. mixed economies
    d. capitalist economies

    ANS: A DIF: Easy REF: Section 1.1

17. Economies where some production decisions are made by the government and some are made by buyers and sellers are called:
    a. command economies
    b. market economies
    c. mixed economies
    d. capitalist economies

    ANS: C DIF: Easy REF: Section 1.1

18. Of the following countries, which is the best example of a command economy?
    a. the United States
    b. Cuba
    c. Japan
    d. Brazil

    ANS: B DIF: Moderate REF: Section 1.1

19. Of the following countries, which is the best example of a mixed economy?
    a. Mexico
    b. Cuba
    c. North Korea
    d. China

    ANS: A DIF: Moderate REF: Section 1.1

20. A situation where limited resources make it impossible to fulfill all of our wants is known as:
    a. scarcity
    b. opportunity cost
    c. a trade-off
    d. responding to incentives

    ANS: A DIF: Easy REF: Section 1.2

21. The opportunity cost of an activity is
    a. the dollar cost to engage in the activity.

b. the value of the resources needed to conduct the activity.
c. the same for all who participate in the activity.
d. what you sacrifice to engage in the activity.

ANS: D DIF: Easy REF: Section 1.2

22. Who faces trade-offs?
    a. individuals
    b. households
    c. governments
    d. All of the available are true.

ANS: D DIF: Easy REF: Section 1.2

23. You decide to spend time studying for a philosophy exam, even though you have offers to go to see a movie, go out to dinner, or go to a poetry reading. This is a difficult choice for you because you really want to go to a poetry reading and would choose to oversee the movie or go out to dinner. Your opportunity cost of spending time studying for your philosophy exam is
    a. going to the movie
    b. going out to dinner
    c. going to the poetry reading
    d. All of the availablee are true.

ANS: C DIF: Moderate REF: Section 1.2

24. Your opportunity cost of attending a lecture on the number of brain cells lost by binge-watching episodes of *Tiger King* is
    a. zero, since you already know that binge-watching will kill all of your brain cells.
    b. the price of the ticket for the lecture.
    c. the value of attending a meditation class, which is your next-best alternative.
    d. the total value of all the other options you could have chosen instead of going to the lecture.

ANS: C DIF: Moderate REF: Section 1.2

25. Explicit costs are
    a. costs that are measured in dollars.
    b. costs that do not involve an exchange of money.
    c. the same as opportunity costs.
    d. the same as implicit costs.

ANS: A DIF: Easy REF: Section 1.2

26. Implicit costs are
    a. costs that are measured in dollars.
    b. costs that do not involve an exchange of money.
    c. costs that typically involve the exchange of money.

d. the same as explicit costs.

ANS: B DIF: Easy REF: Section 1.2

27. Economists should consider ________ when evaluating options.
    a. only explicit costs and benefits
    b. only implicit costs and benefits
    c. both explicit and implicit costs and benefits
    d. neither explicit nor implicit costs and benefits

ANS: C DIF: Moderate REF: Section 1.2

28. In economics, what is opportunity cost?
    a. the total cost of production
    b. the benefit of a decision or action
    c. the value of the best alternative forgone when a choice is made
    d. the monetary cost incurred in decision-making

ANS: C DIF: Moderate REF: Section 1.2

29. How does scarcity relate to the concept of opportunity cost?
    a. Scarcity is the result of high opportunity costs.
    b. Opportunity cost arises from surplus resources.
    c. Scarcity forces choices, leading to the opportunity cost of forgoing the next best alternative.
    d. Opportunity cost and scarcity are unrelated in economic decision-making.

ANS: C DIF: Moderate REF: Section 1.2

30. How does the concept of opportunity cost influence decision-making for individuals and businesses in a market economy?
    a. It encourages them to make decisions without considering alternative options.
    b. It leads to increased consumption without affecting resource allocation.
    c. It prompts a thoughtful evaluation of trade-offs, helping allocate resources efficiently.
    d. It has no impact on decision-making processes in a market economy.

ANS: C DIF: Hard REF: Section 1.2

31. What is the primary distinction between explicit costs and implicit costs in economics?
    a. Explicit costs involve monetary payments, while implicit costs do not.
    b. Implicit costs are incurred in the short term, while explicit costs are incurred in the long term.
    c. Explicit costs are limited to fixed expenses, while implicit costs cover variable expenses.
    d. Implicit costs are associated with business production, while explicit costs relate to personal expenses.

ANS: A DIF: Easy REF: Section 1.2

32. How do explicit and implicit costs contribute to the concept of opportunity cost?
    a. Explicit costs represent the opportunity cost, while implicit costs are excluded.
    b. Implicit costs are the only component of opportunity cost.
    c. Explicit costs and implicit costs together make up the opportunity cost of a decision.
    d. Explicit costs are irrelevant in determining the opportunity cost.

    ANS: C DIF: Easy REF: Section 1.2

33. Imagine you decide to start your own business. Which of the following is correct?
    a. The rent you pay for office space is an implicit cost.
    b. The salary paid to your employees is an explicit cost.
    c. The wages you forgo by not working at your previous job is an implicit cost.
    d. The cost of raw materials is an implicit cost.

    ANS: C DIF: Moderate REF: Section 1.2

34. How does public policy differ from private policy?
    a. Public policy is concerned with government actions affecting society, while private policy is related to personal decision-making.
    b. Private policy exclusively involves economic considerations, while public policy focuses on social issues.
    c. Public policy only pertains to international relations, while private policy addresses domestic matters.
    d. Private policy is applicable only to businesses, whereas public policy applies to individuals.

    ANS: A DIF: Easy REF: Section 1.2

35. Provide an example of a public policy issue and explain its potential impact on a community.
    a. the implementation of a recycling program, promoting environmental sustainability and community health
    b. a company's decision to offer employee benefits, impacting the organization's internal policies
    c. an individual's choice to adopt a healthier lifestyle, influencing personal well-being
    d. a business's marketing strategy, affecting its competitiveness in the market

    ANS: A DIF: Moderate REF: Section 1.2

36. While falling prey to the seductive ways of Catwoman, Batman sacrifices the opportunity to protect Gotham City from a crime spree initiated by the Joker. That foregone opportunity is a(n) ________ cost of (yet again) falling prey to Catwoman.
    a. monetary
    b. explicit
    c. sunk
    d. implicit

    ANS: D DIF: Moderate REF: Section 1.2

37. You paid $145 for an iPod Nano. The cash you sacrificed is a(n):
    a. explicit cost
    b. implicit cost
    c. deferred cost
    d. accrued cost

    ANS: A DIF: Easy REF: Section 1.2

38. The amount you pay for apps to download to your cell phone is an example of a(n) ________ cost.
    a. implicit
    b. opportunity
    c. explicit
    d. network

    ANS: C DIF: Easy REF: Section 1.2

39. You decide to spend Thanksgiving with your grandparents instead of going to Las Vegas with twenty of your closest friends. Losing the chance to be with your friends is the ________ cost of spending Thanksgiving with your grandparents.
    a. explicit
    b. implicit
    c. deferred
    d. accrued

    ANS: B DIF: Moderate REF: Section 1.2

40. You spend $20 on a lottery ticket instead of buying groceries. The $20 spent on the lottery ticket represents an ________, and the forgone groceries represent an ________.
    a. explicit cost; explicit cost
    b. implicit cost; explicit cost
    c. explicit cost; implicit cost
    d. implicit cost; implicit cost

    ANS: C DIF: Moderate REF: Section 1.2

41. Governments,
    a. like individuals, face opportunity costs.
    b. unlike individuals, do not face opportunity costs.
    c. only if they are relatively poor, face opportunity costs.
    d. only if they are running budget deficits, face opportunity costs.

    ANS: A DIF: Easy REF: Section 1.2

42. The collection of laws, regulatory measures, and actions concerning a particular topic that originate with somebody in government is called:
    a. fiscal policy
    b. public policy

c. private policy
d. antitrust policy

ANS: B DIF: Easy REF: Section 1.2

43. The money the North Korean government spent to purchase a closed British brewery was a(n) ________ cost, and the choice to brew beer in this brewery instead of using the resources to feed the people of North Korea is a(n) ________ cost.
a. explicit; explicit
b. explicit; implicit
c. implicit; implicit
d. implicit; explicit

ANS: B DIF: Moderate REF: Section 1.2

44. The branch of economics that examines the self-interested behavior of politicians, lobbyists, agencies, bureaucrats, and voters is called:
a. microeconomics
b. macroeconomics
c. econometrics
d. public choice

ANS: D DIF: Easy REF: Section 1.2

45. Research suggests that mandatory seat belt laws
a. reduce the number of automobile accidents.
b. cause drivers to drive more cautiously.
c. actually create more automobile accidents.
d. have had no impact on the behavior of drivers.

ANS: C DIF: Easy REF: Section 1.2

46. Inducements to act in particular ways are called:
a. collusive tactics
b. incentives
c. trade-offs
d. opportunity costs

ANS: B DIF: Easy REF: Section 1.3

47. What is the basic principle behind the concept of incentives in economics?
a. Incentives encourage individuals to make decisions based on their emotions.
b. Incentives involve punishments to deter certain behaviors.
c. Incentives influence individuals to respond to rewards or penalties.
d. Incentives only apply to businesses, not to individuals.

ANS: C DIF: Moderate REF: Section 1.3

48. Consider a scenario where a government wants to promote renewable energy usage. What type of incentive might be most effective in achieving this goal?
    a. offering tax credits to individuals and businesses using renewable energy sources
    b. implementing fines for those not using renewable energy
    c. establishing a mandatory renewable energy quota for all households
    d. All of the above are true.

    ANS: D DIF: Moderate REF: Section 1.3

49. What characterizes perverse incentives in economics?
    a. incentives that encourage positive and desirable behavior
    b. incentives that unintentionally lead to negative and unintended consequences
    c. incentives exclusively used by businesses, not applicable to individuals
    d. incentives that always align with government policies

    ANS: B DIF: Easy REF: Section 1.3

50. How can subsidies for certain agricultural crops serve as an example of perverse incentives?
    a. Subsidies always lead to positive outcomes, supporting farmers and local economies.
    b. Subsidies may encourage the overproduction of specific crops, leading to market imbalances.
    c. Subsidies have no impact on agricultural practices and market dynamics.
    d. Subsidies only apply to large-scale agricultural operations, not small farms.

    ANS: C DIF: Hard REF: Section 1.3

51. Incentives
    a. are always used to encourage particular behaviors.
    b. are always used to discourage particular behaviors.
    c. can be used to either encourage or discourage particular behaviors.
    d. are never used to encourage or discourage particular behaviors.

    ANS: C DIF: Easy REF: Section 1.3

52. If the federal government imposes a new tax on golf clubs, that tax
    1. encourages people to take up golf.
    2. encourages people to buy more golf balls.
    3. encourages fewer people to play golf.
    4. encourages people to switch from tennis to golf.

    ANS: C DIF: Moderate REF: Section 1.3

53. Marge would like her husband Homer to drink less beer. All of the following are ways she could encourage Homer to drink less beer, *except* for which one?
    a. pay him to drink less beer
    b. convince him that beer is good for his health
    c. refuse to cook dinner for him if he does not cut back on his beer drinking
    d. make him pay her $10 for every beer he drinks

ANS: B DIF: Easy REF: Section 1.3

54. If the government proposed a one-time tax of 25% on accumulated wealth, this would likely
    a. reduce the incentive for individuals to accumulate wealth
    b. increase the incentive for individuals to accumulate wealth
    c. have no impact on individual accumulation of wealth since it is a one-time tax
    d. All of the available are true.

ANS: A DIF: Easy REF: Section 1.3

55. A problem that exists when naturally occurring incentives encourage sufficient numbers of people to act in a way that makes everybody worse off is called a:
    a. zero-sum problem
    b. cause-and-effect problem
    c. collective action problem
    d. trade-off

ANS: C DIF: Easy REF: Section 1.4

56. Because collective action problems are ________ to solve, society often ________.
    a. relatively easy; handles the problems itself
    b. relatively easy; ignores the problems
    c. impossible; chooses to live with the problems
    d. difficult; requests help from the government

ANS: D DIF: Easy REF: Section 1.4

57. One general characteristic of collective action problems is that
    a. no individual has any incentive to act in the best interest of the group
    b. groups are forced to act in the best interest of every individual
    c. private incentives are usually aligned with social goals
    d. individuals usually have the power to solve the problem through individual action

ANS: A DIF: Easy REF: Section 1.4

58. What defines a collective action problem?
    a. a situation where individuals act collectively to achieve a common goal
    b. a scenario where individuals face challenges in coordinating and cooperating to achieve a shared objective
    c. a circumstance where individual actions always align with the interests of the group
    d. a concept applicable only in economic decision-making

ANS: B DIF: Easy REF: Section 1.4

59. How does the concept of NIMBY (Not In My Backyard) syndrome exemplify a collective action problem?
    a. NIMBY syndrome reflects a perfect alignment of individual and social incentives.

b. It occurs when individuals support initiatives that directly benefit their local community.
c. NIMBY syndrome arises when individuals resist projects that may bring societal benefits but negatively impact their immediate surroundings.
d. It is a term used exclusively in economic theory and does not apply to real-world scenarios.

ANS: C DIF: Moderate REF: Section 1.4

60. Which example below illustrates the misalignment of social and individual incentives that creates a collective action problem?
    a. a city facing traffic congestion issues due to individuals carpooling to reduce environmental impact
    b. the tragedy of the commons in a shared pasture where farmers collaborate efficiently for sustainable grazing
    c. residents in a neighborhood resisting the construction of a homeless shelter, even though it addresses a broader societal issue
    d. a successful community project where individual contributions directly align with collective goals

    ANS: C DIF: Moderate REF: Section 1.4

61. Which of the following represents a collective action problem?
    a. The battery in Billy’s pickup truck has died, so he must leave his house ninety minutes earlier than usual to take public transportation to work.
    b. Sonia cuts down a diseased oak tree in her backyard, eliminating the shade that blocked the afternoon sun from shining through her living room windows.
    c. Miss Lander's third-grade class has to cut short their field trip to Insect World because someone in Mr. Rutherford’s fourth-grade class accidentally opened the safety door in the bumblebee exhibit.
    d. Most of the audience cannot hear the dialog at a midnight showing of *The Room* because the film's most ardent fans insist on shouting the dialog throughout the entire screening.

    ANS: D DIF: Moderate REF: Section 1.4

62. An objective analysis of “what is” in the economy is referred to as:
    a. positive economics
    b. normative economics
    c. command economics
    d. implicit economics

    ANS: A DIF: Easy REF: Section 1.5

63. A subjective analysis of “what should be” in the economy is referred to as:
    a. positive economics
    b. normative economics
    c. command economics
    d. implicit economics

ANS: B DIF: Easy REF: Section 1.5

64. Which of the following statements is an example of positive economic analysis?
    a. To ensure the highest graduation rates, colleges should limit enrollment.
    b. As tuition rates increase, fewer students are enrolling in college.
    c. Living in a dorm is too expensive, and colleges should subsidize the cost of housing for their students.
    d. Universities should offer a wider variety of extracurricular activities to broaden the horizons of their student bodies.

ANS: B DIF: Moderate REF: Section 1.5

65. Which of the following statements best describes positive economics?
    a. Positive economics prescribes how economic policies should be implemented.
    b. Positive economics focuses on making value judgments about what ought to be.
    c. Positive economics analyzes and explains economic phenomena without expressing opinions on whether they are good or bad.
    d. Positive economics solely examines the moral implications of economic decisions.

ANS: C DIF: Moderate REF: Section 1.5

66. How does normative economics differ from positive economics?
    a. Normative economics seeks to provide objective explanations of economic phenomena.
    b. Normative economics involves making value judgments about what is desirable, while positive economics focuses on describing economic facts.
    c. Normative economics is concerned with analyzing economic trends, while positive economics evaluates ethical considerations.
    d. Positive economics and normative economics are synonymous terms.

ANS: D DIF: Moderate REF: Section 1.4

67. Consider this statement: “The government should increase spending to boost economic growth.” Is this statement an example of positive or normative economics?
    a. positive economics
    b. normative economics
    c. neither positive nor normative economics
    d. both positive and normative economics

ANS: D DIF: Moderate REF: Section 1.4

68. All of the following statements are examples of positive economic analysis, *except* for which one?
    a. As the unemployment rate decreases, fewer people are willing to relocate to find jobs.
    b. As the economy improves, more workers from other countries are migrating to the United States.
    c. Exports from the United States should be increased to offset the growing number of imports into the United States.
    d. The United States economy is growing at a slower rate than the economy of Brazil.

ANS: C DIF: Moderate REF: Section 1.5

69. Which of the following statements is an example of normative economic analysis?
    a. Pollution regulations have raised the cost of production for energy companies.
    b. As the wage rate increases, companies are hiring fewer workers.
    c. Improvements in technology have reduced the time needed to manufacture automobiles.
    d. Tablet computers should be manufactured in countries that do not restrict internet access to their citizens.

ANS: D DIF: Moderate REF: Section 1.5

70. All of the following statements are examples of normative economic analysis, *except* for which one?
    a. As the demand for emergency room nurses increases, more students are choosing to enroll in nursing school.
    b. To provide better care, doctors should be required to limit the number of patients they see each day.
    c. People should be able to choose whether they want to purchase health insurance.
    d. Prescription drugs are too expensive, and the government needs to regulate prices in the pharmaceutical industry.

ANS: A DIF: Moderate REF: Section 1.5

71. One reason that economists usually engage in _________ economic analysis is because the question of fair division of resources is _________ to decide objectively.
    a. positive; easy
    b. positive; hard
    c. normative; easy
    d. normative; hard

ANS: B DIF: Easy REF: Section 1.5

72. The imaginary figure who advises us whether society is making the most of its scarce resources is the:
    a. opportunity-cost pixie
    b. benevolent social planner
    c. scarcity goddess
    d. compassionate dictator

ANS: B DIF: Easy REF: Section 1.5

73. The benevolent social planner engages in
    a. positive economic analysis.
    b. normative economic analysis.
    c. both positive and normative economic analysis.
    d. neither positive nor normative economic analysis.

ANS: A DIF: Easy REF: Section 1.5

74. The benevolent social planner wants to extract the ________ the limited resources we have been given, and their objective is to ________ the size of the economic pie.
    a. greatest amount of happiness from; minimize
    b. greatest amount of happiness from; maximize
    c. least productive of; minimize
    d. least productive of; maximize

    ANS: B DIF: Easy REF: Section 1.5

TRUE/FALSE

75. Resources are items that a society uses to create goods and services.

    ANS: T DIF: Easy REF: Section 1.1

76. An economy is an organization that produces goods and services and then allocates those goods and services to its members.

    ANS: T DIF: Easy REF: Section 1.1

77. Command economies are never effective at organizing the production and distribution of goods and services.

    ANS: F DIF: Moderate REF: Section 1.1

78. The opportunity cost of doing something can be defined as the value of the next-best alternative.

    ANS: T DIF: Easy REF: Section 1.2

79. Opportunity cost is usually measured in terms of money.

    ANS: F DIF: Easy REF: Section 1.2

80. Explicit costs are measured in dollars.

    ANS: T DIF: Easy REF: Section 1.2

81. Implicit costs involve an exchange of money.

    ANS: F DIF: Easy REF: Section 1.2

82. Implicit costs are usually easier to measure than explicit costs.

    ANS: F DIF: Moderate REF: Section 1.2

83. A major principle of economics is that people respond to incentives.

    ANS: T DIF: Easy REF: Section 1.3

84. Incentives work by changing the trade-offs faced by individuals.

    ANS: T DIF: Easy REF: Section 1.3

85. With collective action problems, individual trade-offs are different than the trade-offs for society as a whole.

    ANS: T DIF: Easy REF: Section 1.4

86. When a collective action problem exists, the government often has the ability to direct behaviors in ways that make society better off.

    ANS: T DIF: Easy REF: Section 1.4

87. The overfishing of a shared ocean resource is a collective action problem.

    ANS: T DIF: Moderate REF: Section 1.4

88. A local community deciding to construct a new public library involves a collective action problem.

    ANS: F DIF: Moderate REF: Section 1.4

89. In a city facing water scarcity, residents need to reduce individual water consumption. This situation is a collective action problem.

    ANS: T DIF: Moderate REF: Section 1.4

90. Positive economics statements are testable.

    ANS: T DIF: Easy REF: Section 1.5

91. Most economists analyze economic issues from a normative approach.

    ANS: F DIF: Easy REF: Section 1.5

92. The benevolent social planner is based on an actual nineteenth-century economist named Karl Marx.

    ANS: F DIF: Easy REF: Section 1.5

COMPLETION

93. ______ are inducements to act in certain ways.

ANS: Incentives DIF: Easy REF: Section 1.3

94. A ________ exists when naturally occurring incentives encourage sufficient numbers of people to act in a way that makes everybody worse off.

ANS: collective action problem DIF: Easy REF: Section 1.4

ESSAY

95. What is an economy?

ANS: An economy is a type of organization that produces goods and services and then allocates those goods and services to its members.

DIF: Easy REF: Section 1.1

96. Explain the differences between a market system, a command economy, and a mixed economy with respect to production and distribution decisions.

ANS: In a market system, sellers primarily make production and distribution decisions, but they must satisfy the tastes of buyers. In a command economy, the government makes production and distribution decisions. In a mixed economy, buyers and sellers make some production and distribution decisions, and the government makes others.

DIF: Moderate REF: Section 1.1

97. What is scarcity?

ANS: Scarcity is a situation where limited resources make it impossible to fulfill all of our wants.

DIF: Easy REF: Section 1.2

98. What are explicit costs? What are implicit costs?

ANS: Explicit costs are costs that are measured in dollars, and that typically involve some exchange of money. Implicit costs are costs that do not involve an exchange of money.

DIF: Easy REF: Section 1.2

99. You decide to quit your $40,000-a-year job to go back to school. Your rent is $9,600 per year, you spend $6,000 per year on food, your tuition costs $24,000 per year, and textbooks cost $3,000 per year. Based on these numbers, what are your yearly explicit and implicit costs of going back to school?

ANS: Your explicit costs include tuition and textbooks, which total $27,000. Your implicit costs involve the salary you give up to go back to school, or $40,000. Since you would be paying rent and buying food whether you continued working or went back to school, these costs are not included in the explicit costs of going back to school.

DIF: Difficult REF: Section 1.2

100. Explain the statement, "There is no such thing as a free lunch."

ANS: The statement means that even if there is no overtly explicit cost attached to an activity, there is always an implicit cost, or opportunity cost, involved with every transaction. All goods and services must be paid for by someone, so you do not get something for nothing.

DIF: Moderate REF: Section 1.2

101. The United States tax code allows taxpayers to deduct the value of charitable contributions from their taxable income. Explain if this is an example of an incentive and what effect this policy is likely to have on the number of charitable contributions in the United States.

ANS: This is an example of an incentive because it is an inducement to give to charitable organizations. This is likely to increase the amount of charitable contributions compared to what they would be without this tax deduction.

DIF: Moderate REF: Section 1.3

102. The New York Yankees are playing the Boston Red Sox at Fenway Park. It is the bottom of the ninth inning, the score is tied 4–4, the bases are loaded, and there are no outs. Starting in the seats closest to the field, the crowd begins to stand and cheer, hoping that the Red Sox can drive in one more run and win the game. Describe the collective action problem that has developed in this situation.

ANS: As the crowd in the seats closest to the field begins to stand, spectators behind those standing can no longer clearly see what is happening on the field, so they, too, must stand to see. This continues throughout the entire stadium until all spectators in the stadium must stand to be able to see over the people in front of them. Although many people in the stands may enjoy standing to cheer on their team in this situation, there may be some in the stands who would prefer to watch the game and remain seated. It is unlikely that spectators who want to stand would choose to forgo what they see as being in their best interest and choose to act in the best interest of the group by sitting down (so everyone can then sit down and still see the action on the field). This is a collective action problem because sufficient numbers of people are acting in a way that makes everybody worse off.

DIF: Moderate REF: Section 1.4

103. Explain the differences between positive economic analysis and normative economic analysis. Which of these approaches do economists generally adhere to and why?

ANS: Positive economic analysis is an objective analysis of “what is” in the economy. Normative economic analysis is a subjective analysis of “what should be” in the economy. Economists generally stick to positive economic analysis in an attempt to remain objective and avoid making judgments about fairness.

DIF: Moderate REF: Section 1.5

104. Explain the objective of the benevolent social planner.

ANS: The only goal of the benevolent social planner is to maximize the size of the economic pie, and she does this by using positive economic analysis in advising whether society is making the most of its scarce resources.

DIF: Moderate REF: Section 1.5