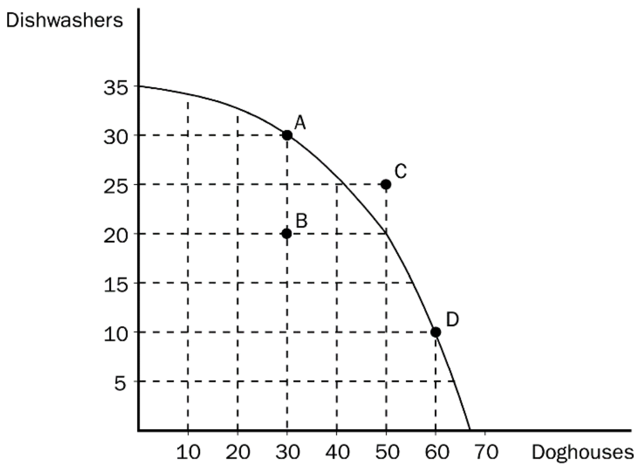
Chapter 1

True/False

1. Economics is the study of how fairly goods and services are distributed within society.
2. With careful planning, we can usually get something that we like without having to give up something else that we like.
3. The cost of an action is measured in terms of foregone opportunities.
4. A rational decision maker takes an action if and only if the marginal cost exceeds the marginal benefit.
5. A market economy cannot produce a socially desirable outcome because individuals are motivated by their own selfish interests.
6. Market failure refers to a situation in which the market does not allocate resources efficiently.
7. In a simple circular-flow diagram, firms own the factors of production and use them to produce goods and services.
8. A production possibilities frontier is a graph that shows the various combinations of outputs the economy can produce given its factors of production and its technology.
9. An economy can produce at any point on or outside the production possibilities frontier, but it cannot produce at points inside the frontier.



10. Refer to Figure. Points A, B, and D represent feasible or attainable outcomes for society.
11. Refer to Figure. The opportunity cost of more doghouses increases as more doghouses are produced.

Chapter 2
True/False

1. In a perfectly competitive market, buyers and sellers are price makers.
2. If a good or service has only one seller, it is called a monopoly.
3. The quantity demanded of a product is the amount that buyers are willing and able to purchase at a particular price.
4. The law of demand states that the quantity demanded of a product is positively related to price.
5. If the demand for a good falls when income falls, the good is called an inferior good.
6. When an increase in the price of one good lowers the demand for another good, the two goods are called complements.
7. An increase in the price of pizza will shift the demand curve for pizza to the left.
8. The market demand is the average of all of the individual demands for a particular good or service.
9. If a company making frozen orange juice expects the price of their product to be higher next month, it will supply more to the market this month.
10. If there is an improvement in the technology used to produce a good, the supply curve for that good will shift to the left.
11. Surpluses drive price up while shortages drive price down.
12. It is not possible for demand and supply to shift at the same time.

Chapter 3

True/False

1. Demand for a good is said to be inelastic if the quantity demanded increases substantially when the price falls by a small amount.
2. Necessities tend to have inelastic demands, whereas luxuries have elastic demands.
3. The demand for gasoline will respond more to a change in price over a period of five weeks than over a period of five years.
4. If the price of calculators increases by 15 percent and the quantity demanded per week falls by 45 percent as a result, then the price elasticity of demand is 3.
5. Demand is inelastic if the price elasticity of demand is greater than 1.
6. The midpoint method is used to calculate elasticity between two points because it gives the same answer regardless of the direction of the change.
7. The flatter the demand curve that passes through a given point, the more inelastic the demand.
8. A linear, downward-sloping demand curve has constant elasticity, but not constant slope.
9. Normal goods have negative income elasticities of demand, while inferior goods have positive income elasticities of demand.
10. Cross-price elasticity of demand measures how the quantity demanded of one good changes as the price of another good changes.
11. If a supply curve is horizontal then supply is said to be perfectly elastic and the price elasticity of supply approaches infinity.
12. Drug interdiction, which reduces the supply of drugs, may decrease drug-related crime because the demand for drugs is inelastic.

Chapter 4

True/False

1. The willingness to pay is the maximum amount that a buyer will pay for a good and measures how much the buyer values the good.
2. Each seller of a product is willing to sell as long as the price he or she can receive is greater than the opportunity cost of producing the product.
3. In a competitive market, sales go to those producers who are willing to supply the product at the lowest price.
4. The area below the price and above the supply curve measures the producer surplus in a market.
5. Total surplus in a market is consumer surplus minus producer surplus.
6. The equilibrium of supply and demand in a market maximizes the total benefits to buyers and sellers of participating in that market.
7. Efficiency refers to whether a market outcome is fair, while equity refers to whether the maximum amount of output was produced from a given number of inputs.
8. Free markets allocate (a) the supply of goods to the buyers who value them most highly and (b) the demand for goods to the sellers who can produce them at least cost.
9. Policymakers use taxes both to raise revenue for public purposes and to influence market outcomes.
10. If a price ceiling of $2 per gallon is imposed on gasoline, and the market equilibrium price is $1.50, the price ceiling is a binding constraint on the market.
11. Rent control may lead to lower rents for those who find housing, but the quality of the housing may also be lower.
12. Most economists are in favor of price controls as a way of allocating resources in the economy.
13. Economists use the term tax incidence to refer to who is legally responsible for paying the tax.
14. If a tax is imposed on the buyers of a product, the tax burden will fall entirely on the buyers.
15. A tax on sellers shifts the supply curve upward by exactly the amount of the tax.
16. In general, a tax burden falls more heavily on the side of the market that is more elastic.