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| **Subjective Short Answer** |

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| 1. Economics is the study of \_\_\_\_\_\_ .

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| *ANSWER:* | how society manages its scarce resources. |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinkingScarcity |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 001.01 - SAE - MANK08 |

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| 2. The term \_\_\_\_\_\_ refers to the size of the economic pie, and the term \_\_\_\_\_\_ refers to how the pie is divided.

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| *ANSWER:* | efficiency; equality |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 002.01 - SAE - MANK08 |

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| 3. Explain how government policies that redistribute income from the rich to the poor might reduce efficiency.

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| *ANSWER:* | They reduce the reward for working hard. As a result, people work less and produce fewer goods and services. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinkingEquality |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 003.01 - SAE - MANK08 |

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| ***Scenario 1-1***You have the afternoon free. You have a choice between going to the movies with a friend or studying economics for three hours. If you go to the movies, you will spend $8.00 on a ticket and $4.50 on popcorn. If you choose to study economics for three hours, you will raise your exam grade by 10 points. |

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| 4. **Refer to Scenario 1-1.** What is your opportunity cost of going to the movies?

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| *ANSWER:* | $12.50 and 10 points on your exam grade |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 004.01 - SAE - MANK08 |

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| 5. **Refer to Scenario 1-1.** What is your opportunity cost of studying economics?

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| *ANSWER:* | The enjoyment you would have received from going to the movies with your friend. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 005.01 - SAE - MANK08 |

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| ***Scenario 1-2***Suppose that you have a choice between going to the movies with a friend for two hours or working at your job. If you go to the movies, you will spend $7 on a ticket and $5 on popcorn. If you choose to work, you will earn $10 an hour. |

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| 6. **Refer to Scenario 1-2.** What is your opportunity cost of going to the movies?

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| *ANSWER:* | $32 |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 006.01 - SAE - MANK08 |

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| 7. **Refer to Scenario 1-2.** What is your opportunity cost of working?

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| *ANSWER:* | The enjoyment you would have received from going to the movies with your friend. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 007.01 - SAE - MANK08 |

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| 8. Debbie quits her job, which pays $30,000 a year, to finish her college degree. Her annual college expenses are $10,000 for tuition, $2,000 for books, and $700 for food. What is her opportunity cost of attending college for the year?

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| *ANSWER:* | $42,000 |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 008.01 - SAE - MANK08 |

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| 9. Zack quits his job at a consulting firm, which pays $40,000 a year, to enroll in a two-year graduate program. His annual school expenses are $30,000 for tuition, $2,000 for books, and $600 for food. What is his opportunity cost of attending the two-year graduate program?

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| *ANSWER:* | $144,000 |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 009.01 - SAE - MANK08 |

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| 10. Give an example of a trade-off faced by society.

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| *ANSWER:* | Efficiency and equality; a clean environment and a high level of income; guns and butter (national defense and consumer goods) |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinkingTradeoffs |
| *KEYWORDS:* | BLOOM'S: Comprehension |
| *CUSTOM ID:* | 010.01 - SAE - MANK08 |

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| ***Scenario 1-3***It costs a company $35,000 to produce 700 graphing calculators. The company’s cost will be $35,070 if it produces an additional graphing calculator. The company is currently producing 700 graphing calculators. |

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| 11. **Refer to Scenario 1-3.** What is the company’s average cost?

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| *ANSWER:* | $50 |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.001 - Analyze a firm's costs of production. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 011.01 - SAE - MANK08 |

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| 12. **Refer to Scenario 1-3.** What is the company’s marginal cost?

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| *ANSWER:* | $70 |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.001 - Analyze a firm's costs of production. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 012.01 - SAE - MANK08 |

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| 13. **Refer to Scenario 1-3.** A customer is willing to pay $60 for the 701th calculator. Should the company produce and sell it? Explain.

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| *ANSWER:* | No, because the marginal cost ($70) is less than the marginal benefit ($60). |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.051 - Describe what it means to think at the margin. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 013.01 - SAE - MANK08 |

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| 14. **Refer to Scenario 1-3.** What is the minimum price the company will charge for the 701th calculator?

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| *ANSWER:* | $70 |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.051 - Describe what it means to think at the margin. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 014.01 - SAE - MANK08 |

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| ***Scenario 1-4*** You have the afternoon free. You have a choice between going to the movies with a friend or studying economics for three hours. If you go to the movies, you will spend $12.00 on a ticket and $4.75 on popcorn. If you choose to study economics for three hours, you will raise your exam grade by 15 points. |

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| 15. **Refer to Scenario 1-4.** What is your opportunity cost of going to the movies?

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| *ANSWER:* | $16.75 and 15 points on your exam grade |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 015.01 - SAE - MANK08 |

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| 16. **Refer to Scenario 1-4.** What is your opportunity cost of studying economics?

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| *ANSWER:* | The enjoyment you would have received from going to the movies with your friend. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 016.01 - SAE - MANK08 |

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| 17. What is another word for “marginal”?

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| *ANSWER:* | incremental; additional |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.051 - Describe what it means to think at the margin. |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 017.01 - SAE - MANK08 |

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| 18. The term \_\_\_\_\_\_ refers to a small incremental adjustment to an existing plan of action.

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| *ANSWER:* | Marginal change |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.051 - Describe what it means to think at the margin. |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 018.01 - SAE - MANK08 |

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| ***Scenario 1-5***Suppose that you have a choice between going to the movies with a friend for three hours or working at your job. If you go to the movies, you will spend $12 on a ticket and $6 on popcorn. If you choose to work, you will earn $10 an hour. |

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| 19. **Refer to Scenario 1-5.** What is your opportunity cost of going to the movies?

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| *ANSWER:* | $48 |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 019.01 - SAE - MANK08 |

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| 20. **Refer to Scenario 1-5.** What is your opportunity cost of working?

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| *ANSWER:* | The enjoyment you would have received from going to the movies with your friend. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 020.01 - SAE - MANK08 |

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| ***Scenario 1-6***It costs a company $30,000 to produce 600 heart rate monitors. The company’s cost will be $30,070 if it produces an additional heart rate monitor. The company is currently producing 600 heart rate monitors. |

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| 21. **Refer to Scenario 1-6.** What is the company’s average cost?

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| *ANSWER:* | $50 |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.001 - Analyze a firm's costs of production. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 021.01 - SAE - MANK08 |

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| 22. **Refer to Scenario 1-6.** What is the company’s marginal cost?

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| --- | --- |
| *ANSWER:* | $70 |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.001 - Analyze a firm's costs of production. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 022.01 - SAE - MANK08 |

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| 23. **Refer to Scenario 1-6.** A customer is willing to pay $60 for the 601st heart rate monitor. Should the company produce and sell it? Explain.

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| *ANSWER:* | No, because the marginal cost ($70) exceeds the marginal benefit ($60). |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.051 - Describe what it means to think at the margin. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 023.01 - SAE - MANK08 |

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| 24. **Refer to Scenario 1-6.** What is the minimum price that would induce this company to produce the 601st heart rate monitor?

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| *ANSWER:* | $70 |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.051 - Describe what it means to think at the margin. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 024.01 - SAE - MANK08 |

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| 25. Tracy quits her job, which pays $25,000 a year, to finish her college degree. Her annual college expenses are $12,000 for tuition and fees and $1,000 for books. What is her opportunity cost of attending college for the year?

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| *ANSWER:* | $38,000 |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 025.01 - SAE - MANK08 |

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| 26. Melinda quits her job at a bank, which pays $30,000 a year, to enroll in a two-year graduate program. Her annual school expenses are $22,000 for tuition and fees and $2,000 for books. What is her opportunity cost of attending the two-year graduate program?

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| *ANSWER:* | $108,000 |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 026.01 - SAE - MANK08 |

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| 27. What does the term “marginal change” mean?

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| *ANSWER:* | A small incremental adjustment to a plan of action |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.051 - Describe what it means to think at the margin. |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 027.01 - SAE - MANK08 |

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| 28. Rational people make decisions “at the margin” by comparing \_\_\_\_\_\_.

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| *ANSWER:* | marginal costs and marginal benefits |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.051 - Describe what it means to think at the margin. |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 028.01 - SAE - MANK08 |

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| 29. In a centrally-planned economy, economic activity is guided by \_\_\_\_\_\_.

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| *ANSWER:* | the government |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.218 - Given a scenario, identify the distribution system being used. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 029.01 - SAE - MANK08 |

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| 30. Explain how trade with other countries is beneficial.

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| *ANSWER:* | Trade allows countries to specialize in what they do best, which increases total output. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.011 - Apply basic principles about the international flow of goods and capital. |
| *TOPICS:* | International trade |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 030.01 - SAE - MANK08 |

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| 31. What are the two basic types of economies?

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| *ANSWER:* | Centrally planned economies and market economies |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 031.01 - SAE - MANK08 |

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| 32. What is the main difference between a centrally planned economy and a market economy?

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| *ANSWER:* | In a market economy, decisions are guided by prices and individual self-interest. In a centrally planned economy, economic activity is guided by the government. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 032.01 - SAE - MANK08 |

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| 33. Invisible hand is a term used by the economist \_\_\_\_\_\_ to describe how the decisions of households and firms lead to desirable market outcomes.

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| *ANSWER:* | Adam Smith |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 033.01 - SAE - MANK08 |

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| 34. Economists use the term \_\_\_\_\_\_ to refer to a situation in which the market on its own fails to produce an efficient allocation of resources.

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| *ANSWER:* | market failure |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.014 - Assess a market's efficiency. |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 034.01 - SAE - MANK08 |

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| 35. What are the two possible causes of market failure?

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| *ANSWER:* | Externality and market power |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.014 - Assess a market's efficiency. |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 035.01 - SAE - MANK08 |

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| 36. Explain the concept of externality and give an example.

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| *ANSWER:* | The impact of one person’s actions on the well-being of a bystander; pollution |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.097 - Examine the effects of an externality on a market. |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 036.01 - SAE - MANK08 |

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| 37. What are the two reasons for the government to intervene in a market?

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| *ANSWER:* | To promote efficiency and equality |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 037.01 - SAE - MANK08 |

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| 38. What does the “invisible hand” refers to?

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| *ANSWER:* | How the decisions of self-interested households and firms lead to desirable market outcomes. |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinkingInvisible hand principle |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 038.01 - SAE - MANK08 |

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| 39. Invisible hand is a term used by the economist \_\_\_\_\_\_ in his 1776 book *An Inquiry into the Nature and Causes of the Wealth of Nations*.

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| *ANSWER:* | Adam Smith |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinkingInvisible hand principle |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 039.01 - SAE - MANK08 |

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| 40. What do prices reflect in a market economy?

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| *ANSWER:* | The value of a good to society and the cost to society of making the good |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 040.01 - SAE - MANK08 |

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| 41. Explain the concept of market failure.

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| *ANSWER:* | Market failure is a situation in which the market on its own fails to produce an efficient allocation of resources. |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.014 - Assess a market's efficiency. |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 041.01 - SAE - MANK08 |

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| 42. Economists use the term \_\_\_\_\_\_ to refer to the ability of a single person (or a small group) to have a substantial influence on market prices.

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| *ANSWER:* | market power |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 042.01 - SAE - MANK08 |

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| 43. Give an example of government intervention that is intended to reduce an externality.

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| *ANSWER:* | Laws that restrict the smoking of cigarettes in public places |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.097 - Examine the effects of an externality on a market. |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 043.01 - SAE - MANK08 |

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| 44. Give an example of government intervention that is intended to improve equality.

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| *ANSWER:* | The income tax; the welfare system |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 044.01 - SAE - MANK08 |

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| 45. Economists use the term \_\_\_\_\_\_ to refer to an increase in the overall level of prices in the economy.

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| *ANSWER:* | Inflation |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.010 - Analyze the relationship between money growth and inflation. |
| *TOPICS:* | Price levelsInflation |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 045.01 - SAE - MANK08 |

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| 46. In the short run, an increase in the money supply is likely to lead to \_\_\_\_\_\_ inflation and \_\_\_\_\_\_ unemployment.

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| *ANSWER:* | higher; lower |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.010 - Analyze the relationship between money growth and inflation. |
| *TOPICS:* | Price levelsInflation |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 046.01 - SAE - MANK08 |

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| 47. Economists use the term \_\_\_\_\_\_ to refer to fluctuations in economic activity, such as employment and production.

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| *ANSWER:* | business cycle |
| *DIFFICULTY:* | Easy |
| *LEARNING OBJECTIVES:* | ECON.MANK.007 - Analyze the factors that affect a country's growth. |
| *TOPICS:* | Business cycles |
| *KEYWORDS:* | BLOOM'S: Knowledge |
| *CUSTOM ID:* | 047.01 - SAE - MANK08 |

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| 48. Consider two countries, Muria and Zenya. In Muria total annual output is worth $800 million and people work 40 million hours. In Zenya total annual output is worth $900 million and people work 50 million hours. In which country is productivity higher?

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| *ANSWER:* | In Muria |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.007 - Analyze the factors that affect a country's growth. |
| *TOPICS:* | Economic growthProductivity |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 048.01 - SAE - MANK08 |

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| 49. Suppose that in Germany total annual output is worth $600 million and people work 40 million hours. In France total annual output is worth $700 million and people work 50 million hours. In which country do people enjoy a higher standard of living?

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| *ANSWER:* | In Germany. Almost all variation in the standard of living across countries is due to differences in productivity. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.007 - Analyze the factors that affect a country's growth. |
| *TOPICS:* | Economic growthProductivity |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 049.01 - SAE - MANK08 |

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| 50. What are the two short-run effects of increasing the quantity of nation’s money?

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| *ANSWER:* | Higher inflation and lower unemployment |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.010 - Analyze the relationship between money growth and inflation. |
| *TOPICS:* | Price levelsInflation |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 050.01 - SAE - MANK08 |

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| 51. How does the study of economics depend upon the phenomenon of scarcity?

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| *ANSWER:* | Because economics is the study of how society allocates its scarce resources, if there were no scarcity, there would be no need for economics. Everyone could have all the goods and services they wanted. No one would have to make decisions based on tradeoffs, because there would be no opportunity cost associated with the decision. (It is difficult to conceive of a situation where time is not scarce, however). |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinkingScarcity |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 051.01 - SAE - MANK08 |

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| 52. One tradeoff society faces is between efficiency and equality. Define each term. If the U.S. government redistributes income from the rich to the poor, explain how this action affects equality as well as efficiency in the economy.

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| *ANSWER:* | Efficiency is the property of society getting the most it can from its scarce resources. Equality is defined as the property of distributing economic prosperity evenly among the members of society. Often, these two goals conflict. When the government redistributes income from the rich to the poor, it reduces the reward for working hard. Fewer goods and services are produced and the economic pie gets smaller. When the government tries to cut the economic pie into more equal slices, the pie gets smaller. Policies aimed at achieving a more equal distribution of economic well-being, such as the welfare system, try to help those members of society who are most in need. The individual income tax asks the financially successful to contribute more than others to support the government. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinkingEfficiency |
| *KEYWORDS:* | BLOOM'S: Comprehension |
| *CUSTOM ID:* | 052.01 - SAE - MANK08 |

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| 53. Define opportunity cost. What is the opportunity cost to you of attending college? What was your opportunity cost of coming to class today?

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| *ANSWER:* | Whatever must be given up to obtain some item it its opportunity cost. Basically, this would be a person's second choice. The opportunity cost of a person attending college is the value of the best alternative use of that person's time, as well as the additional costs the person incurs by making the choice to attend college. For most students this would be the income the student gives up by not working plus the cost of tuition and books, and any other costs they incur by attending college that they would not incur if they chose not to attend college. A student's opportunity cost of coming to class was the value of the best opportunity the student gave up. (For most students, that seems to be sleep.) |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.302 - Identify the opportunity cost of an action. |
| *TOPICS:* | Economic thinkingOpportunity cost |
| *KEYWORDS:* | BLOOM'S: Comprehension |
| *CUSTOM ID:* | 053.01 - SAE - MANK08 |

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| 54. With the understanding that people respond to incentives, outline the possible outcome for teachers if the K-12 school year is extended to 11 months per year instead of the existing 9 months per year.

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| *ANSWER:* | The concept of working longer per year would be perceived by many teachers as a definite increase in the cost of teaching. Even with additional compensation, many teachers look at summers off as a major benefit of the education profession. If this benefit were eliminated or diminished, some teachers may perceive that the marginal cost of teaching would now be greater than the marginal benefit and would choose to leave teaching. |
| *DIFFICULTY:* | Challenging |
| *LEARNING OBJECTIVES:* | ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works. |
| *TOPICS:* | Economic thinkingIncentives |
| *KEYWORDS:* | BLOOM'S: Analysis |
| *CUSTOM ID:* | 054.01 - SAE - MANK08 |

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| 55. Under what conditions might government intervention in a market economy improve the economy’s performance?

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| *ANSWER:* | If there is a market failure, such as an externality or monopoly, government regulation might improve the well-being of society by promoting efficiency. If the distribution of income or wealth is considered to be unfair by society, government intervention might achieve a more equal distribution of economic well-being. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.014 - Assess a market's efficiency. |
| *TOPICS:* | Economic thinking |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 055.01 - SAE - MANK08 |

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| 56. Explain how an attempt by the government to lower inflation could cause unemployment to increase in the short-run.

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| *ANSWER:* | To lower inflation, the government may choose to reduce the money supply in the economy. When the money supply is reduced, prices don't adjust immediately. Lower spending, combined with prices that are too high, reduces sales and causes workers to be laid off. Hence, the lower price level is associated with higher unemployment. |
| *DIFFICULTY:* | Moderate |
| *LEARNING OBJECTIVES:* | ECON.MANK.102 - Examine the trade-off between inflation and unemployment. |
| *TOPICS:* | Price levelsInflation |
| *KEYWORDS:* | BLOOM'S: Application |
| *CUSTOM ID:* | 056.01 - SAE - MANK08 |

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