1. Scarcity exists because...

   ☐ governments make bad choices

   ☐ wants are unlimited but resources are limited

   ☐ people are lazy

   ☐ money has not been invented yet

2. Every economic system must answer three questions. Which set is correct?

   ☐ How much to import, export, and save

   ☐ What, how, and for whom to produce

   ☐ Who to tax, spend, and borrow from

   ☐ When, where, and why to produce

3. A country is producing at a point **inside** its PPC. This means:

   ☐ some of its resources are idle or unemployed

   ☐ it needs more resources than exist

   ☐ it has achieved economic growth

   ☐ it is producing efficiently

4. A country has an **absolute advantage** in a good when it can:

   ☐ produce more of it with the same resources

   ☐ produce it without any resources

   ☐ produce it at a lower opportunity cost

   ☐ sell it at a higher price

5. Cost-benefit analysis says to take an action when:

   ☐ the benefit is at least as large as the cost

   ☐ other people are doing it

   ☐ you have already paid for it

   ☐ the cost is high

6. The 4th cookie has a marginal benefit of 6 dollars and a marginal cost of 2 dollars. By how much (in dollars) does making it change your net benefit?

   _____ dollars



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   ☐ True ☐ False

8. In a pure market economy, a central planner sets the prices.

   ☐ True ☐ False

9. With its current resources, an economy can produce at a point outside its PPC.

   ☐ True ☐ False

10. Country X can make 10 phones OR 20 shirts in a day. What is the opportunity cost of ONE phone, in shirts?

    _____ shirts

1. **wants are unlimited but resources are limited**

   **Scarcity** is the gap between unlimited wants and the limited resources available to satisfy them.

2. **What, how, and for whom to produce**

   Scarcity forces every economy to decide **what** goods, **how** they are made, and **for whom**.

3. **some of its resources are idle or unemployed**

   Inside the curve, resources sit idle – the economy could make more of both goods.

4. **produce more of it with the same resources**

   Absolute advantage is about raw output; comparative advantage is about opportunity cost.

5. **the benefit is at least as large as the cost**

   Act only when benefit $\geq$ cost – comparing what you gain with what you give up.

6. **4 dollars**

   Net benefit rises by $MB - MC = 6 - 2 = 4$. Since MB $>$ MC, it is worth making.

7. **False**

   Everyone faces scarcity of *some* resource – even the wealthy run short of time.

8. **False**

   No one sets them – prices emerge from buyers and sellers. That is the invisible hand.

9. **False**

   Points outside are unattainable now – reaching them needs economic growth.

10. **2 shirts**

    Giving up 20 shirts frees enough to make 10 phones, so each phone costs $20/10 = 2$ shirts.



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