

Name _____

[/microeconomics-principles-and-policy-14e-test-bank-by-baumol](#)

Class _____

Date _____

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Indicate whether the statement is true or false.

1. The steepness of a curve is partially determined by the units of measurement.

- a. True
- b. False

2. The United States has chosen to balance the competing claims of efficiency versus equality by emphasizing greater efficiency over greater equality.

- a. True
- b. False

3. Lower inflation rates are usually correlated with lower unemployment rates.

- a. True
- b. False

4. All two-dimensional graphs must have an origin, a horizontal axis, and a vertical axis.

- a. True
- b. False

5. “Correlation” is a measure of how one variable causes another to change.

- a. True
- b. False

6. A graph’s origin is the point of intersection of all lines or curves in the graph.

- a. True
- b. False

7. The United States has been willing to trade-off greater efficiency for greater wage equality.

- a. True
- b. False

8. The high unemployment of 2008–2010 caused a substantial decrease in inflation, which created fears of deflation.

- a. True
- b. False

9. Productivity growth is the main cause of rising living standards.

- a. True
- b. False

10. A contour map illustrates a cause-and-effect relationship among three variables.

- a. True
- b. False

11. Economists are often required to make unrealistic assumptions concerning the problems they are investigating.

- a. True

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b. False

12. The Phillips curve illustrates the trade-off between inflation and economic growth.

a. True

b. False

13. Economic efficiency and income equality are often conflicting goals in an economy.

a. True

b. False

14. A model that is an oversimplification for one purpose will likely be an oversimplification for other purposes as well.

a. True

b. False

15. When controls over market prices are enacted, the consequences are always clear.

a. True

b. False

16. There is no trade-off between efficiency and equality.

a. True

b. False

17. Even though international trade is undertaken voluntarily, a country that engages in trade may not benefit from it.

a. True

b. False

18. One of the consequences of allowing wages to fall in the United States has been growing wage inequality.

a. True

b. False

19. Eliminating important details in economic analysis is necessary to understand the complexity of the economy.

a. True

b. False

20. Externalities can only involve the imposition of harm on a party not directly involved in an economic transaction.

a. True

b. False

21. Externalities are costs to society, which have an impact on parties not directly involved into a particular economic transaction.

a. True

b. False

22. In economic theorizing, common sense will always lead to the correct answer.

a. True

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b. False

23. When the economy experiences a bust, the government knows exactly which policies will spur an economic recovery.

a. True

b. False

24. Abstraction ignores many details in order to focus on the most important elements of a problem.

a. True

b. False

25. In the calculation of the cost of going to college, an economist would always include the cost of room and board.

a. True

b. False

26. The marginal cost of an airline ticket is the total cost of operating a flight divided by the number of passengers who buy tickets.

a. True

b. False

27. The optimal degree of abstraction depends on the objective of the analysis.

a. True

b. False

28. In scientific language, a theory is an untested assertion of alleged fact.

a. True

b. False

29. Graphs are valuable because they facilitate interpretation of data.

a. True

b. False

30. In her calculation of the cost of going to college, an economist would include the amount of forgone earnings over the years spent at college.

a. True

b. False

31. Comparative advantage explains how two nations can benefit from trade.

a. True

b. False

32. Statistical correlation always implies causation.

a. True

b. False

33. Government controls over market prices are often enacted to benefit a specific group.

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- a. True
- b. False

34. Individuals will have different value judgments about the appropriate rate of unemployment and the appropriate rate of inflation.

- a. True
- b. False

35. Economic problems are made manageable by stripping away some of the unnecessary details.

- a. True
- b. False

36. Abstraction is used in economics to omit unnecessary details and focus on the essence of the problem being studied.

- a. True
- b. False

37. A government has the ability to use fiscal and monetary policy to mitigate the effects of economic fluctuations.

- a. True
- b. False

38. Externalities are created when parties not involved in an economic transaction are affected by it.

- a. True
- b. False

39. The market price of a transaction always includes all of the costs and benefits associated with the transaction.

- a. True
- b. False

40. If Japan is twice as good at producing cameras and three times as good at producing TV sets as the United States, Japan is said to have a comparative advantage in TV sets and the United States has a comparative advantage in cameras.

- a. True
- b. False

41. The word “theory” means the same to the scientist as it does to the man on the street.

- a. True
- b. False

42. Slope will vary along a curve (as opposed to a straight line).

- a. True
- b. False

43. A graph conveys information about a cause-and-effect relationship.

- a. True
- b. False

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44. In both the 1970s and the 1990s, extreme economic events caused unemployment to move in the same direction as inflation.

- a. True
- b. False

45. A theory is an untested assertion of alleged fact.

- a. True
- b. False

46. Economists probably agree more often than they disagree.

- a. True
- b. False

47. A theory is an explanation of the causal mechanism behind observed phenomena.

- a. True
- b. False

48. Inaccurate prediction generally invalidates the use of theory in economics.

- a. True
- b. False

49. Airlines can use marginal analysis to set ticket prices, which can increase profits for the company.

- a. True
- b. False

50. In international trade, one country's gain is another country's loss.

- a. True
- b. False

51. Abstraction is unnecessary when economic analysis is done properly.

- a. True
- b. False

52. Two variables that systematically change together are correlated.

- a. True
- b. False

53. A line that slopes downward from left to right has a positive slope.

- a. True
- b. False

54. With the technological developments in the twenty-first century, productivity growth is no longer an important factor in economic well-being.

- a. True
- b. False

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55. Greater economic efficiency and income equality can usually both be achieved in an economy simultaneously.

- a. True
- b. False

56. As a student, one of the costs of sleeping in rather than going to class is likely to be a lower grade in the class.

- a. True
- b. False

57. A ray through the origin always has a slope of one.

- a. True
- b. False

58. Greater economic efficiency often leads to greater economic inequality.

- a. True
- b. False

59. A vertical line always has a slope of one.

- a. True
- b. False

60. Economic analysis requires both mathematical reasoning and historical study.

- a. True
- b. False

61. The growth rate of productivity is the most important determinant of material well-being in the short run.

- a. True
- b. False

62. A horizontal line has a slope of 0.

- a. True
- b. False

63. One of the consequences of preventing wages from falling in the European Union has been growing unemployment.

- a. True
- b. False

64. The market mechanism provides a financial incentive for firms to minimize the pollution they create.

- a. True
- b. False

65. It is impossible for both nations to gain when trading with one other.

- a. True
- b. False

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66. Only economists and other “social” scientists have areas of dispute within their disciplines.

- a. True
- b. False

67. In economics, the true cost of making a choice is the value of what must be given up.

- a. True
- b. False

68. A small increase in productivity growth can have a huge impact on a country’s standard of living.

- a. True
- b. False

69. The statement “saccharine causes cancer” is not a theory; it is a hypothesis.

- a. True
- b. False

70. The achievement of greater efficiency in the United States has been at the expense of growing inequality.

- a. True
- b. False

71. Opportunity cost is the value of the next best alternative to a given choice.

- a. True
- b. False

72. Both parties gain in a voluntary exchange.

- a. True
- b. False

73. Marginal analysis involves looking at the extra costs involved in a decision.

- a. True
- b. False

74. The relatively low rate of inflation coupled with a low unemployment rate that occurred in the 1990s represented a “normal” economic situation.

- a. True
- b. False

75. Market-based policies are effective methods that the government can use to address externality problems.

- a. True
- b. False

76. Externalities affect only the buyer and seller involved in an exchange.

- a. True
- b. False

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77. A graph with a positive slope indicates that the variables depicted on the axes move in the same directions.

- a. True
- b. False

78. If you go to the movies on Thursday night, the only cost to you is the price you pay for the movie ticket.

- a. True
- b. False

79. Slope is measured as rise/run.

- a. True
- b. False

80. The slope of a line with rise of five and run of two is positive.

- a. True
- b. False

81. Models are used to describe cause-and-effect relationships.

- a. True
- b. False

82. There are never any adverse consequences of government attempts to modify the laws of supply and demand.

- a. True
- b. False

83. A theory is a deliberate simplification or abstraction of factual relationships.

- a. True
- b. False

84. An economic model is a realistic depiction of the operation of the economy.

- a. True
- b. False

85. Government controls over market prices frequently “backfire.”

- a. True
- b. False

86. One problem with the European Union’s choice regarding equality versus efficiency is that it may inadvertently shrink the size of its “economic pie.”

- a. True
- b. False

87. The use of abstraction in economics is analogous to the use of a road map providing directions to a location.

- a. True
- b. False

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88. Abstract economic theory can be used by academicians but not by politicians or business people.

- a. True
- b. False

89. Abstraction can lead to gross distortions of pertinent facts.

- a. True
- b. False

90. The concept of economic efficiency refers to the size of the “economic pie” whereas the concept of equality refers to how the “pie” is distributed.

- a. True
- b. False

91. Economic theory is necessary and extremely important because of its relationship to economic policy.

- a. True
- b. False

92. It is not possible for both parties to gain in a voluntary trade.

- a. True
- b. False

93. All economic transactions involve only buyers and sellers; no third parties are involved.

- a. True
- b. False

94. Attempts by the government to reduce the rate of inflation often result in higher unemployment in the short run.

- a. True
- b. False

95. Slope is measured as run/rise.

- a. True
- b. False

96. The use of abstraction in economic analysis is one of its primary weaknesses.

- a. True
- b. False

97. When nations trade based upon comparative advantage, only one side of the transaction will benefit.

- a. True
- b. False

98. Economic theory simplifies relationships to explain how the relationships interact.

- a. True
- b. False

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99. Unemployment and inflation are important determinants of short-run material welfare, whereas productivity growth is an important determinant of long-run material well-being.

- a. True
- b. False

100. Opportunity cost is the highest possible price you can receive when you sell an object.

- a. True
- b. False

101. The lower left-hand corner of a graph where the two axes meet is called the graph's origin.

- a. True
- b. False

102. In economics, abstraction from reality is necessary because of the complexity of the real world.

- a. True
- b. False

103. Over the past century, the main factor responsible for rising living standards in the United States has been productivity growth.

- a. True
- b. False

104. A line that rises from left to right has a positive slope.

- a. True
- b. False

105. Economists disagree on most economic issues facing an economy.

- a. True
- b. False

106. Value judgments are based on people's tastes, preferences, and ethical opinions.

- a. True
- b. False

107. The terms "correlation" and "causation" are synonymous.

- a. True
- b. False

108. Models are simplifications that are used to observe the workings of a system.

- a. True
- b. False

109. A horizontal line always has a slope of one.

- a. True
- b. False

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Indicate the answer choice that best completes the statement or answers the question.

110. If a rent control policy is enacted to protect apartment renters, this is likely to lead to

- a. an increase in the supply of apartments.
- b. rise in the number of households looking for rental units.
- c. increased investment in rental properties.
- d. the conversion of office buildings to rental apartments.

111. You just purchased a lawn mower from your next-door neighbor. How can we measure the gains from this transaction?

- a. The actual benefit that you receive plus the actual benefit to your neighbor
- b. The gains to your neighbor minus the amount that you paid her
- c. The gains to you minus the amount that your neighbor paid for the mower
- d. The gains to you cancel out the gains received by your neighbor
- e. Just the benefit to your neighbor

112. The US Navy determines that the navigation system on its submarines, which use low-frequency radio waves, is reducing the population of humpback whales. This is an example of

- a. marginal thinking.
- b. comparative advantage.
- c. the market mechanism.
- d. the Phillips curve.
- e. an externality.

113. In 1981, the US government passed a law that significantly lowered tax rates on high-income individuals. The premise was that high tax rates deter high-income individuals from working and investing, reducing the growth of the economy. This is an example of

- a. the equality-efficiency trade-off.
- b. usury.
- c. the effects of budget deficits on future generations.
- d. the cost disease of the public sector.
- e. the importance of externalities.

114. Which of the following statements is true?

- a. Economic theory does not make unrealistic assumptions.
- b. Economists should not ignore details while focusing on complex problems.
- c. Abstraction forms an important part of economic analysis.
- d. The word *theory* means same for both economists and laymen.

115. Economics is a social science in the sense that it

- a. rigorously examines human behavior.
- b. is not as scientific as physics.
- c. relies on historical data instead of mathematical data.

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- d. relies on statistics instead of mathematics.
- e. All of these responses are correct.

116. An economic model can be defined as

- a. a testable claim that can be evaluated with proper data.
- b. a representation of a theory or a part of a theory.
- c. another word for theory.
- d. a method to distinguish correlation from causation.
- e. All of these responses are correct.

117. Economists may disagree about how to solve an economic problem because they

- a. use different models to analyze the problem and its solutions.
- b. have different political and moral beliefs.
- c. disagree about the facts of the situation.
- d. All of these responses are correct.

118. Graphs are useful because of the way they

- a. facilitate interpretation and analysis of data.
- b. clarify interpretation and analysis of ideas.
- c. permit a person to easily see relationships.
- d. convey an idea that might otherwise take many words.
- e. All of these responses are correct.

119. A diagram is a good example of a(n)

- a. hypothesis.
- b. abstraction.
- c. theory.
- d. concept.
- e. instrumentation.

120. Which of the following mathematical expressions represents the equation of a straight line with a slope of zero at all points on a graph with Y on the vertical axis and X on the horizontal axis?

- a. $Y = a + X$
- b. $X = bY$
- c. $X = a$
- d. $Y = a$

121. The law of comparative advantages explains why

- a. advanced nations will not trade with less-developed countries.
- b. an advanced nation will not trade with other countries.
- c. less-developed countries only trade among themselves.
- d. nations trade with each other, regardless of their relative levels of economic development.
- e. nations erect trade barriers.

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122. Tools used by economists include

- a. historical study.
- b. mathematical reasoning.
- c. statistical inference.
- d. All of these responses are correct.

123. Some economists develop theories concerning policy issues to

- a. further their own political agendas.
- b. understand what happened in an earlier time period.
- c. describe current economic events.
- d. make sound recommendations about policy alternatives.
- e. help elect new government officials.

124. A price floor on the sale of wheat would be likely to benefit

- a. bread buyers.
- b. bread producers.
- c. wheat farmers.
- d. flour mills.

125. If movement along a graph causes the value on the vertical axis to rise by 5 units and the value on the horizontal axis to fall by 10 units, the slope of the function is

- a. 5
- b. $-.5$.
- c. -2 .
- d. -72 .

126. Economic models are often expressed in

- a. equations.
- b. words.
- c. graphs.
- d. physical objects.

127. Jack, an outstanding high school baseball player, has to decide whether to sign a contract with a major league baseball organization or to go to college. If Jack is determining his opportunity costs to go to college instead, he would include

- a. just the tuition and fees he would pay.
- b. the tuition and fees he would pay and the costs of books he must purchase.
- c. the tuition and fees he would pay, the costs of the books he must purchase plus the costs of room and board.
- d. the tuition and fees he would pay, the costs of books he must purchase, the extra costs of room and board to live on campus minus the income he would receive from playing professional baseball.
- e. the tuition and fees he would pay, the costs of books he must purchase, the extra costs of room and board to live on campus plus the income he would receive from playing professional baseball.

128. Economic models are rarely constructed using

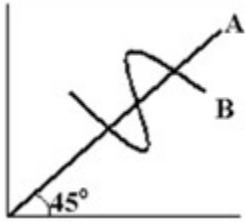
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- a. equations.
- b. words.
- c. graphs.
- d. physical objects.

129. To an economist, theory can be thought of as
- a. abstraction for the sake of argument.
 - b. one person's opinion, which is just as good as another's.
 - c. another term for the description of a situation.
 - d. beliefs that cannot necessarily be verified.
 - e. explanation of mechanisms behind observed phenomena.

130. Opportunity cost can best be defined as the
- a. value of what must be given up in order to acquire an item.
 - b. money cost to the buyer to acquire a good or service.
 - c. total value of all the other items that otherwise could be acquired.
 - d. cost to the seller to produce an item.
 - e. time cost to obtain the money to buy an item.

Figure 1-2



131. Identify the slope of the two curves A and B in Figure 1-2.
- a. A—zero, B—one.
 - b. A—one, B—zero.
 - c. A—one, B—different at different points.
 - d. A—different at different points, B—zero.
132. Economic theory
- a. is a deliberate simplification of factual relationships.
 - b. seeks to disprove a hypothesis.
 - c. is based mainly on assumptions.
 - d. seeks to prove political ideals.
133. Suppose that a curve has a slope equal to zero at some point A. To the right of A, the curve may
- a. have a positive slope.
 - b. have a negative slope.
 - c. be a straight line.

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- d. All of these responses are correct.

134. Policy-oriented economists seek to develop theories to

- a. explain how things work, so policies can be formulated.
- b. describe what happened in a particular time period in history.
- c. describe current economic events.
- d. find correlations between events.
- e. change people's values and ethics.

135. To analyze policy options, economists are forced to deal with

- a. ordinary citizens.
- b. elected officials.
- c. rotating statistical values.
- d. events that have not occurred.

136. The use of chlorofluorocarbons in refrigerators and air conditioners is alleged to cause the destruction of the ozone layer that surrounds the earth. This layer protects humans from ultraviolet radiation, which causes skin cancer. Industry has been prohibited from using these substances in aerosol cans, but the government has been reluctant to ban their use altogether because of the serious economic consequences. Economists analyze such problems and refer to them as

- a. issues of unfairness.
- b. examples of excess abstraction.
- c. externalities.
- d. comparative advantage issues.
- e. examples of trade-offs between output and equality.

137. A recent article about the US economy asked, "What is the price of low inflation?" In this context, the price is likely to be measured by

- a. the value of comparative advantage.
- b. the cost of externalities.
- c. the increase in unemployment.
- d. the drop in market value.
- e. the opportunity cost of higher interest rates.

138. You have just bought a used car and drive away satisfied that you've made a good deal on the purchase. What would an economist say about your "gain" on the deal?

- a. Your gain has clearly meant that the seller lost on the deal.
- b. The seller has clearly gained, and you have actually lost on the deal.
- c. Both you and the seller have gained something.
- d. If your gain is too large, then the deal should be renegotiated.
- e. If the seller's loss is too large, then the deal should be renegotiated.

139. If a decision maker uses marginal analysis, then the relevant costs are the

- a. full costs of a particular activity or product.
- b. fixed costs that do not vary with the extra activity or output.

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- c. profits obtained on the activity or product.
- d. average costs for a particular activity or product.
- e. additional costs of a particular activity or product.

140. If a government enacts a price floor on agricultural products to protect wheat farmers, the result is likely going to be

- a. an increase in price with a surplus of wheat.
- b. an increase in price with a shortage of wheat.
- c. a decrease in price with a surplus of wheat.
- d. a decrease in price with a shortage of wheat.

141. Which of the following is an example of an externality?

- a. Drug abuse affecting David's health
- b. Sara taking a break from work
- c. A transaction between two parties, affecting them alone
- d. Tom's smoking affecting his roommate's health

142. Since a trade-off exists between total output and equality of income distribution,

- a. greater equality of distribution will generally result in higher levels of output.
- b. greater output is generally associated with more equal distribution.
- c. policies designed to increase output will only succeed if distribution is more equal.
- d. policies intended to expand output must necessarily fail.
- e. policies designed to equalize distribution may adversely affect the size of output.

143. If trade between two countries is voluntary, one can expect that

- a. one country's gain is necessarily the other's loss.
- b. one country will exploit the other one.
- c. neither country really gains from trade.
- d. the larger country will always gain at the expense of the smaller.
- e. both countries expect to gain something.

144. A horizontal line has a slope of

- a. one.
- b. zero.
- c. infinity.
- d. undefined.

145. In Egypt, in 1970, the Aswan Dam was completed. By preventing the annual flood of the Nile (thereby providing millions of acres of arable land) and by providing electricity, the dam was expected to raise the living standard of the Egyptian people—and it has. However, it has also led to a rise in the water table, which causes Egypt's limestone structures, including the pyramids, to absorb more salt water and to suffer serious erosion from crystallized salts. Combined with air pollution and traffic vibration, this erosion is turning the pyramids to dust. Economists analyze this type of problem with the concept of

- a. an externality.
- b. the antiquity problem.

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- c. a free-rider problem.
- d. the public good problem.
- e. the trade-off between equity and output.

146. Economists may disagree about how to solve an economic problem because they

- a. may not be able to use the same models.
- b. always make the same value judgments.
- c. are unable to assemble all of the necessary facts about the economy.
- d. All of these responses are correct.

147. Arguably, the most important factor affecting economic well-being is

- a. the inflation rate.
- b. the unemployment rate.
- c. the growth of budget deficits.
- d. the growth in productivity.
- e. the growth of monopoly power by firms.

148. If an economic curve has a negative slope, then one variable

- a. falls as the other rises.
- b. changes at a slower rate than another.
- c. has a smaller value than another variable.
- d. changes after another variable.

149. Opportunity cost includes

- a. only the actual amount spent on a choice.
- b. the value of foregone actions but not dollar outlays.
- c. the value of foregone options plus the dollar outlays associated with a choice.
- d. the amount you are paid to select an opportunity.

150. When voluntary trade takes place,

- a. both parties can benefit from the transaction.
- b. one party can benefit at the expense of the other.
- c. neither party can benefit from trade.
- d. both parties can benefit but only if the government regulates the transaction.

151. A music venue discovers that its concerts consistently have empty seats in the back rows of the facility. If the venue owner uses marginal analysis to evaluate this situation, he should

- a. raise the price of seats in the front rows.
- b. remove the last few rows.
- c. lower the ticket price for the seats on the back rows.
- d. cancel concerts that are not sellouts.
- e. book acts that are less expensive.

152. Why do economists tend to create models in diagrammatic form?

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- a. Diagrams distort reality, and theory is an attempt to avoid reality.
- b. Because they are unable to construct physical models of their theories.
- c. Economic reality can only be represented in diagrams.
- d. Most economists like to draw as much as possible.
- e. All of these responses are correct.

153. "The hotter it gets, the more water people drink." This statement implies that the relationship between temperature and water consumption must have a

- a. negative slope.
- b. positive slope.
- c. slope always equal to one.
- d. slope always equal to 45 degrees.

154. Which of the following is one source of disagreement between economists?

- a. Some facts about the economy are unknown.
- b. Economists differ in their political persuasions.
- c. Economic theory may not always give an unambiguous answer to a question.
- d. Solving one problem may make another problem worse.
- e. All of these responses are correct.

155. In 1980, in order to stimulate agricultural production, Fidel Castro allowed Cuban farmers to sell their goods directly to consumers and keep whatever profit they made. Some farmers were earning \$50,000 per year, compared with the average worker income of \$2,400. The workers resented this. Castro denounced the farmers as "capitalist gangsters" and closed the free markets. Cuban cash income declined 5 percent and fresh vegetables were in short supply. This illustrates the economic concept of the

- a. law of comparative advantage.
- b. equality-efficiency trade-off.
- c. cost disease of the service sector.
- d. unemployment-inflation trade-off.
- e. All of these responses are correct.

156. Economic analysis and policy are made more difficult by

- a. having so much data to work with.
- b. inadequate and imperfect information.
- c. an incomplete consensus on the basic goals of social policy.
- d. the lack of public interest and opinion on economic questions.
- e. the major economic problems society faces.

157. Efforts to reduce the unemployment rate are likely, in the short run, to lead to

- a. a decrease in the inflation rate.
- b. an increase in the inflation rate.
- c. no change in the inflation rate.
- d. have no impact on unemployment.

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158. In the twentieth century, Russian peasants noticed that during cholera epidemics there were lots of doctors around; in an attempt to eliminate cholera, they killed all the doctors. This is an example of

- a. mistaking correlation with causation.
- b. the fallacy of opportunism.
- c. excessive abstraction.
- d. rationality.
- e. marginal analysis.

159. The term *opportunity cost* refers to the

- a. value of what is gained when a choice is made.
- b. difference between the value of what is gained and the value of what is forgone when a choice is made.
- c. value of what is forgone when a choice is made.
- d. direct costs involved in making a choice.

160. In the winter quarter at Frozen U. one year, snow falls every Friday night. Students conclude that, on their campus, Fridays cause snow. This hypothesis

- a. should more properly be considered a theory.
- b. assumes that correlation implies causation.
- c. assumes that causation implies correlation.
- d. reflects the fallacy of composition.

161. If an airline company has several empty seats on a flight and the full price of an air ticket is \$500 and the marginal cost per passenger is \$100, then it will be profitable for the airline to

- a. charge a stand-by passenger no less than the full fare of \$500.
- b. charge a stand-by passenger less than \$100.
- c. charge a stand-by passenger more than \$500.
- d. charge a stand-by passenger more than \$100.
- e. fill the seats at the last minute for any price.

162. Economics is a social science rather than a “hard” science like physics because

- a. economists abstract from reality when creating their theories.
- b. economics is easier to study than physics.
- c. economists must explain their theories to policy makers who lack formal mathematical training.
- d. economists study human behavior, which is affected by an unpredictable and vast range of influences.

163. Using economic theory to analyze policy issues

- a. is a way to avoid inconvenient facts.
- b. allows researchers to disprove a hypothesis.
- c. relies on simplifications to conduct studies.
- d. always includes the inclusion of political ideals.

164. The slope of a downward-sloping straight line can be calculated as the distance from the

- a. horizontal intercept of the line to the origin divided by the distance from the origin to the vertical intercept of the line.

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- b. origin to the horizontal intercept of the line minus the distance from the origin to the vertical intercept of the line.
 - c. vertical intercept of the line to the origin divided by the distance from the origin to the horizontal intercept of the line.
 - d. vertical intercept of the line to the origin minus the distance from the origin to the horizontal intercept of the line.
165. There is an inverse relationship between inflation and unemployment in the short run and this can be seen as an
- a. example of the equality-efficiency trade-off.
 - b. example of the impact of comparative advantage.
 - c. example of macroeconomic policy choices.
 - d. example of an externality.
 - e. example of the use of abstraction in economic analysis.
166. Rational choice requires that opportunity cost be
- a. ignored in making a decision.
 - b. considered for individual choices but not for societal choices.
 - c. computed but not actually used in making a decision.
 - d. considered as part of making a decision.
 - e. used as the sole decision criterion.
167. Jack buys a computer from Sam, knowing fully well that the technology used in it is obsolete. In this case, the trade is
- a. beneficial to both parties.
 - b. beneficial only to Sam.
 - c. beneficial only to Jack.
 - d. not beneficial to either of them.
168. Economists are often perceived as disagreeing with each other. Is this the way things really are?
- a. No, economists agree on much more than is commonly supposed.
 - b. No, the problem is that some economists are smarter than others.
 - c. No, economists “stage” disagreements for public amusement.
 - d. Yes, economists rarely agree on much of anything.
 - e. Yes, economists are unable to analyze problems dispassionately.
169. If Taiwanese workers can produce all goods at lower wages than American workers, then
- a. Americans can still gain by trading with Taiwan.
 - b. Americans can only lose if they import from Taiwan.
 - c. Taiwan can only lose if it trades with America.
 - d. there are no gains from trade that are possible in this case.
 - e. Americans should be self-sufficient.
170. An externality is defined as
- a. an opportunity cost that is not considered, which causes inefficiency.

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- b. a social cost that affects parties external to a transaction.
- c. a transaction that imposes a loss on one of the parties involved.
- d. a “cost of doing business” that cannot be allocated to any particular good.
- e. the increase in cost associated with increased production.

171. Two advisors to the president have given their policy recommendations, and they are in disagreement. Why do these economists disagree?

- a. Because they do not have all relevant information about the problem
- b. Because they disagree on the nature of some cause–effect relationship
- c. Because they have different values and opinions
- d. All of the above are reasons for disagreements among economists.

172. A useful economic model

- a. deals only with possibilities that actually occurred.
- b. makes only realistic assumptions.
- c. may make some unrealistic assumptions in order to simplify a complex reality.
- d. will avoid conclusions that have public policy implications, because economists do not make value judgments.

173. The beginning point of a graph (the 0,0 point) is known as

- a. ground zero.
- b. mother lode.
- c. the origin.
- d. square one.
- e. the beginning.

174. There are possible policies that could significantly reduce income inequality but opponents argue that such policies would be likely to lead to

- a. higher inflation.
- b. a reduction in unemployment.
- c. no impact on inequality.
- d. higher levels of economic growth.
- e. higher unemployment.

175. Which of the following is an example of an undesirable side effect of the operation of the market mechanism?

- a. Negative externalities
- b. Comparative advantages
- c. Abstractions
- d. Productivity growth

176. A contour map illustrates which of the following?

- a. The cause–effect relationship between two variables
- b. The cause–effect relationship between three variables
- c. The way that three variables are correlated

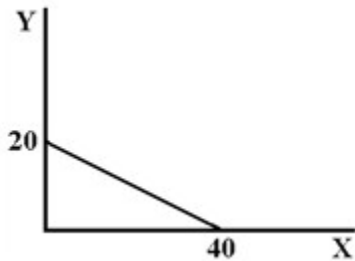
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- d. The way that one variable affects another, which in turn affects a third variable
- e. The way that two variables are correlated and in turn cause changes in a third variable

177. Which of the following is an example of a fiscal policy initiative?

- a. Lowering of interest rates
- b. Increase in reserve requirements
- c. Reduction in taxes
- d. Decrease in money supply

Figure 1-1



178. The slope of the line in Figure 1-1 is

- a. 0.5.
- b. 2.0.
- c. -0.5.
- d. -2.0.

179. Opportunity cost is the

- a. cost incurred when one fails to take advantage of an opportunity.
- b. cost incurred in order to increase the availability of attractive opportunities.
- c. cost of the best option forgone as a result of choosing an alternative.
- d. drudgery of the undesirable aspects of an option.

180. When residents surrounding an airport complain about noise from aircraft landings and takeoffs, the relevant economic analysis is that of

- a. externalities.
- b. equality-efficiency trade-off.
- c. comparative advantage.
- d. the cost decrease of the service sector.
- e. the cost disease of personal services.

181. When economists are critical of government regulations that prohibit free individuals from making certain kinds of contracts, for example, to purchase a good or service, they will usually invoke the concept of

- a. marginal analysis.
- b. mutual gains from voluntary trade.
- c. inflation-unemployment trade-off.
- d. the need for abstraction.

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e. externalities.

182. Standby passengers on airlines who pay low rates for seats benefit from the low price. How are the airlines affected?

- a. They lose, because the standby passengers do not cover the full cost of the seats.
- b. They gain, because the additional revenue covers the “fixed costs” of the flight.
- c. They lose, because the gain of the passengers must necessarily come at the expense of the airline.
- d. They benefit as long as the additional revenue from the passengers exceeds the marginal cost.
- e. Uncertain, because economic theory says nothing about this sort of situation.

183. The process of focusing on only the most important factors to explain a phenomenon is called

- a. abstraction.
- b. marginal analysis.
- c. rational choice.
- d. controlled experimentation.
- e. the trade-off between efficiency and equality.

184. Consider the following information regarding a person’s decision to go to college: college tuition is \$20,000 per year, room and board is \$10,000 per year, and books and materials are \$2,000 per year. Suppose that instead of going to college this person could have earned \$18,000 working in a store. An economist would calculate the cost of going to college as

- a. \$20,000.
- b. \$30,000.
- c. \$32,000.
- d. \$50,000.
- e. \$18,000.

185. During a war, a government will often draft people, most of whom are presently employed, into the army. An economist, computing the real cost of the war, would be sure to include which of the following items?

- a. The value of the civilian goods no longer produced by the new soldiers
- b. The cost of feeding and clothing the new soldiers
- c. The dollar cost of the payroll
- d. The higher prices of civilian goods due to wartime shortages
- e. The cost of transporting the soldiers to combat

186. People generally purchase less of a commodity as its price increases. This implies that the relationship between quantity purchased and the price of the commodity must have a

- a. slope always equal to one.
- b. positive slope.
- c. zero slope.
- d. negative slope.

187. A vertical line has a slope of

- a. infinity.
- b. zero.
- c. undefined.

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d. 1,000

188. Although economic science can contribute theoretical and factual knowledge on a particular issue, the final decision on policy questions often depends on

- a. information that is not currently available.
- b. social judgments.
- c. ethical norms.
- d. All of these responses are correct.

189. It is possible to represent three dimensions on a two-dimensional graph by using

- a. a contour map.
- b. a razor blade.
- c. curved lines.
- d. All of these responses are correct.

190. The United States produces both automobiles and computers more efficiently than Mexico. Nevertheless, it is possible that both nations would benefit from trade in these items. The reason for this is

- a. the law of comparative advantage.
- b. the inflation-unemployment trade-off.
- c. externalities.
- d. the cost disease of personal services.
- e. attempts to repeal the law of supply and demand.

191. Economic models

- a. are always based on realistic assumptions.
- b. usually predict perfectly.
- c. can never be tested with real-world data.
- d. are used to describe cause-and-effect relationships.
- e. are too simple to be of much use.

192. In terms of the competing claims of equality and efficiency, in the United States we have

- a. chosen greater wage inequality for lower unemployment.
- b. chosen higher unemployment for less wage inequality.
- c. both greater wage inequality and higher unemployment.
- d. not faced a trade-off between wage inequality and unemployment.
- e. been able to choose both less wage inequality and lower unemployment.

193. A theory is an abstraction used often by economists to

- a. describe a problem.
- b. keep all assumptions in their proper places.
- c. explain why things work the way they do.
- d. describe a hierarchical ordering of facts.
- e. arrange variables into a graphical format.

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194. Abstraction can be thought of as
- avoiding reality in order to build theory.
 - omitting unimportant details in order to understand complex phenomena.
 - relying on absurdity to explain simplicity.
 - making complex assumptions when simple facts are sufficient.
 - stylizing reality rather than analyzing cause and effect.
195. Which of the following is an example of an externality?
- The reduction in health risks when Tom's family receives a measles vaccine
 - Robert's purchase of a new car
 - A firm's investment of new computer technology
 - Eric's choice to buy a new lawn mower
196. Which of the following statements is **NOT** true?
- Economic theory often makes unrealistic assumptions.
 - Economists ignore details to focus on complex problems.
 - Abstraction is not an important part of economic analysis.
 - The word *theory* means different things to economists and to ordinary people.
197. Suppose that interdiction efforts have stemmed the flow of illegal drugs into the United States. If there is no change in demand, this leads to higher prices for these substances. The result is an increase in crime as users attempt to maintain their now more expensive habits. Economists would call this effect
- the illusion of rationality.
 - an externality.
 - the cost disease of personal services.
 - inflation.
 - unemployment.
198. In contrast to the United States, the European Union has chosen
- greater wage inequality for lower unemployment.
 - less wage inequality and lower unemployment.
 - greater wage inequality and higher unemployment.
 - similar wage inequality but more unemployment.
 - less wage inequality for higher unemployment.
199. In 1971, a bank worker could process 265 checks in 1 hour. Currently, computers with built-in reader-sorter processing capacity have pushed that number above 100,000 checks per hour. Economists describe this type of activity as
- the exploitation of labor.
 - an increase in labor productivity.
 - the displacement of labor.
 - the effects of comparative advantage.
 - the mutual gains received through voluntary trade.
200. Is it possible to express an economic model in words without diagrams?

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- a. No, models can only be stated in diagrams.
 - b. No, the very definition of model requires mathematical form.
 - c. Yes, some of the simplest models are verbal statements.
 - d. Yes, although the best models always use diagrams.
 - e. Uncertain, economic theory has not answered this question yet.
201. The opportunity cost to you of an action is
- a. how much you must pay for the opportunity to take the action.
 - b. the value to you of the next best action you could have taken.
 - c. the cost to society of giving you the opportunity to take the action.
 - d. the dollar cost to you of the action.
202. A _____ is a graph whose axes show the quantities of two inputs that are used to produce some output.
- a. production indifference map
 - b. two-variable diagram
 - c. scalar diagram
 - d. time-series graph
203. To an economist, the cost of a college education
- a. includes the income that the student could have earned during the time spent in college.
 - b. can be measured solely by the dollar cost of tuition, books, and other fees.
 - c. includes only the cost of schooling, not the cost of housing and food.
 - d. excludes financial aid in computation of the cost of schooling.
 - e. All of these responses are correct.
204. Economists use models in order to
- a. get around having to deal with actual facts.
 - b. understand real-life events and predict outcomes.
 - c. avoid having to use theories to understand economic conditions.
 - d. help elect political candidates.
205. The tangent at point A on a curve has a positive slope. Therefore, the curve has a
- a. positive slope at all points.
 - b. positive slope at point A.
 - c. negative slope at all points.
 - d. negative slope at point A.
206. Economic theory is a necessity, not a luxury. This statement is true because theory
- a. always leads to practical and useful policy.
 - b. can prevent depressions in the economy.
 - c. substitutes for vast amounts of data.
 - d. provides a structure for organizing and analyzing data.
 - e. always leads to accurate predictions.

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207. Economists make assumptions because

- a. this is a way of incorporating value judgments into their models.
- b. their use allows complex situations to be analyzed.
- c. this permits imperfect information to describe reality.
- d. assumptions are the final product of careful economic analysis.
- e. assumptions allow economists to avoid facts that contradict their theories.

208. Economists use models in order to

- a. experiment with alternative circumstances.
- b. make educated guesses about real-life events.
- c. predict outcomes under various hypothetical conditions.
- d. increase understanding of how a relationship actually works.
- e. All of these responses are correct.

209. The slope of a curved line at a particular point is

- a. always greater than the slope of a straight line at the same point.
- b. always smaller than the slope of a straight line at the same point.
- c. defined as the slope of the straight line representing the average values for the entire curve.
- d. defined as the slope of the straight line that is tangent to the curve at that point.

210. Suppose Tammy grew up on a farm and is very good at plowing. In addition, suppose she is a popular country singer who earns \$4,000 per performance. If her husband Bob can plow (but not as well as Tammy) but he can't carry a tune, then it would be most efficient if

- a. Tammy did both the plowing and the singing.
- b. Tammy specialized in plowing and Bob in singing.
- c. Bob did both the plowing and singing.
- d. Tammy specialized in singing and Bob in plowing.
- e. they both plowed and sang.

211. The principle of comparative advantage explains how

- a. one nation can take advantage of another one through international trade.
- b. two nations may engage in mutually beneficial trade, even though one of them is more productive than the other.
- c. one individual can take advantage of another through international trade.
- d. some people are good at producing everything, while others have no comparative advantages.
- e. some nations end up with large trade surpluses.

212. An "opportunity cost" may be described as

- a. the value of what must be given up.
- b. the opportunity foregone.
- c. the value of the next best alternative.
- d. the correct measure of cost.
- e. All of these responses are correct.

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213. Regarding economic models, which of the following statements is NOT true?

- a. An economic model is a simplified representation of a theory or part of a theory.
- b. An economic model can provide clear answers for policy makers.
- c. An economic model can clarify an important economic problem.
- d. An economic model can show three-variable diagrams.

214. Economic models *cannot* take the form of

- a. equations.
- b. words.
- c. graphs.
- d. actual duplication of observed conditions.

215. When variable A rises by 10 units, variable B rises by 15 units. The slope of the line describing this relationship is

- a. always $2/3$.
- b. either $2/3$ or 1.5 , depending on which variable goes on which axis of the graph.
- c. either 1.5 or -1.5 , depending on which variable goes on which axis.
- d. always -1.5 .

216. Which of the following statements is correct?

- a. Theory and hypothesis are interchangeable terms for the same thing.
- b. A hypothesis may result from a tested and confirmed theory.
- c. A theory may result from a tested and confirmed hypothesis.
- d. A hypothesis is a theory whose formulation relies on mathematics.

217. An introductory course in economics should allow a student to

- a. turn into an economist.
- b. develop solutions to most social problems.
- c. answer all complex social questions.
- d. make rational decisions.
- e. All of these responses are correct.

218. A student eats a candy bar just prior to taking a test and receives a high grade. He does not buy one for the next test and receives a low score. On his third test, he again eats a candy bar and gets a high score. This student concludes that eating candy bars leads to higher test scores. His hypothesis

- a. should be termed a “theory.”
- b. assumes that correlation implies causation.
- c. assumes that causation implies correlation.
- d. reflects the amount of studying he had done for the exams.

219. Some college students think that because a college degree greatly increases their earning potential there is no opportunity cost of attending college. How would an economist look at the matter?

- a. There is no opportunity cost, assuming that future earnings actually increase as expected.
- b. The opportunity cost is much less than it would appear, assuming that earnings increase.

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- c. Opportunity cost is a meaningless concept in this situation.
- d. The college students are completely correct in all respects.
- e. There is still an opportunity cost, even if it is justified by higher future earnings.

220. Over the last 40 years, the gap between the rich and the poor in the United States has been increasing. Economists have justified this outcome by noting that

- a. efficiency can never be achieved without greater inequality.
- b. inequality is not a problem.
- c. inequality is a desirable policy outcome.
- d. inequality is a necessary consequence of achieving greater efficiency.
- e. efficiency should be achieved regardless of the cost.

221. Because there is a trade-off between inflation and unemployment in the short run,

- a. lower unemployment will typically cause inflation to fall.
- b. policies designed to reduce unemployment will typically set off a recession.
- c. policies designed to reduce inflation will cause unemployment to fall as well.
- d. higher inflation will generally be associated with higher unemployment.
- e. lower inflation will generally be associated with higher unemployment.

222. The opportunity cost of any good or service is the

- a. actual dollar cost of doing or making it.
- b. highest price that a seller can get for the item.
- c. value of the next best alternative.
- d. cost associated with a value judgment.
- e. cost of producing the good or service.

223. Throughout the 1980s, accounting departments in U.S. universities were unable to fill many available faculty positions. This fact suggests that the salaries offered by these departments

- a. suffered from the cost disease of the service sector.
- b. were below the market price for qualified accountants.
- c. created externalities.
- d. failed to reflect productivity growth in teaching.

224. Which person has the highest opportunity cost of obtaining a college degree (assuming that attending college requires giving up his or her current position)?

- a. Bill, who is unemployed.
- b. Jane, who is an unwed mother and earns \$15,000 a year.
- c. Larry, who is a technician in the navy earning \$18,000 a year with free food and housing.
- d. Mary, who has a job earning \$60,000 a year as a computer programmer.
- e. Unable to determine from the data given.

225. Economists and others use economic theory

- a. only to analyze situations in which money changes hands.
- b. as a partial basis for public policy recommendations.

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- c. to confuse their enemies.
- d. instead of using value judgments concerning important policy issues.

226. A theory can best be defined as

- a. an untested assertion of untested fact.
- b. a set of assumptions that simplify the real world.
- c. the opinion of a reliable person who studies a subject or discipline.
- d. a deliberate simplification of factual relationships that attempts to explain how those relationships work.
- e. the accumulation of knowledge that has been verified by the scientific community.

227. What is the “right” degree of abstraction necessary to analyze an economic problem?

- a. Simple abstraction of only minor details
- b. Simple abstraction of only irrelevant details
- c. Total abstraction of all variables
- d. Total abstraction of all irrelevant details
- e. There is no “right” degree of abstraction to analyze an economic problem.

228. A line that rises at a 45 degree angle has a slope of

- a. 0.45.
- b. 1.
- c. 45.
- d. 1/45.

229. The rationale for rent control is that it protects moderate- to low-income families from the burden of rapidly rising rents and from eviction if they are unable to pay. It also prevents landlords from reaping windfalls as property values rise. Opponents note that rent controls usually lead to a reduced supply of rental housing and shortages. The proponents of rent controls support them primarily on the grounds of

- a. efficiency.
- b. equality.
- c. externalities.
- d. cost disease of services.

230. When a teacher in a private school points out to her high school principal that since there are empty seats in all classrooms, the cost of additional students is really zero, she is using the

- a. law of comparative advantage.
- b. principle of marginal analysis.
- c. theory of externalities.
- d. notion of the cost decreases of the service sector.
- e. concept of opportunity cost.

231. An economist is unlikely to be hired to do research about the following?

- a. Oil prices.
- b. Election outcomes
- c. Interest rate

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- d. Inflation rates
- e. Unemployment

232. The dramatic increase in the standard of living since the Industrial Revolution

- a. means that societies and individuals face no constraints.
- b. has not meant unlimited abundance for societies or persons.
- c. means that “opportunity cost” is a meaningless concept.
- d. has reduced the choices open to persons.
- e. has made economics less useful to persons.

233. “Assume that all individuals have perfect information about prices now and in the future, that they have identical tastes, that all markets are competitive, and that there is no government.” This statement is an example of how economists

- a. apply the law of supply and demand.
- b. employ marginal analysis.
- c. are prevented from getting correct answers.
- d. ignore reality.
- e. use unrealistic assumptions to develop theory.

234. A large factory pours its toxic wastewater into a nearby river, and as a result, the residents of a downstream community experience high rates of illness and birth defects. The economic problem illustrated by this example is

- a. marginal thinking.
- b. comparative advantage.
- c. repealing the laws of supply and demand.
- d. externalities.
- e. productivity growth.

235. The slope of a curved line differs from that of a straight line in that

- a. the numerical value of the slope of a straight line is different at every point but is the same at every point for a curved line.
- b. the numerical value of the slope of a straight line is always higher than the numerical value of the slope of a curved line.
- c. the numerical value of the slope of a curved line is different at every point but is the same at every point for a straight line.
- d. the numerical value of the slope of a curved line is an irrational number, but the numerical value of the slope of a straight line is always a rational number.
- e. straight lines are more realistic, but curved lines are not descriptively accurate for the real world.

236. What is the role of value judgments in economic analysis?

237. It has been said that “economics is the science of common sense.” Is economics synonymous with common sense?

238. How would you interpret (1) an upward sloping curve and (2) a zero slope curve in a two variable diagram?

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239. In the United States the distribution of income is relatively unequal, and output is relatively high, while in the former Soviet Union the distribution of income was more equal and output per worker was much lower. Give one possible explanation for this phenomenon.

240. In the early 1800s, there was a smallpox outbreak in a remote part of Russia. The government sent in a large group of army doctors, but they were too late to stop the epidemic. Thirty years later, there was another smallpox scare. A local statistician cautioned the government against a similar response, noting the increased mortality and high number of army doctors during the earlier epidemic. Was the statistician providing good advice?

241. Harry Truman is credited with the statement, “Give me a one-armed economist,” because economists are likely to say, “On the one hand, . . . on the other hand.” Why do economists “waffle” more than physicists or chemists?

242. Carefully distinguish between an economic theory and economic model.

243. It has been found that people die at a much higher rate in hospitals than in most other environments, leading some to conclude that hospitals cause death. What is the problem with this reasoning?

244. Explain the following statement: “Good decisions typically require marginal analysis, which weighs added costs against added benefits.”

245. How do markets respond to price ceilings and price floors? Do attempts to repeal the laws of supply and demand meet their objectives?

246. Explain why an airline may decide to sell an air ticket to a stand-by passenger at less than the full fare if there are empty seats on the airplane?

247. How does the United States differ from the European Union in how it balances the competing claims of equality and efficiency?

248. Why might well-educated economists disagree on appropriate public policy in some situations?

249. What are the tools available to governments to mitigate cycles of boom and bust? Why do these tools fail?

250. Economists often say that trade is a win–win situation. How do you justify this?

251. Suppose that one can read a graph that shows information about price and quantity of some product. Relying solely on the graph, is it possible to explain the relationship between the two variables?

252. Carefully define the following terms and explain their importance.

- a. Variable
- b. Ray
- c. Slope
- d. Contour map

253. Why do economists abstract, and is it appropriate?

254. A large airline calculates that the additional cost of having a passenger on a flight to the Bahamas as the cost of a bag of peanuts and a soft drink, which totals \$1.50, but the airline’s price is \$600 for potential customers who want to buy vacant seats on the day of the flight. Which economic principle is this airline failing to utilize?

Name _____ Class _____ Date _____
: _____ : _____ e: _____

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255. How is a production indifference map helpful?

256. How does correlation differ from causation? Give an example of each to illustrate your answer.

257. A student was heard to remark, “Even though I am certain to fail this course, I cannot withdraw from it since it is too late to get back my tuition.” Use one or more “Ideas for Beyond the Final Exam” to analyze this reasoning.

258. Many believe that fairness calls for higher income taxes on the wealthy. Using one of the “Ideas for Beyond the Final Exam,” explain how higher taxes on the wealthy will affect output.

259. Carefully define the following terms, and explain their importance in economics.

- a. Opportunity cost
- b. Abstraction
- c. Theory
- d. Model
- e. Marginal analysis

Name _____ Class _____ Date _____
: _____ : _____ e: _____

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Answer Key

1. True
2. True
3. False
4. True
5. False
6. False
7. False
8. True
9. True
10. False
11. True
12. False
13. True
14. False
15. False
16. False
17. False
18. True
19. False
20. False
21. True
22. False
23. False
24. True

Name _____ Class _____ Date _____
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25. False

26. False

27. True

28. False

29. True

30. True

31. True

32. False

33. True

34. True

35. True

36. True

37. True

38. True

39. False

40. True

41. False

42. True

43. False

44. True

45. False

46. True

47. True

48. False

49. True

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50. False

51. False

52. True

53. False

54. False

55. False

56. True

57. False

58. True

59. False

60. True

61. False

62. True

63. True

64. False

65. False

66. False

67. True

68. True

69. True

70. True

71. True

72. True

73. True

74. False

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: _____ : _____ e: _____

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75. True

76. False

77. True

78. False

79. True

80. True

81. True

82. False

83. True

84. False

85. True

86. True

87. True

88. False

89. True

90. True

91. True

92. False

93. False

94. True

95. False

96. False

97. False

98. True

99. True

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100. False

101. True

102. True

103. True

104. True

105. False

106. True

107. False

108. True

109. False

110. b

111. a

112. e

113. a

114. c

115. a

116. b

117. d

118. e

119. b

120. d

121. d

122. d

123. d

124. c

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125. b

126. c

127. e

128. d

129. e

130. a

131. c

132. a

133. d

134. a

135. d

136. c

137. c

138. c

139. e

140. a

141. d

142. e

143. e

144. b

145. a

146. c

147. d

148. a

149. c

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150. a

151. c

152. b

153. b

154. e

155. b

156. b

157. b

158. a

159. c

160. b

161. d

162. d

163. c

164. c

165. c

166. d

167. a

168. a

169. a

170. b

171. d

172. c

173. c

174. e

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175. a

176. c

177. c

178. c

179. c

180. a

181. b

182. d

183. a

184. d

185. a

186. d

187. a

188. d

189. a

190. a

191. d

192. a

193. c

194. b

195. a

196. c

197. b

198. e

199. b

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200. c

201. b

202. a

203. a

204. b

205. b

206. d

207. b

208. e

209. d

210. d

211. b

212. a

213. b

214. d

215. b

216. c

217. d

218. b

219. a

220. d

221. e

222. c

223. b

224. d

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225. b

226. d

227. e

228. b

229. b

230. b

231. b

232. b

233. e

234. d

235. c

236. Economists employ value judgments in making policy statements because of differences in goals or political persuasion. Liberal and conservative economists will look at the economy differently and see different problems with different solutions. It is important to note that value judgments do not generally interfere with most economic analysis, as there are many areas of agreement among economists.

237. A large portion of economics will agree with common sense, such as higher prices leading to a cutback in purchases or more government spending creating jobs. But economic logic provides findings that may conflict with a noneconomist's common sense, such as tariffs and quotas costing, rather than creating, jobs. Economics may be the science of common sense, but that common sense must include a logical way of thinking.

238. (1) Positive slope, where variable Y rises as variable X rises.

(2) Zero slope, where the value of Y is the same irrespective of the value of X .

239. This problem illustrates the trade-off between efficiency and equality. Workers in the Soviet Union were guaranteed jobs and decent wages regardless of their work effort, and thus they had less incentive to reach higher levels of productivity. In the United States, generally speaking, workers receive greater rewards for greater effort, and thus output per workers tends to be higher.

240. The statistician confused correlation with causation. The doctors were not the cause of the smallpox deaths. If the statistician were correct, then we should get rid of hospitals, since so many people die there. One cannot conclude that the army doctors could have helped 30 years later; this would require additional data comparing smallpox deaths with and without medical assistance.

241. Economists describe human behavior, which cannot be predicted as accurately as physical or chemical reactions. Waffling can be found at the frontiers of all sciences, but the media pay more attention to economic debates, such as the effect of supply-side tax cuts on tax revenues, than to the debates of physicists (are quarks the smallest particle of matter?) or chemists. Value judgments also play a larger role in economic debates, since economics often deals with matters that directly affect the welfare of large numbers of people.

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242. An economic theory is a deliberate simplification or abstraction of factual relationships that attempts to explain how those relationships work. It is an explanation of the mechanism behind observed phenomena. An economic model is a representation of a theory or a part of a theory used to gain insight into cause and effect. A theory can give rise to a large number of models. Thus, a theory is logically prior to a model and will ordinarily be more inclusive than a model.

243. This illustrates a confusion of correlation with causation. The fact that mortality rates are higher in hospitals than in other environments reflects the fact that hospital patients are more likely to be ill, not that hospitals cause death.

244. A marginal analysis of an economic decision requires considering the marginal costs of taking the proposed action against the additional benefits of taking the action. A good example is the case of an airlines, which is considering whether to sell empty seats at a reduced price. Can or should they do so? To make that determination, the airline must consider the cost of having additional passengers fly, such as food and beverage costs and the costs of writing additional tickets. Most other costs must be paid whether the plane contains 20 or 120 passengers. In this case, it makes sense to sell tickets at a reduced price and have those additional revenues contribute to the company's profit. If the company refuses to sell tickets at a reduced price, and some seats remain empty, the company will pass up the opportunity to generate more income at a low marginal cost. The decision to earn extra income at a slight cost represents a good economic decision.

245. Attempts to repeal the laws of supply and demand usually backfire and sometimes produce results virtually the opposite of those intended. Where rent controls are adopted to protect tenants, housing grows scarce because the law makes it unprofitable to build and maintain apartments. When price floors are placed under agricultural products, surpluses pile up because people buy less.

246. The decision depends on the marginal, or extra, cost of selling that person a ticket. Marginal cost will include such things as the cost of writing and processing the ticket, the food and beverages the person will consume, and the extra fuel that will be needed. If those costs are less than the cost of a full-fare ticket, then it will be profitable for the airline to charge the stand-by passenger a price that is greater than or equal to the sum of the marginal costs.

247. The United States has chosen greater efficiency at the expense of greater equality. In the United States, wages have been allowed to fall and labor markets have been allowed to operate relatively free of government intervention. The result has been lower wages, fewer benefits for workers, and a larger gap between the rich and the poor. What has been gained is lower unemployment. The EU has emphasized greater equality rather than greater efficiency. Wages have not been allowed to fall due to minimum wage laws and the government has protected worker's benefits through generous social welfare programs. The gap between the rich and the poor has not increased but it has been at the expense of higher unemployment.

248. Economists might disagree because of imperfect information, different theories on relevant cause-effect relationships, and because of their different values.

249. Some of the tools available to the government constitute what is called fiscal policy: control over taxes and government spending. Others come from monetary policy: control over money and interest rates. Fiscal and monetary policies sometimes fail—for both political and economic reasons. Policymakers do not always make the right decisions. And even when they do, the economy does not always react as expected. Furthermore, it is not always clear what the “right” decision is.

250. One of the fundamental ideas of economics is that both the parties must expect to gain something in voluntary exchange. Laws sometimes prohibit mutually beneficial exchanges between buyers and sellers—as when the resale of tickets to sporting events is outlawed even though the buyer is happy to get the ticket that he could not obtain at a lower price. In such instances, misguided reasoning blocks the mutual gains that arise from voluntary exchange. No one will voluntarily agree for a trade if they do not expect any benefit from it. So trade is a win-win situation since both parties are

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going to gain from it.

251. No. The graph does not, by itself, provide an explanation of the cause–effect relationship. For this, one needs economic theory.

252. a. A variable is an object, such as price, whose magnitude is measured by a number. It is used to analyze what happens to other things when the size of that number changes.

b. A ray is a straight line emanating from a particular point and extending endlessly in one direction.

c. The slope of a line is change per unit from left to right. It is measured by the change in the variable on the vertical axis divided by the change in the variable on the horizontal axis.

d. A contour map shows all points representing different combinations of two variables, for example, combinations of labor and raw materials capable of producing a given output. (Other examples of contour maps could be drawn from later chapters.)

253. Economists (and other scientists) abstract in order to be able to focus on key variables. It is appropriate, because the economy is very complex; trying to keep track of everything is extremely difficult. Thus, economists focus on relevant variables and ignore those that are less relevant to the problem at hand. Abstraction allows focus on the forest instead of the trees.

254. The airline is failing to think at the margin. If the cost of having another passenger on the flight is only \$1.50, then the airline could charge a price well below \$600 in order to encourage people to buy vacant seats, and for each seat sold, the airline would make additional profits.

255. A production indifference map is a graph whose axes show the quantities of two inputs that are used to produce some output. A curve in the graph corresponds to some given quantity of that output, and the different points on that curve show the different quantities of the two inputs that are enough to produce the given output.

256. Correlation means that two (or more) variables change in a systematic fashion. Economic examples include large cash withdrawals from banks at the end of the month, which coincide with payday and the due dates of bills. (The end of the month does not cause withdrawals.) Causation means that two (or more) variables are related so that a change in one actually causes a change in the other. Economic examples include a change in price leading to a change in the amount of an object that people wish to buy. (Noneconomic examples can be used as well.)

257. The student is failing to use marginal analysis. Tuition is paid and gone whether or not she withdraws from the course. If getting an F requires retaking the course, it will still be necessary to pay tuition again. One could also note that the student is disregarding an important component of opportunity cost. An F on a transcript is more detrimental than a W.

258. Greater equality comes at the expense of reduced output. The reversal of Ronald Reagan's tax cuts will diminish the incentive of the wealthy to earn taxable income. They will work fewer hours or less hard, or they will accept nonwage benefits such as country club memberships, find more tax loopholes, or even seek illegal channels to reduce their tax liability.

259. a. Opportunity cost for a decision is the value of the next best alternative that one has to give up because of that decision. It is central to rational thinking and economic analysis.

b. Abstraction is ignoring many details in order to focus on the most important elements of a problem. The appropriate degree of abstraction depends on the topic under consideration.

c. Theory is a deliberate simplification of relationships with the purpose of explaining how those relationships work. Theory is cause-and-effect reasoning.

d. A model is a simplified, small-scale version of some aspect of the economy. Much economic

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analysis employs models of one or more parts of the economy.

e. Marginal analysis is making decisions based on a comparison of the increase or change in benefits to the increase or change in costs when making some sort of change.