

Exam

Name_____

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

- 1) The problem of scarcity is directly relevant: 1) _____
- A) only to those periods of history before mass production.
 - B) only to developing countries low in resources.
 - C) only to those on low incomes.
 - D) to all countries and all individuals.
 - E) only to those times when rationing has been enforced.

Answer: D

Explanation: A)
B)
C)
D)
E)

- 2) Assume that a firm can produce 6 units of good X or 12 units of good Y per hour with its current resources. The opportunity cost of a unit of X is: 2) _____
- A) 2 units of Y.
 - B) 72 units of Y.
 - C) 12 units of Y.
 - D) 1/2 a unit of Y.
 - E) 6 units of Y.

Answer: A

Explanation: A)
B)
C)
D)
E)

- 3) Economists define inflation as: 3) _____
- A) a decrease in the overall price level.
 - B) an increase in the overall level of economic activity.
 - C) an increase in the overall price level.
 - D) a decrease in the overall level of economic activity.

Answer: C

Explanation: A)
B)
C)
D)

4) Economic growth may occur when:

4) _____

- A) a society acquires new resources.
- B) a society learns to produce more using existing resources.
- C) the society begins to produce the combination of goods society wants most.
- D) both A and B

Answer: D

Explanation: A)
B)
C)
D)

5) Which of the following is an example of a positive statement?

5) _____

- A) Local Authorities ought to impose rent controls to allow people to afford housing.
- B) The government should impose taxes on imported goods to protect the jobs of British workers.
- C) The government should be required to have a balanced budget.
- D) Studies indicate that the current UK minimum wage has not increased unemployment.

Answer: D

Explanation: A)
B)
C)
D)

6) Normative economics is an approach to economics that:

6) _____

- A) examines the role of government in the economy.
- B) applies statistical techniques and data to economic problems.
- C) analyses outcomes of economic behaviour, evaluates them as good or bad, and may prescribe preferred courses of action.
- D) seeks to understand behaviour and the operation of systems without making judgements.

Answer: C

Explanation: A)
B)
C)
D)

7) A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of:

7) _____

- A) normative economics.
- B) descriptive economics.
- C) macroeconomics.
- D) microeconomics.

Answer: C

Explanation: A)
B)
C)
D)

8) The study of how wages are set for school teachers would be considered as:

8) _____

- A) financial economics.
- B) macroeconomics.
- C) descriptive economics.
- D) microeconomics.

Answer: D

Explanation: A)
B)
C)
D)

9) The price mechanism resolves resource allocation in the:

9) _____

- A) equilibrium economy.
- B) free-market economy.
- C) command economy.
- D) opportunity economy.

Answer: B

Explanation: A)
B)
C)
D)

10) The branch of economics that examines the functioning of individual industries and the behaviour of individual decision-making units is:

10) _____

- A) macroeconomics.
- B) positive economics.
- C) microeconomics.
- D) normative economics.

Answer: C

Explanation: A)
B)
C)
D)

11) In terms of the production possibility curve, an increase in productivity attributable to new technology would best be shown by:

11) _____

- A) a movement toward the origin.
- B) a movement from a point inside the curve to a point on it.
- C) a movement along the curve.
- D) the production possibility curve shifting up and to the right.

Answer: D

Explanation: A)
B)
C)
D)

12) Macroeconomics is the branch of economics that examines:

12) _____

- A) outcomes of economic behaviour, evaluates them as good or bad, and prescribes preferred courses of action.
- B) the economic behaviour of aggregates—income, employment, and output—on a national scale.
- C) ways to understand behaviour and the operation of systems without making judgements.
- D) the functioning of individual industries and the behaviour of individual decision-making units, that is, business firms and households.

Answer: B

Explanation: A)
B)
C)
D)

13) Inflation and unemployment:

13) _____

- A) is the focus of economic history.
- B) is the focus of positive economics.
- C) is the focus of macroeconomics.
- D) is the focus of microeconomics.

Answer: C

Explanation: A)
B)
C)
D)

14) Economists say that there is unemployment when:

14) _____

- A) at the going wage rate there are people who want to work but cannot find work.
- B) there is excess demand in the labour market.
- C) there are people who are not willing to work at the going wage rate.
- D) there are less unfilled vacancies than there are people seeking work.

Answer: A

Explanation: A)
B)
C)
D)

15) Opportunity cost is:

15) _____

- A) the additional cost of producing an additional unit of output.
- B) that which we forgo, or give up, when we make a choice or a decision.
- C) the additional cost of buying an additional unit of a product.
- D) a cost that cannot be avoided, regardless of what is done in the future.

Answer: B

Explanation: A)
B)
C)
D)

16) Which of the following is a normative statement?

16) _____

- A) The government should reduce interest rates in order to encourage private investment.
- B) When the price of a good falls, suppliers will reduce the amount that they produce.
- C) When the price of a good rises, people demand less of it.
- D) All of the above
- E) None of the above

Answer: A

Explanation: A)
B)
C)
D)
E)

17) Consider two countries, Germany and Sweden. Germany devotes a larger portion of its production to investment. Which of the following statements is most likely true?

17) _____

- A) Sweden is producing inside its production possibility curve, while Germany is producing at a point on its production possibility curve.
- B) Germany will move up its production possibility curve faster than Sweden.
- C) Germany's production possibility curve will shift up and out farther and faster than Sweden's.
- D) Germany is a poorer country than Sweden.

Answer: C

Explanation: A)
B)
C)
D)

18) The circular flow of income diagram shows:

18) _____

- A) how firms sell goods to households.
- B) how households sell productive services to firms.
- C) how households produce services for their own use.
- D) A and B
- E) A, B and C

Answer: D

Explanation: A)
B)
C)
D)
E)

19) For an economy to produce at a point beyond its current production possibility curve, the economy must:

19) _____

- A) reduce inputs.
- B) waste less.
- C) be more efficient.
- D) increase inputs.

Answer: D

Explanation: A)
B)
C)
D)

20) The equilibrium price represents the:

20) _____

- A) maximum price.
- B) price at which there is no shortage or surplus.
- C) best price.
- D) minimum price.

Answer: B

Explanation: A)
B)
C)
D)

21) When the price of a good rises there is an incentive for:

21) _____

- A) revision of the five-year plan.
- B) firms to produce more.
- C) consumers to buy more.
- D) firms to produce less.

Answer: B

Explanation: A)
B)
C)
D)

22) You own a videotape of *Lord of the Rings*. The opportunity cost of watching *Lord of the Rings*:

22) _____

- A) is the value of the alternative use of the time you spend watching the videotape.
- B) cannot be calculated.
- C) is zero.
- D) is one-half the cost of the videotape, since this is the second time you have watched it.

Answer: A

Explanation: A)
B)
C)
D)

23) Which of the following is an example of a normative statement?

23) _____

- A) Equilibrium price implies that quantity demanded equals quantity supplied.
- B) People under six feet tall are the best stockbrokers.
- C) Higher prices cause consumers to buy less.
- D) There should be no unemployment in an advanced industrial society.

Answer: D

Explanation: A)
B)
C)
D)

24) Which of the following is an element of a centrally planned economy?

24) _____

- A) The market decides distribution.
- B) Production decisions are centralised.
- C) The means of production are privately owned.
- D) The market decides what will be produced.

Answer: B

Explanation: A)
B)
C)
D)

25) A rise in demand will most likely:

25) _____

- A) lengthen queues.
- B) reduce price.
- C) increase price.
- D) reduce supply.

Answer: C

Explanation: A)
B)
C)
D)

26) Which of the following is NOT a potential advantage of a command economy?

26) _____

- A) It ensures that producers respond automatically to consumer wishes.
- B) The planning authority can obtain an overall view of the whole economy and ensure a balanced expansion of its various parts.
- C) Unemployment can be avoided.
- D) Resources can be distributed according to need.
- E) Resources can be diverted from consumption to investment if it is desired to increase the rate of economic growth.

Answer: A

Explanation: A)
B)
C)
D)
E)

27) The reason that opportunity costs arise is that:

27) _____

- A) there are no alternative decisions that could be made.
- B) resources are scarce.
- C) an economy relies on money to facilitate exchange of goods and services.
- D) people have unlimited wants.

Answer: B

Explanation: A)
B)
C)
D)

28) An improvement in technology will cause:

28) _____

- A) the production possibility curve to shift back and to the left.
- B) the economy to move closer to its production possibility curve.
- C) the economy to move down the production possibility curve.
- D) the production possibility curve to shift up and to the right.

Answer: D

Explanation: A)
B)
C)
D)

29) Which of the following is a reason to study economics?

29) _____

- A) To understand global affairs
- B) To understand society
- C) To be an informed voter
- D) All of the above

Answer: D

Explanation: A)
B)
C)
D)

30) A society can produce two goods: bread and biscuits. The society's production possibility curve is negatively sloped and 'bowed outward' from the origin. As this society moves down its production possibility frontier producing more and more units of biscuits, the opportunity cost of producing biscuits:

30) _____

- A) decreases.
- B) could decrease or increase depending on the technology.
- C) remains constant.
- D) increases.

Answer: D

Explanation: A)
B)
C)
D)

31) Capital, as economists use the term:

31) _____

- A) refers to things that have been produced and are used to produce other things.
- B) refers to the process by which inputs are transformed in to outputs.
- C) is the value of a firm to its shareholders.
- D) is the current value of the firm's shares on the stock exchange.

Answer: A

Explanation: A)
B)
C)
D)

32) Which of the following statements is NOT true for a centrally planned economy?

32) _____

- A) The amount of a good supplied always equals the amount of the good demanded.
- B) The state decides how to distribute what is produced.
- C) The government decides what is produced.
- D) Consumers have some choices concerning what they buy.

Answer: A

Explanation: A)
B)
C)
D)

33) As more of a good, such as television sets, is produced the opportunity cost of producing it increases. This most likely occurs because:

33) _____

- A) consumers would be willing to pay higher prices for the good as more of the good is produced.
- B) as more of a good is produced the quality of the technology available to produce additional units of the good declines and therefore the costs of production increase.
- C) resources are not equally well suited to producing all goods and as more of a good is produced it is necessary to use resources less well suited to the production of the good.
- D) as more of a good is produced the inputs used to produce that good will increase in price.

Answer: C

Explanation: A)
B)
C)
D)

34) Costs that cannot be avoided, regardless of what is done in the future, because they have already been incurred are:

34) _____

- A) marginal costs.
- B) implicit costs.
- C) sunk costs.
- D) total costs.

Answer: C

Explanation: A)
B)
C)
D)

35) In a free-market economy _____ what gets produced, how it is produced, and who gets it.

35) _____

- A) the central government authority determines
- B) the behaviour of buyers and sellers determines
- C) firms but not consumers determine
- D) consumers but not firms determine

Answer: B

Explanation: A)
B)
C)
D)

- 36) The study of why a person may decide to go to university instead of accepting a £10,000 a year job would be considered: 36) _____
 A) macroeconomics. B) microeconomics.
 C) public finance. D) industrial relations.
 Answer: B
 Explanation: A)
 B)
 C)
 D)
- 37) A cut in the income tax rate, which was meant to encourage people to work more would be called: 37) _____
 A) a supply-side policy. B) an incomes policy.
 C) a demand-side policy. D) a microeconomic policy.
 Answer: A
 Explanation: A)
 B)
 C)
 D)
- 38) If the opportunity costs of producing a good increase as more of that good is produced, the economy's production possibility curve will be: 38) _____
 A) negatively sloped and 'bowed outward' from the origin.
 B) negatively sloped and 'bowed upward' toward the origin.
 C) a negatively sloped straight line.
 D) a positively sloped straight line.
 Answer: A
 Explanation: A)
 B)
 C)
 D)
- 39) An institution through which buyers and sellers interact and engage in exchange is a: 39) _____
 A) laissez-faire. B) central authority.
 C) market. D) production curve.
 Answer: C
 Explanation: A)
 B)
 C)
 D)
- 40) That which we forgo, or give up, when we make a choice or decision is called the _____ cost of that decision. 40) _____
 A) marginal B) monetary C) real D) opportunity
 Answer: D
 Explanation: A)
 B)
 C)
 D)

- 41) Positive economics is an approach to economics that: 41) _____
- A) examines the role of government in the economy.
 - B) seeks to understand behaviour and the operation of systems without making judgements.
 - C) analyses outcomes of economic behaviour, evaluates them as good or bad, and may prescribe preferred courses of action.
 - D) applies statistical techniques and data to economic problems.
- Answer: B
- Explanation: A)
B)
C)
D)
- 42) A planned motorway connecting two cities was originally thought to cost £200 million. After building part of the system at a cost of £150 million, the government realised that the total cost of the system would be £260 million, not £200 million. At this point, the MARGINAL cost of completing the motorway is best estimated as: 42) _____
- A) £60 million. B) £110 million. C) £260 million. D) £50 million.
- Answer: B
- Explanation: A)
B)
C)
D)
- 43) Which of the following is the best definition of economics? 43) _____
- A) The study of how the government allocates tax revenue
 - B) The study of how individuals and societies choose to use the scarce resources that nature and previous generations have provided
 - C) The study of how firms decide what inputs to hire and what outputs to produce
 - D) The study of how consumers spend their income
- Answer: B
- Explanation: A)
B)
C)
D)
- 44) Which of the following is NOT true of a market economy? 44) _____
- A) Decisions are regulated by a central agency.
 - B) It relies upon millions of individual economic decisions to determine economic outcomes.
 - C) In its pure form, it is also known as a laissez-faire economy.
 - D) The interaction between buyers and sellers answers the basic economic questions of what gets produced, how it gets produced, and who gets it.
- Answer: A
- Explanation: A)
B)
C)
D)

- 45) Which of the following statements is incorrect? 45) _____
- A) If poverty were eliminated there would be no reason to study economics.
 - B) Economics is a behavioural science.
 - C) In large measure, economics is the study of how people make choices.
 - D) Economic analysis can be used to explain how both individuals and societies make decisions.
- Answer: A
- Explanation: A)
B)
C)
D)
- 46) Studying how the management of Corus decides how many tons of steel to produce and the price to charge for its steel would be considered: 46) _____
- A) descriptive economics.
 - B) empirical economics.
 - C) macroeconomics.
 - D) microeconomics.
- Answer: D
- Explanation: A)
B)
C)
D)
- 47) A rise in supply will most likely: 47) _____
- A) reduce demand.
 - B) reduce price.
 - C) reduce warehouse space.
 - D) increase price.
- Answer: B
- Explanation: A)
B)
C)
D)
- 48) A study of whether or not employers discriminate against women by paying them lower wages and assigning them to lower-level positions than men would be in the area of: 48) _____
- A) microeconomics.
 - B) macroeconomics.
 - C) industrial relations.
 - D) law and economics.
- Answer: A
- Explanation: A)
B)
C)
D)
- 49) If you own a building and you decide to use that building to open a restaurant: 49) _____
- A) there is an opportunity cost of using this building for a restaurant because it could have been used in other ways.
 - B) there is no opportunity cost of using this building for a restaurant because you own it.
 - C) the only cost relevant to this decision is the price you paid for the building.
 - D) there are no irretrievable costs involved in this decision.
- Answer: A
- Explanation: A)
B)
C)
D)

50) Given the current state of technology it is possible to produce one more lorry if two fewer cars are produced. However in Microland, to produce one more lorry the production of cars must be reduced by three. This situation would be illustrated by Microland _____ its production possibility curve for cars and lorries. 50) _____

- A) being on
- C) being outside

- B) being at the origin of
- D) being inside

Answer: D

Explanation: A)
B)
C)
D)

51) Macroeconomics is the branch of economics that examines: 51) _____

- A) the economic behaviour of aggregates—income, employment, and output—on a national scale.
- B) ways to understand behaviour and the operation of systems without making judgements.
- C) outcomes of economic behaviour, evaluates them as good or bad, and prescribes preferred courses of action.
- D) the functioning of individual industries and the behaviour of individual decision-making units, that is, business firms and households.

Answer: A

Explanation: A)
B)
C)
D)

52) A recession is a period of six months or more when: 52) _____

- A) output is falling.
- C) prices are falling rapidly.

- B) prices are falling.
- D) unemployment is rising.

Answer: A

Explanation: A)
B)
C)
D)

53) Studying how Mary allocates her time between work and leisure is an example of: 53) _____

- A) macroeconomics.
- C) microeconomics.

- B) descriptive economics.
- D) industrial relations.

Answer: C

Explanation: A)
B)
C)
D)

- 54) A retired individual decides to spend the day golfing. The opportunity cost of this decision: 54) _____
- A) is best measured by using the wage rate this individual earned prior to retirement.
 - B) equals the cost of the golf outing plus the value of the individual's alternative use of time.
 - C) is equal to the cost of the golf outing.
 - D) is zero, since the individual is retired and is not foregoing any income to spend the day golfing.

Answer: B

Explanation: A)
B)
C)
D)

- 55) Which of the following is NOT an opportunity cost of attending college? 55) _____
- A) The alternative uses of the time you spend studying
 - B) The cost of the food that you consume while you are attending college
 - C) The tuition fees that you or your Local Authority pays
 - D) The income that you could have earned if you did not attend college

Answer: B

Explanation: A)
B)
C)
D)

- 56) The branch of economics that examines the economic behaviour of aggregates such as income and employment is: 56) _____
- A) positive economics.
 - B) macroeconomics.
 - C) microeconomics.
 - D) normative economics.

Answer: B

Explanation: A)
B)
C)
D)

- 57) During the Persian Gulf War many of Kuwait's oil refineries were destroyed. This would best be represented by: 57) _____
- A) a movement off Kuwait's production possibility curve to some point inside the curve.
 - B) a movement up Kuwait's production possibility curve.
 - C) a movement down Kuwait's production possibility curve.
 - D) a shift of Kuwait's production possibility curve back and to the left.

Answer: D

Explanation: A)
B)
C)
D)

58) The study of economics:

58) _____

- A) is concerned with proving that capitalism is better than socialism.
- B) focuses on how a business should function.
- C) is a way of analysing decision-making processes caused by scarcity.
- D) is a very narrow endeavour.

Answer: C

Explanation: A)
B)
C)
D)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

59) What do economists mean by a mixed economy?

59) _____

Answer: Economists refer to free-market economies, and command economies.

In the first, the government takes no economic decisions and in the second, it takes all economic decisions. A mixed economy would be somewhere in the middle, with an important, but not dominant, role for the government.

The term is not very precise, and is used differently by economists from different countries and with different political opinions.

Explanation:

60) What does 'ceteris paribus' mean?

60) _____

Answer: It is Latin for 'other things being equal'.

If we say that price goes up when demand goes up, we should also say, 'all other things being equal'. We mean that if only demand changes, and nothing else, then price will change in the same direction. Obviously if other things are changing, at the same time as demand changes, price might also be affected by them.

So, the phrase is a way of saying that we are trying to isolate the particular cause and effect relationship that we are discussing. In physics we could do a controlled experiment, but in the social sciences we can only isolate particular causes and effects statistically.

Explanation:

61) Explain the purpose of a production possibility curve. Why might it be concave to the origin?

61) _____

Answer: A production possibility curve shows all the possible combinations of two goods that a country can produce within a specified time period with all its resources fully and efficiently employed. It can be used to illustrate the concept of opportunity cost. If more of one good is to be produced, less of the other can be produced. There is a trade-off. If a production possibility curve is drawn concave to the origin, it is demonstrating increasing opportunity cost. As more of one good is produced, ever-increasing amounts of the other have to be sacrificed. It is because, as more of one good is produced, resources that are less and less suitable for its production have to be used. Increasing opportunity costs will lead to a production possibility curve that is bowed out from the origin - this is known as a concave curve.

Explanation:

62) What is the price mechanism?

62) _____

Answer: In a free market economy people make consumption and production decisions guided by prices that are determined by the interaction of demand and supply. Prices represent signals of relative scarcity which ration availability to consumers and encourage producers seeking profitable trading opportunities.

Explanation:

63) Discuss the advantages and disadvantages of the free-market and command economy.

63) _____

Answer: With a command economy, the government can take an overall view of the economy. It can devote resources to specific sectors and hence achieve high levels of investment and growth and this can help the government to avoid high levels of unemployment. The government can also ensure that public and merit goods are produced and it can also regulate the production (and consumption) of negative externalities. It could also redistribute income more equally. However, consumers and producers will not respond automatically and hence a big disadvantage is that there may be shortages and surpluses in a command economy and often there will be few incentives for people. The administrative costs are also relatively high and there can be significant amounts of bureaucracy, as well as a loss of consumer sovereignty and hence individual liberty.

The opposite is largely true of a free market economy. Whilst consumers and producers will respond to each other, meaning shortages and surpluses will be eliminated via the price mechanism a number of problems do arise. Some goods/services may not be produced in a free market economy, such as healthcare and lighthouses and also there will be no regulation of negative externalities. Unemployment may appear and the distribution of income is likely to be unequal. Monopoly power may arise and there would be no intervention to regulate it and hence firms may lose the incentive to be efficient.

In practice, all economies are mixed economies to a greater or lesser degree with some intervention to correct the failings of the free market.

Explanation:

64) What is the difference between positive and normative economics?

64) _____

Answer: The distinction between positive and normative statements is vital in helping governments design and implement government policy. A positive statement is a statement of fact. Even if a statement is incorrect, it is still a positive statement, as its accuracy can be tested. 'Inflation is currently 20%' may obviously be wrong, but because we can test whether or not it is correct by appealing to the facts, it is a positive statement. Economists will use positive economics to analyse economic policy. On the other hand, normative economics is concerned with value judgements—it is based on opinions about what is good, bad, desirable and undesirable. We cannot appeal to the facts to determine the accuracy of the statements. Normative economics can not be used to influence economic policy.

Explanation:

65) The market process is mankind's most valuable tool for meeting the needs of the people. 65) _____

Do you agree with this statement? Please explain your argument in detail.

Answer: This essay should first establish a definition of 'needs', and demonstrate that not all needs may be economic needs (e.g. affection, love, friendship).

It should then explore the 'pros' and 'cons' of the market system.

The benefits of the system must include the idea of freedom of choice for the consumers (where to work/live, what to eat, etc.), and the idea that the market system helps preserve natural resources by attaching a higher price tag to the most scarce goods.

Disadvantages should include the notion that the system will never satisfy everyone at the same time, and a comment on the unfairness of the market system and the idea that inequality (of income) may well be an essential component of this system (e.g. incentives to be more productive).

Explanation:

66) How do economists define unemployment? 66) _____

Answer: Economists try to use definitions which can be measured, so that we can say what is happening, in this case, to unemployment over time and in different countries.

There is general agreement that the unemployed must be ready, willing and able to work at present wage rates, but there is some disagreement over which statistics show this most clearly.

Later chapters in the book look at the debate over defining unemployment.

Explanation:

67) 'Economics can never be a science, as individuals always behave randomly'. Discuss. 67) _____

Answer: Economics attempts to be scientific, building models of how consumers, firms and the economy as a whole work. These models are then tested statistically.

Individuals appear to behave 'rationally' when studied as a whole, and not randomly. By this we mean that they appear to collect data and then make decisions which increase their own, or their family's, or their firm's, welfare.

Explanation:

68) 'Economics is a science, not an art'. Discuss. 68) _____

Answer: Economics attempts to be scientific, building models of how consumers, firms and the economy as a whole work. These models are then tested statistically.

This is an approach which all the social sciences use, and it replaces the controlled experiments that are used in the natural sciences, such as physics and chemistry.

Explanation:

69) What is induction? 69) _____

Answer: Construction of a general theory [or model] from our observations of reality.

Reasoning from specific observations to a generalisation.

Explanation:

70) Given that models are abstractions from reality and economists seek to explain reality, why then do economists use models? 70) _____

Answer: Economists use models because reality has to be simplified before it can be studied. The natural sciences, such as biology also use models. A model is generally used for three purposes,

- to understand reality [make clear what is happening],
- to explain reality [without going into a complete description of everything that is happening],
- and to predict what will happen [the simplicity of the model makes cause and effect clearer].

Explanation:

71) What is deduction? 71) _____

Answer: Using a theory or model to make predictions about specific circumstances. Our theory might suggest that rising incomes and stable prices made people buy more goods. If we observed that prices were stable and incomes rising this year we might deduce that demand for goods would increase. Very often the model that we have formulated can be manipulated mathematically to suggest other conclusions that were not originally obvious. This is where deduction is particularly valuable.

Explanation:

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

72) Inputs are often called factors of production. 72) _____

Answer: ☒ True ☐ False

Explanation:

73) The total of consumer spending in the economy is called aggregate demand. 73) _____

Answer: ☐ True ☒ False

Explanation:

74) Purchasing goods and services is termed consumption by economists. 74) _____

Answer: ☐ True ☒ False

Explanation:

75) The branch of economics that sets up experiments and simulations to see how people respond to different sets of circumstances is called social economics. 75) _____

Answer: ☐ True ☒ False

Explanation:

76) A normative statement is a value judgement. 76) _____

Answer: ☒ True ☐ False

Explanation:

77) The total amount of output in the economy is called aggregate supply. 77) _____

Answer: ☒ True ☐ False

Explanation:

- 78) A reduction in demand will normally increase price. 78) _____
Answer: True ☒ False
Explanation:
- 79) The equilibrium price will not change unless demand or supply changes. 79) _____
Answer: ☒ True False
Explanation:
- 80) Even if a model has poor predictive powers, it may be retained. 80) _____
Answer: ☒ True False
Explanation:
- 81) When the price of a good falls the quantity demanded will usually increase. 81) _____
Answer: ☒ True False
Explanation:
- 82) A reduction in supply will normally reduce price. 82) _____
Answer: True ☒ False
Explanation:
- 83) The price mechanism is used in a pure command economy. 83) _____
Answer: True ☒ False
Explanation:
- 84) Scarcity occurs because incomes are not allocated fairly. 84) _____
Answer: True ☒ False
Explanation:
- 85) The rate of inflation is the percentage increase in the level of prices over a twelve month period. 85) _____
Answer: ☒ True False
Explanation:
- 86) The process by which resources are transformed into goods and services is called production. 86) _____
Answer: ☒ True False
Explanation:
- 87) Land is the term used for inputs that are not owned by businesses and households. 87) _____
Answer: True ☒ False
Explanation:
- 88) Capital goods are products which are owned by businesses rather than households. 88) _____
Answer: True ☒ False
Explanation:

Answer Key
Testname: C1

- 1) D
- 2) A
- 3) C
- 4) D
- 5) D
- 6) C
- 7) C
- 8) D
- 9) B
- 10) C
- 11) D
- 12) B
- 13) C
- 14) A
- 15) B
- 16) A
- 17) C
- 18) D
- 19) D
- 20) B
- 21) B
- 22) A
- 23) D
- 24) B
- 25) C
- 26) A
- 27) B
- 28) D
- 29) D
- 30) D
- 31) A
- 32) A
- 33) C
- 34) C
- 35) B
- 36) B
- 37) A
- 38) A
- 39) C
- 40) D
- 41) B
- 42) B
- 43) B
- 44) A
- 45) A
- 46) D
- 47) B
- 48) A
- 49) A
- 50) D

Answer Key

Testname: C1

51) A

52) A

53) C

54) B

55) B

56) B

57) D

58) C

59) Economists refer to free-market economies, and command economies.

In the first, the government takes no economic decisions and in the second, it takes all economic decisions. A mixed economy would be somewhere in the middle, with an important, but not dominant, role for the government.

The term is not very precise, and is used differently by economists from different countries and with different political opinions.

60) It is Latin for 'other things being equal'.

If we say that price goes up when demand goes up, we should also say, 'all other things being equal'. We mean that if only demand changes, and nothing else, then price will change in the same direction. Obviously if other things are changing, at the same time as demand changes, price might also be affected by them.

So, the phrase is a way of saying that we are trying to isolate the particular cause and effect relationship that we are discussing. In physics we could do a controlled experiment, but in the social sciences we can only isolate particular causes and effects statistically.

61) A production possibility curve shows all the possible combinations of two goods that a country can produce within a specified time period with all its resources fully and efficiently employed. It can be used to illustrate the concept of opportunity cost. If more of one good is to be produced, less of the other can be produced. There is a trade-off. If a production possibility curve is drawn concave to the origin, it is demonstrating increasing opportunity cost. As more of one good is produced, ever-increasing amounts of the other have to be sacrificed. It is because, as more of one good is produced, resources that are less and less suitable for its production have to be used. Increasing opportunity costs will lead to a production possibility curve that is bowed out from the origin - this is known as a concave curve.

62) In a free market economy people make consumption and production decisions guided by prices that are determined by the interaction of demand and supply. Prices represent signals of relative scarcity which ration availability to consumers and encourage producers seeking profitable trading opportunities.

63) With a command economy, the government can take an overall view of the economy. It can devote resources to specific sectors and hence achieve high levels of investment and growth and this can help the government to avoid high levels of unemployment. The government can also ensure that public and merit goods are produced and it can also regulate the production (and consumption) of negative externalities. It could also redistribute income more equally. However, consumers and producers will not respond automatically and hence a big disadvantage is that there may be shortages and surpluses in a command economy and often there will be few incentives for people. The administrative costs are also relatively high and there can be significant amounts of bureaucracy, as well as a loss of consumer sovereignty and hence individual liberty.

The opposite is largely true of a free market economy. Whilst consumers and producers will respond to each other, meaning shortages and surpluses will be eliminated via the price mechanism a number of problems do arise. Some goods/services may not be produced in a free market economy, such as healthcare and lighthouses and also there will be no regulation of negative externalities. Unemployment may appear and the distribution of income is likely to be unequal. Monopoly power may arise and there would be no intervention to regulate it and hence firms may lose the incentive to be efficient.

In practice, all economies are mixed economies to a greater or lesser degree with some intervention to correct the failings of the free market.

- 64) The distinction between positive and normative statements is vital in helping governments design and implement government policy. A positive statement is a statement of fact. Even if a statement is incorrect, it is still a positive statement, as its accuracy can be tested. 'Inflation is currently 20%' may obviously be wrong, but because we can test whether or not it is correct by appealing to the facts, it is a positive statement. Economists will use positive economics to analyse economic policy. On the other hand, normative economics is concerned with value judgements—its is based on opinions about what is good, bad, desirable and undesirable. We cannot appeal to the facts to determine the accuracy of the statements. Normative economics can not be used to influence economic policy.
- 65) This essay should first establish a definition of 'needs', and demonstrate that not all needs may be economic needs (e.g. affection, love, friendship).
It should then explore the 'pros' and 'cons' of the market system.
The benefits of the system must include the idea of freedom of choice for the consumers (where to work/live, what to eat, etc.), and the idea that the market system helps preserve natural resources by attaching a higher price tag to the most scarce goods.
Disadvantages should include the notion that the system will never satisfy everyone at the same time, and a comment on the unfairness of the market system and the idea that inequality (of income) may well be an essential component of this system (e.g. incentives to be more productive).
- 66) Economists try to use definitions which can be measured, so that we can say what is happening, in this case, to unemployment over time and in different countries.
There is general agreement that the unemployed must be ready, willing and able to work at present wage rates, but there is some disagreement over which statistics show this most clearly.
Later chapters in the book look at the debate over defining unemployment.
- 67) Economics attempts to be scientific, building models of how consumers, firms and the economy as a whole work. These models are then tested statistically.
Individuals appear to behave 'rationally' when studied as a whole, and not randomly. By this we mean that they appear to collect data and then make decisions which increase their own, or their family's, or their firm's, welfare.
- 68) Economics attempts to be scientific, building models of how consumers, firms and the economy as a whole work. These models are then tested statistically.
This is an approach which all the social sciences use, and it replaces the controlled experiments that are used in the natural sciences, such as physics and chemistry.
- 69) Construction of a general theory [or model] from our observations of reality.
Reasoning from specific observations to a generalisation.
- 70) Economists use models because reality has to be simplified before it can be studied. The natural sciences, such as biology also use models. A model is generally used for three purposes,
· to understand reality [make clear what is happening],
· to explain reality [without going into a complete description of everything that is happening],
· and to predict what will happen [the simplicity of the model makes cause and effect clearer].
- 71) Using a theory or model to make predictions about specific circumstances.
Our theory might suggest that rising incomes and stable prices made people buy more goods. If we observed that prices were stable and incomes rising this year we might deduce that demand for goods would increase.
Very often the model that we have formulated can be manipulated mathematically to suggest other conclusions that were not originally obvious. This is where deduction is particularly valuable.
- 72) TRUE
73) FALSE
74) FALSE
75) FALSE
76) TRUE
77) TRUE
78) FALSE
79) TRUE
80) TRUE

Answer Key

Testname: C1

- 81) TRUE
- 82) FALSE
- 83) FALSE
- 84) FALSE
- 85) TRUE
- 86) TRUE
- 87) FALSE
- 88) FALSE