

ANSWERS

MATCHING

1-c; 2-e; 3-n; 4-q; 5-o; 6-i; 7-p; 8-m; 9-h; 10-a;
11-b; 12-l; 13-d; 14-r; 15-f; 16-g; 17-j; 18-k;
19-s.

ANSWERS

MULTIPLE CHOICE

1. a As discussed on page 6, the textbook authors clearly believe that economic reasoning applies to just about everything. This eliminates c and d. They also carefully points out that it is not the only reasoning that can be used; hence b does not fit. So the correct answer must be a.
2. b On page 8 of the textbook, the author states that the problem of scarcity depends upon our wants and our means of fulfilling those wants. An implication of this is that scarcity could be reduced if individuals worked more and wanted less.
3. c On page 4 of the textbook, the authors emphasize the human action as being the reason for focusing on coordination. They explicitly point out that scarcity is important, but that the concept of coordination is broader.
4. c As discussed on page 9, the invisible hand of the market coordinates the activities and is a composite of many individuals rather than just any one individual. If you were tempted to say b, corporations, your instincts are right, but the "overall" eliminated that as a possible answer.
5. c As is discussed on page 6 of the book, in making economic decisions you consider that only costs from this point on are relevant; historical costs have no relevance. Since the prices of the stocks are currently the same, it doesn't matter which you sell.
6. b As discussed on page 6, in economic decisions, you only look at costs from this point on; sunk costs are sunk costs, so tuition can be forgotten. Economic decisions focus on forward-looking marginal costs and marginal benefits.
7. a The economic decision rule is "If benefits exceed costs, do it." As is discussed on page 6 of the text, however, the relevant benefits and relevant costs to be considered are marginal (additional) costs and marginal benefits. The answer d is definitely ruled out by the qualifying phrase referring to past benefits and costs. Thus, only a is correct.
8. c As the textbook points out on pages 6 and 7, economists use a framework of costs and benefits initially, but then later they add the social and moral implications to their conclusions. Adding these can change the estimates of costs and benefits, and in doing so can change the result of economic analysis, so there is an integration between the two. (This was a hard question which required careful reading of the text to answer correctly.)
9. b As discussed on page 7 of the text, opportunity costs include measures of nonmonetary costs. The other answers either do not include all the costs that an economist would consider, or are simply two words put together. The opportunity costs include the benefit forgone by undertaking an activity.
10. c As discussed on pages 7 and 8, the correct answer is that it has nothing to do with the price you paid since that is already paid, so a and d are wrong. The opportunity cost is not zero, however, since there are costs of reading the book. The primary opportunity cost of reading the book is the value of the time you're spending on it which is determined by what you could otherwise be doing with that time.
11. d As discussed on page 9 of the text, all of these are rationing devices. The invisible hand works through the market and thus is focused on in economics. However, the others also play a role in determining what people want, either through legal means or through social control.

7. Microeconomic theory considers economic reasoning from the viewpoint of individuals and builds up while macroeconomics considers economic reasoning from the aggregate and builds down. Microeconomics studies things like household buying decisions such as how much of one's income to save and how much to consume. Macroeconomics studies things like the unemployment rate, inflation and growth. (13-14)
8. Positive economics is the study of what is and how the economy works. Normative economics is the study of what the goals of the economy should be. The science of economics is the application of the knowledge learned in positive economics to the achievement of the goals one has determined in normative economics. (15)
2. a. The opportunity cost of purchasing the maintenance contract is the benefit I could receive by spending that \$750 on something else like new tires. (7-8)
- b. I would need to know the benefit of the maintenance contract to assess whether the cost of \$750 is worthwhile. (7-8)
- c. For me, the benefit of the maintenance contract is the expected cost of future repairs that would be covered and the peace of mind of knowing that future repairs are covered by the contract. The cost is the opportunity cost of using the \$750 in another way. If the benefit exceeds the cost, do it. If the cost exceeds the benefit, do not do it. (7-8)
3. a. Scarcity will fall because fewer peaches will rot. (8)
- b. Scarcity of single-sex dorm rooms will rise since the number of students desiring single-sex dorm rooms has risen, but the number available has not. (8)
4. a. This is an example of an economic force. (9)
- b. This is an example of legal forces. Some U.S. states have laws, called blue laws, against selling liquor on Sundays altogether or selling it before noon. (9)
- c. This is an example of a legal force. This is a federal law. (9)
- d. This is an example of a social force. (9)

ANSWERS

PROBLEMS AND APPLICATIONS

1. a. The opportunity cost of going out on a date tonight that I made last Wednesday is the benefit forgone of the best alternative. If my best alternative was to study for an economics exam, it would be the increase in my exam grade that I would have gotten had I studied. Many answers are possible. (7-8)
- b. The opportunity cost of breaking the date for tonight that I made last Wednesday is the benefit forgone of going out on that date. It would be all the fun I would have had on that date. Other answers are possible. (7-8)
- c. The opportunity cost of working through this study guide is the benefit forgone of the next-best alternative to studying. It could be the increase in the grade I would have received by studying for another exam, or the money I could have earned if I were working at the library. Many answers are possible. (7-8)
- d. The opportunity cost of buying this study guide is the benefit forgone of spending that money on the next-best alternative. Perhaps it is the enjoyment forgone of eating two pizzas. Other answers are possible. (7-8)