

Chapter 1 - The Art and Science of Economic Analysis

Multiple Choice

1. The fact that people have unlimited wants means that:
- a. they always want more of at least one good.
 - b. each person has an unlimited desire for every good.
 - c. labor unions demand wage increases.
 - d. selfish people are not concerned about others.
 - e. people buy goods without regard to what they can afford.

ANSWER: a, b, c, d, e

2. The problem of scarce resources:
- a. means that there are not enough jobs in some cities.
 - b. could be solved if the unemployment rate fell.
 - c. is that there are not enough resources to satisfy people's unlimited wants.
 - d. is that resources are used inefficiently.
 - e. can be solved by lowering taxes.

ANSWER: a, b, c, d, e

3. Which of the following sentences is the best example of scarcity of time?
- a. Peter buys a hamburger.
 - b. John-Michael wants to spend his money on a new hoverboard.
 - c. Alexander is doing homework instead of going to the movies with his friends.
 - d. Amanda, a geography teacher, is retired.
 - e. Bill is unemployed.

ANSWER: a, b, c, d, e

4. Scarcity:
- a. applies to a brain surgeon but not to a cab driver.
 - b. is not a problem for a politician.
 - c. exists only in rich countries.
 - d. exists only in poor countries.
 - e. occurs when a resource is not freely available.

ANSWER: a, b, c, d, e

5. Because people's wants are unlimited but resources are scarce, ____:
- a. only the rich get everything they want.
 - b. choices must be made.
 - c. there will be more services produced than goods.
 - d. people search for spiritual fulfillment rather than material fulfillment.
 - e. poor people never get anything they want.

ANSWER: a, b, c, d, e

6. Which of the following statements regarding the basic economic problem of scarcity is

correct?

- a. The problem only exists in countries that are not highly industrialized.
- b. The problem is likely to disappear as production increases.
- c. The problem is sure to disappear as technology improves.
- d. The problem will exist as long as resources are available in limited amounts.
- e. The problem will disappear as a person's income falls.

ANSWER: a, b, c, d, e

7. Economics is best defined as the study of how:

- a. individuals decide to use scarce resources in an attempt to satisfy their unlimited wants.
- b. individuals can make money.
- c. the government should deal with unemployment and inflation.
- d. to eliminate the problem of scarce resources.
- e. to run a business.

ANSWER: a, b, c, d, e

8. Benjamin works as an economist for the federal government. Which of the following questions is he trying to answer as part of his job?

- a. How can I get rich by playing the stock market?
- b. What are the best ways to reduce people's wants, given the scarcity of resources?
- c. How can rational government officials determine what goods should be produced?
- d. What is money?
- e. How do people use limited resources to try to satisfy unlimited wants?

ANSWER: a, b, c, d, e

9. Which of the following is the best definition of economics?

- a. An investigation of the quantities and prices of the various goods produced by the nations of the world
- b. A study of why inflation and unemployment periodically plague the U.S. economy
- c. An analysis of how individuals and societies deal with the problem of scarcity
- d. An examination of the role that money plays in the economy
- e. A study of how goods and services are distributed throughout the world

ANSWER: a, b, c, d, e

10. Alan is a retired economist who enjoys building toy trains for his grandkids. He uses a workbench and tools from his garage, lumber he bought from the lumber store for \$10, and varnish and paint he had left over from another project last year. Since a retired economist is always an economist, which of the following statements does he make about building toy trains?

- a. I'm not paying for any resources, so the toy trains I'm building are a good example of free goods.
- b. I only paid \$10 for the lumber, so the toy trains I'm building are a good example of free goods.
- c. I'm using scarce resources to build the toy trains.
- d. The resources I'm using to build the toy trains are not scarce.

e. If I had used lumber that I cut from the tree in my backyard instead of buying it from the store, then the toy trains I'm building would be a good example of free goods.

ANSWER: a, b, c, d, e

11. Economics is best described as the:

- a. study of choice when scarcity exists.
- b. study of the production of goods and services.
- c. theory of consumer behavior.
- d. science of money.
- e. art of spending money wisely.

ANSWER: a, b, c, d, e

12. Michigan has an abundant supply of fresh water. However, an economist would consider it a scarce resource because:

- a. water is necessary for human survival.
- b. pollution will eventually destroy all life in the Great Lakes.
- c. water is limited relative to people's unlimited wants.
- d. water commands a very high price.
- e. nature can destroy water as well as create it.

ANSWER: a, b, c, d, e

13. Economics:

- a. studies human behavior when scarcity exists and choices must be made.
- b. provides the only reasonable explanation of how people make decisions.
- c. can accurately explain all human behavior since it is based on the assumption of rationality.
- d. is better at showing the way things ought to be than the other social sciences.
- e. is the only social science that can explain the existence and behavior of public institutions.

ANSWER: a, b, c, d, e

14. A resource is something that:

- a. is used to produce goods and services.
- b. is provided by nature, not produced by society.
- c. exists in unlimited quantities.
- d. must be produced by a firm.
- e. is always available free of cost.

ANSWER: a, b, c, d, e

15. Natural resources are:

- a. not considered scarce because no one pays for them.
- b. only desired for use in producing other goods.
- c. included in the category of resources called gifts of nature.
- d. available in unlimited quantities.
- e. not considered scarce because they are not produced by society.

ANSWER: a, b, c, d, e

16. Which of the following is the fundamental resource that is the basis of labor?

- a. Capital
- b. Natural resources
- c. Time
- d. Money
- e. Entrepreneurial ability

ANSWER: a, b, c, d, e

17. In economics, capital is defined as:

- a. natural resources, such as water, oil, and iron ore.
- b. the natural, unskilled abilities of people.
- c. human creations used in the production process.
- d. money and other financial assets.
- e. the willingness of business owners to take risks.

ANSWER: a, b, c, d, e

18. Which of the following would an economist classify as physical capital?

- a. 100 shares of Microsoft stock
- b. A \$50 bill
- c. A credit card
- d. A lawyer's laptop
- e. A bauxite mine in Jamaica

ANSWER: a, b, c, d, e

19. Economists classify all of the following as physical capital, except one. Which one is not capital?

- a. A \$20 bill in a firm's petty cash drawer
- b. The building where an economics class meets
- c. A plumber's wrench
- d. A railroad car
- e. A factory

ANSWER: a, b, c, d, e

20. When economists refer to capital, they might mean:

- a. money.
- b. human skills used in production.
- c. stocks.
- d. bonds.
- e. bank loans.

ANSWER: a, b, c, d, e

21. Which of the following is an example of physical capital?

- a. The owner of a pizza shop
- b. Bulldozers
- c. A college education
- d. Carpentry skills
- e. Money

ANSWER: a, b, c, d, e

22. The payments in return for labor and capital are ____, respectively.

- a. profit and rent
- b. interest and profit
- c. rent and wages
- d. profit and wages
- e. wages and interest

ANSWER: a, b, c, d, e

23. An entrepreneur:

- a. always makes a profit.
- b. generally avoids risky situations.
- c. claims the profit after other resource suppliers are compensated.
- d. is a parasite that benefits by not paying other resources for their services.
- e. is the manager who runs an enterprise and keeps the customers happy.

ANSWER: a, b, c, d, e

24. If a business produces and sells only one unit of a good, its profit would be the:

- a. price received for the good.
- b. price of the product minus the cost of the resources used to produce the product.
- c. return paid to the firm's bank on its outstanding loans.
- d. price of the product minus the wages paid for the labor used to produce it.
- e. wages paid for the labor used to produce the product minus the price.

ANSWER: a, b, c, d, e

25. As resources are scarce, ____.

- a. opportunity costs are zero.
- b. people must make choices among alternatives.
- c. all human wants and desires can be satisfied.
- d. resource prices are fixed.
- e. commodities are free.

ANSWER: a, b, c, d, e

26. Which of the following broad categories are resources divided into?

- a. People, money, and machines
- b. Savings, spending, investment, and capital
- c. Human, technological, and government
- d. Natural resources, labor, capital, and entrepreneurial ability
- e. Free, scarce, abundant, and unlimited

ANSWER: a, b, c, d, e

27. Natural resources:

- a. include bodies of water, trees, oil reserves, and minerals.
- b. are not scarce.
- c. are exhaustible as long as they are managed properly.
- d. are the result of human effort.
- e. are machines used in the production process.

ANSWER: a, b, c, d, e

28. In economics, capital refers to:

- a. money.
- b. stocks, bonds, and other financial assets.
- c. the seat of the government.
- d. machines, buildings, tools, and knowledge.
- e. net worth (assets minus liabilities).

ANSWER: a, b, c, d, e

29. An entrepreneur is:

- a. an individual who has an education.
- b. an organizer who seeks profitable opportunities and is willing to accept risks.
- c. a person who is hired by a firm to manage its operations.
- d. a person who earns profit without accepting any risks.
- e. a person who is appointed by the board of directors of a firm for a term of five years.

ANSWER: a, b, c, d, e

30. The difference between a good and a service is that:

- a. a good helps satisfy unlimited wants, but a service does not.
- b. a service helps satisfy unlimited wants, but a good does not.
- c. a service is available in unlimited quantities, but a good is not.
- d. a good is available in unlimited quantities, but a service is not.
- e. a good is tangible, but a service is not.

ANSWER: a, b, c, d, e

31. Which of the following is a service?

- a. Anything that is scarce and that satisfies unlimited human wants
- b. A thing for which people pay money
- c. An intangible activity that satisfies human wants
- d. Any output produced by a service sector industry, such as fast food
- e. Something less desirable than a good

ANSWER: a, b, c, d, e

32. Goods and services are scarce because:

- a. people are greedy.

- b. they are produced using scarce resources.
- c. firms keep production low in order to earn higher profits.
- d. they are produced by firms that seek profits.
- e. the government wants to maintain its power over the economy.

ANSWER: a, b, c, d, e

33. The expression "There's no such thing as a free lunch" means that:

- a. services may be free, but goods are never free.
- b. even if it has a price of zero, a good or service has a cost.
- c. charitable organizations should not serve free lunches to the poor.
- d. poor people are really the ones who pay for their allegedly free lunches.
- e. someone has to pay the market price for a good or service.

ANSWER: a, b, c, d, e

34. Your best friend buys you lunch on your birthday. You think this was not a free lunch because:

- a. even if you didn't pay dollars for it, you paid for it in extra calories.
- b. the resources used to produce the lunch were not available to satisfy other wants.
- c. you disagree with the expression "The best things in life are free."
- d. you can eat only if you work out first.
- e. neither sea water nor air is free.

ANSWER: a, b, c, d, e

35. A good or service is considered scarce if:

- a. any quantity of it can be consumed at a zero price.
- b. the amount people desire exceeds the amount available at a zero price.
- c. the amount people desire exceeds the amount available at any price.
- d. the amount people desire is less than the amount available at any price.
- e. the amount people desire is less than the amount available at a zero price.

ANSWER: a, b, c, d, e

36. Unlike a service, a good:

- a. is desirable.
- b. uses resources to satisfy wants.
- c. is physical and tangible.
- d. is abundant and free.
- e. is a resource.

ANSWER: a, b, c, d, e

37. Goods and services are exchanged in:

- a. product markets.
- b. resource markets.
- c. inventory markets.
- d. classified markets.
- e. government markets.

ANSWER: a, b, c, d, e

38. In a circular-flow model, households supply all of the following except:

- a. labor.
- b. goods and services.
- c. capital.
- d. entrepreneurial ability.
- e. natural resources.

ANSWER: a, b, c, d, e

39. Which of the following is true about the resource market?

- a. It facilitates the exchange of goods and services between buyers and sellers.
- b. It facilitates the exchange of resources between buyers and sellers.
- c. Firms are sellers in the resource market.
- d. Households are buyers in the resource markets.
- e. There is no flow of money in the resource market.

ANSWER: a, b, c, d, e

40. The choices made by economic decision makers:

- a. are government decisions only.
- b. are the primary focus of economics.
- c. are not important in economic analysis.
- d. occur infrequently.
- e. do not involve ordinary citizens.

ANSWER: a, b, c, d, e

41. Households:

- a. own and sell resources.
- b. play a very minor role in the economy.
- c. supply goods and services.
- d. are the largest purchasers of resources.
- e. set the price for goods.

ANSWER: a, b, c, d, e

42. The labor market is an example of a:

- a. government market.
- b. classified market.
- c. communication market.
- d. resource market.
- e. product market.

ANSWER: a, b, c, d, e

43. The assumption that individuals act rationally implies that:

- a. people think only of themselves and disregard the well-being of others.

- b. people undertake all those activities that yield benefits to themselves.
- c. people only consider the costs of an activity to decide whether it is worthwhile.
- d. the greater the cost of a charitable deed to a benefactor, the more likely he or she is to perform that deed.
- e. people implicitly calculate the costs and benefits of an activity to decide if it is worthwhile.

ANSWER: a, b, c, d, e

44. Rational choice by an individual implies:

- a. the use of a mathematical model when solving a problem.
- b. making decisions aimed at achieving some predetermined goal.
- c. that only monetary costs and benefits are weighed.
- d. that only monetary costs and benefits are weighed.
- e. that scarcity can be eliminated for that individual.

ANSWER: a, b, c, d, e

45. Economists believe that:

- a. people who choose to promote the interests of others cannot be acting rationally in their own self-interest.
- b. people show concern only for those whom they know personally.
- c. charitable donations would disappear if tax deductions for charitable giving were eliminated.
- d. the notion of self-interest rules out concern for others.
- e. concern for the welfare of others is consistent with the concept of self-interest.

ANSWER: a, b, c, d, e

46. Which of the following would be a topic considered in the field of macroeconomics?

- a. The study of the amazing recent growth of the Chinese economy
- b. The study of the relocation of U.S. manufacturing firms to China
- c. The study of the differences in wages between men and women in the United States
- d. The study of the effect of rent control on the housing market in New York City
- e. The study of the impact of environmental regulations on the well-being of human populations

ANSWER: a, b, c, d, e

47. Consumers need information to make good choices. In the context of this information, which of the following is correct?

- a. Advertising is always harmful to consumers.
- b. Information is scarce and therefore valuable.
- c. Brand names offer no informational content.
- d. Acquiring more information is always rational.
- e. Marginal analysis does not apply to the acquisition of information.

ANSWER: a, b, c, d, e

48. Economists generally believe that:

- a. buyers and sellers have all the information they can use.
- b. additional information is costly to acquire.
- c. decision makers have complete knowledge of all the alternatives available.
- d. economic decisions result from random behavior.
- e. decision makers never make mistakes.

ANSWER: a, b, c, d, e

49. Rational economic decision makers will make a change only if:

- a. the change is free of risk.
- b. there are no costs involved.
- c. their expectations are correct.
- d. there is no uncertainty about the results of the change.
- e. the expected marginal benefit exceeds expected marginal cost.

ANSWER: a, b, c, d, e

50. Economic information:

- a. is usually scarce and costly to acquire.
- b. is usually available free to any decision maker.
- c. is usually not required for rational decision making.
- d. must be complete before any decision is made.
- e. is usually useful only to governments.

ANSWER: a, b, c, d, e

51. In economics, the term marginal usually refers to:

- a. a small change in an economic variable.
- b. a low-quality product or resource.
- c. an unimportant and irrelevant economic variable.
- d. an all-or-nothing economic decision.
- e. a footnote or minor point.

ANSWER: a, b, c, d, e

52. When economic choice involves an adjustment to an existing situation, marginal analysis:

- a. has no practical applications or real-world uses.
- b. eliminates incorrect decisions and bad choices.
- c. involves comparing the additional costs and additional benefits of an activity before deciding.
- d. involves examining only the total costs and total benefits of an activity before deciding.
- e. guarantees an incorrect decision.

ANSWER: a, b, c, d, e

53. Economists believe that people respond in a predictable way to changes in costs and benefits. The term that best describes this phenomenon is:

- a. opportunity cost.
- b. scarcity.

- c. innovation.
- d. marginal analysis.
- e. other things equal (or ceteris paribus).

ANSWER: a, b, c, d, e

54. When economists say that people act as rational decision makers, they mean that:

- a. people gather all relevant information before making their purchases.
- b. once a pattern of behavior has been established, people tend to become set in their ways.
- c. people respond in predictable ways to changes in costs and benefits.
- d. people rarely make errors when permitted to make transactions.
- e. once made, decisions are never reversed.

ANSWER: a, b, c, d, e

55. In economics, marginal means:

- a. incremental.
- b. unimportant.
- c. level or size.
- d. a borderline situation.
- e. a bad alternative.

ANSWER: a, b, c, d, e

56. You want to sell your old iPad that you no longer use, and your cousin wants to give you \$300 for it. If you decide to sell your iPad to your cousin, you'll have to pay \$40 for shipping the iPad to your cousin. As a rational decision maker, you should:

- a. sell it because the marginal benefit is smaller than the marginal cost.
- b. not sell it because the marginal benefit is smaller than the marginal cost.
- c. sell it because the marginal benefit is greater than the marginal cost.
- d. not sell it because the marginal benefit is greater than the marginal cost.
- e. sell it because the marginal benefit is equal to the marginal cost.

ANSWER: a, b, c, d, e

57. To say that people make decisions at the margin means that:

- a. they usually wait until the last minute before making a decision to buy.
- b. they weigh the additional costs and the additional benefits of various activities before they make a decision.
- c. most people just barely get by on the incomes they earn and live from day-to-day on the very edge of subsistence.
- d. if given a choice, most people would prefer to make their own decisions concerning the things that affect their lives.
- e. they consider the total cost and the total benefit of various activities before they make a purchase.

ANSWER: a, b, c, d, e

58. Patrick decided to go to class today instead of going to the movies. He made this

decision because:

- a. Patrick's additional benefit of going to class exceeds the additional cost of going to class.
- b. Patrick's additional benefit of going to the movies exceeds the additional cost of going to class.
- c. Patrick's additional benefit of going to class exceeds the additional cost of going to the movies.
- d. Patrick's additional benefit of going to the movies exceeds the additional cost of going to the movies.
- e. Patrick's additional benefit of going to class equals the additional cost of going to the movies.

ANSWER: a, b, c, d, e

59. A rational decision maker will take only those actions for which the expected marginal benefit:

- a. is positive.
- b. is at its maximum level.
- c. is greater than or equal to the expected marginal cost.
- d. is less than the expected marginal cost.
- e. exactly equals the expected marginal cost.

ANSWER: a, b, c, d, e

You want to sell your old iPad because you no longer use it, and your cousin wants to give you \$200 for it. If you decide to sell your iPad to her, you'll have to pay the shipping fee to get the iPad to her. As a rational decision maker, you will sell your old iPad to your cousin when the shipping fee is:

60. You want to sell your old iPad because you no longer use it, and your cousin wants to give you \$200 for it. If you decide to sell your iPad to her, you'll have to pay the shipping fee to get the iPad to her. As a rational decision maker, you will sell you

- a. \$350.
- b. \$250.
- c. \$301.
- d. \$299.
- e. \$199.

ANSWER: a, b, c, d, e

61. You currently subscribe to two magazines and are trying to decide whether you should subscribe to a third. What should determine your decision if you are economically rational?

- a. The total cost of the magazines compared to the total satisfaction you would receive
- b. The total amount of satisfaction you would get from the magazines
- c. The enjoyment you would get from the third magazine
- d. The cost of the third magazine including the time it takes to read it
- e. The cost of the third magazine compared to the additional enjoyment you would get from it

ANSWER: a, b, c, d, e

62. Microeconomics is the study of:

- a. marginal or inferior products.
- b. how to use the fewest natural resources to produce goods and services.
- c. the behavior of the economy as a whole.
- d. the economic behavior of individual decision makers.
- e. the government's role as a producer in the economy.

ANSWER: a, b, c, d, e

63. Macroeconomics is the study of:

- a. the behavior of large firms in the marketplace.
- b. the economic behavior of individual decision makers.
- c. the behavior of the economy as a whole.
- d. how to use the fewest natural resources to produce goods and services.
- e. the government's role as a stabilizing influence on the economy.

ANSWER: a, b, c, d, e

64. The economic behavior of individual decision makers and the determination of price and output in specific markets are both studied in:

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

ANSWER: a, b, c, d, e

65. Macroeconomists analyze:

- a. the labor market.
- b. the arrangements through which specific products are exchanged.
- c. influences on the decision making of particular households.
- d. the impact of unemployment on the economy.
- e. the factors that affect the decisions of individual firms.

ANSWER: a, b, c, d, e

66. A good economic theory:

- a. approaches reality in all its complexity.
- b. involves so much distortion of reality that it is worthless.
- c. focuses on the unique aspects of each situation.
- d. involves some simplification of reality.
- e. bears no relation to reality.

ANSWER: a, b, c, d, e

67. A good theory seeks to:

- a. distort reality in order to improve forecasting ability.

- b. predict phenomena without explaining them.
- c. explain phenomena without predicting them.
- d. confront reality in all its complexity by focusing on the unique aspects of each phenomenon.
- e. simplify a complex reality.

ANSWER: a, b, c, d, e

68. The simple circular-flow model for households and firms is an economic model that focuses on the interaction between households and firms. Which of the following statements regarding the model is correct?

- a. The model is missing the interaction between firms and the resource market. Therefore, it cannot predict well.
- b. The model is missing the interaction between households and the product market. Therefore, it cannot predict well.
- c. The model has too many simplifying assumptions, and it cannot be used to make predictions about the real world.
- d. The model is a simplification of the real world, and it can be used to make predictions about the real world.
- e. The model is missing the interaction between firms and the product market. Therefore, it cannot predict well.

ANSWER: a, b, c, d, e

69. An economic model:

- a. omits critical elements.
- b. must be presented in mathematical terms.
- c. simplifies reality in order to focus on its essential elements.
- d. can never be proven wrong if its assumptions are realistic.
- e. produces poor predictions if it includes an unrealistic assumption.

ANSWER: a, b, c, d, e

70. Economic theories are:

- a. useful because they are as exact as theories in the physical sciences.
- b. useless because they are based on abstractions.
- c. useful because they allow us to make predictions.
- d. too complex to understand because they include all of reality.
- e. useful in predicting events only if their assumptions are realistic.

ANSWER: a, b, c, d, e

71. A good economic theory:

- a. has realistic assumptions.
- b. contains as much detail as possible.
- c. cannot be proven false.
- d. predicts well.
- e. can only be presented in mathematical terms.

ANSWER: a, b, c, d, e

72. The basic purpose of economic models is to:

- a. construct simplifying assumptions about the real world.
- b. explain reality in all its complexity.
- c. collect empirical data to support the facts.
- d. construct situations where controlled experiments can be carried out.
- e. explain and predict economic events.

ANSWER: a, b, c, d, e

73. When constructing an economic model, economists:

- a. rely mostly on their own value judgments and ignore the far more complex world of facts.
- b. always try to duplicate reality by including all available information.
- c. use assumptions that are true for the individual but never true for the whole economy.
- d. must rely on assumptions for the sake of simplification.
- e. are primarily concerned with making realistic assumptions.

ANSWER: a, b, c, d, e

74. All economic models must involve simplifications because:

- a. economists would be unable to command high salaries if their models were so simple that anyone could understand them.
- b. human behavior is very erratic and unpredictable.
- c. reality is too complex to understand in its entirety, so we must reduce the complexity to a level that we can understand.
- d. they always try to duplicate all possible information and cover all possible variables that might influence decision making.
- e. we must rely on value judgments and ignore reality.

ANSWER: a, b, c, d, e

75. Economists employ the scientific method. In part, this means that:

- a. there is a single economic theory accepted by all economists.
- b. economic hypotheses are tested to determine their validity.
- c. all economic laws have been proven true by laboratory tests.
- d. personal values never enter into economic policy recommendations.
- e. assumptions are not necessary in economic science.

ANSWER: a, b, c, d, e

76. An economic model is useful if it:

- a. includes every detail of reality.
- b. involves no unproven assumptions.
- c. is expressed in equations.
- d. makes accurate predictions.
- e. is simple enough to be understood by a child.

ANSWER: a, b, c, d, e

77. An economic model that sometimes makes incorrect predictions may be used by economic decision makers:

- a. under no circumstances.
- b. only if its assumptions are detailed and realistic.
- c. if it is mathematical and computerized.
- d. if it is simple enough for a child to understand.
- e. until a better model is developed.

ANSWER: a, b, c, d, e

78. Economic theory:

- a. expresses normative values.
- b. invents imaginative and interesting stories.
- c. predicts the behavior of a specific economic decision maker after an economic change.
- d. predicts the average behavior of a group of similar economic decision makers after an economic change.
- e. uses only perfect and complete information.

ANSWER: a, b, c, d, e

79. Which of the following is an accurate list, in order, of the steps of the scientific method?

- a. Define variables; state assumptions; form a hypothesis; test
- b. State assumptions; define variables; form a hypothesis; test
- c. Identify variables; state assumptions; test; form a hypothesis
- d. Identify variables; form a hypothesis; form behavioral assumptions; test
- e. Define assumptions; form behavioral assumptions; form hypothesis; test

ANSWER: a, b, c, d, e

80. The other-things-constant assumption:

- a. allows the economist to make useful predictions.
- b. is a prediction.
- c. applies only to consumers' decisions and not to those of firms.
- d. forces the economist to ignore reality, where things are constantly changing.
- e. implies rational self-interest on the part of all economic actors.

ANSWER: a, b, c, d, e

81. In an economic model of consumer behavior, rational self-interest would likely be:

- a. a key variable.
- b. the hypothesis of the model.
- c. a behavioral assumption.
- d. a prediction of the model.
- e. a method of testing the model.

ANSWER: a, b, c, d, e

82. Behavioral assumptions:

- a. make economic models more complex than if these assumptions were removed.
- b. pertain only to consumers.
- c. hold all other things constant.
- d. are ways to test a hypothesis.
- e. describe how individuals are expected to behave.

ANSWER: a, b, c, d, e

83. A hypothesis is:

- a. an assumption about behavior.
- b. a prediction of what will occur given certain assumptions.
- c. a prediction of what will occur regardless of assumptions.
- d. a forecast of future events.
- e. useful only if the assumptions are realistic.

ANSWER: a, b, c, d, e

84. Which of the following is not a part of the scientific method in economics?

- a. Normative statements
- b. Comparing predictions to evidence
- c. Formulating a hypothesis
- d. A hypothesis
- e. Behavioral assumptions

ANSWER: a, b, c, d, e

85. The assumption of rational self-interest means that economic decision makers:

- a. have no concern for the welfare of others.
- b. make reasonable decisions based on their expectations of results.
- c. know with certainty which choice will have the best result.
- d. consider the welfare of others to be more important than their own happiness.
- e. do not make incorrect decisions or bad choices.

ANSWER: a, b, c, d, e

86. The scientific method is useful:

- a. only in fields of science such as chemistry and physics.
- b. for testing the validity of theoretical predictions.
- c. for testing the validity of a model's assumptions.
- d. when no economic variables can be assumed to be constant.
- e. only if a theory has been proven to be true.

ANSWER: a, b, c, d, e

87. Step one in the scientific method is to:

- a. formulate a hypothesis.
- b. reflect an opinion.
- c. specify assumptions.
- d. identify the question and define relevant variables.

e. test the hypothesis.

ANSWER: a, b, c, d, e

88. Economists believe that individuals respond in a predictable way to changes in costs and benefits. The term that best describes this belief is:

a. opportunity cost.

b. demand.

c. supply.

d. scarcity.

e. rational behavior.

ANSWER: a, b, c, d, e

89. Which of the following is an example of a positive economic statement?

a. Workers with families should be paid at least the minimum wage.

b. If crime rates reduced, the world would be a better place to live in.

c. Marginal tax rates should be reduced for individuals in the highest tax bracket.

d. An increase in the price of gasoline will cause a reduction in the amount of gasoline purchased.

e. Corrupt politicians ought to be voted out of office.

ANSWER: a, b, c, d, e

90. Which of the following is a positive statement?

a. The unemployment rate of 7 percent or higher is a national disgrace.

b. Unemployment is a less important problem than inflation.

c. When the national unemployment rate is 7 percent, the unemployment rate among inner-city youth is often close to 40 percent.

d. Unemployment and inflation are equally important problems.

e. An inflation rate of 7 percent is too high.

ANSWER: a, b, c, d, e

91. A normative economic statement:

a. is a hypothesis used to test economic theory.

b. is a statement of fact.

c. is a statement of what ought to be, not what is.

d. indicates what will occur if certain assumptions are true.

e. enables economists to test hypotheses.

ANSWER: a, b, c, d, e

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

a. The U.S. rate of unemployment was lower in 2004 than it was in 1994.

b. Savings accounts earn interest, whereas checking accounts do not.

c. Congress must recognize that the growing national debt is the most serious problem that the country faces.

d. The unemployment rate increases when the percentage of the labor force without jobs increases.

e. The unemployment rate among teenagers is higher than the rate among adults.

ANSWER: a, b, c, d, e

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

a. Incomes increase when national production increases.

b. Women should earn the same income as men.

c. When the price of a good rises, people will buy more of it.

d. The more time you spend studying, the higher your economics test scores will be.

e. The more time you spend studying for chemistry, the higher your economics test score will be.

ANSWER: a, b, c, d, e

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

a. If the money supply falls, interest rates will rise.

b. Teenage unemployment would be lower if there were no minimum wage.

c. The quantity of shirts sold increases as the price of shirts decreases.

d. The federal government's total spending should be reduced.

e. If interest rates go up, then construction activity will fall.

ANSWER: a, b, c, d, e

95. "There should be less discrimination against the elderly." This is an example of a:

a. normative statement.

b. positive statement.

c. forecast.

d. theory.

e. prediction.

ANSWER: a, b, c, d, e

96. The difference between a positive economic statement and a normative economic statement is that:

a. a positive statement must be true, while a normative statement is often not true.

b. a normative statement must be true, while a positive statement is often not true.

c. a positive statement can be verified, while a normative statement cannot.

d. a normative statement can be verified, while a positive statement cannot.

e. a positive economic statement is a moral judgment, while a normative economic statement is not a moral judgment.

ANSWER: a, b, c, d, e

97. The difference between positive economic statements and normative economic statements is that:

a. positive statements are based on opinion while normative statements are always true.

b. positive statements are based on opinion while normative statements are based on fact.

c. positive statements are true and normative statements are often false.

d. positive statements are often false and normative statements are true.

e. positive statements are based on fact while normative statements are based on opinion.

ANSWER: a, b, c, d, e

98. Economists tell stories:

- a. in order to breathe life into economic theory and personalize abstract ideas.
- b. because economics is an art, not a science.
- c. as a way of rigorously testing economic theory.
- d. because doing so is a required part of the scientific method.
- e. to show how their theory can predict at least one real-world situation.

ANSWER: a, b, c, d, e

99. To tell a compelling story, an economist relies on:

- a. case studies and parables.
- b. anecdotes and personal experiences.
- c. irrelevant data.
- d. anecdotes and irrelevant data.
- e. case studies, anecdotes, parables, personal experience, and supporting data.

ANSWER: a, b, c, d, e

100. Alicia makes the statement that every time she eats chocolate, she gets acne. By ignoring the possibility that there may be another factor that causes Alicia to eat chocolate and which also causes her acne, Alicia is committing the:

- a. fallacy of composition.
- b. fallacy that association is causation.
- c. fallacy of segmentation.
- d. mistake of ignoring secondary effects.
- e. mistake of looking beyond the obvious.

ANSWER: a, b, c, d, e

101. Elijah, a basketball fan, reasons that because his favorite team has three superstars on it, the team must be a great team and will win the championship. Elijah is committing the:

- a. fallacy of composition.
- b. fallacy that association is causation.
- c. fallacy of segmentation.
- d. mistake of ignoring the secondary effects.
- e. mistake of ignoring the obvious.

ANSWER: a, b, c, d, e

102. Environmentalists have continually argued for the use of alternatives to fossil fuels to generate energy. Harnessing wind power by setting up wind farms had been one alternative proposed and implemented. As it is now known that these wind farms lead to the slicing and dicing of migratory birds and the decimation of the local bat population, we could say that environmentalists have committed the:

- a. fallacy of composition.

- b. fallacy that association is causation.
- c. fallacy of segmentation.
- d. mistake of ignoring secondary effects.
- e. mistake of ignoring the obvious.

ANSWER: a, b, c, d, e

103. Your friend notices that U.S. auto production and U.S. population growth have moved together over several decades. He reasons that one way to slow population growth is for the government to order the auto makers to cut back on production. You gently point out to him that he:

- a. would be correct only when the economy was in a recession.
- b. has committed the fallacy that association is causation.
- c. has ignored the secondary effects.
- d. has committed the fallacy of composition.
- e. would be correct only when the United States enjoyed economic growth.

ANSWER: a, b, c, d, e

104. One might commit the fallacy of composition by concluding that:

- a. statements that are true during prosperity are necessarily true during depression.
- b. what is good for the individual is necessarily good for the group.
- c. an event that precedes another is necessarily the cause of the latter.
- d. intentions need not coincide with actions.
- e. the composition of a complex product is not revealed by its exterior appearance.

ANSWER: a, b, c, d, e

105. Which of the following is not an example of the fallacy of composition?

- a. If I can get to work fastest by taking the interstate, so can everyone else.
- b. If I can only get away from it all by going to Fairbanks, everyone who needs to get away should go to Fairbanks.
- c. Every time I play with my dog, it rains, so playing with my dog brings rain.
- d. If the best TV reception can be gotten with a Couch Potato antenna, then everyone should have a Couch Potato antenna.
- e. If I can get a better view by standing up at the baseball game, then everyone can get a better view by standing up.

ANSWER: a, b, c, d, e

106. A fallacy of composition involves assuming that:

- a. you can determine the composition of a complex product just by examining its exterior properties.
- b. consumer durable goods today do not last as long as they did a generation ago.
- c. any mistakes made in producing a product using an assembly line technique will lead to a compounding of errors as the product moves down the line.
- d. what is true for any individual component in a group is true for the group as a whole.
- e. what was true when a person was younger will still be true today.

ANSWER: a, b, c, d, e

107. One of the difficulties with an economic policy such as rent control is that:

- a. policy makers do not consider its secondary effects.
- b. economists disagree about the impacts of the policy.
- c. it is difficult to enforce antidiscrimination laws in the rental market.
- d. it makes landlords wealthy at the expense of renters.
- e. the pressure from landlords has resulted in its repeal in many cities.

ANSWER: a, b, c, d, e

108. Someone who committed the association is causation fallacy might conclude that:

- a. event B, which followed event A, was caused by the event A.
- b. event B, which followed event A, was not necessarily caused by event A.
- c. the simplest model is the best predictor.
- d. what is true for the individual is also true for the group.
- e. what is true for the individual is not necessarily true for the group.

ANSWER: a, b, c, d, e

109. Someone who commits the fallacy of composition is likely to assume that:

- a. the simplest model is the best predictor.
- b. event B, which followed event A, was caused by event A.
- c. event B, which followed event A, was not necessarily caused by event A.
- d. what is true for the individual is also true for the group.
- e. what is true for the individual is not necessarily true for the group.

ANSWER: a, b, c, d, e

110. As a scientist, an economist's main professional objective is to:

- a. become wealthy.
- b. control the government's decision-making processes.
- c. understand how the economy works.
- d. discover which stock prices will decrease.
- e. understand the psychology of participants in markets.

ANSWER: a, b, c, d, e

True / False

111. Economics is best defined as the study of how individuals decide to use limited resources in an attempt to satisfy unlimited wants.

- a. True
- b. False

ANSWER: True

112. Economics studies how decision makers use scarce resources to satisfy unlimited wants.

- a. True

b. False

ANSWER: True

113. In economics, money is an example of capital.

a. True

b. False

ANSWER: True

114. Profit is the payment received by resource owners for the use of their capital.

a. True

b. False

ANSWER: True

115. Rent is the payment received by resource owners for the use of their natural resources.

a. True

b. False

ANSWER: True

116. An economist would classify 100 shares of the Apple Computers stock as capital.

a. True

b. False

ANSWER: True

117. Profit is the payment made for land resources.

a. True

b. False

ANSWER: True

118. Resources are used only in the production of goods, not services.

a. True

b. False

ANSWER: True

119. Considering both product markets and resource markets, most economic decision makers participate in the economy as both buyers and sellers.

a. True

b. False

ANSWER: True

120. Labor and capital are exchanged in the resource market.

a. True

b. False

ANSWER: True

121. A rational individual gives more to charity when such contributions receive favorable tax treatment.

a. True

b. False

ANSWER: True

122. A rational individual would make charitable contributions only if such contributions receive favorable tax treatment.

a. True

b. False

ANSWER: True

123. The assumption of rational self-interest does not rule out the possibility of concern for other individuals.

a. True

b. False

ANSWER: True

124. It is always rational to acquire more information before making a decision.

a. True

b. False

ANSWER: True

125. Rational self-interest is equivalent to pure selfishness.

a. True

b. False

ANSWER: True

126. Sara is considering the purchase of a new car. Rational self-interest demands that she do an exhaustive research study to acquire every bit of information possible about her potential options.

a. True

b. False

ANSWER: True

127. A marginal adjustment only refers to a minor change.

a. True

b. False

ANSWER: True

128. A rational decision maker compares the expected marginal cost to the expected marginal benefit of any activity.

- a. True
- b. False

ANSWER: True

129. Most real economic choices involve small (or marginal) changes rather than all-or-nothing decisions.

- a. True
- b. False

ANSWER: True

130. Economic decision makers will continue to acquire information only as long as the expected additional benefit exceeds the expected additional cost of the information.

- a. True
- b. False

ANSWER: True

131. The behavior of the entertainment industry in a city is a microeconomics topic.

- a. True
- b. False

ANSWER: True

132. An economic model will produce poor predictions if it includes assumptions.

- a. True
- b. False

ANSWER: True

133. A good economic theory brings clarity to chaos.

- a. True
- b. False

ANSWER: True

134. Most economists consider a theory a good one if it predicts well.

- a. True
- b. False

ANSWER: True

135. The ceteris paribus assumption is the other-things-constant assumption.

- a. True
- b. False

ANSWER: True

136. The ceteris paribus assumption is a behavioral assumption.

- a. True
- b. False

ANSWER: True

137. Normative economic statements refer to what should be.

- a. True
- b. False

ANSWER: True

138. "There should be less discrimination against women" is an example of a positive economic statement.

- a. True
- b. False

ANSWER: True

139. Microeconomics: A Contemporary Introduction, McEachern 11e

- a. True
- b. False

ANSWER: True

140. "An increase in the price of a product causes consumers to purchase more of that product" is an example of a positive economic statement.

- a. True
- b. False

ANSWER: True

141. Economics is as much an art as it is a science.

- a. True
- b. False

ANSWER: True

142. Economists often focus on average behavior because it is easier to predict.

- a. True
- b. False

ANSWER: True

143. Economic theory allows economists to predict the behavior of a specific person or firm.

- a. True

b. False

ANSWER: True

144. The association is causation fallacy is the error of assuming that what is true for one member of a group must be true for the group.

a. True

b. False

ANSWER: True

145. The fallacy of composition is the error of believing that a cause and effect relationship exists between two events that are associated in time.

a. True

b. False

ANSWER: True

146. One problem with rent controls is that policy makers often ignore its secondary effects.

a. True

b. False

ANSWER: True

147. Secondary effects are consequences of economic actions that develop slowly over time as people react to events.

a. True

b. False

ANSWER: True

148. As a scientist, an economist's main professional objective is to become wealthy.

a. True

b. False

ANSWER: True

149. College graduates with history or literature as their major tend to earn more than those who choose more quantitative disciplines like economics.

a. True

b. False

ANSWER: True

150. Economics is the only social science and the only business discipline for which the Nobel Prize is awarded.

a. True

b. False

ANSWER: True

