

Chapter 1—Introducing the Economic Way of Thinking

MULTIPLE CHOICE

1. Which of the following illustrates the concept of scarcity?
 - a. There is usually more than one use of your "free" time in the evening.
 - b. More clean air is wanted than is available in large polluted metropolitan areas such as Los Angeles.
 - c. There are many competing uses for the annual budget of your city, county, or state.
 - d. All of the answers are correct.

ANS: D PTS: 1 DIF: E TOP: Scarcity
TYP: RE

2. When economists say scarcity, they mean:
 - a. there are only a limited number of consumers who would be interested in purchasing goods.
 - b. the human desire for goods exceeds the available supply of time, goods and resources.
 - c. most people in poorer countries do not have enough goods.
 - d. goods are so expensive that only the rich can afford it.

ANS: B PTS: 1 DIF: E TOP: Scarcity
TYP: RE

3. When economists say goods are scarce, they mean:
 - a. consumers are too poor to afford the goods and services available.
 - b. consumers are unwilling to buy goods unless they have very low prices.
 - c. goods are generally freely available from nature in most countries.
 - d. the desire for goods and services exceeds our ability to produce them with the limited resources available.

ANS: D PTS: 1 DIF: M TOP: Scarcity
TYP: SA

4. Scarcity is a problem:
 - a. measured by the amount of goods available.
 - b. of the poor, but not the rich.
 - c. because human wants are unlimited while resources are limited.
 - d. only in industrialized economies.

ANS: C PTS: 1 DIF: E TOP: Scarcity
TYP: RE

5. Scarcity can be eliminated if:
 - a. people satisfy needs rather than wants.
 - b. sufficient new resources were discovered.
 - c. output of goods and services were increased.
 - d. none of the above.

ANS: D PTS: 1 DIF: E TOP: Scarcity
TYP: RE

6. Scarcity is a(n):
 - a. problem only in industrialized economies.

- b. condition measured by the quantity of goods available.
- c. subjective concept that human wants can never be satisfied.
- d. problem only in poor economies.

ANS: C PTS: 1 DIF: E TOP: Scarcity
TYP: RE

7. The condition of scarcity:
- a. cannot be eliminated.
 - b. prevails in poor economies.
 - c. prevails in rich economies.
 - d. All of the above.

ANS: D PTS: 1 DIF: E TOP: Scarcity
TYP: RE

8. Scarcity:
- a. exists because resources are unlimited while human wants are limited.
 - b. means we are unable to have as much as we would like to have.
 - c. will likely be eliminated as technology continues to expand.
 - d. is not an issue addressed in economics.

ANS: B PTS: 1 DIF: E TOP: Scarcity
TYP: RE

9. Which of the following would eliminate scarcity as an economic problem?
- a. Moderation of people's competitive instincts.
 - b. Discovery of sufficiently large new energy reserves.
 - c. Resumption of steady productivity growth.
 - d. None of the above.

ANS: D PTS: 1 DIF: E TOP: Scarcity
TYP: RE

10. The finite nature of the economy's resource base:
- a. will be solved if only we would learn to conserve.
 - b. is only a problem in developing countries.
 - c. will be solved as technology advances.
 - d. will always be with us.

ANS: D PTS: 1 DIF: M TOP: Scarcity
TYP: SA

11. Human wants:
- a. are unfilled only in the poorer countries of the world.
 - b. can be completely satisfied by advancing technology.
 - c. can never be fully satisfied.
 - d. only apply to necessities.
 - e. exist only if we are selfish.

ANS: C PTS: 1 DIF: M TOP: Scarcity
TYP: SA

12. Scarcity:
- a. is a problem only in the poorer countries of the world.
 - b. can be solved by rapid advances in technology.

- c. is a problem that exists in every economy.
- d. is not a problem for the very rich.

ANS: C PTS: 1 DIF: M TOP: Scarcity
TYP: SA

13. The perpetual problem in economics is:
- a. our inability to work together effectively.
 - b. our inability to satisfy everyone's wants with the available resources.
 - c. a recognition of continual class differences.
 - d. our inability to utilize resources efficiently.
 - e. likely to be solved in resource-rich countries.

ANS: B PTS: 1 DIF: M TOP: Scarcity
TYP: SA

14. The perpetual state of insufficiency of resources to satisfy people's unlimited wants is:
- a. apparent only in poor countries.
 - b. completely unrealistic.
 - c. present in modern economies, but not in the past.
 - d. the definition of scarcity.

ANS: D PTS: 1 DIF: E TOP: Scarcity
TYP: RE

15. People are forced to make choices because of:
- a. unlimited wants and unlimited resources.
 - b. limited wants and unlimited resources.
 - c. unlimited wants and limited resources.
 - d. limited wants and limited resources.
 - e. irrational wants and limited resources.

ANS: C PTS: 1 DIF: E TOP: Scarcity
TYP: RE

16. Economists believe that scarcity forces everyone to:
- a. satisfy all their wants.
 - b. abandon consumer sovereignty.
 - c. lie about their wants.
 - d. create unlimited resources.
 - e. make choices.

ANS: E PTS: 1 DIF: E TOP: Scarcity
TYP: RE

17. The factors of production are which of the following?
- a. The outputs generated by the production process of transforming land, labor, and capital into goods and services.
 - b. The land resources, such as natural resources, that are unimproved by human economic activity.
 - c. Land (natural resources), labor (human capital, entrepreneurship), and capital (constructed inputs such as factories).
 - d. Labor and capital in industrialized countries, where natural resources are no longer used to produce goods and services.

ANS: C PTS: 1 DIF: E TOP: Factors of production

24. An economics textbook is an example of:

- a. capital.
- b. labor.
- c. a natural resource.
- d. entrepreneurship.

ANS: A

PTS: 1

DIF: M

TOP: Factors of production

TYP: RE

25. Computer programs or software are an example of:

- a. land.
- b. labor.
- c. capital.
- d. none of the above.

ANS: C

PTS: 1

DIF: M

TOP: Factors of production

TYP: RE

26. A chain saw is an example of which of the following factors of production?

- a. Land.
- b. Labor.
- c. Capital.
- d. None of the above.

ANS: C

PTS: 1

DIF: E

TOP: Factors of production

TYP: RE

27. The creative ability of persons to combine and direct resources to produce new products is known as:

- a. economizing.
- b. entrepreneurship.
- c. value judgment.
- d. product sensitivity.

ANS: B

PTS: 1

DIF: E

TOP: Factors of production

TYP: RE

28. Which of the following is *not* a factor of production?

- a. A computer chip.
- b. The service of a lawyer.
- c. Dollars.
- d. All of the above are factors of production.

ANS: C

PTS: 1

DIF: D

TOP: Factors of production

TYP: RE

29. A textbook is an example of:

- a. capital.
- b. a natural resource.
- c. labor.
- d. all of the above.

ANS: A

PTS: 1

DIF: E

TOP: Factors of production

TYP: SA

30. Which of the following is *not* a resource?

- a. Land.

- b. Labor.
- c. Money.
- d. Capital.

ANS: C PTS: 1 DIF: D TOP: Factors of production
TYP: RE

31. Which of the following is the *best* example of a nonrenewable resource?

- a. Forests.
- b. Oil.
- c. Clean air.
- d. Fish in the ocean.

ANS: B PTS: 1 DIF: E TOP: Factors of production
TYP: RE

32. Which of the following would *not* be classified as a capital resource?

- a. The Empire State Building.
- b. A Caterpillar bulldozer.
- c. A Macintosh computer.
- d. 100 shares of stock in General Motors.

ANS: D PTS: 1 DIF: M TOP: Factors of production
TYP: RE

33. The three basic categories of resources are land, labor, and:

- a. money.
- b. time.
- c. energy.
- d. capital.

ANS: D PTS: 1 DIF: E TOP: Factors of production
TYP: RE

34. Which of the following is the *best* example of an activity that would be undertaken by an entrepreneur?

- a. Buying and selling of stocks and bonds.
- b. Starting a new business.
- c. Working on an assembly line.
- d. Running for political office.

ANS: B PTS: 1 DIF: E TOP: Factors of production
TYP: SA

35. A factor of production is the same as:

- a. the amount of a good produced.
- b. the price of a good.
- c. a profit of a firm.
- d. an opportunity cost.
- e. a resource.

ANS: E PTS: 1 DIF: D TOP: Factors of production
TYP: CA

36. All of the following are examples of capital *except*:

- a. the robot used to help produce your car.

42. Labor resources:
- a. include only physical activities.
 - b. are only counted as a resource if used in the production of other resources.
 - c. include only skilled labor.
 - d. include both physical and mental activities.
 - e. include human effort involved in the production of goods, but not services.

ANS: D PTS: 1 DIF: M TOP: Factors of production
TYP: RE

43. Which of the following is the *best* definition of economics?
- a. Economics is the study of how to manage corporations to generate the greatest return on shareholder investment.
 - b. Economics is the study of how to manage city and country government to generate the greatest good to its citizens.
 - c. Economics is the study of how society chooses to allocate its scarce resources.
 - d. Economics is the study of how to track revenues and costs within a business.

ANS: C PTS: 1 DIF: E TOP: Economics
TYP: RE

44. Economics is the study of how people:
- a. vote for political leaders who decide what is to be produced.
 - b. make choices to produce and consume goods and services.
 - c. establish social institutions that maximize well-being.
 - d. develop value systems that affect their consumption choices.

ANS: B PTS: 1 DIF: M TOP: Economics
TYP: RE

45. Which one of the following is the *most* accurate definition of economics?
- a. Economics is the study of stocks and bonds.
 - b. Economics is the study of how people allocate unlimited resources.
 - c. Economics is the study of how consumers choose to spend their income.
 - d. Economics is the study of how society chooses to allocate scarce resources.

ANS: D PTS: 1 DIF: M TOP: Economics
TYP: RE

46. The central question in economics is how to:
- a. deal with the problem of scarcity.
 - b. change government economic policy.
 - c. change people's wants to match their needs.
 - d. manage money and become wealthy.

ANS: A PTS: 1 DIF: E TOP: Economics
TYP: RE

47. The subject of economics is primarily the study of:
- a. the government decision-making process.
 - b. how to operate a business successfully.
 - c. decision-making because of the problem of scarcity.
 - d. how to make money in the stock market.

ANS: C PTS: 1 DIF: E TOP: Economics
TYP: RE

48. The *most* fundamental concepts underlying the discipline of economics are:
- a. scarcity and choice.
 - b. supply and demand.
 - c. money, stocks, and bonds.
 - d. inflation and unemployment.

ANS: A PTS: 1 DIF: E TOP: Economics
TYP: RE

49. Economics, according to its definition, studies how people:
- a. earn and spend money.
 - b. invest in the stock and bond markets.
 - c. make choices in the face of scarcity.
 - d. supply goods in response to demand.

ANS: C PTS: 1 DIF: E TOP: Economics
TYP: RE

50. Microeconomics approaches the study of economics from the viewpoint of:
- a. inflation, unemployment, and economic growth.
 - b. the federal government.
 - c. individual economic units, such as consumers, firms, and units of government.
 - d. the economy as a whole.

ANS: C PTS: 1 DIF: E TOP: Microeconomics
TYP: RE

51. The basic difference between macroeconomics and microeconomics is:
- a. microeconomics concentrates on individual markets while macroeconomics focuses primarily on international trade.
 - b. microeconomics concentrates on the behavior of individual consumers while macroeconomics focuses on the behavior of firms.
 - c. microeconomics concentrates on the behavior of individual consumers and firms while macroeconomics focuses on the performance of the entire economy.
 - d. microeconomics explores the causes of inflation while macroeconomics focuses on the causes of unemployment.

ANS: C PTS: 1 DIF: M TOP: Microeconomics
TYP: RE

52. Determining the price of compact discs is a concern of:
- a. macroeconomics.
 - b. microeconomics.
 - c. both macroeconomics and microeconomics.
 - d. neither macroeconomics nor microeconomics.

ANS: B PTS: 1 DIF: M TOP: Microeconomics
TYP: RE

53. Which of the following is the *best* example of a microeconomic topic?
- a. The impact that the money supply has on inflation.
 - b. The reasons for increases in the price of soft drinks.
 - c. The effect that federal budget deficits have on the interest rate.
 - d. The tradeoff between inflation and unemployment.

ANS: B PTS: 1 DIF: M TOP: Microeconomics
TYP: SA

54. Microeconomics approaches the study of economics from the viewpoint of:
- a. individual or specific markets.
 - b. the national economy.
 - c. government units.
 - d. economywide markets.

ANS: A PTS: 1 DIF: E TOP: Microeconomics
TYP: RE

55. Microeconomics is concerned with:
- a. some specific market in the economic system.
 - b. the entire economic system.
 - c. reducing national unemployment and inflation rates.
 - d. what causes changes in the overall level of economic activity.

ANS: A PTS: 1 DIF: E TOP: Microeconomics
TYP: RE

56. Which of the following would be of particular interest to a microeconomist?
- a. The price of fruit the typical household consumes.
 - b. The nation's inflation rate.
 - c. The nation's rate of unemployment.
 - d. The budget of the national government.
 - e. The growth of the economy.

ANS: A PTS: 1 DIF: M TOP: Microeconomics
TYP: SA

57. The study of microeconomics and macroeconomics differ in that:
- a. microeconomics is concerned with the domestic economy and macroeconomics is concerned only with the international economy.
 - b. microeconomics examines the individual markets of the economy while macroeconomics studies the whole economy.
 - c. microeconomics studies the actions of households and macroeconomics studies the actions of business firms.
 - d. microeconomics examines the whole economy while macroeconomics studies the individual units of the economy.

ANS: B PTS: 1 DIF: E TOP: Microeconomics
TYP: RE

58. The sub-discipline of economics that focuses especially on individual markets is:
- a. normative economics.
 - b. positive economics.
 - c. microeconomics.
 - d. macroeconomics.
 - e. econometrics.

ANS: C PTS: 1 DIF: E TOP: Microeconomics
TYP: RE

59. Microeconomics deals with the analysis of all the following questions except how:

- a. the wages of carpenters are determined.
- b. high did unemployment rise during the Great Depression.
- c. does Ford decide how to price its cars.
- d. does a college student decide how to spend her income.
- e. do monopolies and competitive markets differ.

ANS: B PTS: 1 DIF: M TOP: Microeconomics
TYP: SA

60. Which of the following is a microeconomics topic?

- a. A price of a new home.
- b. The inflation rate.
- c. The economy's growth rate.
- d. The unemployment rate.
- e. Forecasts of a recession next year.

ANS: A PTS: 1 DIF: M TOP: Microeconomics
TYP: SA

61. Which of the following is a macroeconomics topic?

- a. Wages of textile workers in the Northeast.
- b. The cost of producing 10,000 bookcases.
- c. The economy's annual growth rate.
- d. National demand for fish.
- e. Effects of farm subsidies on food prices.

ANS: C PTS: 1 DIF: M TOP: Macroeconomics
TYP: SA

62. The branch of economics that focuses on decision making for the economy as a whole is called:

- a. normative economics.
- b. macroeconomics.
- c. microeconomics.
- d. consumer economics.

ANS: B PTS: 1 DIF: E TOP: Macroeconomics
TYP: RE

63. Which of the following is included in the study of macroeconomics?

- a. Wage rate of college students.
- b. Prices of automobiles.
- c. Unemployment in the nation.
- d. Price of silver and gold.

ANS: C PTS: 1 DIF: E TOP: Macroeconomics
TYP: RE

64. Policies to lower the price level of goods in the nation are a concern of:

- a. macroeconomics.
- b. microeconomics.
- c. both microeconomics and macroeconomics.
- d. political science.

ANS: A PTS: 1 DIF: E TOP: Macroeconomics
TYP: RE

65. Policies to create jobs in the nation are the concern of:

- a. macroeconomics.
- b. microeconomics.
- c. both microeconomics and macroeconomics.
- d. neither microeconomics nor macroeconomics.

ANS: A PTS: 1 DIF: E TOP: Macroeconomics
TYP: RE

66. A review of the performance of the economy during the Bush administration is the concern of:

- a. macroeconomics.
- b. microeconomics.
- c. both macroeconomics and microeconomics.
- d. neither macroeconomics nor microeconomics.

ANS: A PTS: 1 DIF: E TOP: Macroeconomics
TYP: RE

67. Which of the following is included in the study of macroeconomics?

- a. Salaries of college professors.
- b. Computer prices.
- c. Unemployment in the nation.
- d. Silver prices.

ANS: C PTS: 1 DIF: E TOP: Macroeconomics
TYP: SA

68. The branch of economics that focuses on economywide variables like inflation and unemployment is called:

- a. macroeconomics.
- b. microeconomics.
- c. free-market economics.
- d. aggregate economics.

ANS: A PTS: 1 DIF: E TOP: Macroeconomics
TYP: RE

69. The television network newscaster reports that the national inflation rate the past year equaled 4 percent. This report would be of particular interest to a ____.

- a. microeconomist.
- b. normative economist.
- c. macroeconomist.
- d. Ceteris paribus.
- e. social science economist.

ANS: C PTS: 1 DIF: M TOP: Macroeconomics
TYP: RE

70. A sub-discipline of economics that looks at the economy as a whole is:

- a. macroeconomics.
- b. microeconomics.
- c. positive economics.
- d. normative economics.
- e. impossible to model.

ANS: A PTS: 1 DIF: E TOP: Macroeconomics

TYP: RE

77. An economist at the University of Alaska at Anchorage has been asked to explain why the price of Alaskan crude oil has fallen recently. In order to develop a model, the professor should take which steps?
- Identify the problem, develop a model based on simplifying assumptions and test the model to formulate a conclusion.
 - Gather data on crude oil prices and seemingly unrelated variables in order to look for associations, then formulate a hypothesis based on those unexpected associations.
 - Ask people in Alaska why they are not purchasing oil.
 - None of the above. The oil industry is controlled by a cartel; therefore price changes in the industry cannot be explained using economic theories.

ANS: A

PTS: 1

DIF: D

TOP: Model

TYP: CA

78. A model is defined as a:
- description of all variables affecting a situation.
 - positive analysis of all variables affecting an event.
 - simplified description of reality to understand and predict an economic event.
 - prediction based on historical evidence.

ANS: C

PTS: 1

DIF: E

TOP: Model

TYP: RE

79. A theory is:
- based only on critical factors or variables.
 - a simplified abstraction of the real world.
 - a detailed description of reality.
 - a and b.

ANS: D

PTS: 1

DIF: E

TOP: Model

TYP: RE

80. An economic model is defined as:
- a value judgment.
 - a presentation of all possible relevant real-world variables.
 - a simplified representation of the way in which facts are related.
 - data adjusted for irrational actions.

ANS: C

PTS: 1

DIF: E

TOP: Model

TYP: RE

81. An economic model is useful only if it:
- contains no positive statements.
 - captures all the complexities of reality.
 - yields accurate predictions.
 - has both macro- and microeconomic applications.

ANS: C

PTS: 1

DIF: M

TOP: Model

TYP: RE

82. An economic theory claims that a rise in gasoline prices will cause gasoline purchases to fall, *Ceteris paribus*. The phrase "*Ceteris paribus*" means that:
- other relevant factors like consumer incomes must be held constant.

- b. the gasoline prices must first be adjusted for inflation.
- c. the theory is widely accepted but cannot be accurately tested.
- d. consumers' need for gasoline remains the same regardless of the price.

ANS: A PTS: 1 DIF: E TOP: Model
TYP: RE

83. The definition of a model is a:
- a. description of all variables affecting a situation.
 - b. positive analysis of all variables affecting an event.
 - c. simplified description of reality to understand and predict an economic event.
 - d. data adjusted for rational action.

ANS: C PTS: 1 DIF: E TOP: Model
TYP: RE

84. A model (or theory):
- a. is a general statement about the causal relationship between variables based on facts.
 - b. helps explain and predict the relationship between variables.
 - c. when expressed as a downward (negatively) sloping graph implies an inverse relationship between the variables.
 - d. all of the above.

ANS: D PTS: 1 DIF: E TOP: Model
TYP: RE

85. When building a model, an economist must:
- a. adjust for exceptional situations.
 - b. provide a complete description of reality.
 - c. make simplifying assumptions.
 - d. develop a set of behavioral equations.

ANS: C PTS: 1 DIF: M TOP: Model
TYP: RE

86. An economic model is:
- a. a plastic scaled version of the economy.
 - b. a complete depiction of reality.
 - c. an abstraction from reality.
 - d. applicable to consumer behavior but not to producer behavior.
 - e. not an accepted tool of the economics profession.

ANS: C PTS: 1 DIF: M TOP: Model
TYP: SA

87. Complete the following analogy: A criminal is to a police artist's sketch as the economy is to:
- a. money.
 - b. an economic model.
 - c. a resource.
 - d. Ceteris paribus.
 - e. scarcity.

ANS: B PTS: 1 DIF: D TOP: Model
TYP: SA

88. To abstract from reality in an economic model means that:

- a. we include only a few of the essential aspects of reality.
- b. the economic study surveys only a very limited period of time.
- c. we include only those elements which support our hypothesis.
- d. the model includes every aspect of the real world.
- e. the model examines the actions of the consumers in the absence of producers and the government.

ANS: A PTS: 1 DIF: M TOP: Model
TYP: CA

89. To be valid, an economic model must:

- a. include every activity which occurs in the real world.
- b. include at least 85 percent of the activity which occurs in the real world.
- c. be able to predict events occurring in the real world.
- d. exclude any link to the real world.
- e. not be based on an abstraction of the real world.

ANS: C PTS: 1 DIF: M TOP: Model
TYP: CA

90. When economists use the term *Ceteris paribus*, they are indicating that:

- a. the relationship between two economic variables cannot be determined.
- b. the analysis is true for the individual but not for the economy as a whole.
- c. all other variables except the ones specified are assumed to be constant.
- d. their conclusions are based on normative economics rather than positive economic analysis.

ANS: C PTS: 1 DIF: M TOP: Ceteris paribus
TYP: RE

91. The term *Ceteris paribus* means that:

- a. everything is changing.
- b. all other things remain unchanged.
- c. no one knows which variables will change and which will remain constant.
- d. the basic principle of economics do not apply to the case being considered.

ANS: B PTS: 1 DIF: E TOP: Ceteris paribus
TYP: RE

92. The statement, "John buys more of good X as his income increases, *Ceteris paribus*," means:

- a. John's income is being held constant.
- b. John's purchases of good X are being held constant.
- c. John's income and purchases of this good are being held constant.
- d. the price of this good is being allowed to change.

ANS: D PTS: 1 DIF: D TOP: Ceteris paribus
TYP: CA

93. The term *Ceteris paribus* means that:

- a. the model includes all important variables occurring in the real world.
- b. all factors which influence the event are changing at the same time.
- c. one influence is changing and everything else is being held constant.
- d. the consumer is king.

ANS: C PTS: 1 DIF: M TOP: Ceteris paribus
TYP: SA

94. An economic forecast:
- a. will always be true.
 - b. is more reliable than a weather forecast.
 - c. will never provide valuable information.
 - d. should not be relied upon to predict economic events.
 - e. is always based upon a *Ceteris paribus* condition.

ANS: E PTS: 1 DIF: M TOP: Ceteris paribus
TYP: SA

95. The Latin expression *Ceteris paribus* means:
- a. everything else being equal.
 - b. economic model.
 - c. economists are partly right.
 - d. partial scarcity is certain.

ANS: A PTS: 1 DIF: E TOP: Ceteris paribus
TYP: RE

96. When economists want to hold a number of factors constant, they are demonstrating which of the following expressions?
- a. Positive economics model.
 - b. Consumer sovereignty.
 - c. *Ceteris paribus*.
 - d. Normative economics.

ANS: C PTS: 1 DIF: M TOP: Ceteris paribus
TYP: RE

97. If the price of a textbook rises and then students purchase fewer textbooks, an economic model can show a cause-and-effect relationship only if which of the following conditions holds:
- a. students' incomes fall.
 - b. tuition decreases.
 - c. the number of students increases.
 - d. everything else is constant.
 - e. the bookstore no longer accepts used book trade-ins.

ANS: D PTS: 1 DIF: D TOP: Ceteris paribus
TYP: SA

98. *Ceteris paribus* means:
- a. an association of variables.
 - b. all other things remain constant.
 - c. a cause and effect relationship.
 - d. considering the influences of other variables.

ANS: B PTS: 1 DIF: D TOP: Ceteris paribus
TYP: RE

99. Which of the following is *most* likely to represent causality rather than association?
- a. In years that fashion dictates wider lapels on men's jackets, the stock market grows by at least 5 percent.
 - b. Interest rates are higher in years ending with a 1 or a 6.
 - c. Unemployment falls when the AFC champion wins the Super Bowl.

- d. Quantity demanded goes up when price falls because lower prices increase consumer purchasing power, *ceteris paribus*.

ANS: D PTS: 1 DIF: M TOP: Association vs. causation
TYP: CA

100. Someone notices that sunspot activity is high just prior to recessions and concludes that sunspots cause recessions. This person has:
- confused association and causation.
 - misunderstood the *Ceteris paribus* assumption.
 - used normative economics to answer a positive question.
 - built an untestable model.

ANS: A PTS: 1 DIF: M TOP: Association vs. causation
TYP: CA

101. "As soon as a mayor announced his/her 'get tough on crime' policy on New Year's day, criminals got scared and the crime rate went down." Suppose that the lower crime rate was actually caused by freezing cold temperatures in January—it was just too cold for anybody to be out robbing other people. Which fundamental hazard of the economic way of thinking did the mayor make?
- believing that what's good for one person is good for the whole group (the fallacy of composition)
 - failing to take into account the benefits of crime (the payoff fallacy)
 - believing that association is the same as causation
 - failing to understand the difference between positive and normative economics.

ANS: C PTS: 1 DIF: D TOP: Association vs. causation
TYP: SA

102. If individuals who sit in the back of the classroom receive lower grades on average than the rest of the class, does that mean that sitting in the back of a classroom causes one to perform poorly on exams?
- Not necessarily. The reoccurrence of a certain relationship between two variables does not necessarily imply causation.
 - It is not possible for an economist to determine causation between variables.
 - The reoccurrence of such a relationship is sufficient evidence that sitting in the back of a classroom will lead to lower grades.
 - The reoccurrence of such a relationship is sufficient evidence that students who receive low grades prefer to keep a low profile and always sit in the back of the classroom.

ANS: A PTS: 1 DIF: M TOP: Association vs. causation
TYP: SA

103. Which of the following is a statement of positive economics?
- I hope unemployment comes down soon.
 - President X's way of dealing with unemployment is better than President Y's.
 - I think everyone should sacrifice to reduce the deficit.
 - If taxes are reduced, unemployment will drop.

ANS: D PTS: 1 DIF: E TOP: Positive economics
TYP: RE

104. Which of the following is a statement of positive economics?
- Too much government spending is the biggest problem facing the U.S. economy.
 - Creating jobs is the most serious problem facing the U.S. economy.
 - Raising taxes provides additional revenue that should be used to finance health care.

d. If taxes are over 50 percent of national income, job creation falls.

ANS: D PTS: 1 DIF: E TOP: Positive economics
TYP: SA

105. Which of the following represents positive economics?

- a. Policy A is fair.
- b. Outcome B is the best objective to achieve.
- c. If policy A is followed, then outcome B results.
- d. All of the above.

ANS: C PTS: 1 DIF: E TOP: Positive economics
TYP: SA

106. Positive economics:

- a. will usually tell us which policy is best.
- b. reveals "what ought to be" in economic matters.
- c. is of little use to policy makers.
- d. is the scientific study of "what is" among economic relationships.

ANS: D PTS: 1 DIF: E TOP: Positive economics
TYP: RE

107. Which of the following represents a positive statement?

- a. A higher income tax rate will reduce the amount of time that people spend working.
- b. Teenage unemployment should be reduced.
- c. We should raise the standard of living for the elderly.
- d. A decrease in tax rates is needed to help the poor.

ANS: A PTS: 1 DIF: M TOP: Positive economics
TYP: SA

108. The statement, "Violent crime has decreased in the last five years," is:

- a. obviously wrong and, therefore, cannot be a positive statement.
- b. normative since it can be answered by simply looking at the facts.
- c. positive because it is testable.
- d. not very interesting because all normative issues are of little importance.

ANS: C PTS: 1 DIF: M TOP: Positive economics
TYP: SA

109. Which one of the following is a positive economic statement?

- a. An increase in the minimum wage will reduce employment for teenagers.
- b. The minimum wage should be increased.
- c. Social justice will be served by increasing the minimum wage.
- d. Thoughtful people oppose an increase in the minimum wage.

ANS: A PTS: 1 DIF: M TOP: Positive economics
TYP: SA

110. Which of the following is a statement of positive economics?

- a. Government control of rent is a fair way to help poor people afford housing.
- b. Government control of rent keeps landlords from charging too much rent.
- c. Government control of rent decreases the number of new apartments constructed.
- d. Government control of rent is an injustice.

ANS: C PTS: 1 DIF: M TOP: Positive economics
TYP: RE

111. Select the positive statement that completes the sentence: If wages rise more rapidly than productivity:
- a. profits will fall.
 - b. workers will earn 3/4 of GDP.
 - c. the rate of inflation increases.
 - d. all of the above.

ANS: D PTS: 1 DIF: M TOP: Positive economics
TYP: SA

112. "An increase in the federal minimum wage causes an increase in unemployment among teenagers" is
- a:
- a. statement of positive economics.
 - b. statement of normative economics.
 - c. testable value judgment.
 - d. fallacy of composition.

ANS: A PTS: 1 DIF: D TOP: Positive economics
TYP: SA

113. What type of economic analysis is limited to testable, verifiable statements?
- a. Macroeconomics.
 - b. Entrepreneurial economics.
 - c. Positive economics.
 - d. Normative economics.

ANS: C PTS: 1 DIF: E TOP: Positive economics
TYP: RE

114. Which of the following is a positive statement?
- a. I think we should pass a constitutional amendment to reduce the deficit.
 - b. President Clinton's way of dealing with the economy is better than President Bush's.
 - c. I hope interest rates come down soon.
 - d. If taxes are raised, unemployment will drop.

ANS: D PTS: 1 DIF: E TOP: Positive economics
TYP: SA

115. "An increase in the federal minimum wage will provide a living wage for the working poor" is:
- a. a statement of positive economics.
 - b. a fallacy of composition.
 - c. a tautology.
 - d. a statement of normative economics.

ANS: D PTS: 1 DIF: M TOP: Positive economics
TYP: SA

116. A positive economic statement is:
- a. an opinion of an action that should be taken.
 - b. an action that will have a positive effect on the economy.
 - c. a statement testable by facts.
 - d. a claim that the speaker is positive will occur.
 - e. always a microeconomic position.

ANS: C PTS: 1 DIF: E TOP: Positive economics
TYP: RE

117. The Secretary of Labor states that wage rates in the country have risen by 2 percent this past year. The head of a local labor union states that wage gains should have been higher. The Secretary's statement is a(n) ____ economic statement, and the labor head's statement is a(n) ____ economic statement.
- a. normative; normative
 - b. normative; positive
 - c. positive; normative
 - d. positive; positive
 - e. proper; improper

ANS: C PTS: 1 DIF: M TOP: Positive economics
TYP: SA

118. Positive economics is a(n):
- a. reflection of a country's values.
 - b. judgment of the correctness of an economic outcome.
 - c. statement of fact.
 - d. analysis of what ought to be.
 - e. analysis of all the good market outcomes.

ANS: C PTS: 1 DIF: E TOP: Positive economics
TYP: RE

119. A positive economic statement:
- a. contains personal and social value judgments.
 - b. is always a mathematical expression.
 - c. should never be used by an economist.
 - d. is proper provided the advocator is clear the position rests on personal assessment.
 - e. is an unbiased report of the facts of the economy.

ANS: E PTS: 1 DIF: M TOP: Positive economics
TYP: RE

120. Which of the following is an example of a positive economic statement?
- a. The economy's real output increased at about 3 percent last year and the unemployment rate decreased.
 - b. A central bank should not print too much money because inflation could result.
 - c. Congress should stabilize the social security system by raising taxes now.
 - d. The government farm products surplus should be distributed to the needy.

ANS: A PTS: 1 DIF: D TOP: Positive economics
TYP: CA

121. A positive statement is:
- a. something good or desirable.
 - b. a call for improvement.
 - c. a statement of opinion.
 - d. a statement testable by facts.
 - e. a suggestion for policy.

ANS: D PTS: 1 DIF: M TOP: Positive economics
TYP: RE

122. Which of the following is a normative statement?
- a. A decrease in price leads to an increase in quantity consumed.
 - b. Incomes grow more rapidly in high-tax states than low-tax states.
 - c. People would be better off if government expenditures were higher.
 - d. People will buy less butter at \$1.50 per pound than they will at \$1 per pound.

ANS: C PTS: 1 DIF: D TOP: Normative economics
TYP: SA

123. In a congressional debate about agricultural price supports, senators, members of congress, and other experts made the following four statements. Which of these is a normative statement?
- a. "Price supports are important because America should preserve the small family farm."
 - b. "Without price supports, the price of wheat and corn will fall by over twenty percent."
 - c. "The decline in commodity prices caused by the removal of price supports will result in fewer, larger farms."
 - d. "The decline in commodity prices caused by the removal of price supports will reduce the number of tractors sold in the United States."

ANS: A PTS: 1 DIF: M TOP: Normative economics
TYP: CA

124. A normative economic statement:
- a. is a model used to collect data.
 - b. is a statement of fact.
 - c. is a statement of what ought to be, not what is.
 - d. indicates what will occur if certain assumptions are true.

ANS: C PTS: 1 DIF: E TOP: Normative economics
TYP: RE

125. A normative economic statement is:
- a. a statement of fact.
 - b. a statement of opinion which advocates a particular position.
 - c. not acceptable in the economics profession.
 - d. the only acceptable manner to present economic information.
 - e. a statement based upon government-supplied information.

ANS: B PTS: 1 DIF: E TOP: Normative economics
TYP: RE

126. Normative economics is:
- a. usually incorrect.
 - b. a statement of fact.
 - c. the analysis of what is.
 - d. the study of what ought to be.
 - e. free of value judgments.

ANS: D PTS: 1 DIF: E TOP: Normative economics
TYP: RE

127. Which of the following is an example of a normative economic statement?
- a. The inflation rate in the United States decreased from 4 percent last year to 3 percent this year as a result of lower energy prices.
 - b. The economy grew at an annual rate of 5 percent during the first quarter of this year.
 - c. If two automobile companies merge, it is likely that the price of automobiles will rise.

- d. An increase in international trade benefits some workers but hurts others.
- e. The minimum wage should be increased so that low income workers can afford to keep up with the cost of living.

ANS: E PTS: 1 DIF: D TOP: Normative economics
TYP: CA

128. Which of the following is a normative statement?

- a. The deduction for state taxes cost the federal government \$100 billion per year.
- b. Taxpayers in North Carolina pay state taxes which are above the national average.
- c. Twenty-two states use a lottery to raise state taxes.
- d. Congress is considering the president's tax plan to increase taxes which is a fair plan.

ANS: D PTS: 1 DIF: E TOP: Normative economics
TYP: RE

129. Select the normative statement that completes the following sentence: If the minimum wage is raised:

- a. cost per unit of output will rise.
- b. workers will gain their rightful share of total income.
- c. the rate of inflation will increase.
- d. profits will fall.

ANS: B PTS: 1 DIF: M TOP: Normative economics
TYP: SA

130. Which of the following is a normative economic statement?

- a. The unemployment rate for the United States is currently 5.4 percent.
- b. The inflation rate in the United States is too high.
- c. An increase in the price of a good will reduce the amount purchased.
- d. Higher profits in an industry will attract more entrepreneurs into the industry.

ANS: B PTS: 1 DIF: M TOP: Normative economics
TYP: SA

131. "The government should provide health care for all citizens." This statement is an illustration of:

- a. positive economic analysis.
- b. correlation analysis.
- c. fallacy of association analysis.
- d. normative economic analysis.

ANS: D PTS: 1 DIF: M TOP: Normative economics
TYP: SA

132. Which of the following is the *best* example of a normative economic statement?

- a. A rise in gasoline prices will cause gasoline purchases to fall.
- b. The federal government should spend more on health care.
- c. Raising the minimum wage will result in greater unemployment.
- d. If more money is printed, then the economy's price level will rise.

ANS: B PTS: 1 DIF: E TOP: Normative economics
TYP: SA

133. The Secretary of Labor states that wage rates in the country have risen by 2 percent this past year. The head of a local labor union states that wage gains have not kept pace with the 3 percent rate of inflation. The Secretary's statement is a(n) ____ economic statement, and the labor head's statement is a(n) ____ economic statement.

- a. normative; normative
- b. normative; positive
- c. positive, normative
- d. positive, positive
- e. proper; improper

ANS: D PTS: 1 DIF: D
 TOP: Normative/positive economics TYP: CA

134. Normative economics deals with ____ and positive economics deals with ____.
- a. what should be; what is
 - b. fiction; fact
 - c. microeconomics; macroeconomics
 - d. negative aspects; positive aspects
 - e. changing circumstances; same circumstances

ANS: A PTS: 1 DIF: D
 TOP: Normative/positive economics TYP: CA

135. Which phrase(s) is (are) associated with normative statements?
- a. c and e.
 - b. Has been shown.
 - c. Should be.
 - d. Can be.
 - e. More than.

ANS: C PTS: 1 DIF: M
 TOP: Positive/normative economics TYP: CA

136. Economists use ____ economic analysis to understand an individual market. They then use ____ economic analysis to guide future national economic policy.
- a. b and d
 - b. macro; micro
 - c. positive; normative
 - d. normative; positive

ANS: C PTS: 1 DIF: M
 TOP: Positive/normative economics TYP: CA

TRUE/FALSE

1. Scarcity has no importance to understanding economics.

ANS: F PTS: 1 DIF: E TOP: Scarcity
 TYP: RE

2. Scarcity means we are unable to have as much as we would like to have.

ANS: F PTS: 1 DIF: E TOP: Scarcity
 TYP: RE

3. Scarcity means we are unable to have as much as we would like to have.

ANS: T PTS: 1 DIF: E TOP: Scarcity

TYP: RE

4. All human wants cannot be satisfied because of the problem of scarcity.

ANS: T PTS: 1 DIF: E TOP: Scarcity
TYP: RE

5. Your scarcity problem would disappear if you were rich.

ANS: F PTS: 1 DIF: E TOP: Scarcity
TYP: RE

6. Financial capital by itself is *not* a factor of production; instead it is only a paper claim on economic capital.

ANS: T PTS: 1 DIF: M TOP: Factors of production
TYP: RE

7. Capital resources include money and other financial assets.

ANS: F PTS: 1 DIF: M TOP: Factors of production
TYP: RE

8. Money is one of our nation's resources (factors or means of production).

ANS: F PTS: 1 DIF: D TOP: Factors of production
TYP: RE

9. Economics could be defined as the study of scarcity.

ANS: T PTS: 1 DIF: E TOP: Economics
TYP: RE

10. Economics is the study of decisions made necessary by the problem of unlimited wants and limited means to satisfy them.

ANS: T PTS: 1 DIF: E TOP: Economics
TYP: RE

11. Economics is the study of people making choices faced with the problem of unlimited wants and limited resources.

ANS: T PTS: 1 DIF: E TOP: Economics
TYP: RE

12. An analysis of IBM's pricing decisions would be classified as a macroeconomic study.

ANS: F PTS: 1 DIF: E TOP: Microeconomics
TYP: RE

13. Policies to determine the price of troll dolls are a concern of macroeconomics.

ANS: F PTS: 1 DIF: M TOP: Microeconomics
TYP: RE

14. Microeconomics is the branch of economics in which you study inflation and unemployment in the economy.

ANS: F PTS: 1 DIF: E TOP: Microeconomics
TYP: RE

15. Macroeconomics studies economywide issues like inflation and unemployment.

ANS: T PTS: 1 DIF: E TOP: Macroeconomics
TYP: RE

16. Factors which determine the price of corn would be studied in macroeconomics.

ANS: F PTS: 1 DIF: D TOP: Macroeconomics
TYP: RE

17. Policies to increase the supply of money in the economy are primarily a concern of microeconomics.

ANS: F PTS: 1 DIF: E TOP: Macroeconomics
TYP: RE

18. Microeconomics only looks at the behavior of one consumer or one firm in a market, while macroeconomics looks at the behavior of an entire industry or group of consumers.

ANS: F PTS: 1 DIF: M
TOP: Microeconomics and Macroeconomics TYP: RE

19. Microeconomics and macroeconomics use different types of analysis.

ANS: T PTS: 1 DIF: M
TOP: Microeconomics and Macroeconomics TYP: RE

20. Economic models are of limited use since they cannot be tested empirically with actual data.

ANS: F PTS: 1 DIF: M TOP: Model
TYP: SA

21. A good economic model should capture as many details about real-world behavior as possible.

ANS: F PTS: 1 DIF: E TOP: Model
TYP: RE

22. Economic theories, or models, enable us to predict and to give reasonable explanations regarding economic variables.

ANS: T PTS: 1 DIF: E TOP: Model
TYP: RE

23. Abstracting from reality is an important element of all economic models.

ANS: T PTS: 1 DIF: M TOP: Model
TYP: SA

34. The statement "It would be better to put up with price controls than to have continuing higher medical care prices" is an example of normative economic analysis.

ANS: T PTS: 1 DIF: M TOP: Normative economics
TYP: SA

35. The statement "Cutting government spending is the best way to boost consumer confidence" is an example of normative economics.

ANS: T PTS: 1 DIF: M TOP: Normative economics
TYP: SA

36. The statement "It is better to suffer a little more unemployment than a little lower prices" is an example of normative economic analysis.

ANS: T PTS: 1 DIF: M TOP: Normative economics
TYP: SA

37. The statement "American workers are lazy" is an example of positive economic analysis.

ANS: F PTS: 1 DIF: M TOP: Normative economics
TYP: SA

ESSAY

1. What is scarcity and why does it exist? How is scarcity related to the study of economics?

ANS:

Scarcity exists because resources are limited while wants are unlimited. Scarcity means we are unable to have as much as we would like. Economics is the study of how human beings attempt to maximize satisfaction in the face of scarcity.

PTS: 1

2. Distinguish macroeconomics and microeconomics.

ANS:

Macroeconomics studies the entire national economy. Microeconomics focuses on a particular segment within the entire economic system.

PTS: 1

3. What is an economic theory or model? What constitutes a "good" economic theory or model?

ANS:

An economic theory is a simplified version of reality. It is a general statement about the causal relationship between economic phenomena based on facts. A truly "good" theory will predict well, explain economic behavior, indicate to what extent the predicted outcome is expected to occur, and indicate how long it will take for the predicted outcome to be observed.

PTS: 1

4. What is the difference between positive and normative economics? How can knowledge of positive economics be useful in normative economics?

ANS:

Positive economics deals with "what is" while normative economics deals with "what ought to be." Knowledge of positive economic theories (the causal relationship between economic variables) can guide us in finding workable policies designed to achieve a normative economic goal.

PTS: 1