

PART II

TEST BANK

**Prepared by Margaret Brooks
for**

***Contemporary Economics:
An Applications Approach*, 8th ed.
by Robert J. Carbaugh**

CHAPTER 1
SCARCITY AND CHOICE**TRUE-FALSE QUESTIONS**

- T F 1. Normative economics involve facts while while positive economics involves value judgments.
ANS: F
- T F 2. “The unemployment rate should be kept lower than 5 percent” is a normative economics statement.
ANS: T
- T F 3. “People are willing to work more hours if the federal minimum wage increases” is a positive economics statement.
ANS: T
- T F 4. A study of the effects of a decrease in income taxes on U.S. consumption spending would essentially be a microeconomics issue.
ANS: F
- T F 5. FedEx, founded by entrepreneur Frederick Smith, was an overnight success in 1971.
ANS: F
- T F 6. Money and capital mean the same thing to economists.
ANS: F
- T F 7. Points outside the production possibilities curve are unattainable, given existing resources and technology.
ANS: T
- T F 8. If the U.S. reduced its unemployment rate by 2%, this would shift the U.S. production possibilities curve outward.
ANS: F
- T F 9. If the U.S. is operating at a point on the production possibilities curve itself, we can say the U.S. is achieving economic efficiency.
ANS: T
- T F 10. As a factor of production, capital includes money that is used to finance the purchase of plants and equipment.
ANS: F
- T F 11. Entrepreneurship is a special type of labor input.
ANS: T

- T F 12. The 4 factors of production are land, labor, capital, and entrepreneurship.
ANS: T
- T F 13. Economists believe people can make better choices by looking at the overall situation, rather than by “thinking at the margin.”
ANS: F
- T F 14. Economic models are built from words, diagrams, and/or mathematical equations.
ANS: T
- T F 15. A rational person will refrain from taking action if the marginal benefits exceed the marginal costs.
ANS: F
- T F 16. The law of increasing opportunity costs is illustrated by a production possibilities curve that is bowed outward from the origin of the diagram.
ANS: T
- T F 17. If the supply of resources increases in the U.S., we can be sure that more goods and services will be produced.
ANS: F
- T F 18. Economics is first and foremost the study of how to make a lot of money for households and businesses.
ANS: F
- T F 19. According to the “economic way of thinking,” every choice has a cost, people make better choices by thinking at the margin, and people act as if they are motivated by self-interest.
ANS: T
- T F 20. Normative economics involves value judgments that cannot be empirically tested, while positive economics describes the facts of the economy.
ANS: T
- T F 21. The source of the scarcity problem is that people have unlimited resources to satisfy their limited material wants.
ANS: F
- T F 22. An entrepreneur is a person who organizes, manages, and assembles the other factors of production to produce goods and services.
ANS: T

- T F 23. For a college student, the opportunity cost of attending a football game the night before an exam equals the ticket price plus the difference in her test score that the additional study time would have yielded.
ANS: T
- T F 24. An economy's production possibilities curve assumes a high unemployment rate, fixed resources, and unchanged technology.
ANS: F
- T F 25. Economic growth occurs if an economy realizes an increasing resource base or technological advance.
ANS: T
- T F 26. Capital goods are available for immediate use by households, while consumer goods are used for producing other goods and services in the future.
ANS: F
- T F 27. All points along a production possibilities curve depict economic efficiency.
ANS: T
- T F 28. Historically, capacity utilization rates for most industries in the U.S. range from 90 to 95 percent.
ANS: F
- T F 29. The law of increasing opportunity cost occurs because resources are not completely adaptable to alternative uses.
ANS: T
- T F 30. The terrorist attacks of September 11, 2001 led the U.S. to devote more of its resources to national security, creating an opportunity cost for society in terms of the other goods that were given up.
ANS: T

MULTIPLE-CHOICE QUESTIONS

1. Economics is first and foremost the study of
- choice under conditions of scarcity
 - how incomes are divided among the factors of production
 - the allocation of household incomes among various stocks and bonds
 - government ownership of economic resources
- ANS: a**