

1. Since resources are abundant, we do not have to make choices about their use.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: True / False

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

2. Economics is the study of choices we make among our many wants and desires.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: True / False

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

3. It is possible to completely eliminate scarcity.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 3-4

QUESTION TYPE: True / False

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

4. Scarcity applies to decision makers in macroeconomics but not in microeconomics.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 3-4

QUESTION TYPE: True / False

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

5. Scarcity forces us to choose, and choices are costly because we must give up other opportunities that we value.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 3-4

QUESTION TYPE: True / False

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

6. Wealthy consumers do not have to make decisions on what to buy or how much to save.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 4

QUESTION TYPE: True / False

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

7. If we choose more work we sacrifice leisure.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 4-5

QUESTION TYPE: True / False

TOPICS: 1.1 Economics: A Brief Introduction | Economics Is All Around Us

8. Living in a world of scarcity involves trade-offs.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 5

QUESTION TYPE: True / False

TOPICS: 1.1 Economics: A Brief Introduction | Economics Is All Around Us

9. Economists prefer to look at declared preferences (how they say they behave) rather than revealed preferences (how people actually behave).

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | Economists and Survey Data

10. One topic that microeconomics explores is how prices are determined in individual markets, while macroeconomics is concerned with issues such as the economy's overall rate of inflation, economic growth and unemployment.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

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

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

12. Microeconomics explores the allocation of scarce resources from the perspective of small economic units such as consumers and firms.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

13. Economists assume that most individuals act as if they are motivated by self-interest and respond in predictable ways to changing circumstances.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 6-7

QUESTION TYPE: True / False

TOPICS: 1.2 Economic Behavior | Self-Interest

14. Economists believe that only a small part of human behavior can be explained and predicted by assuming that most people act as if they are motivated by their own self-interest in an effort to increase their expected personal satisfaction.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 6-7

QUESTION TYPE: True / False

TOPICS: 1.2 Economic Behavior | Self-Interest

15. Self-interest could never include benevolence.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: True / False
TOPICS: 1.2 Economic Behavior | Self-Interest

16. To an economist, individuals are acting "rationally" if they are striving to do their best to achieve their goals.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: True / False

TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

17. To an economist, rational self-interest means that individuals try to weigh the expected marginal (additional) benefits and marginal (additional) costs of their decisions.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: True / False

TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

18. When people make choices they typically know with certainty which choice is best.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: True / False

TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

19. Economists believe that most people's actions are rational and purposeful, not random and chaotic.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: True / False

TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

20. A good economic theory is always more useful when it includes detailed facts, even if the facts are not relevant to the questions being investigated.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 9-10

QUESTION TYPE: True / False
TOPICS: 1.3 Economic Theory | Economic Theories

21. A good economic theory, or model, weeds out the irrelevant facts from the relevant ones.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 9-10

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | Economic Theories

22. Economic models are of limited use since they cannot be tested empirically.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

23. A hypothesis is a normative statement.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

24. A testable proposition that predicts how people will react to changed circumstances is called a hypothesis.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

25. Theories and models are explanations of how things work that help us understand and predict how and why economic agents like consumers, producers, firms, government, etc. behave the way they do.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: True / False
TOPICS: 1.3 Economic Theory | Economic Theories

26. "*Ceteris paribus*" is a Latin expression that means "holding everything else constant."

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: True / False

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

27. The fallacy of composition states that even if something is true for an individual, it is not necessarily true for many individuals as a group.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 16

QUESTION TYPE: True / False

TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

28. When two variables repeatedly change at the same time, there must be a causal relationship between them.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 14-15

QUESTION TYPE: True / False

TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | Confusing Correlation and Causation

29. A positive statement is prescriptive—it prescribes what should be done.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: True / False

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

30. A normative statement is descriptive—it describes what happens and why it happens.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: True / False
TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

31. Normative analysis focuses on statements that can be tested against real-world data.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: True / False

TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

32. "A tax cut will lead to higher inflation" is an example of a positive economic statement.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 17-18

QUESTION TYPE: True / False

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

33. To be a positive economic statement, an assertion must be true.

- a. True
- b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: True / False

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

34. Most disagreements among economists stem from normative issues.

- a. True
- b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 18

QUESTION TYPE: True / False

TOPICS: 1.5 Positive Statements and Normative Statements | Disagreement Is Common in Most Disciplines

35. Economics is most importantly concerned with:

- a. how to profit from trading in the stock market.
- b. government taxation and spending.
- c. studying how we allocate scarce resources to satisfy unlimited wants.
- d. how to successfully launch a business.

ANSWER: c

POINTS: 1
REFERENCES: p. 3
QUESTION TYPE: Multiple Choice
TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

36. The central question in economics is how to:
- a. regulate the supply of money.
 - b. make the best use of scarce resources to satisfy our unlimited wants.
 - c. reduce the wants of individuals, businesses and government.
 - d. find more resources to satisfy everyone's wants.

ANSWER: b
POINTS: 1
REFERENCES: p. 3
QUESTION TYPE: Multiple Choice
TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

37. Scarcity exists for those with
- a. lower incomes.
 - b. average incomes.
 - c. higher incomes.
 - d. all of the above.

ANSWER: d
POINTS: 1
REFERENCES: p. 3
QUESTION TYPE: Multiple Choice
TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

38. The problem of scarcity:
- a. exists because resources are limited relative to wants.
 - b. exists because resources are unlimited relative to wants.
 - c. can be eliminated through appropriate government intervention into markets.
 - d. does not exist in communist societies.

ANSWER: a
POINTS: 1
REFERENCES: p. 3
QUESTION TYPE: Multiple Choice
TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

39. Which of the following forces us to choose among alternatives?
- a. Value
 - b. Scarcity
 - c. Rarity
 - d. Market mechanism

ANSWER: b
POINTS: 1
REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

40. Scarcity is the result of:

- a. government decision making.
- b. inappropriate normative judgments.
- c. positive economics.
- d. wants that exceed the resources necessary to provide them.

ANSWER: d

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

41. Scarcity exists because of:

- a. the allocation of goods by prices.
- b. specialization and division of labor.
- c. the market mechanism.
- d. unlimited wants and limited resources.

ANSWER: d

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

42. Economics is a social science that primarily explores how:

- a. businesses market products under competitive conditions.
- b. stock and bond prices fluctuate when there are changes in demand or supply.
- c. the government allocates its budget among competing political interests.
- d. goods and services are consumed, produced and distributed in a world with limited resources.

ANSWER: d

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

43. Economics is primarily the study of:

- a. human greed.
- b. how firms compete for profits in the marketplace.
- c. how limited resources are allocated to satisfy unlimited wants.
- d. how successful investors make money in the stock market.

ANSWER: c

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

44. Which of the following goods would be considered scarce?

- a. iPods
- b. crude oil
- c. tax preparation services
- d. all of the above

ANSWER: d

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

45. Scarcity:

- a. occurs only in centrally planned economies.
- b. will likely be eliminated by technological progress.
- c. exists only in poor nations.
- d. occurs if there are insufficient resources to provide for human wants.

ANSWER: d

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

46. The fundamental economic problem is:

- a. poverty.
- b. unemployment.
- c. scarcity.
- d. inflation.

ANSWER: c

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

47. Which of the following is an example of an individual motivated by self-interest?

- a. a student volunteering at a soup kitchen
- b. an attorney providing free legal service to low income families
- c. a man buying a new Camaro
- d. all of the above

ANSWER: d

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: Multiple Choice

TOPICS: 1.2 Economic Behavior | Self-Interest

48. If oil is considered a non-renewable resource, then oil is

- a. an unlimited resource.
- b. a scarce resource.
- c. not a productive resource.
- d. has no opportunity cost.

ANSWER: b

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

49. Which of the following statements are true?

- a. Wealthy people face scarcity.
- b. As a result of scarcity, individuals must make choices and face trade-offs.
- c. It is impossible to satisfy unlimited human wants with limited resources.
- d. All of the above are true statements.

ANSWER: d

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

50. In order to determine if a hypothesis is valid we must utilize

- a. qualitative analysis.
- b. empirical analysis.
- c. marginal analysis.
- d. average analysis.

ANSWER: b

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | Abstraction Is Important

51. Economics is primarily the study of:

- a. how choices are made in a world of scarcity.
- b. corporate balance sheets and income statements.
- c. how to operate a business.
- d. how to make money in the stock market.

ANSWER: a

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

52. What are the two parts of the economic problem?

- a. economics explains many things, but only things that are related directly to money.
- b. natural resources are scarce but human-made resources are not.

- c. scarcity forces us to choose and choices are costly because we must give up other opportunities that we value.
- d. we have unlimited wants and unlimited resources.

ANSWER: c

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

53. Economics is concerned with:

- a. the choices people must make because resources are scarce.
- b. human decision makers and the factors that influence their choices.
- c. the allocation of limited resources to satisfy unlimited wants.
- d. all of the above.

ANSWER: d

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

54. Scarcity is:

- a. only a problem in modern industrialized economies.
- b. only a problem in impoverished economies.
- c. only a problem in centrally planned economies.
- d. a problem that necessitates making choices and tradeoffs.

ANSWER: d

POINTS: 1

REFERENCES: p. 4

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics Is All Around Us

55. Scarcity means that:

- a. resources are unlimited.
- b. human wants are limited.
- c. limited resources cannot satisfy all of our unlimited human wants.
- d. choices are unnecessary.

ANSWER: c

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

56. Economics is the study of how people cope with:

- a. fluctuations in stock prices.
- b. greed.
- c. limited human wants.
- d. limited resources.

ANSWER: d
POINTS: 1
REFERENCES: p. 3
QUESTION TYPE: Multiple Choice
TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

57. When society can not produce all the goods and services people want, it is faced with

- a. scarcity.
- b. surpluses.
- c. inefficiencies.
- d. inequalities.

ANSWER: a
POINTS: 1
REFERENCES: p. 3
QUESTION TYPE: Multiple Choice
TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

58. Fundamentally, economics is concerned with:

- a. how scarce resources are allocated to satisfy limited wants.
- b. how limited resources are allocated to satisfy scarce wants.
- c. how limited resources are allocated to satisfy unlimited wants.
- d. how limited wants can be used to satisfy limited resources.

ANSWER: c
POINTS: 1
REFERENCES: p. 3
QUESTION TYPE: Multiple Choice
TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

59. By the study of "scarcity," an economist means how we best utilize our:

- a. limited resources in order to promote full employment and price stability.
- b. unlimited desires in order to best use our unlimited resources.
- c. unlimited resources to best satisfy our unlimited desires.
- d. limited resources in order to best satisfy our unlimited desires.

ANSWER: d
POINTS: 1
REFERENCES: p. 3
QUESTION TYPE: Multiple Choice
TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

60. Scarcity would cease to exist as an economic problem if:

- a. we learned to cooperate and not compete with each other.
- b. there were new discoveries of an abundance of natural resources.
- c. output per worker increased.
- d. none of the above.

ANSWER: d
POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

61. In economic terms, religious and spiritual services are treated as:

- a. goods that people desire.
- b. resources or inputs.
- c. marginal benefits.
- d. *priceless* commodities.

ANSWER: a

POINTS: 1

REFERENCES: p. 4

QUESTION TYPE: Multiple Choice

62. Economics is primarily concerned with the study of:

- a. problems such as poverty and unemployment.
- b. limited desires pursuing unlimited resources.
- c. production and distribution of goods in a world of unlimited resources.
- d. production and distribution of goods in a world of limited resources.

ANSWER: d

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

63. Economics is a science that:

- a. typically uses controlled experiments to learn about consumer and firm behavior.
- b. uses models that cannot be tested empirically due to the complex nature of the economy.
- c. explores how choices are made between conflicting wants and desires in a world of scarcity.
- d. relies entirely upon normative analysis.

ANSWER: c

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

64. Economics:

- a. is a natural science like biology and chemistry.
- b. is a science built on survey data and declared preferences (what people say they are going to do) not on revealed preferences (how people actually behave).
- c. is a science concerned with reaching generalizations about human behavior, not unlike sociology or psychology.
- d. is concerned with predicting business conditions in the future, not with the current state of the stock market.

ANSWER: c

POINTS: 1

REFERENCES: 3-4

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

65. The real core of the economic problem is to:

- a. increase the amount of leisure time available to people.
- b. guarantee everyone on the planet a minimum level of food, shelter and clean water.
- c. allocate limited resources among competing uses.
- d. eliminate scarcity.

ANSWER: c

POINTS: 1

REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

66. Understanding economics would be helpful to which of the following individuals?

- a. a college student planning her next semester courses
- b. a fashion designer selecting fabric for a new spring collection
- c. a restaurant owner deciding whether to expand his establishment's hours of operation
- d. All of the above

ANSWER: d

POINTS: 1

REFERENCES: p. 4-5

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Who Studies Economics?

67. Economics:

- a. is a narrowly focused discipline.
- b. is a broad-ranging, problem-solving discipline.
- c. concerns itself only with monetary decisions.
- d. says very little about "everyday life."

ANSWER: b

POINTS: 1

REFERENCES: p. 4-5

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Who Studies Economics?

68. Which of the following are likely to be studied in a microeconomics course?

- a. choices made by individual consumers
- b. the causes of inflation
- c. how the economy's total output is measured
- d. how an increase in government spending affects the level of unemployment

ANSWER: a

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and

Macroeconomics

69. 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.

ANSWER: c

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

70. Economics can be divided into two main branches of study:

- a. capitalism and communism.
- b. capitalism and socialism.
- c. demand and supply.
- d. microeconomics and macroeconomics.

ANSWER: d

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

71. Which of the following is most likely a topic of discussion in macroeconomics?

- a. an increase in the price of a pizza
- b. a decrease in the production of DVD players by a consumer electronics company
- c. an increase in the wage rate paid to automobile workers
- d. a decrease in the unemployment rate

ANSWER: d

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

72. Which of the following is an example of microeconomic analysis?

- a. impact of taxation on national income
- b. rate of increase in the national debt
- c. relationship between inflation and interest rates set by the Federal Reserve
- d. none of the above

ANSWER: d
POINTS: 1
REFERENCES: p. 13
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

73. The branch of economics that studies the aggregate decisions of all households and all firms is called:

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

ANSWER: d
POINTS: 1
REFERENCES: p. 13
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

74. Which of the following statements most likely lies within the realm of microeconomics?

- a. Unemployment rises during a recession and falls during an expansion.
- b. A rapid acceleration of the supply of money may create inflation.
- c. An increase in government spending will increase the aggregate demand for goods and services in the economy.
- d. An increase in labor costs will increase the additional cost of producing another airplane.

ANSWER: d
POINTS: 1
REFERENCES: p. 13
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

75. Which of the following statements most likely lies within the realm of macroeconomics?

- a. An increase in the price of automobiles will lead to a decrease in the quantity of automobiles demanded.
- b. Due to process innovations in computer chip manufacturing, the market supply of computers increased.
- c. Due to an economic recession, manufacturing firms began implementing layoffs of their workforces.
- d. Anticipating that the benefits would outweigh costs involved, an undergraduate student purchases the course textbook.

ANSWER: c
POINTS: 1
REFERENCES: p. 13
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

76. Macroeconomic topics do not usually include:

- a. the rate of inflation.

- b. the rate of unemployment.
- c. economic growth.
- d. the profit maximizing decisions of an individual firm.

ANSWER: d

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

77. Which of the following lies primarily within the realm of microeconomics?

- a. an empirical analysis of the relationship between the growth of the money supply and the rate of inflation
- b. an economic model forecasting the impact of a tax increase on consumer spending and national output
- c. a study of supply and demand conditions in the market for orange juice
- d. a model forecasting the impact of a change in interest rates on the level of investment in the economy

ANSWER: c

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

78. Which of the following lies primarily within the realm of macroeconomics?

- a. a study of the elasticity of demand for gasoline
- b. a study of how tax cuts stimulate aggregate production
- c. an analysis of supply and demand conditions in the electricity market
- d. a study of the impact of "mad cow" disease on the price of beef worldwide

ANSWER: b

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

79. Which of the following is most likely a topic of discussion in a microeconomics course?

- a. a decrease in the share of national income paid to the government in taxes
- b. an increase in the price of lumber used to construct houses
- c. an increase in the rate of inflation
- d. an increase in the number of jobless individuals filing unemployment claims

ANSWER: b

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

80. The basic difference between macroeconomics and microeconomics is that:

- a. microeconomics looks at aggregate markets while macroeconomics is concerned with individual markets.
- b. macroeconomics is concerned with policy decisions while microeconomics applies only to theory.
- c. microeconomics is concerned with individual markets while macroeconomics is concerned with aggregate markets.
- d. macroeconomics is concerned with positive economics while microeconomics is concerned with normative economics.

ANSWER: c

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

81. The branch of economics that focuses on outcomes in highly aggregated markets, such as the markets for labor or consumption goods, is called:

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

ANSWER: a

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

82. The branch of economics that focuses on the conduct of affairs within narrowly defined units, such as households or business firms, is called:

- a. macroeconomics.
- b. microeconomics.
- c. socioeconomics.
- d. applied economics.

ANSWER: b

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

83. Microeconomic topics do not usually include:

- a. how wages are determined in the labor market.
- b. the magnitude of national income.
- c. how firms choose output to maximize profits.
- d. how consumers maximize utility subject to a budget constraint.

ANSWER: b

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

84. The branch of economics that studies the economy as a whole is:

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

ANSWER: d

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

85. Macroeconomics:

- a. is narrower in scope than microeconomics.
- b. analyzes mergers and acquisitions between firms.
- c. is concerned with the expansion and contraction of the overall economy.
- d. is primarily concerned with the decisions of individual households.

ANSWER: c

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

86. Microeconomic topics do not usually include:

- a. the impact of large government budget deficits on private investment spending.
- b. the determinants of the supply of wheat by farmers.
- c. the determinants of the demand for DVD players by consumers.
- d. the impact of a change in the price of leather used to manufacture shoes.

ANSWER: a

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

87. Macroeconomic topics do not generally include:

- a. inflation.
- b. aggregate demand.
- c. government spending and taxation.
- d. the production decisions of individual firms.

ANSWER: d

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

88. Measuring the rate of inflation is primarily a concern of:

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

ANSWER: d

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

89. The determination of prices in the market for automobiles is primarily a concern of:

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

ANSWER: c

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

90. Microeconomics:

- a. provides an overall view of the economy and how it functions.
- b. explores the behavior of individual consumers and firms when confronted with scarcity.
- c. examines the aggregate behavior of consumers and firms when confronted with scarcity.
- d. is a "positive" science, whereas macroeconomics is a "normative" science.

ANSWER: b

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomic

91. Microeconomics primarily models:

- a. the overall economy.
- b. the behavior of firms but not households.
- c. the behavior of households but not firms.
- d. the behavior of both firms and households and how they interact in the marketplace.

ANSWER: d

POINTS: 1
REFERENCES: p. 13
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

92. Macroeconomics primarily examines:

- a. the behavior of individual households and firms.
- b. how prices are determined within individual markets.
- c. the output levels that maximize the profits of business firms.
- d. broad issues such as national output, employment and inflation.

ANSWER: d

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

93. Microeconomics differs from macroeconomics in that:

- a. microeconomics studies individual decision making while macroeconomics examines aggregate decision making.
- b. microeconomics studies aggregate decision making while macroeconomics examines individual decision making.
- c. microeconomics utilizes positive economic analysis while macroeconomics utilizes normative economic analysis.
- d. microeconomics is concerned with consumer behavior while macroeconomics is concerned with firm behavior.

ANSWER: a

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

94. When economists assume that people act rationally, it means they:

- a. make decisions based on complete and accurate information.
- b. make decisions that will not be regretted later on.
- c. make decisions based on what they believe is best for themselves using available information.
- d. make decisions based solely on what is best for society.

ANSWER: c

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: Multiple Choice

TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

95. Most of economic analysis assumes that most people act as if they are:

- a. motivated by submerged emotional needs.

- b. driven by magnetic forces generated by planetary movements.
- c. motivated primarily by concern for the well-being of others.
- d. motivated by self-interest.

ANSWER: d
POINTS: 1
REFERENCES: p. 7
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | Self-Interest

96. Economists believe that most individuals act as if they are motivated by self-interest and:

- a. respond selfishly.
- b. respond in predictable ways to changing circumstances.
- c. it leads to inconsistent and unpredictable behavior.
- d. all of the above.

ANSWER: b
POINTS: 1
REFERENCES: p. 7
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | Self-Interest

97. From an economists' perspective, which of the following observations is not true?

- a. Self-interest is purely monetary in nature.
- b. Self-interest can include benevolence.
- c. Self-interest is a good predictor of human behavior in most situations.
- d. Self-interest is not the same as selfishness.

ANSWER: a
POINTS: 1
REFERENCES: p. 7
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | Self-Interest

98. When making decisions, economists believe that individuals act rationally if they:

- a. seek to improve their own situations and not try to anticipate future consequences of their actions.
- b. only pursue the goals of the community.
- c. people do the best they can, based on their values and information, under current and future circumstances.
- d. always choose alternatives that offer the greatest financial reward.

ANSWER: c
POINTS: 1
REFERENCES: p. 7 | p. 10
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

99. Economists believe that individuals act as if they are motivated:

- a. primarily by the opinions of their peers.
- b. primarily by human emotions.
- c. primarily by self-interest.

- d. only by concern for the larger community.

ANSWER: c
POINTS: 1
REFERENCES: p. 7
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | Self-Interest

100. Economists assume that most people

- a. act purposefully.
- b. make decision with some expected outcome in mind.
- c. make choices that are not random and chaotic.
- d. all of the above.

ANSWER: d
POINTS: 1
REFERENCES: p. 7
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

101. A person behaving rationally will:

- a. never make mistakes.
- b. make decisions that are random and chaotic.
- c. have others determine whether their decisions are rational.
- d. try to weigh the expected marginal benefits and marginal costs of their decision.

ANSWER: d
POINTS: 1
REFERENCES: p. 7
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

102. Adam Smith

- a. is considered the founder of modern economics
- b. wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*
- c. did not believe the wealth of nations came from an accumulation of gold and silver.
- d. All of the above

ANSWER: d
POINTS: 1
REFERENCES: p. 8
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | Great Economic Thinkers Adam Smith (1723-1790)

103. In his book, *The Wealth of Nations*, Adam Smith made the following observation?

- a. There is no such thing as a free lunch.
- b. People buy more when prices are low than when prices are high.
- c. No matter how much people make, they tend to spend more than they make.
- d. People tend to pursue their own personal interest and that an invisible hand (the market) guides their self-interest, increasing social welfare and economic well being.

ANSWER: d
POINTS: 1
REFERENCES: p. 8
QUESTION TYPE: Multiple Choice
TOPICS: 1.2 Economic Behavior | Great Economic Thinkers Adam Smith (1723-1790)

104. Difficulty in prediction social sciences is the result of analyzing ____ but can be overcome by focusing on ____ groups.

- a. experiments; small groups
- b. experiments; large groups
- c. human behavior; small groups
- d. human behavior; large groups

ANSWER: d
POINTS: 1
REFERENCES: p. 12-13
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | Why Do Economists Predict on a Group Level?

105. An economic theory:

- a. should be as detailed as possible in order to model the complexity of an economy.
- b. is an abstraction from reality.
- c. is only useful if it rests on realistic assumptions.
- d. is unrealistic and therefore of dubious usefulness in explaining what occurs in a complex economy.

ANSWER: b
POINTS: 1
REFERENCES: p. 10-11
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | Abstraction Is Important

106. A good economic theory:

- a. rests on realistic assumptions.
- b. explains economic behavior and predicts well.
- c. can best be expressed mathematically.
- d. always provides a highly detailed analysis of an economic sector.

ANSWER: b
POINTS: 1
REFERENCES: p. 10
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | Economic Theories

107. A good economic theory:

- a. includes every detail that affects the economic behavior of interest.
- b. relies on simplifying assumptions in order to explain economic behavior.
- c. does not rely on simplifying assumptions.
- d. is impossible to achieve because of the difficulty of conducting controlled experiments.

ANSWER: b

POINTS: 1
REFERENCES: p. 10-11
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | Abstraction Is Important

108. Economics is different from a "hard" science like physics because:
- a. economists abstract from reality in 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 cannot easily control all the variables that might influence human behavior.

ANSWER: d
POINTS: 1
REFERENCES: p. 11
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

109. An economic hypothesis:
- a. can be tested using empirical analysis.
 - b. can be tested using normative analysis.
 - c. cannot be tested since it is normative in nature.
 - d. cannot be tested since it is a positive economic statement.

ANSWER: a
POINTS: 1
REFERENCES: p. 11
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

110. A hypothesis is:
- a. a normative economic statement.
 - b. a testable proposition.
 - c. a statement that cannot be evaluated using real-world data.
 - d. a model with no connection to the real world.

ANSWER: b
POINTS: 1
REFERENCES: p. 11
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

111. Which of the following statements is most accurate?
- a. If something is rare it is also has to be scarce.
 - b. Scarcity can and will be eliminated in the short run.
 - c. Scarcity can and will be eliminated in the long run.
 - d. Scarcity cannot be eliminated in any time frame.

ANSWER: d
POINTS: 1
REFERENCES: p. 3

QUESTION TYPE: Multiple Choice

TOPICS: 1.1 Economics: A Brief Introduction | Economics—A Word with Many Different Meanings

112. Which of the following is correct?

- a. "Theory" and "hypothesis" are interchangeable terms meaning 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.

ANSWER: c

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

113. Economists use theories to:

- a. abstract from the complexities of the world.
- b. understand economic behavior.
- c. explain and help predict human behavior.
- d. do all of the above.

ANSWER: d

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | Economic Theories

114. An economic theory is tested by:

- a. assessing the realism of its assumptions.
- b. polling economists to see if there is consensus as to the validity of the hypothesis.
- c. comparing and contrasting its simplicity with related theories.
- d. comparing its predictions with real-world data.

ANSWER: d

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

115. The best test of an economic theory is:

- a. the rigor of its mathematical formulation.
- b. its ability to explain and predict.
- c. the accuracy of its assumptions.
- d. the level of real-world detail it captures.

ANSWER: b

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | Economic Theories

116. Economists need to develop abstractions in order to:

- a. avoid analyzing real-world economic interactions, which are too complicated to understand.
- b. distinguish normative economic behavior from positive economic behavior.
- c. avoid committing the fallacy of composition.
- d. understand and explain economic behavior.

ANSWER: d

POINTS: 1

REFERENCES: p. 10-11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | Abstraction Is Important

117. 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 assemble a scholarly answer, the professor should take which steps?

- a. Develop a hypothesis, test the proposition by engaging in empirical analysis, and examine the data to see if it fits with the facts.
- b. 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.
- c. Ask people in Alaska why they are not purchasing oil.
- d. None of the above. The oil industry is controlled by a cartel; therefore price changes in the industry cannot be explained using economic theories.

ANSWER: a

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

118. When economists use the term "*ceteris paribus*," they mean that:

- a. the causal 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 rather than positive economic analysis.

ANSWER: c

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

119. The term "*ceteris paribus*" means that:

- a. everything is variable.
- b. all variables except those specified are constant.
- c. no one knows which variables will change and which will remain constant.
- d. what is true for the individual is not necessarily true for the whole.

ANSWER: b

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

120. Economists use the term "*ceteris paribus*" to indicate that:

- a. the analysis is true for the individual but not for the economy as a whole.
- b. supply and demand are in balance.
- c. their conclusions are based on normative rather than positive economic analysis.
- d. other things are assumed to remain constant.

ANSWER: d

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

121. "*Ceteris paribus*" means:

- a. if events A and B occur together, one must cause the other.
- b. all relevant details are included.
- c. what is true for the individual must be true for the whole.
- d. holding other things constant.

ANSWER: d

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

122. The importance of the *ceteris paribus* assumption is that it:

- a. allows one to separate normative economic issues from positive economic ones.
- b. allows one to generalize from the whole to the individual.
- c. allows one to analyze the relationship between two variables apart from the influence of other variables.
- d. allows one to hold all variables constant so the economy can be carefully observed in a suspended state.

ANSWER: c

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

123. A theory asserts that manufacturers are less willing to sell units of output as the price of a good decreases, *ceteris paribus*. However, as the price of computers fell throughout the 1990s, more computers were sold. Which of the following best explains the apparent conflict between theory and data?

- a. The theory must be invalid.
- b. The theory rests on assumptions that are too simplistic.
- c. It is likely that variables other than the price and quantity of computers sold were changing.
- d. All variables other than the price and quantity of computers sold were unchanged.

ANSWER: c

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

124. A theory asserts that consumers will purchase less of a good at higher prices than they will at lower prices, *ceteris paribus*. However, when the average price of cars increased throughout the 1990s, more cars were purchased. Which of the following best explains the apparent conflict between theory and data?

- a. The *ceteris paribus* assumption is valid.
- b. It is likely that variables other than the price and quantity of cars demanded were changing.
- c. The theory is valid. However, the price and quantity data gathered by researchers was clearly measured incorrectly.
- d. The theory must be invalid.

ANSWER: b

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

125. A leading game-console manufacturer slashes the price of its flagship product by ten percent. Holding other things such as income and preferences constant, which of the following is the most likely group behavior prediction?

- a. Price reduction will have no impact on purchase patterns.
- b. Price reduction will be associated with a reduction in quality; thereby reducing sales.
- c. More game consoles will be sold at lower prices.
- d. Group behavior cannot be predicted.

ANSWER: c

POINTS: 1

REFERENCES: p. 11

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

126. Which of the following statements can explain why an association between Event A and Event B may not imply causality from A to B?

- a. The observed association may be coincidental.
- b. There may be a third variable that is responsible for causing both events.
- c. Causality may run from Event B to Event A instead of in the opposite direction.
- d. All of the above can explain why an association between Event A and Event B may not imply causality from A to B.

ANSWER: d

POINTS: 1

REFERENCES: p. 14

QUESTION TYPE: Multiple Choice

TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | Confusing Correlation and Causation

127. In the discussion of correlation and causation, correlation means:

- a. two sets of phenomena may be related, but one does not necessarily cause the other.
- b. two sets of phenomena are not related and one may in fact cause the other.
- c. that when two phenomena are repeatedly observed together, one must cause the other.
- d. that if a groundhog sees his shadow in February, this phenomena causes there to be six more weeks of bad weather.

ANSWER: a
POINTS: 1
REFERENCES: p. 14
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | Confusing Correlation and Causation

128. 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?

- a. Not necessarily. The reoccurrence of a certain relationship between two variables does not necessarily imply causation.
- b. It is not possible for an economist to determine causation between variables.
- c. The reoccurrence of such a relationship is sufficient evidence that sitting in the back of a classroom will lead to lower grades.
- d. none of the above

ANSWER: a
POINTS: 1
REFERENCES: p. 14
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | Confusing Correlation and Causation

129. Many people have heard that the stock market rises when a team from the National Football Conference (NFC) wins the Super Bowl, and falls when a team from the American Football Conference (AFC) is victorious. If you conclude that there is a causal relationship between the outcome of the Super Bowl and stock prices, you probably are:

- a. confusing correlation with causation.
- b. committing the fallacy of composition.
- c. confusing the direction of causality, since everyone knows that stock prices determine which team wins the Super Bowl.
- d. none of the above

ANSWER: a
POINTS: 1
REFERENCES: p. 14-15
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | Confusing Correlation and Causation

130. "When one basketball team spends a large sum of money acquiring better players, it is better off. If all teams do the same thing, all of them are better off." These statements demonstrate:

- a. the fallacy of composition.
- b. confusing association with causation.
- c. a misunderstanding of the direction of causality.
- d. the *ceteris paribus* condition.

ANSWER: a
POINTS: 1
REFERENCES: p. 14-15
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

131. In Europe, birth rates have fallen as the stork population decreased. This is likely

- a. a normative statement.
- b. confusing correlation and causation.
- c. the fallacy of composition.
- d. all of the above

ANSWER: b
POINTS: 1
REFERENCES: p. 14-15
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | Confusing Correlation and Causation

132. The fallacy of composition is:

- a. the erroneous view that an economic activity can sometimes exceed the sum of its components.
- b. the erroneous view that what is true for the individual will also be true for the group.
- c. the view that the aggregation of economic activity will necessarily lead to an outcome that is different than the outcome generated by each individual in the group.
- d. the idea that association need not imply causation.

ANSWER: b
POINTS: 1
REFERENCES: p. 16
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

133. Which of the following best illustrates the fallacy of composition?

- a. If I stand up at a baseball game I will be able to see the game better; if all fans stood up at a baseball game they would all be able to see the game better.
- b. If I wore a jacket to a baseball game in October, I would be warmer; if all fans wore jackets they would all be warmer.
- c. If I purchase fewer concessions at a baseball game, I will save money; if all fans purchase fewer concessions then all can save money.
- d. If I yell more during a baseball game it will be louder if all fans yell more during the game it will be much louder.

ANSWER: a
POINTS: 1
REFERENCES: p. 16
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

134. The fallacy of composition is the erroneous view that:

- a. an increase in the supply of money will cause a general increase in the level of prices.
- b. a small change in an economic variable will have an unrecognizable but significant effect on the economy.
- c. when two events are associated, the one observed first must have caused the second.
- d. if something is true for an individual, then it must also be true for a group.

ANSWER: d
POINTS: 1
REFERENCES: p. 16
QUESTION TYPE: Multiple Choice

TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

135. Which of the following best illustrates the fallacy of composition?

- a. If the price of a product rises, the quantity supplied will decline.
- b. The average wage rate tends to increase at approximately the same rate as inflation; hence, wage increases must cause inflation.
- c. Resources are scarce; therefore, there is no such thing as a free lunch.
- d. If I talk loudly at a party, I have a better chance of being heard by my listeners. If everyone at the party talks loudly, everyone can be heard more clearly.

ANSWER: d

POINTS: 1

REFERENCES: p. 16

QUESTION TYPE: Multiple Choice

TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

136. Which of the following best illustrates the fallacy of composition?

- a. I hate driving to work when the traffic is so heavy, so I decide to leave 30 minutes earlier than in the past. If everyone were to leave 30 minutes earlier for work, we'd all get to work faster.
- b. A great many people have been immunized against polio because it can be such a devastating disease. As a result, I probably do not personally need to be immunized against polio.
- c. Whenever I attend a baseball game at the local stadium, the home team wins. Therefore, if I attend all of the team's local games, they will achieve a perfect winning record at home.
- d. The parking at Ohio State University is in short supply on the main campus. It would be better for more people to ride the bus to school.

ANSWER: a

POINTS: 1

REFERENCES: p. 16

QUESTION TYPE: Multiple Choice

TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

137. The fallacy of composition is essentially the error of:

- a. confusing association with causation.
- b. confusing normative economics with positive economics.
- c. generalizing from the individual to the whole.
- d. omitting relevant variables from an economic model.

ANSWER: c

POINTS: 1

REFERENCES: p. 16

QUESTION TYPE: Multiple Choice

TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

138. "I woke up earlier today to beat other fishermen to the fish and yet I caught the same number of fish at 5 a.m. as I did at noon." Which of the following best explains this occurrence?

- a. Many other fishermen also believe that they can catch a greater quantity of fish if they arrive earlier at the fishing area. So the area is crowded early in the day.
- b. The fish do not care when they eat, so they are likely to bite on the bait at any time during the day.
- c. The catching of fish is mostly luck, so timing is not important.

d. The early bird catches the worm.

ANSWER: a
POINTS: 1
REFERENCES: p. 16
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

139. 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."

ANSWER: a
POINTS: 1
REFERENCES: p. 17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

140. Your mother tells you, "Watching ten hours of TV per day will make you stupid." This is a positive statement because:

- a. your mother says it with a positive tone in her voice.
- b. it is your mother's opinion.
- c. it is a proposition that can be tested.
- d. your mother is only thinking of your best interest.

ANSWER: c
POINTS: 1
REFERENCES: p. 17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

141. Suppose there are two members of the U.S. Congress who were once economics professors. Why is it important to be able to distinguish their positive from their normative statements about economic policy?

- a. Their positive statements help us understand the economy's response to a particular policy, while their normative statements reflect their value judgments.
- b. Their positive statements help us understand the good results of a policy change, and their normative statements help us understand the negative results.
- c. We really do not have to worry about them since trained economists never make normative statements.
- d. Economists are always making assumptions, and policy should not be based on assumptions.

ANSWER: a
POINTS: 1
REFERENCES: p. 17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Positive Versus Normative Analysis

142. Positive statements are:

- a. prescriptive, making claims about how the world ought to be.
- b. descriptive, making claims about how the world is.
- c. optimistic, putting the best possible interpretation on things.
- d. affirmative, justifying existing economic policy.

ANSWER: b

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

143. Normative statements are:

- a. prescriptive, making claims about how the world ought to be.
- b. descriptive, making claims about how the world is.
- c. optimistic, putting the best possible interpretation on things.
- d. statements that establish production goals for the economy.

ANSWER: a

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

144. Which of the following is a positive statement?

- a. The average high temperature in Miami, Florida in February is lower than the average high temperature in Chicago, Illinois.
- b. An increase in cigarette smoking will lead to a decrease in the likelihood of getting lung cancer.
- c. 30 minutes of exercise three or more times per week will decrease the occurrence of heart disease.
- d. all of the above

ANSWER: d

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

145. Which of the following represents a normative statement?

- a. A decrease in price leads to an increase in quantity demanded.
- b. The study of economics is more important than the study of history.
- c. People will buy less butter at \$1.50 per pound than they will at \$1.00 per pound.
- d. As an economy develops, the nation's birth rate tends to fall.

ANSWER: b

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

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

- a. New tax laws are needed to help the poor.

- b. Teenage unemployment should be reduced.
- c. We should increase Social Security payments to the elderly.
- d. An increase in tax rates will reduce unemployment.

ANSWER: d

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

147. "The government should levy higher taxes on the rich and use the additional revenues to provide better housing for the poor." This statement illustrates:

- a. the fallacy of composition.
- b. the basic principle of economics.
- c. a normative economic statement.
- d. a positive economic statement.

ANSWER: c

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

148. "The minimum wage should be increased so that low-income workers can afford to feed their families." This is an example of:

- a. a positive economic statement.
- b. a negative economic statement.
- c. the fallacy of composition.
- d. a normative economic statement.

ANSWER: d

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

149. "A reduction in the rate at which stock dividends are taxed will lead to greater investment in the stock market." This is an example of:

- a. a positive economic statement.
- b. a negative economic statement.
- c. the fallacy of composition.
- d. a normative economic statement.

ANSWER: a

POINTS: 1

REFERENCES: p. 16-17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

150. Which of the following is an example of a normative statement?

- a. Higher unemployment rates are common among young people.
- b. Young people should learn how to prepare their own taxes.
- c. Auto insurance rates are generally lower for younger
- d. Persons under the age of 30 watch more movies than those over the age of 30.

ANSWER: b
POINTS: 1
REFERENCES: p. 17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

151. An economic study concludes that an investment tax credit would increase business investment next year. This is an example of:

- a. normative analysis.
- b. positive analysis.
- c. negative economic analysis.
- d. the fallacy of composition.

ANSWER: b
POINTS: 1
REFERENCES: p. 17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

152. Which of the following is a normative statement?

- a. An increase in taxes will cause higher unemployment.
- b. An increase in tariffs will increase the domestic prices paid by consumers.
- c. Income should be redistributed from the top 2% of wage earners to the lower income brackets.
- d. Running government budget deficits leads to higher market interest rates.

ANSWER: c
POINTS: 1
REFERENCES: p. 17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

153. When President Harry Truman said that he wanted to find a one-armed economist because his economic advisors always said, "On the one hand... and on the other hand..." he recognized that the advice of economists is often open to more than one interpretation. Why is this?

- a. Economists cannot make up their minds on policy matters.
- b. Economists agree with each other on all policy issues.
- c. Economists are aware that tradeoffs are involved in most policy questions.
- d. Economists are often unable to identify the critical questions involved in policy issues.

ANSWER: c
POINTS: 1
REFERENCES: p. 18
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Disagreement Is Common in Most Disciplines

154. There are some well-respected economists that believe we should substitute a national sales tax for the income tax. Other equally well-respected economists do not agree. What accounts for the difference in opinion?

- a. It might be over their interpretation of fairness.
- b. It might be over different modeling.
- c. Both (a) and (b).
- d. None of the above.

ANSWER: c

POINTS: 1

REFERENCES: p. 18

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Disagreement Is Common in Most Disciplines

155. 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 more easily see relationships.
- d. do all of the above.

ANSWER: d

POINTS: 1

REFERENCES: p. 26

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | Graphs Are an Important Economic Tool

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

- a. ground zero.
- b. the quadrant.
- c. the origin.
- d. variable one.

ANSWER: c

POINTS: 1

REFERENCES: p. 26

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | Graphs Are an Important Economic Tool

157. Which of the following graphs or charts must add up to one hundred percent?

- a. a labor graph
- b. a pie chart
- c. a time-series graph
- d. a scatter diagram

ANSWER: b

POINTS: 1

REFERENCES: p. 26-27

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | Graphs Are an Important Economic Tool

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

- a. no relationship.
- b. a negative slope.
- c. a positive slope.
- d. either positive or negative slope.

ANSWER: c

POINTS: 1

REFERENCES: p. 30

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | Using Graphs to Show the Relationship Between Two Variables

159. Which of the following is an example of a relationship with a negative slope?

- a. spending increases as incomes rise
- b. more items purchased when prices drop
- c. more items sold when quality improves
- d. less items purchased when quality decreases

ANSWER: b

POINTS: 1

REFERENCES: p. 30

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | Using Graphs to Show the Relationship Between Two Variables

160. Most students expect that if they spend more time studying, the outcome will be improved grades in the course. This supposes that:

- a. a positive relationship exists between studying and grades.
- b. a negative relationship exists between studying and grades.
- c. grades are independent variables.
- d. grades are not dependent variables.

ANSWER: a

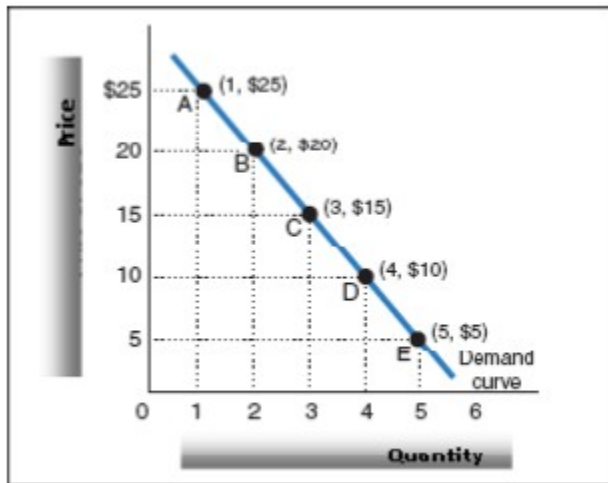
POINTS: 1

REFERENCES: p. 26-27

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | Using Graphs to Show the Relationship Between Two Variables

Exhibit 1-1



161. Referring to **Exhibit 1-1**, which point on the demand curve represents the maximum number of DVDs purchased?
- A
 - B
 - D
 - E

ANSWER: d

POINTS: 1

REFERENCES: p. 28

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | The Graph of a Demand Curve

162. **Exhibit 1-1** demonstrates that:

- price and quantity purchased are positively related.
- there is an inverse relationship between price and quantity purchased.
- as the price increases, the quantity purchased increases.
- price and quantity purchased share a direct relationship.

ANSWER: b

POINTS: 1

REFERENCES: p. 28

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | The Graph of a Demand Curve

163. The table demonstrates that:

<u>Combination</u>	<u>Price of Apples per Bushel in Dollars</u>	<u>Quantity of Apples Purchased in Bushels</u>
A	9	3
B	7	4
C	5	6
D	4	8
E	2	10

- more apples are purchased at each and every price.
- more apples are purchased as the price declines.
- fewer apples are purchased as the price declines.

- d. fewer apples are purchased at each and every price.

ANSWER: b

POINTS: 1

REFERENCES: p. 27-28

QUESTION TYPE: Multiple Choice

TOPICS: APPENDIX Working with Graphs | Using Graphs to Show the Relationship Between Two Variables

164. Which of the following topics would be covered in microeconomics?

- a. The effects of an increase in the supply of lumber on the homebuilding industry.
- b. The unemployment rate.
- c. The effects of interest rates on the overall economy.
- d. The inflation rate.

ANSWER: a

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

165. Which of the following questions is addressed primarily by macroeconomics?

- a. The allocation of scarce satellite orbit slots.
- b. Decisions made by a manufacturer of a particular good.
- c. Policies to control the inflation rate.
- d. A consumer's decision to buy more clothing and less food.

ANSWER: c

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

166. A microeconomist would most likely study the effect of a reduction in income tax rates on:

- a. total output in the economy.
- b. the output of the steel industry.
- c. inflation.
- d. unemployment.

ANSWER: b

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Multiple Choice

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

167. Which of the following is true?

- a. Virtually all theories in economics are expressed using a *ceteris paribus* ("let everything else be equal" or "holding everything else constant") assumption.

- b. The fallacy of composition is that, even if something is true for an individual, it is not necessarily true for many individuals as a group.
- c. One must always be careful not to confuse correlation with causation.
- d. All of the above are true.

ANSWER: d
POINTS: 1
REFERENCES: p. 10-12
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theories and Models

168. What would not be held constant in testing a theory that if a student studies harder, he will get a better grade?

- a. The course being taken.
- b. The ability and effort of the other students in the class.
- c. The grading scale in the course.
- d. The number of hours the student spends studying.

ANSWER: d
POINTS: 1
REFERENCES: p. 11
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

169. The *ceteris paribus* assumption is used in economic analyses in order to:

- a. cover special cases.
- b. include all relevant factors.
- c. add realism.
- d. keep the relationship between the two variables isolated from other events.

ANSWER: d
POINTS: 1
REFERENCES: p. 12
QUESTION TYPE: Multiple Choice
TOPICS: 1.3 Economic Theory | The Ceteris Paribus Assumption

170. Which of the following best illustrates the fallacy of composition?

- a. If I have more money, I will be better off; therefore if we all had more money, we all would be better off.
- b. If I buy more gas each week, my gas consumption increases; therefore, if all gas consumers buy more gas each week, total gas consumption will increase.
- c. If I spend more time studying, I will learn more; therefore, if all students spend more time studying, they will learn more.
- d. If women's hemlines are higher this year, the Dow Jones Industrials average will fall.

ANSWER: a
POINTS: 1
REFERENCES: p. 14-15
QUESTION TYPE: Multiple Choice
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | The Fallacy of Composition

171. Which of the following is false?

- a. A positive statement must be testable but need not be true.
- b. A hypothesis is a normative statement.
- c. Normative analysis involves subjective, non-testable statements.
- d. The majority of disagreements in economics stem from normative issues.

ANSWER: b
POINTS: 1
REFERENCES: p. 17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

172. Which of the following is a positive statement?

- a. Increased money supply growth will lead to a higher rate of inflation.
- b. There are more millionaires in Uganda than in the United States.
- c. People watch more TV during finals week than during the rest of the term.
- d. All of the above are positive statements.

ANSWER: d
POINTS: 1
REFERENCES: p. 16-17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

173. "Mandating longer sentences for any criminal's third arrest will lead to a reduction in crime. Less crime will reduce the number of police officers cities will hire." This quotation:

- a. contains positive statements only.
- b. contains normative statements only.
- c. contains both normative and positive statements.
- d. contains neither normative nor positive statements.

ANSWER: a
POINTS: 1
REFERENCES: p. 16-17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

174. Which of the following contains only normative statements?

- a. The birth rate is reduced as economies urbanize, but that also leads to a decreased average age of developing countries' populations.
- b. An increase in the price of corn will decrease the amount of corn purchased. However, it will increase the amount of wheat purchased.
- c. A decrease in the price of butter will increase the amount of butter purchased, but that would be bad because it would increase Americans' cholesterol levels.
- d. None of the above contain only normative statements.

ANSWER: d
POINTS: 1
REFERENCES: p. 17
QUESTION TYPE: Multiple Choice
TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

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

- a. The income tax reduces after-tax incomes of the rich.
- b. A reduction in tax rates makes the after-tax distribution of income fairer.
- c. Tax rates ought to be reduced so that people will work more.
- d. All of the above are statements of positive economics.

ANSWER: a

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

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

- a. Unemployment is a more severe problem in societies than inflation.
- b. Our current unemployment rate is a serious problem.
- c. If the overall unemployment rate is 6 percent, teenage unemployment rates will exceed 12 percent.
- d. An unemployment rate of 4 percent would be too low.

ANSWER: c

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

177. Bill says: "The imposition of a tax on tequila will increase its price." Bob says: "Taxes should be imposed on tequila because college students drink too much."

- a. Both statements are normative.
- b. Both statements are positive.
- c. Bill's statement is normative, and Bob's statement is positive.
- d. Bill's statement is positive, and Bob's statement is normative.

ANSWER: d

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Versus Normative Analysis

178. "Employment fell last month to its lowest level in the last six years" is an example of:

- a. the fallacy of composition.
- b. positive economics.
- c. normative economics.
- d. none of the above

ANSWER: b

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Multiple Choice

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Versus Normative Analysis

179. Identify whether each of the following topics would be primarily a concern of microeconomics or macroeconomics:

- a. The decision by a household to eat in rather than go out for dinner this evening.
- b. The unemployment rate increased from 4.5% to 4.8%.
- c. A decision by the Federal Reserve Bank to decrease the supply of money in the economy.
- d. The general level of prices increased by 5% last year.
- e. The price of bicycles increased by \$30 last year.
- f. The family restaurant chain closed down after losing much of its customer base to fast-food competitors over the last few years.

ANSWER: Microeconomic topics: a, e, and f
Macroeconomic topics: b, c, and d

POINTS: 1

REFERENCES: p. 13

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.3 Economic Theory | The Two Branches of Economics: Microeconomics and Macroeconomics

180. Can activities like driving faster than the speed limit or driving without wearing a seat belt be considered rational behavior? Why or why not?

ANSWER: These activities would be considered rational if the perceived benefits are greater than the perceived costs. The decision to act in a certain way can be rational even if the actions turns out to be something that the individual later regrets.

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.2 Economic Behavior | What Is Rational Behavior?

181. Explain why economists believe that an individual who commits a crime does so acting in his/her own self-interest.

ANSWER: It is expected that the individual committing a crime is trying to make her/himself better off, and has considered the potential consequences of her/his actions (perhaps getting caught and punished).

POINTS: 1

REFERENCES: p. 7

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.2 Economic Behavior | Self-Interest

182. What is the difference between a hypothesis and a theory?

ANSWER: A hypothesis about behavior is the first step in developing and constructing a theory. A hypothesis is testable and makes a prediction about behavior in response to changed circumstances. If a hypothesis is shown to be consistent with real-world data, it can be tentatively accepted as an economic theory.

POINTS: 1

REFERENCES: p. 10-11

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.3 Economic Theory | Economic Theories

183. Why is abstraction important in developing economic theories?

ANSWER: Economic theories cannot realistically include every event that has ever occurred. A theory weeds out the irrelevant facts from the relevant ones. An economic theory provides a broad view, not a detailed examination, of human economic behavior.

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.3 Economic Theory | Abstraction Is Important

184. The Environmental Protection Agency asks you to help them understand the causes of urban pollution. You develop the following two hypotheses. Test each hypothesis against the given facts, identify which fits the facts better, and offer a theory based on your observation.

- I. Air pollution will be a greater problem the higher the average temperature in an urban area.
- II. Air pollution will be a greater problem the greater the population located in an urban area.

Urban Area	Days with Polluted Air	Average Max Temperature	Population (in thousands)
Los Angeles, CA	104.3	70.4	15,302
Portland, ME	11.8	54.9	445
Cincinnati, OH	1.3	63.2	1,894
Milwaukee, WI	3.9	54.3	1,637
San Diego, CA	11.8	70.8	2,632
El Paso, TX	3.7	77.5	665
Atlanta, GA	4.2	71.2	3,331
Philadelphia, PA	10.3	63.4	5,957

ANSWER: This data supports hypothesis II better than hypothesis I. Four of the five cities that experienced the most days of polluted air are large population centers. Only three of the five hottest cities ranked among the lowest in air quality, by contrast. The other two, El Paso and Atlanta, experienced a comparatively low number of days of polluted air. Therefore we can make a theoretical statement that, in general, air pollution will increase as population increases. Surprisingly, Portland, Maine, has the coldest climate and also a small population base and it experienced a low quality of air more often than most cities.

POINTS: 1

REFERENCES: p. 10

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.3 Economic Theory | Developing a Testable Proposition

185. Darla is surprised to find that the quality of in-flight service remains much the same despite a steep hike in air-fares recently. What could be wrong in her assumption that a higher price naturally translates into better quality?

ANSWER: The fact that two variables might be related does not necessarily mean that one causes the other to occur. Darla could be ignoring other variables involved in this scenario. Increase in fares might have been necessitated by factors such as increase in aviation fuel prices, margin pressures etc.

POINTS: 1

REFERENCES: p. 14-15

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | Confusing Correlation and Causation

186. Identify the error in judgment in each of the following statements:

- I. "If you leave a concert during the encore, you will avoid traffic and get home more rapidly; therefore everyone should leave during the encore."
- II. "Whenever I wear my lucky baseball cap to an exam, I receive an "A." My baseball cap must induce the teacher to give me good grades."

ANSWER: Statement I is an example of the fallacy of composition.
Statement II is an example of confusing association with causation.

POINTS: 1

REFERENCES: p. 14-16
QUESTION TYPE: Subjective Short Answer
TOPICS: 1.4 Pitfalls to Avoid in Scientific Thinking | Confusing Correlation and Causation

187. "Government should do all it can to slow the process of global warming." Is this a positive or normative statement? Explain your answer.

ANSWER: This is a normative statement. The key is the inclusion of the word "should" in the statement. It is a value judgment.

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

188. "The president of the world's biggest polluter (the United States) needs to do more than propose well-intentioned but insufficient measures that amount to using a squirt gun to quell a raging fire." Is this a positive or a normative economic statement? Explain your answer.

ANSWER: This statement is normative. The key is the phrase "the president... needs to do more." This is a value judgment on the speaker's part.

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.5 Positive Statements and Normative Statements | Normative Statement

189. "If the price of wine increases, the quantity purchased will increase." Is this a positive or a normative economic statement? Explain your answer.

ANSWER: Since it is a testable proposition, it is a positive economic statement. The statement need not be true, only testable.

POINTS: 1

REFERENCES: p. 16-17

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

190. Indicate whether each of the following is a positive or normative economic statement:

- I. The imposition of a price ceiling below equilibrium price will lead to a shortage of housing.
- II. The local government should control the rate of increase in rents so that low-income residents are not forced to move from the area.

ANSWER: Statement I is a positive economic statement because it is testable.
Statement II is a normative economic statement because it reflects a value judgment.

POINTS: 1

REFERENCES: p. 16-17

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Statement

191. When economists disagree, it is often over what type of issues?

ANSWER: Economists generally disagree on policy issues that require utilizing normative economic analysis. Differences in beliefs or values lead to conflicts as to the best resolution of an economic problem.

POINTS: 1

REFERENCES: p. 17

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.5 Positive Statements and Normative Statements | Disagreement Is Common in Most Disciplines

192. Why would economists disagree over positive analysis?

ANSWER: Economists might disagree over positive analysis for at least two reasons. One, a particular model may yield mixed results. Two, the information available may be insufficient to make a compelling theory.

POINTS: 1

REFERENCES: p. 16-17

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.5 Positive Statements and Normative Statements | Positive Versus Normative Analysis

193. What is the difference between dependent and independent variables?

ANSWER: A variable is a quantity that can take on different numeric values. A dependent variable is one that depends on the independent variables. That is, the dependent variable value changes according to the values of independent variables, while an independent variable is truly independent.

POINTS: 1

REFERENCES: p. 30

QUESTION TYPE: Subjective Short Answer

TOPICS: APPENDIX Working with Graphs | Using Graphs to Show the Relationship Between Two Variables

194. Why are graphs such an important tool in economics?

ANSWER: Graphs allow us to express a substantial amount of information in a limited space and represent relationships between different variables.

POINTS: 1

REFERENCES: p. 28

QUESTION TYPE: Subjective Short Answer

TOPICS: APPENDIX Working with Graphs | Graphs Are an Important Economic Tool

195. How do we measure the slope of a linear curve?

ANSWER: A straight-line curve is called a linear curve. The slope of a linear curve between two points measures the relative rates of change of two variables. Specifically, the slope of a linear curve can be defined as the ratio of the change in the Y value to the change in the X value. The slope can also be expressed as the ratio of the rise to the run, where the rise is the change in the Y variable (along the vertical axis) and the run is the change in the X variable (along the horizontal axis).

POINTS: 1

REFERENCES: p. 31-32

QUESTION TYPE: Subjective Short Answer

TOPICS: APPENDIX Working with Graphs | Using Graphs to Show the Relationship Among Three Variables

196. How do we find the slope of a nonlinear curve?

ANSWER: We can find the slope at a given point by drawing a straight-line tangent to that point on the curve (when a straight line just touches the curve without actually crossing it) and calculating the slope of the tangent line.

POINTS: 1

REFERENCES: p. 32-33

QUESTION TYPE: Subjective Short Answer

TOPICS: APPENDIX Working with Graphs | Using Graphs to Show the Relationship Among Three Variables

197. Why is prediction in social sciences like economics more difficult than in physical sciences?

ANSWER: The major reason for the difference is that the social scientists are concerned with human behavior. Human behavior is more variable and often less readily predictable than the behavior of experiments observed in a laboratory.

POINTS: 1

REFERENCES: p. 12

QUESTION TYPE: Subjective Short Answer

TOPICS: 1.3 Economic Theory | Why Are Observation and Prediction Harder in the Social Sciences?