Chapter 1
1. That which we forgo, or give up, when we make a choice or decision is called the __________ cost of that decision.
   A. sunk
   B. marginal
   C. real
   D. opportunity

2. The reason that opportunity costs arise is that
   A. an economy relies on money to facilitate exchange of goods and services.
   B. resources are scarce.
   C. there are no alternative decisions that could be made.
   D. people have unlimited wants.

3. Positive economics is an approach to economics that
   A. seeks to understand behavior and the operation of systems without making judgments.
   B. analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe preferred courses of action.
   C. applies statistical techniques and data to economic problems.
   D. examines the role of government in the economy.

4. Normative economics is an approach to economics that
   A. seeks to understand behavior and the operation of systems without making judgments.
   B. analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe preferred courses of action.
   C. applies statistical techniques and data to economic problems.
   D. examines the role of government in the economy.

5. Which of the following is a normative question?
   A. Should the government provide health insurance for any individual who cannot afford it?
   B. What will happen to the speed with which new drugs are developed if the government places price controls on prescription drugs?
   C. Why is the infant mortality rate higher in the United States than in most other developed countries?
   D. Will physicians’ incomes increase or decrease if national health insurance is instituted in the United States?

6. Which of the following is an example of a positive statement?
   A. The federal government should be required to have a balanced budget.
   B. Local governments ought to impose rent controls to allow people to afford housing.
   C. Studies indicate that the imposition of a minimum wage increases unemployment.
   D. The government should impose taxes on imported goods to protect the jobs of American workers.
Questions 7 and 8 refer to the following graph:

7. The slope of the line is
   A. positive.
   B. negative.
   C. increasing at an increasing rate.
   D. decreasing at an increasing rate.

8. The slope of the line between points B and C is
   A. 5.
   B. -2.
   C. 0.5.
   D. 2.

True or false:

9. _____ The value of the best forgone alternative is the marginal cost of making a decision.

10. _____ If the price of bagels is $0.50 each, then the marginal cost of the 4th bagel is $2.00.

11. _____ Assuming that all CSs are of the same quality, the marginal benefit you receive from the third CD consumed this month will be at least as large as the marginal benefit you receive from the second CD.

12. Suppose Toad is sitting at a sports bar drinking beer. Each beer costs $2.00, and this price is an accurate representation of his marginal costs. The following data represent the additional benefit (in dollars) Toad gets from each beer. Assume that it is not possible to consume a fraction of a beer.

<table>
<thead>
<tr>
<th>Beers</th>
<th>Toad's Marginal Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10.05</td>
</tr>
<tr>
<td>2</td>
<td>8.05</td>
</tr>
<tr>
<td>3</td>
<td>6.05</td>
</tr>
<tr>
<td>4</td>
<td>4.05</td>
</tr>
<tr>
<td>5</td>
<td>2.05</td>
</tr>
<tr>
<td>6</td>
<td>0.05</td>
</tr>
</tbody>
</table>
Chapter 2.

1. Assume that Ashley and Andrew can spend the day either washing windows or vacuuming rugs. The table below shows how much of each task they could accomplish in one day.

<table>
<thead>
<tr>
<th></th>
<th>Ashley</th>
<th>Andrew</th>
</tr>
</thead>
<tbody>
<tr>
<td>Windows washed</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Rugs vacuumed</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

For Ashley, the opportunity cost of vacuuming one rug is
A. 1/5 of a window washed.
B. 4 windows washed.
C. 5 windows washed.
D. 10 windows washed.

2. Using the data from problem 1, which of the following statements is TRUE?
A. Ashley has a comparative advantage in both washing windows and vacuuming rugs.
B. Andrew has a comparative advantage in both washing windows and vacuuming rugs.
C. Ashley has a comparative advantage in vacuuming rugs and Andrew has a comparative advantage in washing windows.
D. Andrew has a comparative advantage in vacuuming rugs and Ashley has a comparative advantage in washing windows.

3. Which of the following is true regarding the law of increasing (opportunity) costs:
   a. The law of increasing (opportunity) costs holds for both consumer budget decisions (budget line model) and for the production possibilities of a nation (PPF model).
   b. The law of increasing (opportunity) costs holds only for the production possibilities of a nation (PPF model) because we assume that productive inputs are specialized for a particular use in production and that nations use their resources efficiently.
   c. The law of increasing (opportunity) costs holds only for consumer budget decisions (budget line model) because we assume that consumer's budgets are limited.
   d. The law of increasing (opportunity) costs states that as you produce less and less of a good its opportunity cost rises.
   e. None of the above are true.

4. Consider a hypothetical nation that produces two goods. If the resources in a given nation are NOT specialized for the production of one of the goods (that is, all the resources are equally well suited for the production of either good), then which of the following is true?
   a. the production possibilities frontier for this nation will be upward sloping.
   b. the production possibilities frontier for this nation will be downward sloping and bowed-out.
   c. the production possibilities frontier for this nation will be a downward sloping line with a constant slope.
   d. the law of increasing opportunity cost holds for this nation.
5. The slope of a budget line shows:
   a. the rate at which a consumer can trade off one good for another and remain within her budget
   b. the opportunity cost of one good in terms of the other
   c. the relative prices of the two goods
   d. all of the above
   e. none of the above

6. As more of a particular good (say, TV sets) is produced, the opportunity cost of that good (in terms of the forgone production of other goods):
   a. increases
   b. decreases
   c. stays the same
   d. can either increase, decrease or stay the same
   e. cannot be determined without more information

7. Which of the following is TRUE regarding a nation's production possibilities frontier (curve) for consumer goods and agricultural goods?
   a. If resources are specialized in production, then the opportunity cost of producing agricultural goods will increase as more resources are dedicated to the production of consumer goods.
   b. If resources are specialized in production, then the opportunity cost of producing agricultural goods will increase as more resources are dedicated to the production of agricultural goods.
   c. If there is a technological advance in the agricultural sector, the nation will be able to enjoy higher consumption of agricultural goods, but the amount of consumer goods that can be consumed will remain unchanged.
   d. If there is a technological advance in the agricultural sector, the nation will be able to enjoy higher consumption of both agricultural goods and consumer goods.
   e. Both a and b are true
   f. Both a and c are true
   g. Both b and d are true
   h. None of the above are true

Graphing
8. Assume that Kevin has $200 to spend on CDs and Meals this month. The price of CDs is $10 and the price of meals is $20.
   (a) Draw Kevin's budget line for CDs and Meals
   (b) What is the opportunity cost of one CD in terms of Meals?
   (c) What is the opportunity cost of one Meal in terms of CDs?
   (d) Use your graph to show the effects of a decrease in the price of meals to $10
   (e) Given the new prices, what has happened to Kevin's consumption possibilities for CDs and meals?

True or False
9. ______ If resources such as labor are underutilized or unemployed in a given nation, that nation's PPF will shift in.
10.______ Economic growth shifts a society's production possibility frontier up and to the right.
11.______ An increase in the skill and education level of the labor force will cause a nation's PPF to shift down and to the left.