(Answer one question for each Chapter.)

Chapter # 1

1) Assume that a doctor can earn an additional $20,000 of revenue each year from keeping his office open for one additional hour per week. What must the additional cost of keeping the office open this additional hour per week be to make staying open for the extra hour economically rational?
Answer: The additional cost of staying open for one additional hour per week must be no more than $20,000 for the year to make staying open for the extra hour economically rational.
Diff: 2 Page Ref: 7/7
Topic: People Are Rational
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytic Skills
Special Feature: Solved Problem: A Doctor Makes a Decision at the Margin

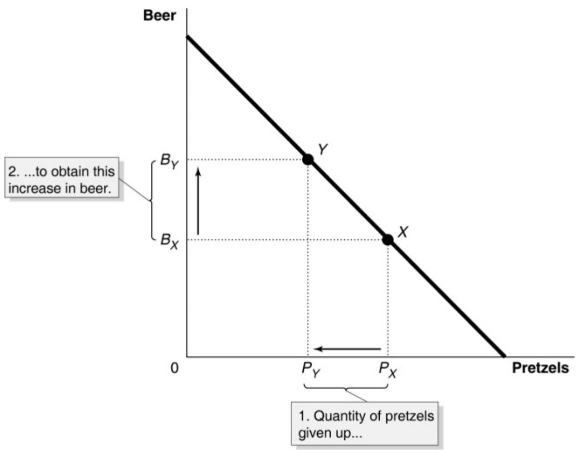
2) What is opportunity cost?
Answer: Opportunity cost refers to the highest-valued alternative that must be given up to engage in an activity. For example, the opportunity cost of taking this economics class is what you are giving up to take the class, which may be taking another class such as accounting or psychology, working extra hours at your job, or extra sleep (whichever is your highest-valued alternative).
Diff: 2 Page Ref: 9/9
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

Chapter # 2

1) What is a production possibilities frontier? What do points along the frontier represent? What do points inside and outside the frontier represent?
Answer: A production possibilities frontier is a curve showing the maximum attainable combinations of two products that may be produced with available resources and current technology. Points along a production possibilities frontier are attainable with the resources available and are efficient. Points inside the frontier are attainable but inefficient. Points outside the frontier are unattainable.
Diff: 2 Page Ref: 40-41/40-41
Topic: Production Possibilities Frontiers
*: Recurring
Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade
AACSB: Reflective Thinking

Special Feature: None

2) Draw a production possibilities frontier for a country that produces two goods, beer and pretzels. Assume that resources are equally suited to both tasks.
b. Define opportunity costs.
c. Use your production possibilities frontier graph to demonstrate the principle of opportunity costs.
Answer: a. The PPF is linear to reflect the fact that resources are equally suited to both tasks.



b. Opportunity cost is defined as the highest valued alternative that must be forgone by taking an action.
c. In the PPF graph in part (a), suppose the country is currently producing at point *X* and wishes to move to point *Y* so that it can produce more beer. The only way it can obtain more beer is to give up some amount of pretzels.
Diff: 2 Page Ref: 41/41
Topic: Production Possibilities Frontiers
*: Recurring
Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs
AACSB: Analytic Skills
Special Feature: None

Chapter # 3

1) Explain the difference between a normal good and an inferior good.
Answer: A normal good is something for which the demand increases when income rises and the demand decreases when income falls. An inferior good is something for which the demand decreases when income rises and the demand increases when income falls.
Diff: 2 Page Ref: 73/73
Topic: Income
*: Recurring
Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets
AACSB: Reflective Thinking
Special Feature: None

2) In each of the following situations, list what will happen to the equilibrium price and the equilibrium quantity for a particular product, which is a normal good.

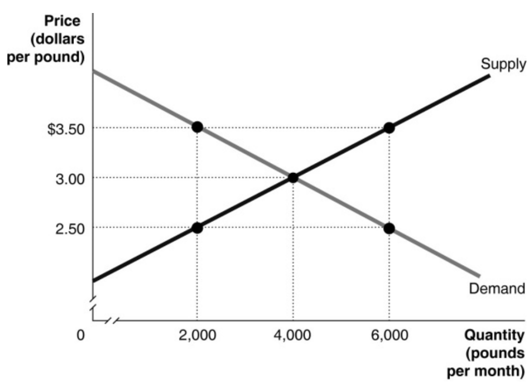
a. The population increases and the price of inputs increase
b. The price of a complement increases and technology advances
c. The number of firms in the market increases and income increases
d. Price is expected to increase in the future
e. Consumer preference increases and the price of a substitute in production decreases

Answer:
a. Price increases; Quantity may increase or decrease
b. Price decreases; Quantity may increase or decrease
c. Quantity increases; Price may increase or decrease
d. Price increases; Quantity may increase or decrease
e. Quantity increases; Price may increase or decrease

Diff: 3 Page Ref: 87/87
Topic: Shifts in Demand and Supply
*: Recurring
Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets
AACSB: Analytic Skills
Special Feature: None

Chapter # 4

1) The graph below represents the market for walnuts. Identify the values of the marginal benefit and the marginal cost at the output levels of 2,000 pounds, 4,000 pounds and 6,000 pounds. At each of these output levels, state whether output is inefficiently high, inefficiently low, or economically efficient.



Answer: Output level = 2,000 lbs:: marginal benefit = $3.50, marginal cost = $2.50, output is inefficiently low.
Output level = 4,000 lbs: marginal benefit = $3.00, marginal cost = $3.00, output is economically efficient.
Output level = 6,000 lbs: Marginal benefit = $2.50, marginal cost = $3.50, output is inefficiently high.
Diff: 1 Page Ref: 109/109

Topic: Economic Efficiency
*: Recurring
Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs
AACSB: Analytic Skills
Special Feature: None

2) What is the difference between a price ceiling and a price floor? Compared to the competitive equilibrium price, where must price ceilings and price floors be set to have an effect on the market.
Answer: A price ceiling is a legally determined maximum price that sellers may charge for a good or service. A price floor is a legally determined minimum price that sellers may receive for a product or service. To have an effect on a market, price ceilings must be set below the competitive equilibrium price, and price floors must be set above the competitive equilibrium price.
Diff: 1 Page Ref: 109/109
Topic: Price Controls
*: Recurring
Learning Outcome: Micro 5: List ways in which governments intervene in markets and explain the consequences of such intervention
AACSB: Reflective Thinking
Special Feature: None

Chapter # 5

1) Briefly explain 4 of the difficulties in making cross-country comparisons in health care outcomes.
Answer: Data problems: Countries do not always collect data on diseases and other health problems in the same way, so consistency problems can arise.
Problems with measuring health care delivery: Outcomes of many medical activities can be difficult to measure.
Problems with distinguishing health care effectiveness from lifestyle choices: Health care outcomes depend not only on the effectiveness of doctors and hospitals in delivering medical services, but also on individual's choices.
Problems with determining consumer preferences: In the market for health care, governments play a dominant role in supplying the service in most countries, so the cost of the service is not fully reflected in its price.
Diff: 2 Page Ref: 213/145
Topic: Health in the United States
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

2) Suggest three ways by which health insurance companies can reduce adverse selection?

Answer: Some ways by which insurance companies can reduce adverse selection are:
1. finding out as much information about a person applying for insurance, for example requiring a medical examination
2. refusing to insure some applicants, for example based on prior health conditions
3. by insuring only large groups of people
Diff: 2 Page Ref: 217-218/149-150
Topic: Adverse Selection
Learning Outcome: Micro 21: Describe methods for countering and avoiding risk
AACSB: Analytic Skills
Special Feature: Solved Problem: Dealing with Adverse Selection

Chapter # 6
1) Explain what potential conflict exists between shareholders in a corporation and the corporation's managers.
Answer: The "principal-agent problem" exists anytime an agent pursues his or her own interests instead of the interests of the principal who hired the agent. In the context of corporations, this can occur if hired managers might not have the same set of goals that corporate owners have.
Diff: 2 Page Ref: 241/173
Topic: Principal-Agent
*: Recurring
Learning Outcome: Micro 9: Discuss the fundamental characteristics of firms
AACSB: Reflective Thinking
Special Feature: None

2) During 2007, many "subprime" and "Alt-A" borrowers began to default on their mortgages. Describe "subprime" and "Alt-A" borrowers.
Answer: "Subprime" borrowers are borrowers whose credit histories include failures to make payments on bills. "Alt-A" borrowers are borrowers who fail to document that their incomes are high enough to afford their mortgage payments.
Diff: 2 Page Ref: 252/184
Topic: Financial Markets
*: Recurring
Learning Outcome: Micro 9: Discuss the fundamental characteristics of firms
AACSB: Reflective Thinking
Special Feature: None