

Name: _____ Class: _____ Date: _____

Chapter 1

1. In economics, decisions are necessary because _____ are scarce, while _____ are practically unlimited.
 - a. luxuries; necessities
 - b. markets; consumers
 - c. suppliers; demanders
 - d. resources; wants and needs
 - e. incentives; trade-offs

2. Economics is the study of how individuals and societies
 - a. maximize the quantity of goods produced and consumed.
 - b. allocate scarce resources to satisfy virtually unlimited wants and needs.
 - c. together control how money circulates and what is purchased.
 - d. respond to incentives while avoiding opportunity cost, to create value.
 - e. relate to one another at the interface between micro and macro.

3. If money grew on trees in unlimited quantity, it would be worthless because it
 - a. would be perishable.
 - b. wouldn't be scarce.
 - c. couldn't be exchanged.
 - d. couldn't be stored in a bank.
 - e. wouldn't be government-approved.

4. The basic goal of economics is to
 - a. control the effects of government action.
 - b. determine how to distribute all that is produced in an economy.
 - c. address the scarcity problem created because the population's desire for goods exceeds society's ability to produce them.
 - d. match limited resources to people's limited wants and needs.

- e. control tastes and wishes so that there will be enough resources to produce all the goods and services people want.
5. An individual worker is laid off because his firm is in financial trouble. Why would this event be of more interest to a microeconomist than to a macroeconomist?
- a. Microeconomics is about people and firms, while macroeconomics is about capital.
 - b. There will be lost economic productivity due to the layoff.
 - c. An event involving just one worker and one firm is a micro-scale event.
 - d. The worker becomes unemployed and unemployment is part of microeconomics.
 - e. The event occurs in the private sector and does not involve public policy.
6. The need to study economics would cease to exist if
- a. the government stopped controlling people's actions.
 - b. people were free to make decisions on their own.
 - c. people put forth the effort required to attain the goods and services they wanted.
 - d. people earned more than they spent.
 - e. there were enough resources to produce all the goods and services people would like to obtain.
7. As a discipline, economics is best described as
- a. the study of how to control the effects of government actions.
 - b. the study of how to control the preferences of consumers so there will be enough resources to produce all the goods and services that consumers want.
 - c. the study of how to use scarce resources to satisfy unlimited wants and needs.
 - d. the study of how to dispose of excess goods and services that nobody wants.
 - e. the study of how to maximize profits for firms.
8. Which description of the field of economics is correct?

- a. Economics is about ensuring that people's individual choices benefit society as a whole.
 - b. Economics is about the proper relationship between the government and the private sector.
 - c. Economics seeks to identify the goods and services that make people happy.
 - d. Economics seeks to understand how limited resources get allocated to satisfy limitless wants.
 - e. Economics seeks to explain how nations benefit by selectively limiting their trade with one another.
9. The discovery of new oil-extraction techniques can cause gasoline prices to drop. Trade barriers that block oil imports can cause gasoline prices to rise. In both cases, the change in gasoline prices is a result of a change in the _____ of oil reaching the market.
- a. productive value
 - b. environmental impact
 - c. supply
 - d. legal status
 - e. quality
10. As the owner of a new firm in the apple-picking business, Nicolette has considered adding an economist to her management team. This economist would be unable to help her managerial team determine
- a. the lowest cost way to pick apples.
 - b. how many apples consumers will purchase at different prices.
 - c. why people eat apples.
 - d. the effect government regulations would have on the price of apples.
 - e. the lowest cost way to distribute apples.
11. When economists say a certain kind of good is scarce, they mean that
- a. demand for the good exceeds supply.
 - b. not every consumer can afford it.
 - c. it must be manufactured.

- d. there is a limited supply of it.
- e. it is desired by many people.

12. Because of scarcity,

- a. individuals and societies are allowed no choice about which wants and needs to satisfy.
- b. individuals and societies must choose which wants and needs to satisfy.
- c. all choices about wants and using resources must be made by the government.
- d. choices can be made about which wants to satisfy but not about which resources to use.
- e. choices must be made about which resources to use but not about which wants to satisfy.

13. Logan does not put in overtime hours at work. Which reason for his decision best illustrates the concept of scarcity?

- a. He doesn't like his job and so only works as much as he has to.
- b. He needs to spend time with his family, and there are only so many hours in the day.
- c. His boss would be happy for him to work overtime, but union rules prohibit that.
- d. He is worried that if he works extra hours, he will get bored with his job.
- e. He doesn't want his coworkers to feel pressure to work extra hours just because he does.

14. Which scenario describes studying for an economics course without applying the scarcity principle?

- a. Mary studies two hours for every one hour she is in the classroom.
- b. Jonah studies three afternoons a week until he understands the material or until dinner, whichever comes first.
- c. Lucy studies with her roommate who is also taking the course, and they discuss economic concepts during any free time they can find.
- d. Chloe studies for this course and does nothing else.
- e. Rafael talks to an economist whenever he has a chance to do so.

15. Why is the air we breathe not an exception to the principle that even natural resources are scarce?

- a. Air can be polluted. Then people breathing it will want cleaner air and might be willing to pay for it.
- b. Any physical quantity is scarce by definition. Only abstract things are present in infinite amount.
- c. Air can be measured by weight or by volume, like any natural resource or physical commodity.
- d. The air we breathe is not truly free. We are paying for it when we pay our taxes.
- e. Our lungs can only hold a finite amount of air. That is why we are constantly inhaling and exhaling.

16. By definition, macroeconomics is the study of

- a. the principles of rational economic decision making.
- b. the choices facing individuals, households, and businesses.
- c. the overall aspects and workings of an economy.
- d. the impact of government policy on the private sector.
- e. the relationship between supply and demand.

17. Which of the following is a macroeconomic question?

- a. How many textbooks should be published by a publisher?
- b. How much should English majors earn after college?
- c. How do members of a household decide whether to clean their own houses or hire someone else to do it?
- d. What is the rate of unemployment?
- e. What is the price of a new 40-inch television?

18. By definition, microeconomics is the study of

- a. the ways a government responds to developments in the private sector.
- b. the characteristics and workings of the economy as a whole.
- c. the principles of rational economic decision making.

- d. the individual units that make up the economy.
- e. the conditions under which a business will be profitable.

19. Microeconomics is the branch of economics that focuses on the

- a. entire economy.
- b. production side of the economy.
- c. consumption side of the economy.
- d. involvement of the government in the entire economy.
- e. choices and decision making of individuals and firms.

20. Which of the following is a microeconomic question?

- a. What are the total production levels in the economy?
- b. How can we best encourage economic growth?
- c. What is the overall price level in the economy?
- d. What are the variables that determine the price of a specific good?
- e. How can we reduce the unemployment rate among Hispanic men?

21. Incentives are commonly classified as

- a. selfish or altruistic.
- b. positive or negative.
- c. personal or social.
- d. intended or unintended.
- e. macro or micro.

22. The patent system

- a. acts as a direct positive incentive.
- b. acts as an indirect negative incentive.
- c. acts as a direct negative incentive.
- d. does not provide an incentive.
- e. acts as an indirect positive incentive.

23. On which of the following concepts do economists focus their studies when explaining how humans behave?

- a. fairness
- b. incentives
- c. money
- d. justice
- e. emotions

24. Entrepreneurs are willing to take risks because

- a. technology provides a way to sidestep the patent and copyright system.
- b. the patent and copyright system provides an exclusive right to sell the product for a period of time.
- c. the patent and copyright system guarantees a certain level of profit.
- d. technology always increases costs and prevents competitors from entering the market.
- e. the patent and copyright system guarantees that the risks taken will be rewarded.

25. What is an example of a positive incentive for someone to use stairs when an elevator is available?

- a. The elevator tends to be crowded, and passengers are often rude.
- b. Using the stairs will increase the risk of tripping and falling.
- c. Using the stairs is faster than waiting for the elevator to show up.
- d. The elevator is rumored to be poorly maintained and unsafe.
- e. For someone in a bad mood, using the stairs is a way to avoid unwanted conversations.

26. If the government wanted to give people a positive direct incentive to save money, what would be the appropriate policy?

- a. setting up a matching-funds program to reward people who save
- b. funding an advertising campaign encouraging people to save
- c. funding an educational program in schools, teaching the value of saving
- d. imposing a tax on individuals for saving their money

e. reducing the unemployment benefits paid to people who are out of work

27. What is an example of a direct negative incentive to buckle up when driving?

- a. antilock brakes and other technology that make a collision less likely
- b. the threat of a ticket if a police officer spots you not wearing a seat belt
- c. the fact that in a collision, seatbelts cause bruising across the chest and hips
- d. the possibility that if your car catches fire, a seatbelt may slow your escape
- e. next-generation airbags that provide substantial protection even if you are unbelted

28. Some drivers whose cars have semi-autonomous driving technology spend more time with their eyes off the road, texting or otherwise distracted. This is an example of

- a. a direct negative incentive.
- b. an indirect positive incentive.
- c. an indirect negative incentive.
- d. an opportunity cost.
- e. an opportunity benefit.

29. Actions and activities are encouraged with which type of incentive?

- a. positive
- b. complementary
- c. negative
- d. unintended
- e. neutral

30. A dentist who lets a child take home a toy after a successful visit is providing a(n) _____ incentive.

- a. neutral
- b. indirect
- c. negative
- d. scarce

e. positive

31. Economics professors are well aware of the importance of incentives. Which of the following situations illustrates the use of a positive incentive?

- a. Students who show up late to class will not be allowed in the classroom.
- b. Students who do not have a doctor's note will not be allowed to take an exam at a different time.
- c. Students can choose whether they want to attend class—there is no attendance policy.
- d. Students can choose to get a higher grade by doing extra credit work.
- e. The professor decides to teach the class by reading out of the textbook for the entire class.

32. A home insurance company is willing to offer a discount to homeowners who install alarm systems. This is an example of

- a. an opportunity cost.
- b. paired trade-offs.
- c. an indirect incentive.
- d. gains from trade.
- e. a positive incentive.

33. Most athletic coaches have a policy of punishing players who are late for practice. The late players may have to do push-ups, for instance. What could a coach do to provide a positive incentive to be on time for practice?

- a. Those who come late don't get to suit up for the next game.
- b. Those who come on time are guaranteed at least a little playing time.
- c. Those who come on time won't get yelled at in front of the rest of the team.
- d. Those who come late have to wear a dunce cap during team meetings.
- e. Those who come late more than twice in a row are cut from the team.

34. Actions and activities are discouraged with

- a. positive incentives.
- b. indirect incentives.

- c. negative incentives.
- d. unintended consequences.
- e. direct incentives.

35. On a residential street, a camera takes pictures of any cars exceeding the speed limit by more than 5 miles per hour, and the license numbers are traced to mail speeding tickets to the car's owners. These speed-trap cameras can best be understood as creating a(n)

- a. positive incentive to encourage individuals to obey the speed limit.
- b. direct incentive to encourage individuals to stay well below the speed limit.
- c. negative incentive to discourage individuals from speeding.
- d. indirect incentive to encourage individuals to obey the speed limit.
- e. negative incentive to encourage individuals to stay well below the speed limit.

36. The government places health-risk warnings on cigarette and liquor packages. These warnings serve as a(n)

- a. positive incentive.
- b. negative incentive.
- c. indirect incentive.
- d. opportunity cost.
- e. way to make cigarettes and liquor scarcer.

37. When a landlord is fined because of a safety violation in one of his buildings, what type of incentive is that?

- a. negative
- b. unintended
- c. positive
- d. complementary
- e. neutral

38. Google has started a project to scan all books and make those that are not copyrighted available to people free of charge. Why is it important that only books without a copyright are available?

- a. If all books were scanned and available free of charge, copyright holders would have a positive incentive to continue writing and publishing books.
- b. If all books were scanned and available free of charge, copyright holders would have a negative incentive to continue writing and publishing books.
- c. If only copyrighted texts were scanned and available free of charge, copyright holders would have an indirect incentive to continue writing and publishing books.
- d. If only non-copyrighted books were scanned and available free of charge, copyright holders would have a negative incentive to continue writing and publishing books.
- e. If only non-copyrighted books were scanned and available free of charge, copyright holders would have an indirect incentive to continue writing and publishing books.

39. The U.S. federal government has, at times, offered a tax credit for buyers of high-fuel-efficiency cars and alternative-fuel cars. The tax credit serves as a(n) _____ incentive to buy an environment-friendly vehicle.

- a. negative
- b. direct
- c. neutral
- d. indirect
- e. unintended

40. In many cities, stores now charge extra to provide plastic or paper bags. The idea is to encourage people to bring their own bags from home. What kind of incentive is the extra charge?

- a. indirect
- b. positive
- c. negative
- d. unintended
- e. marginal

41. In a growing number of cities, stores are required either to not make plastic or paper bags available or to do so only for an additional fee. If this fee can be refunded when someone recycles the bag, the refund acts as a(n) _____ incentive to recycle.

- a. negative
- b. positive
- c. indirect
- d. unintended
- e. alternative

42.If Kai doesn't like hauling irrigation pipe around on his parents' farm, but he does it because his parents pay him, they have provided him with a(n) _____ incentive.

- a. direct
- b. complementary
- c. indirect
- d. unintended
- e. neutral

43.A company's human resources department counsels an employee accused of workplace misconduct. The employee is advised that if the conduct occurs again, the employee will be at risk of termination. What type of incentive is human resources putting in place?

- a. direct; neutral
- b. indirect; negative
- c. direct; negative
- d. indirect; neutral
- e. indirect; positive

44.Direct incentives normally have _____ consequences.

- a. positive
- b. predictable
- c. desirable
- d. unintended
- e. undesirable

45.Welfare programs that provide a safety net for the unemployed create an indirect

incentive not to work. The most common way for governments to deal with this problem is to

- a. reduce the size of benefit payments to make it harder to live off the payments alone.
- b. limit the length of time for which people can receive benefits.
- c. provide the benefits only to people with dependents to support.
- d. require people to eventually repay the benefits they receive.
- e. require people to work at a government-provided job in order to receive benefits.

46. What is the indirect incentive in the unemployment insurance program?

- a. Workers get paid when they are laid off.
- b. Workers have an incentive to find a new job as quickly as possible.
- c. Workers have a reduced incentive to find a new job until the insurance runs out.
- d. Workers are paid all of their wages by the unemployment insurance program.
- e. Workers on unemployment insurance are given training opportunities.

47. In some parts of the country, a homeowner can get a government rebate for converting their landscaping to drought-tolerant plants. If this program causes some homeowners to buy more expensive plants when they were shopping for low-water-use plants anyway, that is a(n) _____ consequence.

- a. intended
- b. negative
- c. neutral
- d. unintended
- e. positive

48. Although government-sponsored flood insurance can help those who experience flood damage through no fault of their own, it can also increase the likelihood that people will build new homes where the risk of flooding is high. With these people, the insurance functions as a(n)

- a. intended consequence.

- b. negative incentive.
- c. direct incentive.
- d. opportunity cost.
- e. indirect incentive.

49. The government has been trying to encourage the use of fuel-efficient cars. One way it does this is by allowing fuel-efficient cars to use a separate highway lane. This separate lane encourages people to use fuel-efficient cars because

- a. those who place a high value on their scarce time may be encouraged to buy a fuel-efficient car to take advantage of the separate highway lane.
- b. those who place a low value on their scarce time may be encouraged to buy a fuel-efficient car to take advantage of the separate highway lane.
- c. those who are more concerned about the environment are also those who happen to place a high value on their time.
- d. those who purchase a fuel-efficient car are forced to pay more for a new car, and the use of the separate highway lane compensates them for this.
- e. those who purchase a fuel-efficient car are likely to be unhappy because it is less powerful or more cramped inside; use of the separate highway lane compensates them for this.

50. In the area of many college campuses, parking spaces are often scarce. If these parking spaces have parking meters, which population described below would pay for parking rather than use the spaces without paying?

- a. those who are willing to take risks and believe they will not be caught if they don't place change in the meter
- b. those who place a high opportunity cost on making sure they have change and placing change in the meter
- c. those who are willing to take risks, believe that they will not be caught if they don't place change in the meter, and disregard a possible \$5 ticket for parking illegally
- d. those who are unwilling to take risks and believe there is a high chance they will not be caught if they don't pay for parking
- e. those who are unwilling to take risks, believe there is a high chance they will be caught if they don't pay for parking, and place a high value on doing the "right" thing

51.State parks sometimes dispense parking, hiking, or camping passes via vending machines without an attendant present. With which kind of person would such a system be most successful?

- a. one who responds much better to negative incentives than positive ones
- b. one who responds much better to direct incentives than indirect ones
- c. one who believes there is a strong chance a park official will later ask to see the pass
- d. one who knows the machines are there because the park is understaffed
- e. one who places a high opportunity cost on the time it takes to buy a pass

52.Rational decision making under conditions of scarcity requires individuals to

- a. place a monetary value on everything.
- b. know the prices of all the goods they might buy.
- c. be alert to price reductions on desired products.
- d. understand that trade-offs are necessary.
- e. earn as much income as possible.

53.Economics is concerned with the trade-offs that result from scarcity. The term “trade-offs” refers to the fact that

- a. the scarcer something is, the more likely there is to be a commercial market for it.
- b. when something scarce is used for one purpose, it is not available for another purpose.
- c. the way to get something scarce is to trade something else in return.
- d. when something is scarce, people are less likely to use it and more likely to conserve it.
- e. the government ensures the availability of scarce goods by regulating their trade.

54.The cost of a trade-off is known as the _____ cost of that decision.

- a. marginal
- b. comparative
- c. net
- d. explicit

e. opportunity

55. Opportunity cost is the _____ alternative sacrificed when a choice is made.

- a. least expensive
- b. second runner-up
- c. highest-valued
- d. first
- e. final

56. An opportunity cost is

- a. a situation where available resources are limited.
- b. the transaction cost of a voluntary exchange of goods and services.
- c. the highest-valued alternative that must be sacrificed to get something else.
- d. a factor that motivates a person to act or exert effort.
- e. the cost associated with obtaining one more of something.

57. When a student chooses to take an exam instead of skipping it for a hunting trip, what is the student's opportunity cost of taking the exam?

- a. the student's increased chance of graduating in four years
- b. a better grade in a class the student almost took instead
- c. the difference between a perfect score and the student's actual performance
- d. the hunting trip the student will miss
- e. one class session's worth of the student's tuition money

58. Karla, a landscaper, is trying to decide whether to hire Anton, a student, to help her with a big job. She would pay him \$20 per hour. Every task takes Anton three times as long to complete as it takes Karla. Karla is able to earn \$90 per hour for her own time and has more landscaping jobs than she can handle. What is Karla's opportunity cost of hiring Anton?

- a. Using Anton allows Karla to go after jobs she would not otherwise take on. Those other jobs represent her opportunity cost of hiring Anton.
- b. Karla has to pay Anton \$20 per hour, so that amount, times the number of

hours he works, is the total opportunity cost.

- c. Karla saves \$30 per hour of her own time on a job Anton is working on, so \$30 an hour times the number of hours she works, is the total opportunity cost.
- d. There are other things Karla would have done with the money she pays Anton. Karla's opportunity cost is whatever else she would have used her money for.
- e. Karla's total opportunity cost is the negative of her total profit: her total expenses, including what she pays Anton, minus what she gets paid by the client.

59. A restaurant patron has a coupon for a free dessert. The choices are apple pie, lemon sorbet, chocolate brownie cake, and crème brûlée. The patron's first choice would be the cake, and the second choice would be the sorbet. What is the opportunity cost of choosing the pie?

- a. missing out on the cake
- b. missing out on the sorbet
- c. missing out on the crème brûlée
- d. the dollar value of the pie
- e. the combined dollar value of the cake, the sorbet, and the crème brûlée

60. An opportunity cost

- a. can be measured only when the decision involves an expenditure of money.
- b. can be measured only when the decision involves spending time on one thing and not on another.
- c. is impossible to measure.
- d. is equal to the value of what is given up to make a purchase or take an action.
- e. exists for every decision made by individuals and businesses, but not by the government.

61. When people make rational decisions that involve trade-offs, the option they choose is

- a. the unique alternative that involves zero opportunity cost.

- b. the one most preferred among the available alternatives.
- c. the one least likely to conflict with other people's choices.
- d. the one they have the most direct incentive to choose.
- e. the one with the fewest unintended consequences.

62. What is the rule for using opportunity cost to make decisions?

- a. Choose the option with the highest opportunity cost.
- b. Choose the option with the lowest opportunity cost.
- c. Choose the option with the second-highest opportunity cost.
- d. Choose the option with the second-lowest opportunity cost.
- e. Choose the option whose leading alternative has the lowest opportunity cost.

63. Nicole asked her neighbor to rake the leaves on his lawn because they were blowing into her yard. It takes an hour to rake the yard, regardless of who performs the task. He responded that it wouldn't be rational for him to do so, but he would be willing to hire someone else to rake. Why might this be the case?

- a. Her neighbor lacks the equipment to rake leaves and thinks it would take too long to do the job.
- b. Her neighbor is a busy person and doesn't have time to rake leaves.
- c. Her neighbor is getting revenge on her because Nicole didn't rake the leaves on her lawn last year.
- d. Her neighbor is a lawyer who values his time at \$200 an hour and knows that he can hire a high school kid to rake leaves for \$20 an hour.
- e. Her neighbor is a high school teacher and values his time at \$15 an hour and knows that he can hire one of his students to rake leaves for \$20 an hour.

64. If Adele had not taken a job bagging groceries, she would instead have taken a job at an auto parts store. The opportunity cost of her taking the grocery-store job is

- a. the total value of the job at the auto parts store, including wages, work experience, and so on.
- b. the total expenses associated with the grocery-store job, including clothing, transportation, etc.

- c. the total expenses associated with interviewing for the grocery-store job, including transportation, time, and anxiety.
- d. the difference in future earnings because she did not pursue an advanced degree.
- e. the difference in present expenses because she did not move back to her home state to live with her parents.

65. For her birthday, Jeri's parents want to treat her to a family day at a water park. If she agrees, what would be a plausible opportunity cost of that choice?

- a. not being able to go to with her friends to see a movie
- b. the dollar cost of everyone's admission tickets to the park
- c. the risk that it will rain and the water park will be closed
- d. the risk that she will argue with her siblings and not have a good time
- e. not being able to get to all the rides because of long lines at some

66. Why would economists find it surprising if the CEO of a large company does his or her own housework?

- a. The opportunity cost of doing the housework is quite high because CEOs have an abundance of time to spend on housework.
- b. The opportunity cost of doing the housework is quite low because CEOs have a scarcity of time to spend on housework.
- c. The opportunity cost of doing the housework is quite low because CEOs have an abundance of time to spend on housework.
- d. The opportunity cost of doing the housework is quite high because CEOs have a scarcity of time to spend on housework.
- e. The opportunity cost of doing the housework is the same for everyone that works at the same company.

67. The opportunity cost of going to school instead of working is measured by lost

- a. time socializing with fellow students.
- b. knowledge in the area of one's major.
- c. eligibility for a financial aid package.
- d. wages in the next few years.
- e. earnings in one's later professional life.

68. The opportunity cost of working instead of going to school is

- a. the cost of basic living expenses: food, housing, clothing, and transportation.
- b. zero, because the cost of basic living expenses would be the same either way.
- c. zero, because the person is earning an income by working.
- d. the higher long-term net earnings that come with additional education.
- e. the wages earned by working during the years when one would be in school.

69. When Lucy chose a major, she likely thought about her skills. Let's say Lucy doesn't enjoy dealing with numbers. How could she explain to her parents, using logic from economics, why she chose to major in English instead of mathematics?

- a. The opportunity cost of learning mathematics is too high.
- b. The opportunity cost of learning to appreciate literature is too high.
- c. The expected value of a major in English after graduation is low.
- d. The expected value of a major in mathematics after graduation is high.
- e. The opportunity cost of going to college is too low.

70. Restaurants, bars, and convenience stores located in airports usually charge dramatically higher prices than comparable stores in the surrounding community. The airport stores are taking advantage of the fact that travelers

- a. are able to pay higher prices than the rest of the population, so the businesses can charge higher prices than they otherwise would.
- b. place a high value on their scarce time and are willing to pay higher prices than they would under other circumstances.
- c. are unable to pay higher prices than the rest of the population, but the stores are able to succeed because they can sell to a large number of people.
- d. place a low value on their scarce time and are willing to pay higher prices than they would under other circumstances.
- e. place a high value on their scarce time and are unwilling to pay higher prices.

71. The U.S. government has at times considered no longer minting pennies because they are rarely used for purchases anymore. How would an economist best explain this consumer behavior?

- a. Today, in contrast to earlier times, there is no longer any consumer good that can be purchased with a single penny.
- b. More people are using electronic payment apps, so they are not in the habit of carrying cash.
- c. Prices have fallen over time, which has made pennies more valuable, so that people hoard them instead of spending them.
- d. Prices have increased over time, and the opportunity cost of carrying around large quantities of pennies has become too great.
- e. People who use pennies probably aren't spending enough money; removing the penny will force people to spend more.

72. A recycling program provides a machine that accepts glass and plastic bottles and gives recyclers coupons that can be redeemed inside the store where the machine is located. The machine is used less than the recycling program organizers had hoped. How would an economist explain this?

- a. For the machine to see more use, many people would have to change their habits and routines, and this is known to be hard to do.
- b. Despite the posted notice, people do not trust that the coupons will, in fact, be accepted in the store, at their face value, the same as cash.
- c. Although the machine performs an automated exchange of one thing for another, it is not really an economic transaction, and therefore people are reluctant to participate.
- d. The time required to use the machine and the requirement that the coupons be redeemed at that store together add up to too high an opportunity cost.
- e. People do not have a strong enough sense of the impact that wasteful use of natural resources has on the economy.

73. According to economists, one reason few professional athletes have PhDs is because the

- a. opportunity cost of going to graduate school is too high.
- b. marginal benefit of going to graduate school is too high.
- c. marginal cost of going to graduate school is too high.
- d. comparative cost of going to graduate school is too high.

e. explicit cost of going to graduate school is too high.

74. Economists believe that when individuals make decisions, they seek to _____ as much as possible.

- a. improve their situation
- b. minimize risk
- c. maintain the status quo
- d. maximize everyone's benefit
- e. take from others

75. The term _____ means "additional."

- a. *marginal*
- b. *opportunity cost*
- c. *comparative*
- d. *trade-off*
- e. *incentive*

76. When marginal analysis is used to make a decision, the goal is to make sure that

- a. marginal cost does not exceed marginal benefit.
- b. marginal benefit is at least twice as great as marginal cost.
- c. marginal cost is at least twice as great as marginal benefit.
- d. marginal benefit equals zero.
- e. marginal cost equals zero.

77. When the optimal quantity of a good is being consumed, the marginal benefit

- a. is zero.
- b. equals the marginal cost.
- c. equals the opportunity cost.
- d. is at its maximum value.
- e. ceases to matter.

78. A bar patron deliberating whether to have one more drink before hitting the road

may be said to be engaging in marginal analysis. What would be a good description of that analysis?

- a. The patron is weighing the marginal benefit of another drink against the total marginal cost, both financial and in the increased risk of a ticket or an accident.
- b. The patron is weighing the total social and psychological benefits of regularly visiting the bar against the total financial cost of drinks plus tips.
- c. The patron is weighing the marginal cost of the drink in dollars against the marginal increase in the risk of a ticket or an accident.
- d. The patron is weighing the marginal psychological benefit of another drink against the marginal social benefit of interacting with the other patrons.
- e. The patron is weighing the total economic pros and cons of regularly visiting the bar against the total pros and cons due to the impact on the patron's professional and family life.

79. One way to promote a new business is to sell a popular item at a massive discount. If Jared were to open a clothing store and sell high-end dress shoes for \$100 a pair, he would likely have a line out the door. How would an economist understand the behavior of those standing in line?

- a. Those waiting in line place a high value on the use of their time.
- b. Those waiting in line place a low value on the use of their time.
- c. Those waiting in line believe the marginal cost of waiting in line exceeds the marginal benefit of waiting in line.
- d. Those waiting in line believe the marginal cost of waiting in line is zero.
- e. Those waiting in line believe the marginal benefit of waiting in line is zero.

80. Instead of finishing high school, Cecily could have decided to work full-time. How would an economist explain her decision to receive her high school diploma?

- a. The cost of going to high school was greater than the benefit of working full-time.
- b. The benefit of working full-time was greater than the benefit of going to high school.
- c. The benefit of going to high school was greater than the benefit of working full-time.
- d. The cost of working full-time was greater than the benefit of going to high school.

- e. The benefit of working full-time was greater than the cost of going to high school.

81. Some restaurants close during the afternoon and reopen for dinner. A logical economic reason to do this would be that

- a. in the afternoon, the marginal benefit of staying open is greater than the marginal cost.
- b. in the afternoon, the marginal cost of staying open is greater than the marginal benefit.
- c. in the afternoon, the marginal benefit of staying open has dropped to zero.
- d. the marginal benefit of staying open is greater in the morning than in the afternoon.
- e. the marginal cost of staying open is greater in the afternoon than in the morning.

82. In 2009, the federal government created a program called Cash for Clunkers, in which consumers could trade in a less efficient car for a more efficient car and receive a higher value than they would have otherwise. How would an economist understand the decision that consumers faced?

- a. Consumers would compare the marginal benefits to the marginal costs of replacing their cars, and this program made sure that marginal benefits would exceed marginal costs.
- b. Consumers would compare the marginal benefits to the marginal costs of replacing their cars, and this program made sure that marginal costs would exceed marginal benefits.
- c. The Cash for Clunkers program increased the opportunity cost of replacing a car.
- d. The Cash for Clunkers program served as a negative incentive to replace a fuel-inefficient car.
- e. The Cash for Clunkers program served as an indirect incentive to replace a fuel-inefficient car.

83. Who benefits from voluntary trade? Choose the BEST answer.

- a. manufacturers and vendors
- b. buyers and sellers

- c. households and taxpayers
- d. corporations and the government
- e. individuals and other consumers

84. What behavior does the phenomenon known as comparative advantage encourage?

- a. reduction of trade with others
- b. specialization in production
- c. elimination of opportunity costs
- d. less selfish interactions with others
- e. increased self-reliance and self-sufficiency

85. People and nations engaged in trade specialize because of the presence of

- a. indirect consequences.
- b. differing opportunity costs.
- c. marginal benefits that equal marginal costs.
- d. direct incentives.
- e. negative incentives.

86. Globalized trade can cost some workers their jobs. However, a benefit of globalized trade could be that

- a. for workers who remain employed, globalized trade drives wages up.
- b. firms tend to offer increased benefits to their workers.
- c. globalized trade discourages outsourcing.
- d. as consumers, the unemployed workers pay lower prices.
- e. workers in other nations lose jobs, as well.

87. A person has a comparative advantage in the production of a good when she or he can produce the product at a(n) _____ opportunity cost compared to another person.

- a. higher
- b. diminishing
- c. lower

- d. increasing
- e. equal

88. When trade is voluntary, who benefits?

- a. the buyer
- b. No one benefits.
- c. the seller
- d. Trade is never voluntary.
- e. both the buyer and the seller

89. More avocados are grown in California than in Montana because California's warm climate provides a(n) _____ advantage in growing avocados.

- a. indirect
- b. positive
- c. direct
- d. negative
- e. comparative

90. The United States is able to experience economic growth to the extent that

- a. excessive specialization is discouraged.
- b. the government does not interfere with the market.
- c. specialization and trade are encouraged.
- d. unions are able to fight for the rights of workers.
- e. consumers have many goods to choose from.

91. Between Greece and Germany, Greece has a comparative advantage in producing olive oil because it has

- a. forced other countries not to sell their olive oil.
- b. specialized in the production of olive oil because of its natural resources.
- c. specialized in the production of other goods, as well.
- d. developed a reputation as the go-to source for olive oil.
- e. a culinary heritage in which olive oil plays an important role.

92. According to economic thinking, the presence of scarcity forces people to

- a. look for incentives.
- b. adopt a macro perspective.
- c. make decisions.
- d. form preferences.
- e. consider consequences.

93. The allocation of limited resources within an environment of almost unlimited wants is the focus of

- a. capitalism.
- b. scarcity.
- c. fiscal policy.
- d. altruism.
- e. economics.

94. An economist is most capable of determining

- a. how worker productivity affects the output of an economy.
- b. psychological factors that contribute to worker productivity.
- c. interior paint colors that boost business revenue.
- d. which individuals are allowed to make decisions.
- e. why some consumers prefer emeralds over diamonds.

95. Without scarcity, the study of _____ would be unnecessary.

- a. positive incentives
- b. economics
- c. negative incentives
- d. productivity
- e. resource allocation

96. What would an economist recognize as a sign that water is especially scarce in a certain area?

- a. government regulation of water usage
- b. rain as a common conversation topic
- c. strong social norms against wasting water
- d. religious teachings focused on water
- e. a high price per gallon for water

97. A trade war has triggered a nationwide recession in the United States, producing a high rate of unemployment. Which of the following would be a microeconomic decision?

- a. Congress passes a series of tax cuts meant to encourage consumer spending.
- b. The United States negotiates a new trade agreement with several European nations.
- c. A Texas store chain opens two new locations in areas especially hard hit by the recession.
- d. The federal government extends the duration of unemployment benefits.
- e. The Federal Reserve lowers interest rates in an effort to stimulate business activity.

98. What are the five foundations of economics?

- a. incentives, trade-offs, opportunity cost, marginal thinking, and the principle of happiness maximization
- b. incentives, trade-offs, opportunity cost, marginal thinking, and the principle that trade creates value
- c. incentives, trade-offs, specialization, marginal thinking, and the principle that trade creates value
- d. circular flow, trade-offs, specialization, marginal thinking, and the principle that trade creates value
- e. circular flow, innovation, specialization, marginal thinking, and the principle that trade creates value

99. Macroeconomics would be concerned with

- a. a family's decision to finance the purchase of a home.
- b. a construction firm's decision to lay off 15% of its workers for a month.

- c. a city government's decision to issue bonds to build a new sporting arena.
- d. a national government's move to impose higher taxes on imported goods.
- e. an auto company's decision to discontinue one of its models.

100. Economics is divided into two major branches. Decisions made by individuals and firms are the domain of

- a. free markets.
- b. incentive theory.
- c. macroeconomics.
- d. microeconomics.
- e. supply and demand.

101. Why do incentives matter to economists?

- a. People make poor decisions when they're given money they didn't earn.
- b. Governments are the source of all incentives and there is value in studying the actions of governments.
- c. Incentives are often the guiding principle behind greed and exploitation.
- d. Incentives explain how people make decisions and are the key to understanding economics.
- e. Without incentives, the distinction between microeconomics and macroeconomics would be unclear.

102. When an individual chooses to act, he or she is said to be motivated by

- a. microeconomic considerations.
- b. unintended consequences.
- c. marginal thinking.
- d. incentives.
- e. trade-offs.

103. A father takes his daughter on an outing and promises her pizza if she behaves. In addition, he warns her that if she misbehaves, she won't be allowed to go to a sleepover that evening. The latter is an example of a(n) _____ incentive and reinforces the impact of the pizza, a(n) _____ incentive.

- a. direct; indirect
- b. negative; positive
- c. negative; direct
- d. positive; negative
- e. indirect; direct

104. Jameela is a competitive fencer, but lately, her commitment to the sport has wavered. She redoubles her training efforts when her coach points out that the next tournament will offer a good chance for her to improve her competitive rating. The coach has provided Jameela with a(n) _____ incentive.

- a. indirect, neutral
- b. direct, negative
- c. indirect, negative
- d. direct, positive
- e. indirect, positive

105. Clara must choose between reading the next chapter in her economics textbook or going to a friend's engagement party. The positive incentive for her to stay home studying is the prospect of doing better on next week's mid-term exam. The negative incentive is the prospect of looking foolish if the instructor calls on her to explain a passage (as this instructor sometimes does). What can be said about the two incentives?

- a. The negative and positive incentives will tend to cancel each other out.
- b. The two incentives will have a stronger effect together than either would alone.
- c. The positive incentive is much more likely to motivate Clara to study than the negative one.
- d. The negative incentive is much more likely to motivate Clara to study than the positive one.
- e. Whether Clara studies or goes to the party depends on which of the two named incentives is stronger.

106. An import tax on cargo vans has led one well-known auto company to import passenger vans and then remove the passenger seats to sell the vans as cargo vans. This means jobs for the workers who remove the seats. What type of incentive, if any, has created these seat-remover jobs?

- a. positive direct
- b. negative indirect
- c. negative direct
- d. The jobs are not due to any incentive.
- e. positive indirect

107. Which of the following is an example of an unintended consequence?

- a. A court-ordered breakup of a local auto sales monopoly causes car prices to drop.
- b. A tax rebate for purchases of alternative fuel vehicles boosts the sales of electric cars.
- c. The technology required by stricter emission regulations drives auto prices higher.
- d. Low interest rates prompt car buyers to use a manufacturer's own car loan program.
- e. Building cars overseas enables a car manufacturer to cut manufacturing costs.

108. What is the justification for copyright laws?

- a. Information does not genuinely want to be free.
- b. They minimize the trade-offs faced by consumers of creative works.
- c. They promote innovation by ensuring a financial reward for creativity.
- d. They encourage healthy competition between producers of creative works.
- e. They make the enforcement of patent laws unnecessary.

109. Corporate leadership sometimes waits until after presidential elections to make major business decisions. An economist would maintain that this delay is in anticipation of future

- a. forecasting.
- b. incentives.
- c. fear.
- d. taxes.
- e. scarcity.

110. The proliferation of BitTorrent and other file-sharing media have threatened the copyright system. Based on an understanding of incentives and opportunity cost, how are the decisions of musicians likely impacted?
- a. They will spend more time in court, reducing the amount of music they produce.
 - b. They will illegally download the music of other artists to balance the impact across the industry.
 - c. Because music theft cannot be stopped, musicians will stop trying to sell their music.
 - d. Most musicians will be forced to take a second job to support themselves.
 - e. If more money can be made in alternative professions, individuals will choose not to pursue music.
111. An individual who does one thing will as a result not have the time, resources, or energy to do something else. This is what is meant by
- a. trade creating value.
 - b. an unintended consequence.
 - c. a negative incentive.
 - d. a marginal cost.
 - e. a trade-off.
112. A shopper who wants to buy two men's shirts totaling \$50 has \$75 to spend. Is this an example of a trade-off? Why or why not?
- a. Yes, because even after the purchase, the shopper will still have money left over.
 - b. Yes, because the shopper still has to consider whether he likes one shirt more than the other.
 - c. No, because many stores carry men's shirts. This is not the shopper's only chance to buy a shirt or two.
 - d. No, because the shopper can afford to buy both shirts and therefore doesn't have to choose between them.
 - e. No, because buying both shirts would mean the consumer will have less money to spend on something else later on.
113. During a job search, individuals will sometimes accept the lower of two

competing salary offers. What would best explain this decision?

- a. Individuals never accept a salary that exceeds their personal values.
- b. A person may accept a lower starting salary to receive greater future pay increases.
- c. The total benefits of the higher paying job are greater than the total benefits of the lower paying job.
- d. The total benefits of the lower paying job are greater than the total benefits of the higher paying job.
- e. The lower salary is still better than the salary earned at the previous job.

114. The presence of scarcity means that no choices come without

- a. shortages.
- b. incentives.
- c. trade-offs.
- d. consumption.
- e. regret.

115. Lena leaves her job as a stockbroker, where she earns \$800,000 per year, to start her own business. After her business is up and running, she clears \$700,000 in profit annually. How would an economist describe Lena's career change?

- a. It gained her \$1.5 million.
- b. It gained her \$700,000.
- c. It gained her \$100,000.
- d. It cost her \$800,000.
- e. It cost her \$100,000.

116. Dexter decides to buy a new smartphone. For the same price, he could buy a new television or a new bicycle, and if he had to choose between those two, he would buy the TV. What is the opportunity cost associated with Dexter's purchase of the smartphone?

- a. the enjoyment and other benefits he would get from the new television
- b. the enjoyment and other benefits he would get from the bicycle
- c. the difference in benefit to Dexter between the smartphone and the TV

- d. the difference in benefit to Dexter between the TV and the bicycle
- e. the total cost of the television and the bicycle, minus the smartphone cost

117. Ishmael has four potential jobs to consider, each with different salary offers. From highest to lowest, the salaries are: \$58,500, \$57,000, \$56,000, and \$53,000. Based on the information provided, what is the opportunity cost of Ishmael accepting the position that pays \$56,000?

- a. \$57,000
- b. \$56,000
- c. \$53,000
- d. \$2,500
- e. \$58,500

118. Which statement represents a rational application of opportunity cost?

- a. The value of the choice must be greater than or equal to the cost of the next-best alternative.
- b. The value of the next-best alternative must be greater than or equal to the cost of the choice.
- c. Opportunity cost is useful for evaluating a decision after the fact, but not during the decision-making process.
- d. The value of the choice must be greater than the sum of all available alternatives.
- e. The value of the next-best alternative is irrelevant since the alternative was not selected.

119. What could be an opportunity cost of attending a four-year college following high school graduation?

- a. routine on-campus living expenses such as food, rent, and transportation
- b. the income earned at a part-time job on campus
- c. the cost of tuition at the four-year college
- d. not being able to earn money at a full-time job right away
- e. the difference in future wages between having a college degree versus not having one

120. What is the opportunity cost of purchasing a new winter jacket?
- a. the cost savings of not purchasing the jacket
 - b. the need to buy a matching pair of warm pants
 - c. the opportunity to feel a crisp winter breeze
 - d. the value of the old jacket, donated to a used clothing store
 - e. the activities the jacket makes possible, like attending football games
121. An economist would argue that the true cost of a college education exceeds the cost of tuition, housing, and books because of
- a. opportunity cost.
 - b. tax credits.
 - c. invisible costs.
 - d. scholarships.
 - e. inflation.
122. In economics, the process of breaking down decisions into smaller parts is called _____ analysis.
- a. finite-step
 - b. segmentational
 - c. marginal
 - d. incremental
 - e. model-based
123. According to marginal thinking, an individual will stop buying more of a good when the _____ of the next unit exceeds the _____.
- a. negative incentive; positive incentive
 - b. economic value; price
 - c. trade-off; opportunity cost
 - d. comparative advantage; comparative disadvantage
 - e. cost; benefit
124. _____ is value added by making additional effort.

- a. Income
- b. Optimization
- c. Money
- d. Opportunity benefit
- e. Marginal benefit

125. People out walking their dogs sometimes collect their dogs' waste in a plastic bag but then leave the bag by the side of the walkway. How might an economist explain this behavior?

- a. For those people, the benefit of feeling good about properly disposing of the waste is outweighed by the cost of holding on to the waste while looking for a trash can.
- b. For those people, a positive incentive such as being praised for proper disposal of their dogs' waste would be more effective than a negative incentive such as a ticket.
- c. For those people, their fondness for their dogs outweighs the possibility that they do not have what it takes to be a responsible pet owner.
- d. People are much more likely to be influenced by appeals, ahead of time, to their sense of social obligation than by being called out after they fail to dispose of their dogs' waste correctly.
- e. People only do what is socially expected and accepted when they believe they are being watched and would be held accountable for misconduct.

126. Olivia operates a shoe-repair shop and charges customers \$75 per sole replacement. Based on her knowledge of operations, the 570th sole replacement costs her \$74 to perform. However, the 571st sole replacement will cost her \$75 to do. Does she take the additional business? Choose the BEST answer.

- a. No. She probably has hidden costs that far exceed her estimate of \$75, so she would lose money.
- b. No. Because her cost equals the price, she would not earn any added revenue.
- c. Yes. If she turns away business, her shop will be forced to close.
- d. Yes. The publicity of being known as the shop that can fix anything is worth the cost.
- e. Maybe. At a \$75 cost, she breaks even and is indifferent. She turns away business when the cost of the additional unit exceeds the revenue.

127. People often clean cabinet doors, but do not regularly clean inside the cabinet. The insides of cabinets aren't visible and require the removal of contents in order to clean. This is an example of

- a. marginal thinking.
- b. specialization.
- c. positive incentives.
- d. indirect consequences.
- e. comparative advantage.

128. At any quantity, when the marginal benefit equals the marginal cost, that quantity is said to be

- a. excessive.
- b. equivalent.
- c. inadequate.
- d. allocated.
- e. optimal.

129. It is crucial to recognize that _____ and _____ are separate evaluations made at the margin.

- a. costs; benefits
- b. economics; accounting
- c. buying; selling
- d. trade-offs; opportunity costs
- e. incentives; trade-offs

130. The U.S. federal government imposes a tariff (import tax) on cheaper steel arriving from other countries. When producers make the decision to purchase domestic steel, what must first occur?

- a. Producers always purchase domestic steel because the quality is superior to foreign products.
- b. The price of domestic steel must be at least equal to or greater than that of foreign steel.

- c. Producers never purchase domestic steel because it can't be produced as efficiently as foreign products.
 - d. The government must subsidize the manufacturing costs of domestic steel.
 - e. The price of foreign steel must be at least equal to or greater than that of domestic steel.
131. Sellers engage in marginal thinking when they
- a. compare their prices to the prices other sellers are charging.
 - b. compare their total revenue to their total costs.
 - c. set a limit of the number of units they are willing to sell.
 - d. focus on selling mass produced goods, which often keeps costs down.
 - e. compare the revenue from selling one additional unit to the cost of stocking it.
132. _____ show(s) how goods, resources, and services flow through the economy.
- a. Microeconomics
 - b. Trade-offs
 - c. A circular flow diagram
 - d. Comparative advantage
 - e. Direct and indirect incentives
133. When is marginal analysis needed to make a decision?
- a. when the choice is between doing something and not doing something
 - b. when the choice is between doing more or less of something
 - c. when the choice is between doing something and doing the exact opposite
 - d. when the choice is between actions with a quantifiable monetary value
 - e. when the choice is between actions that cannot be assigned a monetary value
134. Marginal analysis applies the concept of _____ at the margin.
- a. positive incentives
 - b. trade-offs

- c. negative incentives
- d. value through trade
- e. opportunity cost

135. Jasmine is trying to decide how many hours to put in at her flexible-time job this week. She gets paid \$14 per hour. Her marginal cost, which includes not only direct expenses like transportation but also opportunity cost, is \$5 per hour for the first 10 hours, \$12 per hour for the next 10 hours, \$15 per hour for the next 10 hours after that, and \$18 per hour for every additional hour after that. How many hours should Jasmine put in this week?

- a. 10 hours
- b. 20 hours
- c. 30 hours
- d. 40 hours
- e. as many hours as possible, including overtime

136. Why is voluntary trade a good thing, from an economic perspective?

- a. Trade discourages specialization.
- b. Trade creates value for all parties involved.
- c. Trade equalizes the allocation of resources.
- d. Trade eliminates comparative advantage.
- e. Trade minimizes unemployment.

137. If specialization and outsourcing can harm domestic workers, why do countries still engage in trade?

- a. Most workers have little influence on politicians and are ignored.
- b. The gains from trade far outweigh the costs to workers, and the economy benefits overall.
- c. Domestic workers can move to a country with a greater need for their skills.
- d. Welfare programs can support unemployed workers.
- e. Shipping companies have a powerful lobby in Congress.

138. Disparities in opportunity cost among competitors are the cause of

- a. optimization.
- b. command economies.
- c. comparative advantage.
- d. marginal benefits.
- e. trade-offs.

139. Who is most at risk of being harmed by the globalization of trade?

- a. a high-skilled worker in a less-developed nation
- b. a consumer in a developed nation
- c. a small business in a less-developed nation
- d. a large firm in a developed nation
- e. a low-skilled worker in a developed nation

140. A nation will engage in voluntary trade with another nation if

- a. the trade is approved by the World Trade Organization.
- b. the terms are of benefit to both nations involved.
- c. the opportunity cost of the trade relationship is zero.
- d. it can find a partner nation that is also willing to trade.
- e. there is a good where the other nation has a comparative advantage.

141. Coastal regions have stronger commercial fishing economies because they have a(n) _____ in the production of seafood.

- a. trade-off
- b. higher opportunity cost
- c. comparative advantage
- d. negative incentive
- e. indirect consequence

142. Which element is left out of the circular flow diagram, even though no explanation of how an economy works would be complete without it?

- a. households
- b. product markets

- c. firms
- d. resource markets
- e. the government

143. If the United States creates a trade agreement with Vietnam, we know that

- a. Vietnam will benefit, but trade with a developing country will not help the United States.
- b. Vietnam can get no benefit because its workers are not as productive as those in the United States.
- c. Vietnam can get no benefit because its businesses have less capital than those in the United States.
- d. Vietnam and the United States can both benefit.
- e. The physical and cultural differences between the two countries are too great for them to benefit from trade.

144. Paul bakes bread well, and Pru raises great herbs. If Pru trades bushels of basil with Paul in exchange for sliced loaves of sourdough, then

- a. neither Paul nor Pru is made better off by trade.
- b. both Paul and Pru are made better off by trade.
- c. only Pru is made better off by trade.
- d. only Paul is made better off by trade.
- e. between Pru or Paul, one wins and one loses.

145. Trade makes the costs of goods and services

- a. lower and raises the variety of goods and services available in markets.
- b. lower but reduces the variety of goods and services available in markets.
- c. higher but reduces the variety of goods and services available in markets.
- d. higher but raises the variety of goods and services in markets.
- e. neither lower nor higher because so many other variables need to be considered.

146. Choosing to trade _____ specialization, because production is more likely to be done by the producer with _____ opportunity costs.

- a. discourages; the lowest
- b. encourages; zero
- c. discourages; the highest
- d. eliminates; zero
- e. encourages; the lowest

147. Wages are higher in Country X than in Country Y. If the countries decide to trade, which country or countries should expect to benefit, and why?

- a. Country X only, because that is where consumer prices will decrease.
- b. Country Y only, because that is where wages will increase.
- c. Both countries should expect to benefit, because trade creates value.
- d. Both countries can benefit, but only if a trade agreement restricts trade to the right goods.
- e. The country that will benefit is the one that exports more than it imports, thereby leading to a positive trade balance.

148. What is one of the benefits of globalized trade?

- a. higher wages for workers
- b. less competition between domestic firms
- c. consistently lower unemployment
- d. the ability of producers to specialize
- e. greater profits for domestic firms

149. The two college majors with the strongest representation on the Forbes 400 list of billionaires are

- a. business administration and mathematics.
- b. economics and English.
- c. mathematics and history.
- d. economics and electrical engineering.
- e. economics and business administration.

150. Economics is about more than money. Ultimately, it is about

- a. advances in knowledge that make nations more productive.

- b. increasing the productivity of firms and individual workers.
- c. the actual goods and services that make people happy.
- d. fostering peaceful relationships between people and between nations.
- e. the proper role of government in promoting trade.

151. To ensure that trade benefits all parties involved,

- a. specialization through training must occur.
- b. money must be exchanged.
- c. there must be a difference in comparative advantage.
- d. the trade must involve services as well as goods.
- e. the trade must be voluntary.

152. Someone is trying to decide among five different options, each being attractive to a different degree. In other words, there are no ties. How many different opportunity costs must the person making the choice think about?

- a. one
- b. two
- c. three
- d. four
- e. five

153. The two college majors with the highest average lifetime income are

- a. business administration and mathematics.
- b. economics and electrical engineering.
- c. mathematics and history.
- d. business administration and history.
- e. economics and business administration.

154. From an economic perspective, the key fact about trade is that

- a. it is zero-sum: if there is a winner, there is also a loser.
- b. it is a macro-level phenomenon, not a micro-level one.
- c. voluntary trade benefits both parties.

- d. it does not happen unless the government gets involved.
- e. it requires a buyer, a seller, and an intermediary.

155. During a flu pandemic, a city mandates that only people wearing masks will be allowed to dine at restaurants. What kind of incentive does this represent?

- a. unintended
- b. indirect
- c. direct
- d. neutral
- e. marginal

156. What is the essence of economic thinking?

- a. identifying the winners and losers in any exchange of goods or services
- b. mapping the circular flow of goods and services on the one hand and money on the other
- c. assessment of social structures to determine which will be the most stable and lasting
- d. purposeful evaluation of available opportunities to make the best decision possible
- e. distinguishing cause from effect when it comes to factors that contribute to human happiness

157. Are low-skilled workers in less-developed nations generally harmed by the globalization of trade? Why or why not?

- a. Yes, because low-skilled workers are exploited as a labor force that produces goods for export.
- b. Yes, because low-skilled workers are expected to be consumers of imported goods they cannot afford.
- c. No, because trade produces employment opportunities for low-skilled workers in less-developed nations.
- d. No, because with trade come regulations that ensure the welfare of low-skilled workers.
- e. No, because trade affects only high-skilled workers. The situation of low-skilled workers remains unchanged.

158. The simple circular flow diagram leaves out some important details. For one thing,
- a. the product and resource markets interact with each other.
 - b. households and firms exchange not only goods but also money.
 - c. the government is an important player in the economy.
 - d. money is becoming less important than it used to be.
 - e. a fuller picture would include not just firms and households but labor.
159. In a 1953 speech, President Dwight Eisenhower said that “The cost of one modern heavy-duty bomber is a modern brick school in more than 30 cities.” He was making a point about
- a. innovation.
 - b. trade-offs.
 - c. positive incentives.
 - d. marginal thinking.
 - e. unintended consequences.
160. Even if you have all the money you could possibly spend, you will always face trade-offs because of the scarcity of
- a. natural resources.
 - b. happiness.
 - c. labor.
 - d. opportunities.
 - e. time.
161. Suppose an economist giving a speech gives the example of someone having a “comparative advantage” at making cars. During the question-and-answer session, someone asks, “compared to what?” How will the economist answer?
- a. compared to making something else instead, like construction equipment
 - b. compared to someone else who could make similar cars
 - c. compared to not specializing and producing a wide range of products

- d. compared to the opportunity cost involved in making cars
- e. compared to not doing anything and saving the money spent on car production

162. A microeconomist would study

- a. how economic growth depends on sound institutions.
- b. how individual workers decide which job offers to accept.
- c. how patent and copyright laws promote innovation.
- d. how crime rates and the unemployment rate are related.
- e. what causes the inflation rate to go up or down.

163. A macroeconomist would study

- a. the reasons why many small businesses fail.
- b. the reasons why a worker would take or turn down a job.
- c. the effect of higher or lower taxes on an individual consumer's spending habits.
- d. the incentives needed to get businesses to invest in distressed communities.
- e. the causes of an imbalance in a nation's trade with other nations.

164. What is the definition of an incentive?

- a. a rule or principle that guides a person's decisions
- b. a factor that motivates people to act or to exert effort
- c. a cost associated with choosing not to do something
- d. a difference in value between two alternatives
- e. a memory of the consequences of something one did

165. What activity defines a market?

- a. The government charges a tax on transactions.
- b. Funds move in a circle but do not leave.
- c. Resources are turned into products for consumption.
- d. Buyers and sellers exchange goods and services.

e. Buyers and sellers negotiate with one another.

166. What is the bottom line on how uncertainty affects people?

- a. It promotes innovation.
- b. It forces them to make choices.
- c. It makes scarcity easier to deal with.
- d. It makes people happier.
- e. It makes people less happy.

167. Why are positive incentives, by themselves, normally not enough to motivate behavior?

- a. A positive incentive is just the absence of a negative one, and so a positive incentive by itself is no incentive at all.
- b. If not doing the behavior is still associated with a pleasant outcome, a person has little reason to behave in the desired way.
- c. People do not perceive an incentive as positive unless there is a negative one to compare it with, to highlight the contrast.
- d. Negative incentives are inherently more powerful, because people remember negative consequences more vividly.
- e. A positive incentive by itself is just a version of “Good behavior is its own reward,” which is not a strong motivator.

168. If _____ is (are) about having to give something up, _____ is closely related: it quantifies “what” or “how” much is being given up.

- a. incentives; specialization
- b. trade; value from trade
- c. markets; circular flow
- d. firms; consumption
- e. trade-offs; opportunity cost

169. List and briefly explain each of the five foundations of economics.

170. Using any of the five foundations of economics, explain why farms are not

located in major metropolitan areas.

171. Health insurance companies have the goal of reducing payments to doctors and hospitals. One way they have done this is by requiring individuals to pay a deductible. For example, a \$1,000 deductible means that individuals are responsible for the first \$1,000 in health-care expenses over the course of a year. In terms of incentives, explain how the presence of a deductible reduces expenses for the health insurance company.
172. Economic growth in developed countries has been altered by the increased popularity of the internet. How has the internet, in terms of both negative and positive incentives, promoted but also discouraged economic growth?
173. Why would it be a mistake to say that economics is about money? Justify your answer.
174. A dangerous habit among those who own cell phones is driving while talking or texting. Although a great deal has been done to inform drivers of the risks of doing multiple tasks while driving, this informational campaign has been ineffective in the face of increased ownership of cell phones. If you were a policymaker, what types of negative incentives would you suggest to discourage individuals from driving and talking or texting at the same time?
175. Because firms concern themselves primarily with earning profits, a common complaint is that they often damage the environment in the process. More recently, markets have been set up so firms can actually improve their bottom line through more environment-friendly production processes, by selling their "right to pollute" to other companies. Discuss how this market serves as a positive incentive for a firm to act in an environmentally responsible manner. What would be a way to discourage firms from polluting through the use of negative incentives?

176. What are opportunity costs, and why do economists spend so much time talking about them?
177. One of the first major decisions that one faces after graduation is getting an apartment. Describe how someone might employ the concepts of trade-offs, opportunity costs, and making decisions at the margin in deciding which apartment to rent.
178. What is meant when one says that decisions are made at the margin? Provide an example of making a decision at the margin.
179. People sometimes talk about not wanting to earn more money because it would put them in a higher tax bracket. How would an economist explain what these people are thinking?
180. Explain how abundant resources such as water can be considered "scarce."
181. Economics is divided into two subfields: microeconomics and macroeconomics. Why is this separation necessary?
182. If opportunity cost is the value of the best alternative not chosen, why is a rejected option important?
183. Explain how a market might develop naturally without planning by a government.
184. Explain how households and firms interact with one another via resource markets and product markets in the circular flow diagram.

185. Many car insurance companies offer drivers a trade-off between premiums and deductibles, so that one driver might choose a high monthly payment in order to have a low deductible, while another driver might opt for a low monthly payment, knowing that in case of an accident the deductible will be hefty. Understanding opportunity cost, explain how the best plan depends on what kind of driver you are.
186. It can be said that voluntary trade will not occur unless all parties involved believe that they will be better off after trading than they were before. Considering that the supply of goods and services does not change in trade and only changes hands, how is it possible that each party improves? Shouldn't one party benefit at the expense of another?
187. How is the concept of an unintended consequence important for economists who analyze the effects of government policy? Give an example to illustrate the point.
188. Explain why every decision requires some sort of trade-off.
189. Explain the relationship between trade-offs and opportunity cost. How are they connected? How are they different?
190. A teacher asks a student to research the details of a question that the teacher couldn't answer completely. The student responds, "What will you give me if I do it?" Use economic reasoning to analyze the response.
191. If a college lecturer already teaching four courses is invited to teach an additional course next term, how will they respond to the offer?
192. Distinguish between a direct incentive and an indirect incentive.

193. Some environmentalists want to eliminate all pollution. Use economics to respond to this statement.
194. Use the concept of incentives to explain how patent and copyright laws promote innovation.
195. Explain how understanding the trade-offs that exist in life can completely change how you view the world.

Answer Key

Chapter 1

1. Answer: D
2. Answer: B
3. Answer: B
4. Answer: C
5. Answer: C
6. Answer: E
7. Answer: C
8. Answer: D
9. Answer: C
10. Answer: C
11. Answer: D
12. Answer: B
13. Answer: B
14. Answer: D
15. Answer: A
16. Answer: C
17. Answer: D
18. Answer: D
19. Answer: E
20. Answer: D

21. Answer: B

22. Answer: A

23. Answer: B

24. Answer: B

25. Answer: C

26. Answer: A

27. Answer: B

28. Answer: B

29. Answer: A

30. Answer: E

31. Answer: D

32. Answer: E

33. Answer: B

34. Answer: C

35. Answer: C

36. Answer: B

37. Answer: A

38. Answer: B

39. Answer: B

40. Answer: C

41. Answer: B

42. Answer: A

43. Answer: C

44. Answer: B

45. Answer: B

46. Answer: C

47. Answer: D

48. Answer: E

49. Answer: A

50. Answer: E

51. Answer: C

52. Answer: D

53. Answer: B

54. Answer: E

55. Answer: C

56. Answer: C

57. Answer: D

58. Answer: D

59. Answer: A

60. Answer: D

61. Answer: B

62. Answer: B

63. Answer: D

64. Answer: A

65. Answer: A

66. Answer: D

67. Answer: D

68. Answer: D

69. Answer: A

70. Answer: B

71. Answer: D

72. Answer: D

73. Answer: A

74. Answer: A

75. Answer: A

76. Answer: A

77. Answer: B

78. Answer: A

79. Answer: B

80. Answer: C

81. Answer: B

82. Answer: A

83. Answer: B

84. Answer: D

85. Answer: B

86. Answer: D

87. Answer: C

88. Answer: E

89. Answer: E

90. Answer: C

91. Answer: B

92. Answer: C

93. Answer: E

94. Answer: A

95. Answer: B

96. Answer: E

97. Answer: C

98. Answer: B

99. Answer: D

100. AD
Answer:

101. AD
Answer:

102. AD
Answer:

103. AB
Answer:

104. AD
Answer:

105. AB
Answer:

106. AB

answer:

107. AC
answer:

108. AC
answer:

109. AB
answer:

110. AE
answer:

111. AE
answer:

112. AD
answer:

113. AD
answer:

114. AC
answer:

115. AC
answer:

116. AA
answer:

117. AE
answer:

118. AA
answer:

119. AD
answer:

120. AA
answer:

121. AA

answer:

122. AC
answer:

123. AE
answer:

124. AE
answer:

125. AA
answer:

126. AE
answer:

127. AA
answer:

128. AE
answer:

129. AA
answer:

130. AE
answer:

131. AE
answer:

132. AC
answer:

133. AB
answer:

134. AB
answer:

135. AB
answer:

136. AB

answer:

137. AB
answer:

138. AC
answer:

139. AE
answer:

140. AB
answer:

141. AC
answer:

142. AE
answer:

143. AD
answer:

144. AB
answer:

145. AA
answer:

146. AE
answer:

147. AC
answer:

148. AD
answer:

149. AE
answer:

150. AC
answer:

151. AE

answer:

152. AB
answer:

153. AB
answer:

154. AC
answer:

155. AC
answer:

156. AD
answer:

157. AC
answer:

158. AC
answer:

159. AB
answer:

160. AE
answer:

161. AB
answer:

162. AB
answer:

163. AE
answer:

164. AB
answer:

165. AD
answer:

166. AE

answer:

167. AB

answer:

168. AE

answer:

169. A The five

answer: foundations of economic thought are incentives, trade-offs, opportunity cost, marginal thinking, and the idea that trade creates value. Incentives encourage or discourage individuals or firms to do or not do certain things and influence their decision-making process. Thinking about trade-offs forces us to think about the costs and benefits of each activity. Once we make a choice about an activity, we have to remember that every activity has an opportunity cost; the value we are *not* getting from whatever highest-valued activity we could have done instead. The comparison of the trade-offs between activities and the opportunity costs

associated with them is called marginal thinking. When individuals specialize in the production of goods in which they have a comparative advantage (i.e., face the lowest opportunity costs), there are gains to be had from trade.

170. Answer: In terms of incentives, major metropolitan areas often restrict the types of activities one can do, and farmers would have a negative incentive to locate in a congested area because their neighbors would heavily scrutinize the smells, runoff, and machinery. In a congested area, space is scarce and city planners would likely prefer to have retail businesses and housing rather than farming. City planners would know there is a trade-off between these activities but would realize that the opportunity cost to farming in the city is too high. Thus, for each acre of land

in the city, city planners consider the marginal benefit to having food grown closer to where it is consumed versus the marginal cost to having less housing and fewer retail establishments. In almost all cases, the marginal benefit to having farms closer to the population is less than the marginal cost of having less housing.

171. A Deductibles act as
answer: a negative and direct incentive to encourage individuals either to refrain from going to the doctor for a minor ailment or to be responsible for the choices made for the care they receive.

172. A The internet has
answer: certainly done a great deal to encourage economic growth: those who are creative and those who invent things now have a way to sell their products to a larger set of individuals and have a positive

incentive to sell their work and products over the internet. The internet has also made it more convenient to buy things and has provided a positive incentive to consumers to consume more. There has been some discouragement of economic growth through negative incentives provided by the internet. With the use of the internet, there has been more theft of digital music, movies, and ideas. These thefts provide a negative incentive for creative and innovative individuals.

173. *AEconomics as a*
answer: discipline focuses on how people allocate their scarce resources to satisfy their wants and needs. Ultimately, their decisions are based on what will make them happy, and that is not always the thing that will bring them more money. For one thing, predictability of

income matters;
some people are
happier with a
small but steady
income than with
a large but highly
uncertain one.
Other elements of
happiness are
things like where
one lives and who
one's friends are.
Instead of saying
that economics is
about money, it
would be more
accurate to say
that economics is
about happiness,
or about people's
choices.

174. A Some possible
 nswer: answers would
 include making it
 illegal to drive and
 do other things at
 the same time,
 and the negative
 incentive would be
 a traffic ticket and
 fine. Another
 negative incentive
 might be setting
 up cameras to
 take pictures of
 people driving and
 talking on the
 phone at the
 same time and
 making the
 pictures public.
 Another negative
 incentive might be
 making mandatory
 the installation in
 cars of equipment
 that interferes with
 a cell phone
 signal so using

the phone in the
car becomes
inconvenient.

175. AMarket

answer: environmentalism
is a way by which
firms can profit by
polluting less.
Because firms
create less
pollution, they can
sell their right to
pollute to others
and thereby
capture additional
revenue (and
perhaps reduce
their costs as well,
because they
employ more
efficient
technology). Firms
don't care directly
about preserving
the environment.
Rather, they are
given a positive
incentive not to
pollute by
increasing their
profit. The
alternative would
be to provide a
negative incentive
not to pollute
through the use of
fines and
government
regulations
(through an
organization like
the Environmental
Protection Agency
[EPA]).

176. AThe opportunity

answer: cost is the
highest-valued

alternative that one gives up when making a decision to do something else. Economists tend to spend so much time talking about opportunity costs because of scarcity—doing an activity or buying something always means not doing something else or not being able to buy something else.

177. A Apartments have
answer: varying sizes,
 rents, and
 amenities.
 Someone who
 wants a pet, a
 balcony,
 hardwood floors,
 and an elevator
 may have to pay
 more rent, get an
 apartment in a
 less desirable
 location, or get a
 smaller
 apartment. With
 size, price,
 location, and
 amenities
 identified as
 variables,
 apartments can
 then be compared
 to one another
 (and trade-offs
 among these
 variables
 identified); the
 opportunity cost to
 having a pet, a
 balcony,

hardwood floors,
or an elevator can
be understood;
and the marginal
benefits and
marginal costs of
these variables
can be
appreciated.

178. *A*When decisions
answer: are made at the
margin, one is
saying that he or
she compares the
benefit and the
cost of doing
something or
buying something
one more time. An
example might be
how much to
study for a course:
one has already
studied for several
hours and must
decide whether to
quit now or study
for one more hour.
Other examples:
how much sleep
to get, how much
to eat, and how
much to pay to
live in a nice area.
All of our
decisions involve
marginal analysis
in one way or
another.

179. *A*Being in a higher
answer: tax bracket means
that the additional
dollars you earn
are taxed more
heavily than the
ones you've been
earning up to now.

Therefore, the marginal benefit—the fraction you get to keep—from those additional wage dollars is smaller. For some people, the marginal benefit of the additional dollars in the new, higher bracket is lower than the marginal cost of the extra work it takes to earn those added dollars. They are following the rule of stopping when marginal benefit starts to be outweighed by marginal cost.

180. A Scarcity refers to
answer: the limited nature
 of a resource.
 Even resources
 that are plentiful,
 like water, are not
 unlimited. In
 addition, some
 areas of the world
 do not have
 access to vast
 supplies of water
 or must deal with
 temporary
 shortages due to
 drought. In all
 cases, scarcity is
 a real concern
 that must be
 answered by
 economics.

181. A In general, the
 field of economics

answer: is so broad that it requires specialization, much like any other academic discipline. Specifically, the two subfields deal with entirely different aspects of study. Microeconomics is a zoomed-in look at how individual persons and firms make decisions and the consequences of those decisions. Macroeconomics is a zoomed-out look of how entire economies operate. While the same principles govern both studies, it is impractical to analyze the movement of mass phenomena like unemployment, interest rates, or economic growth through the lens of individual decision makers.

182. A Alternatives are still valuable measuring sticks. It is impossible to determine which choice is best without knowing the value of all possible alternatives—especially the

highest valued alternative. Opportunity cost also gives a clearer picture of the total cost of a decision. Most people view cost only in explicit terms, for example, the amount of money spent to obtain an item or service. In reality, the true cost goes beyond that. With scarcity, we live in a world of trade-offs and making one decision means earning those benefits but sacrificing those of the rejected options.

183. AWhen individuals
answer: attempt to produce multiple goods or provide multiple services, they quickly develop a sense of which is the most efficient activity. This recognition gives them the intuition that they would be better off if they were to specialize in the activity for which they have a comparative advantage. For the other goods and services that the individuals desire, they

should trade with other producers who have a comparative advantage in those activities. So, markets naturally emerge out of a desire to improve individual well-being.

184. AAt the top of the
answer: diagram,
households buy
goods and
services from
firms in the
product market.
The goods and
services flow from
the firms to the
households, and
in return, funds
flow from the
households to the
firms. At the
bottom of the
diagram, the
resource market is
where households
supply firms with
labor and receive
wages in return,
so labor “flows”
from the
households to the
firms, and funds
flow from the firms
to the households.
If workers don’t
think they are paid
well enough, they
look for work
elsewhere, and if
firms don’t think
their workers are
doing a good job,
the firms let them
go and hire other

workers. In that way, the resource market works just like the product market.

185. A Poor drivers are
answer: likely to get into
 accidents from
 time to time and
 therefore will
 occasionally be
 paying
 deductibles. On
 average, they will
 probably pay less
 overall if they
 avoid high
 deductibles by
 choosing high-
 premium, low-
 deductible
 coverage. Good
 drivers, on the
 other hand, are
 unlikely to get into
 accidents very
 often. For them,
 high premiums
 represent an
 avoidable
 opportunity cost,
 because the
 money spent on
 high premiums is
 money spent to
 avoid outcomes
 (high deductible
 payments) that
 are unlikely
 anyway. A good
 driver is probably
 better off choosing
 a low-premium,
 high-deductible
 plan and using the
 money saved on
 premiums for
 another purpose.
 If nothing else,

that money can go into a bank account where it will earn interest. If the driver does get into an accident, the money can go toward the deductible. And if there are no accidents, which for a good driver is a likely outcome, then that money can eventually go toward something else.

186. A Not at all. Each
answer: party in a trade transaction values goods and services differently, partly based on the stock of goods on hand. Someone may produce beans but wants rice to go along with them. If he or she produces more beans than can be consumed personally, the marginal benefit declines sharply for each unit of beans beyond the need for consumption. Someone who produces rice but is seeking beans has the opposite problem. He or she places little value on each unit

of rice beyond the need for consumption. So, both parties have what the other wants. Not only are the demands of the two traders met but the desire for beans and rice also add value to the excess supplies.

187. AA policy will
nswer: usually be written to create positive or negative incentives that encourage people to behave one way but not another. Those are the intended consequences. But there will also be unintended consequences, which set up incentives for people to behave in ways that aren't necessarily desirable. For instance, rent control laws are meant to keep landlords from pricing apartments out of reach of the people who need a place to live. But by limiting the profit incentive, the laws discourage potential landlords from building and maintaining apartments. The

existing
apartments may
be affordable, but
there are not
enough of them to
meet the demand
for housing. That
is an unintended
consequence.

188. AIt may be easy to
nswer: think of things in
terms of money or
natural resources
because they are
tangible and we
are familiar with
their limited
nature. But even
in situations
where money or
other resources
are not a limiting
factor, time
always creates a
trade-off. The fact
that an individual
is making a
decision implies
that there are
multiple options
that cannot occur
simultaneously for
one or more
reasons.

189. ATrade-offs are a
nswer: fact of life due to
scarcity: doing
one thing means
not doing
something else.
Opportunity cost
is the quantitative
measure of a
trade-off: it
quantifies what or
how much is
being given up by

doing one thing instead of another. The opportunity cost of an action is equal to the value of the highest-valued alternative action that is not performed.

190. AThe student's
answer: economic time frame is short-term—he or she will give up the time only if some incentive by the teacher is offered in return. The student is not considering the long run—the pursuit of knowledge is almost always useful to life's application, and that pursuit justifies a higher opportunity cost than the student may realize.

191. AThis would be an
answer: occasion for marginal thinking. The lecturer must compare the marginal cost of additional prep work to the marginal benefit of additional pay. The economic calculation must compare these values and come

to a decision.

192. AA direct incentive
answer: is almost always
recognizable,
involving a
measurable trade-
off: "Lower the
price and I'll buy
more." An indirect
incentive may not
be recognizable:
"Recycle your
glass and save
the planet." Either
incentive may
create an
unintended
consequence, but
every transaction
between
economic actors
can and does
create some
unintended
consequence.

193. AEven before
answer: humanity evolved
with its industrial
processes,
pollution existed
on our planet.
Determining what
constitutes
pollution, and
what amounts are
acceptable to
society, has taken
resources that
could otherwise
have been used
for more
productive
activities, such as
medical cures or
electronics
technology
research that

might produce
less pollution.
Hence, the
opportunity cost of
trying to eliminate
all pollution would
likely mean a
lower standard of
living for our
planet's
inhabitants.

194. *A* People are more
nswer: likely to invent or
create new,
original things if
they have the
prospect of
financial reward
for it. The reward
is a positive
incentive. A lot of
innovations,
however, are
easily copied, and
then the
innovator's
financial reward is
greatly reduced by
competition.
Patent and
copyright laws
protect the
innovator from
competition for a
period of time and
thereby protect
the incentive to
innovate. Because
innovation is
socially desirable,
it is to society's
advantage to offer
innovators this
protection.

195. *A* If you had a good
nswer: time doing
something, you'll

likely think of it as time well spent. But if you think of what it costs you, not just in terms of money but in terms of things you could have been doing instead, you may realize that the activity wasn't such a good idea after all. Time spent watching cat videos, for instance, is time that could instead have been used to watch how-to videos on cooking or do-it-yourself appliance repair.