

## REVIEW QUESTIONS: Episode 2 - Scarcity & Choice

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) All economics questions and problems arise because 1) \_\_\_\_\_  
A) the rich take too much and don't leave enough for the poor.  
B) political parties always disagree.  
C) we produce inefficiently.  
D) people don't work hard enough.  
E) human wants exceed resources available.
- 2) The problem of "scarcity" 2) \_\_\_\_\_  
A) applies only to the poor.  
B) can be solved if people worked longer hours.  
C) is faced by individuals but not whole societies.  
D) affects all people.  
E) is a problem mainly for poor nations and poor people.
- 3) For Bill Gates, a founder of Microsoft, scarcity is 3) \_\_\_\_\_  
A) not a concern because he has many employees working for his company.  
B) no longer a concern but was a concern when he was a college student.  
C) not a concern because he has so much money.  
D) a concern because time is a limited resource.  
E) a concern because there are a limited number of computer customers.
- 4) Economics 4) \_\_\_\_\_  
A) studies only how businesses make a profit.  
B) has no relevance to the personal lives of individuals.  
C) studies only the problems of unemployment and inflation.  
D) studies only the overall national economy and not small individual parts of the economy.  
E) studies how people make choices to cope with scarcity.
- 5) Economists assume that people are motivated by 5) \_\_\_\_\_  
A) altruism. B) rational self-interest.  
C) benevolence. D) greed.
- 6) Economists assume people behave rationally, which means that people 6) \_\_\_\_\_  
A) never make a mistake.  
B) always understand the consequences of their decisions.  
C) have the necessary information to always make correct decisions.  
D) do not intentionally make decisions that make themselves worse off.
- 7) Sara looks into her closet and discovers a pair of like-new shoes she no longer wears because they give her blisters. From the economist's perspective, was Sara behaving rationally when she bought those shoes? 7) \_\_\_\_\_  
A) Yes, as long as Sara didn't intentionally purchase blister-causing shoes.  
B) No. If any of a person's decisions have poor results, that person is irrational.  
C) It's not clear because psychology, not economics, deals with the rationality assumption.  
D) No. The rationality assumption states that rational people never make mistakes.

- 8) Self-interest 8) \_\_\_\_\_
- A) is measured entirely based on an individual's income, whether earned from labor or inherited.
  - B) relates strictly to material well-being, such as a person's stock of wealth at a point in time.
  - C) is inconsistent with economic analysis, which suggests that self-interest is irrational.
  - D) can involve any action that makes a person feel better off, such as charitable contributions.
- 9) Shelley's grandmother gave her a sweater for her birthday, but Shelley wanted a DVD. This implies that 9) \_\_\_\_\_
- A) Shelley's grandmother is not acting out of self-interest because she knows that Shelley really wanted a DVD.
  - B) it is in Shelley's self-interest to refuse to wear the sweater.
  - C) Shelley's grandmother is acting out of self-interest because she wanted to give Shelley something useful.
  - D) Shelley should exchange the sweater for a DVD.
- 10) Consider the case of a teacher who tells students that those who miss more than three classes for any reason will automatically receive a lower grade. 10) \_\_\_\_\_
- A) Students who miss more than three classes are irrational.
  - B) This is an example of a positive incentive for students to attend class.
  - C) This is an example of a negative incentive for students to attend class.
  - D) The teacher is assuming that students are irrational, and she must force them to attend class.