Chapter 1 Practice Test

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. The situation in which some necessities have little value while some non-necessities have a much higher value is known as
   a. paradox of value.  
b. opportunity cost.  
c. trade-offs.  
d. economic interdependence.

2. Division of labor is a characteristic of
   a. home craft businesses.  
b. assembly line production.  
c. classroom education.  
d. entrepreneurship.

3. The study of economics is important because it enables us to
   a. describe our standard of living.  
b. increase our consumption of consumer goods.  
c. become better decision makers.  
d. determine what goods ought to be produced.

4. A popular model used to illustrate the concept of opportunity cost is
   a. the production possibilities frontier.  
b. entrepreneurship.  
c. the paradox of value.  
d. the factors of production.

5. An economy at its production possibilities frontier is operating
   a. with slow economic growth.  
b. at full potential.  
c. without division of labor.  
d. as a free enterprise economy.

6. Entrepreneurs are considered the driving force in an economy because they
   a. own a great deal of land.  
b. are the greatest number of people in an economy.  
c. start new businesses.  
d. provide most of the labor.

7. Actions in one part of the country or world that have an economic impact on what happens elsewhere are examples of
   a. opportunity costs.  
b. trade-offs.  
c. specialization.  
d. economic interdependence.

   “To take an example,... One man draws out the wire, another straightens it, a third cuts it, a fourth points it...and [the making of] a pin is, in this manner, divided into about eighteen distinct operations.”


8. In this passage, Adam Smith is describing the basic economic concept of
   a. paradox of value.  
b. utility.  
c. division of labor.  
d. opportunity cost.
Research has long demonstrated the educational value of early intervention for America’s at-risk children, but a new study also shows the federal programs are a wise public investment.  

[A] cost-benefit analysis of the federally funded Chicago Child-Parent Center program, which serves children from low-income families in Chicago’s inner city [shows that] an average annual cost of $6,730 per child...generated a total return to society at large of $47,759 per participant.


9. In the cost-benefit analysis described in the passage, who are the investors?
   a. parents  
   b. children  
   c. all of society  
   d. local businesses

   Too much marketing today focuses on awareness rather than reasons to buy. In the old days, awareness advertising was more effective. There was less competition. All you had to worry about was whether or not people remembered your product. As technology and more kinds of media have come about, it’s no longer enough to be remembered. The consumer has too many choices. Your marketing has to send the message that you are relevant. You need to be sending reasons to buy.

   Source: Business Week, June 7, 1999

10. This passage advises advertisers to focus on the economic concept of
   a. scarcity.  
   b. the paradox of value.  
   c. utility.  
   d. opportunity cost.

Chapter 1 Practice Test
Answer Section

MULTIPLE CHOICE

1. ANS: A  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 14.
2. ANS: B  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 17.
3. ANS: C  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 25.
4. ANS: A  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 21.
5. ANS: B  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 21.
6. ANS: C  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, pages 8-9.
7. ANS: D  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 17.
8. ANS: C  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 17.
9. ANS: C  PTS: 1  DIF: Easy
   REF: Learn more about this question in Economics Principles and Practices, page 24.
10. ANS: C  PTS: 1  DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 14.