

Homework #1

1. The father of economics and the author of the Wealth of Nations is:
 - A. Alan Greenspan.
 - B. Adam Smith
 - C. Adam Sandler.
 - D. Alec De Touquiville
 - E. None of the Above.

2. Economics:
 - A. is a subject matter that solely deals with the economy.
 - B. is a set of principles to explain the choices people make and the actions they take in order to make the best use of scarce resources.
 - C. developed only in the last 300 years in response to emergence of markets.
 - D. both (A) and (B).
 - E. both (B) and (C).

3. Adam Smith's steps to creating affluence include:
 - A. a surplus in the primary industry that is greater than the rate of growth in population and is invested in physical and human capital.
 - B. the development of manufacturing that extends urbanization and fosters economies of scale.
 - C. rationalization of life that demystifies tradition and enhances moral development.
 - D. growth of the service sector.
 - E. all of the above.

4. Scarcity
 - A. is a situation where resources are insufficient to meet all peoples wants and needs.
 - B. does not require a choice in a modern economy where substitution possibilities are large.
 - C. and the choices that are possible can be demonstrated on a production possibility frontier.
 - D. both (A) and (C).
 - E. all of the above.

5. The production frontier demonstrates the principle that
 - A. there is no such thing as a free lunch.
 - B. you should not cry over spilled milk.
 - C. life is a game of chance the skillful player will make goods moves out of bad throws.
 - D. all of the above.
 - E. none of the above.

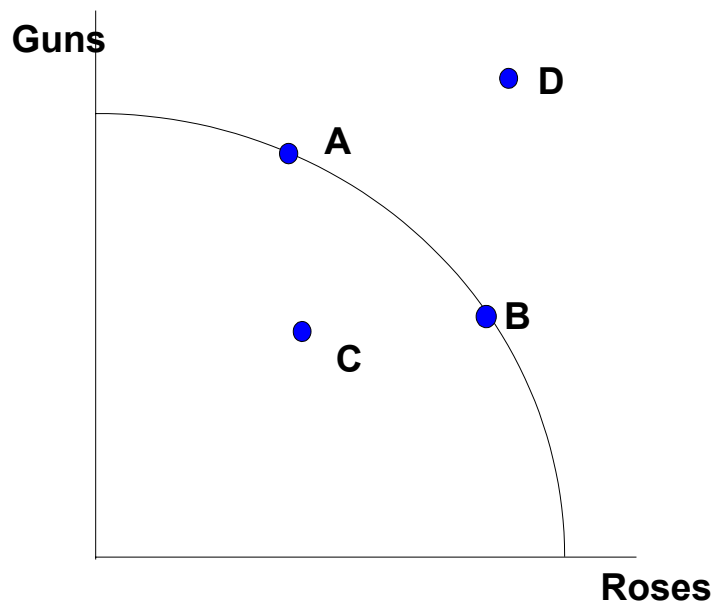
6. If you are a working student, the opportunity cost of studying for an exam:
- A. will be zero if you are smart and you have an absolute advantage from going to school.
 - B. will be zero if you are smart and you have a comparative advantage from going to school.
 - C. is the foregone wages from working.
 - D. both (A) and (B).
 - E. both (A) and (C).

Occupation	Earnings Per Hour of Person A	Earnings Per Hour of Person B
Lawyer	\$600	\$50
Secretary	\$60	\$40

7. Person B above has:
- A. an absolute advantage in being a secretary.
 - B. a comparative advantage at being a secretary.
 - C. both (A) and (B).
 - D. neither (A) and (B).
8. If the wage of person B as a secretary increased to \$100 an hour, then person B above would have:
- A. an absolute advantage in being a secretary.
 - B. a comparative advantage at being a secretary.
 - C. both (A) and (B).
 - D. neither (A) and (B).

Use the following budget-constraint, $200=5Q_A + 10Q_B$, to answer questions 9-10.

9. If Q_A is the dependent variable, the y intercept is:
- A. 200.
 - B. 20.
 - C. 10.
 - D. 5.
 - E. none of the above
10. If Q_B is the dependent variable the slope of the budget constraint is:
- A. -200
 - B. -10
 - C. -5
 - D. -2
 - E. -0.5



11. The slope of the PPF at point A is:
- A. negative.
 - B. greater (in absolute value) than at point B.
 - C. both (A) and (B).
 - D. neither (A) or (B).

12. The negative slope of the PPF indicates:
- A. there is a tradeoff between guns and roses.
 - B. the opportunity cost of an additional gun is roses.
 - C. both (A) and (B).
 - D. neither (A) or (B).

13. At point C:
- A. resources are fully and efficiently used.
 - B. more roses can be produced without reducing the number of guns.
 - C. more guns can be produced without reducing the number of roses.
 - D. both (B) and (C).
 - E. all of the above

14. To obtain point D:
- A. resources must be fully and efficiently used.
 - B. resources must be held constant
 - C. technology must improve or resources must be expanded.
 - D. both (A) and (B)
 - E. all of the above

15. The definition of the slope does not include:
- A. $\Delta\text{vertical}/\Delta\text{horizontal}$
 - B. Δ right hand side variable/ Δ left hand side variable
 - C. RISE/RUN
 - D. $\Delta y/\Delta x$
 - E. none of the above (i.e. all are a definition of the slope)

16. A nonlinear function:
- A. has a constant slope.
 - B. has the slope of the tangent line at the point where the line is tangent.
 - C. reaches a maximum or a minimum when its slope is infinite.
 - D. both (A) and (B).

E. both (B) and (C).

17. A circular flow diagram indicates that:

- A. households are suppliers in the input market.
- B. households are demanders in the product market.
- C. firms are demanders in the product market.
- D. both (A) and (B).
- E. both (A) and (C).

18. Economists argue that government:

- A. intervention into the economy may be necessary if there are spillover costs or benefits or imperfect competition where markets fail to be efficient.
- B. failure is a possibility that must be considered and must be traded off against the possibility of market failure.
- C. both (A) and (B).
- D. neither (A) or (B).

19. The marginal principle implies that an individual will do best by producing or consuming where:

- A. the additional benefit exceeds the additional cost.
- B. the additional benefit is equal to the additional cost.
- C. the additional benefit is less than the additional cost.
- D. the total benefit is equal to the total cost.
- E. all of the above.

20. Which of the following is not a macroeconomic question:

- A. Should we have a constitutional amendment to balance the federal budget?
- B. Do employers discriminated against women by paying them lower wages?
- C. How does a political candidate's economic reform package affect the inflation rate?
- D. Why does the price level tend to increase over time (i.e., why is there inflation).
- E. All of the above are macroeconomic questions.