MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which of the following statements about economic models is true?
   A) Every economic model is based on a set of assumptions.
   B) Economic models are designed so that every detail of the real world can be analyzed.
   C) Economic models are not empirically testable.
   D) The predictive power of models is not important.

2) Which of the following questions is a microeconomic issue?
   A) What is a business cycle?
   B) What is the future growth prospect for an economy?
   C) How many workers should the owner of a business hire?
   D) How long will a recession last?

3) The fact that some people can afford to live in beautiful homes while others are homeless, is most directly an example of an economy facing the ________ question.
   A) "for whom"      B) "how"      C) "when"      D) "why"

4) A student is studying for an exam two hours a day and is debating whether to study an extra hour. The student's marginal benefit
   A) is greater than the student's marginal cost.
   B) is the benefit the student receives from studying all three hours.
   C) depends on the grade the student earns on the exam.
   D) is the benefit the student receives from studying the extra hour.

5) ________ are (is) all the objects that we value and are willing to pay for.
   A) Goods and services      B) Capital
   C) Points along the production possibility frontier      D) Resources

6) Bill Bonecrusher graduates from college with a choice of playing professional football at $2 million a year or coaching for $50,000 a year. He decides to play football, but eight years later, though he could continue to play football at $2 million a year, he quits football to make movies for $3 million a year. His opportunity cost of playing football at graduation was ________ and eight years later the opportunity cost of making movies was ________.
   A) $50,000; $2 million      B) $50,000; $50,000
   C) $2 million; $3 million      D) $2 million; $2 million

7) A cost due to an increase in activity is called a(n)
   A) total cost.
   B) incentive loss.
   C) marginal cost.
   D) negative marginal benefit.
8) The statement that "peach ice cream is better than chocolate ice cream"
   A) can be tested using the scientific approach.
   B) provides a basis for predicting which type of ice cream will exhibit the most sales.
   C) is a normative statement.
   D) is a statement of fact.

9) Which of the following is NOT an investment in human capital?
   A) a mechanic attends a training workshop on a new type of engine
   B) Johnny learns how to read
   C) the purchase of a personal computer
   D) a medical student's internship

10) When a textile firm decides to produce more cotton fabric and less synthetic fabric, it is most directly answering the ______ question.
   A) "what"                B) "how"
   C) "why"                D) "for whom"

11) Which of the following statements are correct?
   I. The "highest-valued alternative given up" is known as the opportunity cost of making a choice.
   II. Wealthy economies don't experience opportunity costs.
   III. Scarcity creates opportunity costs.
   A) I only                B) I and III
   C) I and II              D) I, II, and III

12) A benefit due to an increase in activity is called a(n)
    A) economic benefit.    B) opportunity gain.
    C) total benefit.       D) marginal benefit.

13) Fred and Ann are both given free tickets to see a movie. Both decide to see the same movie. We know that
    A) it is not possible to calculate the opportunity cost of seeing the movie because the tickets were free
    B) it is possible to calculate the opportunity cost of seeing the movie and it is zero because the tickets were free.
    C) both bear an opportunity cost of seeing the movie because they could have done other things instead of see the movie.
    D) both bear the same opportunity cost of seeing the movie because they are doing the same thing

14) One topic of study for a microeconomist would be the
    A) factors that affect aggregate unemployment.
    B) factors that lead to inflation.
    C) effects of an increase in government spending.
    D) effects an increase in the price of gasoline has on an individual.

15) Which of the following is an example of an application of the "ceteris paribus" assumption?
    A) An analysis of how people purchase more goods when prices decline and their income increases.
    B) An analysis of how price changes affect people's purchases when all other factors are held constant.
    C) After reading an article on the dangers of high fat diets, an individual buys less red meat when prices increase.
    D) An analysis of how worker productivity increases when a firm invests in new machines and training programs.
16) A positive statement is a statement about
   A) what is desirable.                       B) what is.
   C) what should be but is not.             D) what is and what should be.

17) In part, microeconomics is concerned with the study of
   A) the effect government regulation has on the price of a product.
   B) the general price level.
   C) total output and the money supply.
   D) inflation, unemployment and economic growth.

18) The study of the choices made by individuals is part of the definition of
   A) macroeconomics.                        B) normative economics.
   C) positive economics.                    D) microeconomics.

19) The amount of money that it takes to buy the goods and services that a typical family consumes is
   A) entrepreneurship.                     B) scarcity.
   C) the cost of living.                    D) the standard of living.

20) The statement "Unemployment should be kept at or below a level of 6 percent" is
   A) an assumption.                         B) a prediction.
   C) a positive statement.                  D) a normative statement.