

Chapter 1: Thinking like an economist

MULTIPLE CHOICE

1. Scarcity is a problem:

A.	because human wants are limited while resources are limited
B.	because human wants are limited while resources are unlimited
C.	because human wants are unlimited while resources are limited
D.	because human wants are unlimited while resources are unlimited
E.	that only poor people face

ANS: C

PTS: 1

DIF: Easy

REF: The problem of scarcity

2. Scarcity is a situation:

A.	where people's needs exceed their resources
B.	where people's wants exceed their resources
C.	where the quantity of resources is sufficient to meet all wants
D.	where certain people's needs exceed other people's resources
E.	where the quantity of resources is sufficient to meet all needs

ANS: B

PTS: 1

DIF: Easy

REF: The problem of scarcity

3. Which of the following would eliminate scarcity as an economic problem?

A.	Moderation of people's competitive instincts
B.	Discovery of sufficiently large new energy reserves
C.	Resumption of steady productivity growth
D.	Economic scarcity cannot be eliminated as long as resources are limited
E.	The elimination of poverty in developing nations

ANS: D

PTS: 1

DIF: Easy

REF: The problem of scarcity

4. The finite nature of the economy's resource base:

A.	would be solved if only we would learn to conserve
B.	arises out of the insatiable appetite of consumers
C.	is only a problem in developing countries
D.	will be solved as technology advances
E.	will always be with us

ANS: E

PTS: 1

DIF: Moderate

REF: The problem of scarcity

5. Scarcity:

A.	is a problem only in the world's poorer countries
B.	will disappear if a country is rich
C.	can be solved by rapid advances in technology
D.	is a problem that exists in every economy with limited resources
E.	is not a problem for developed countries

ANS: D

PTS: 1

DIF: Moderate

REF: The problem of scarcity

6. Scarcity:

A.	does not exist in developed countries
B.	implies that people must make a choice
C.	exists only in developed countries
D.	exists only in developing countries
E.	does not exist in developing countries

ANS: B PTS: 1 DIF: Moderate REF: The problem of scarcity

7. Which of the following is *not* an example of a factor of production?

A.	A lake
B.	A cow
C.	A union leader
D.	Dollars
E.	An office building

ANS: D PTS: 1 DIF: Difficult REF: Scarce resources and production

8. An economics textbook is an example of:

A.	capital
B.	labour
C.	a natural resource
D.	entrepreneurship
E.	a raw material

ANS: A PTS: 1 DIF: Moderate REF: Scarce resources and production

9. Labour, land and capital are called:

A.	goods and services
B.	entrepreneurship
C.	outputs
D.	factors of production
E.	consumer goods

ANS: D PTS: 1 DIF: Easy REF: Scarce resources and production

10. All of the following are examples of capital, *except*:

A.	the robot used to help to produce your car
B.	a computer used by your lecturer to write this exam
C.	the factory that produces the costume jewellery you buy
D.	the inventory of unsold goods at your local hardware store
E.	an uncut diamond you discover in your backyard

ANS: E PTS: 1 DIF: Moderate REF: Scarce resources and production

11. Which of the following is closest to the definition of capital?

A.	Money in your bank account
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B.	Factories and machinery
C.	Borrowed money
D.	The ability of an individual to create financial capital
E.	Invested money

ANS: B PTS: 1 DIF: Moderate REF: Scarce resources and production

12. Labour resources:

A.	include only physical activities of workers
B.	are only counted as a resource if used in the production of other resources
C.	include only skilled workers and not unskilled workers
D.	include both mental and physical human capacities of workers
E.	include human effort involved in the production of goods but not services

ANS: D PTS: 1 DIF: Moderate REF: Scarce resources and production

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

A.	Land
B.	Labour
C.	Money
D.	Capital
E.	Entrepreneurship

ANS: C PTS: 1 DIF: Moderate REF: Scarce resources and production

14. Which of the following is capital?

A.	Agricultural land
B.	Money
C.	A photocopier
D.	Pastoral land
E.	A lake

ANS: C PTS: 1 DIF: Moderate REF: Scarce resources and production

15. Which of the following is the most accurate definition of economics?

A.	Economics is the study of stock and bond prices.
B.	Economics is the study of how people allocate unlimited resources.
C.	Economics is the study of how consumers choose to spend their unlimited income.
D.	Economics is the study of how allocate limited resources.
E.	Economics is the study of how consumers choose to spend their limited income.

ANS: D PTS: 1 DIF: Moderate REF: Economics: the study of scarcity and choice

16. Which of the following is the best example of a microeconomics topic?

A.	The impact that the money supply has on inflation
B.	The effect that government budget deficits have on the interest rate

C.	The reasons for increases in the price of mobile phones
D.	The trade-off between inflation and unemployment
E.	The impact that the money supply has on employment

ANS: C PTS: 1 DIF: Moderate REF: Microeconomics

17. The study of microeconomics and macroeconomics differs in that:

A.	microeconomics is concerned with the domestic economy and macroeconomics is concerned only with the international economy
B.	microeconomics examines the individual markets of the economy while macroeconomics studies the whole economy
C.	microeconomics studies the actions of households and macroeconomics studies the actions of business firms
D.	microeconomics studies the economy in terms of private individuals and firms while macroeconomics includes the effect of an industry
E.	microeconomics examines the whole economy while macroeconomics studies the individual units of the economy

ANS: B PTS: 1 DIF: Easy REF: Economics: the study of scarcity and choice

18. Microeconomics deals with the analysis of all the following, *except* how:

A.	the wages of doctors are determined
B.	Honda decides to price its cars
C.	to deal with market power
D.	the monetary policy has changed
E.	monopolies and competitive markets differ

ANS: D PTS: 1 DIF: Moderate REF: Microeconomics

19. Which of the following is a microeconomics topic?

A.	The unemployment rate
B.	The inflation rate
C.	The economy's growth rate
D.	The price of apples
E.	Forecasts of a recession next year

ANS: D PTS: 1 DIF: Moderate REF: Microeconomics

20. Which of the following is a macroeconomics topic?

A.	The effect of price change on the supply of tomatoes
B.	The market price of electricity
C.	The interest rate and unemployment
D.	The demand for fuel efficient cars
E.	The effects of farm subsidies on food prices

ANS: C PTS: 1 DIF: Moderate REF: Macroeconomics

21. Policies to lower the price index of goods in the nation are a concern of:

A.	macroeconomics
B.	microeconomics
C.	both microeconomics and macroeconomics
D.	political science

E.	the forces of demand and supply
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ANS: A PTS: 1 DIF: Easy REF: Macroeconomics

22. A television network newscaster reports that the national inflation rate the past year equalled 4 per cent. This report would be of particular interest to a:

A.	microeconomist
B.	normative economist
C.	macroeconomist
D.	positive economist
E.	social science economist

ANS: C PTS: 1 DIF: Moderate REF: Macroeconomics

23. Which of the following questions would *not* be studied by a microeconomist but would be studied by a macroeconomist?

A.	Why national economies grow
B.	What percentage of consumer income is spent on entertainment
C.	Why workers prefer a four-day working week
D.	What happens to worker productivity when a job shifts to a four-day working week
E.	How the electricity industry is harmed by the passage of new clean-air legislation

ANS: A PTS: 1 DIF: Moderate REF: Economics: the study of scarcity and choice

24. Economics is the study of how people:

A.	vote for political leaders who decide what is to be produced
B.	make choices to produce and consume goods and services in the presence of scarcity
C.	establish social institutions that maximise wellbeing
D.	develop value systems that affect their consumption choices
E.	form customs and traditions that influence consumption

ANS: B PTS: 1 DIF: Moderate REF: Economics: the study of scarcity and choice

25. Which of the following would be of particular interest to a microeconomist?

A.	The price of an apple
B.	The nation's inflation rate
C.	The nation's rate of unemployment
D.	The budget of the national government
E.	The growth of the economy

ANS: A PTS: 1 DIF: Moderate REF: Microeconomics

26. Macroeconomics is concerned with:

A.	the study of the whole economy
B.	the study of the economic behaviour of an industry
C.	the study of the issues of how individual prices are determined in markets
D.	the study of how firms determine output levels
E.	the study of the economic behaviour of an industrial sector

ANS: A PTS: 1 DIF: Easy REF: Macroeconomics

27. Which of the following is a microeconomics topic?

A.	Changes in the economy's price levels
B.	Issues related to Gross Domestic Product
C.	The reasons why industries employ different levels of resources
D.	The effect of government taxation on aggregate consumption level
E.	Issues related to inflation and unemployment rates

ANS: C PTS: 1 DIF: Moderate REF: Microeconomics

28. A model is best defined as a:

A.	description of all variables affecting a situation
B.	positive analysis of all variables affecting an event
C.	simplified description of reality to understand an economic event
D.	prediction based on historical evidence
E.	simplified description of reality

ANS: C PTS: 1 DIF: Easy REF: Developing a model

29. An economic model is useful only if it:

A.	contains no positive statements
B.	captures all the complexities of reality
C.	yields accurate explanations with policy implication
D.	contains all normative statements
E.	contains all positive statements

ANS: C PTS: 1 DIF: Moderate REF: Testing the model

30. A model (or theory):

A.	is a statement about the causal relationship between variables, based on intuition
B.	helps to explain, but cannot predict, the relationship between variables
C.	when expressed as an upward-sloping graph, implies an inverse relationship between the variables
D.	is a simplified description of reality
E.	when expressed as an upward-sloping graph, implies a negative relationship between the variables

ANS: D PTS: 1 DIF: Easy REF: Developing a model

31. An economic model:

A.	cannot be rejected
B.	cannot be tested
C.	always yields accurate predictions
D.	is valid if the evidence is consistent with the predictions
E.	sometimes yields accurate predictions

ANS: D PTS: 1 DIF: Moderate REF: Testing the model

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

A.	some essential aspects of reality are included
B.	the economic study surveys only a very limited period of time
C.	we include only those elements which do not support our hypothesis
D.	the model includes some non-important aspect of the real world
E.	all essential aspects of reality are included

ANS: A PTS: 1 DIF: Moderate REF: Developing the model

33. Economists:

A.	never use data and tables
B.	never use equations nor diagrams
C.	sometimes use diagrams and equations
D.	have to use unrealistic assumptions all the time
E.	always use diagrams and equations

ANS: C PTS: 1 DIF: Moderate REF: Testing the model

34. An economic theory claims that a rise in petrol prices will cause petrol purchases to fall, *ceteris paribus*. The phrase '*ceteris paribus*' means that:

A.	other relevant factors must be held constant
B.	petrol prices must first be adjusted for inflation
C.	other relevant factors would be held constant
D.	other relevant factors might be held constant
E.	other relevant factors should be held constant

ANS: A PTS: 1 DIF: Easy REF: The ceteris paribus assumption

35. 'John buys more of good X as his income increases, *ceteris paribus*.' This means:

A.	John's income is being held constant
B.	John's purchases of good X are being held constant
C.	John's income and purchases of this good are being held constant
D.	John's income is the only influence that is being allowed to change
E.	John's preferences are being held constant

ANS: D PTS: 1 DIF: Difficult REF: The ceteris paribus assumption

36. If the price of textbooks rises, and students then purchase fewer textbooks, an economic model can show a cause-and-effect relationship, but only if which of the following conditions holds?

A.	Students' incomes fall.
B.	Tuition costs decrease.
C.	The number of students increases.
D.	Everything else is constant.
E.	Students' preferences have changed.

ANS: D PTS: 1 DIF: Difficult REF: The ceteris paribus assumption

37. Suppose someone notices that sunspot activity is high just prior to recessions, and then concludes that sunspots cause recessions. This person has:

A.	confused association and causation
B.	understood the economy very well
C.	used normative economics to answer a positive question
D.	built an untestable model
E.	used positive economics to answer a normative question

ANS: A PTS: 1 DIF: Moderate REF: Association versus causation

38. The Minister for Employment states that wage rates in the country have risen by 2 per cent in the past year. The head of a local labour union argues that wages should be increased more to match the 3 per cent rate of inflation. The Minister's statement is a(n) _____ economic statement and the union head's statement is a(n) _____ economic statement.

A.	normative; normative
B.	normative; positive
C.	positive; normative
D.	positive; positive
E.	correct; incorrect

ANS: C PTS: 1 DIF: Difficult REF: Why do economists disagree?

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

A.	Government control of rent is a fair way to help poor people afford housing.
B.	Government control of rent keeps landlords from charging too much rent.
C.	Government control of rent decreases the number of new apartments constructed.
D.	Government control of rent is an injustice.
E.	Government control of rents is pernicious.

ANS: C PTS: 1 DIF: Easy REF: Positive economics

40. Normative statements:

A.	can always be tested
B.	are based on value judgements
C.	are not based on facts
D.	do not express a collective opinion on a subject
E.	are based on facts

ANS: B PTS: 1 DIF: Easy REF: Normative economics

41. 'An increase in the federal minimum wage causes an increase in unemployment among teenagers' is a:

A.	statement of positive economics
B.	statement of normative economics
C.	testable value judgement
D.	fallacy of composition
E.	untestable value judgement

ANS: A PTS: 1 DIF: Difficult REF: Positive economics

42. A positive economic statement is:

A.	an opinion of an action that should be taken
B.	an action that will have no effect on the economy
C.	a statement testable by facts
D.	a claim that the speaker has no idea
E.	an opinion of an action that could be taken

ANS: C PTS: 1 DIF: Easy REF: Positive economics

43. Positive economics is a(n):

A.	reflection of individual or collective values
B.	statement dealing with the facts
C.	statement about normative facts

D.	analysis of what ought to be
E.	analysis of what should be

ANS: B PTS: 1 DIF: Easy REF: Positive economics

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

A.	The economy's real output increased at about 3 per cent last year and the unemployment rate decreased.
B.	A central bank should not print too much money because inflation could result.
C.	Parliament should stabilise the social security system by raising taxes now.
D.	A healthy economy should grow at about 5 per cent a year to provide enough goods for a growing population.
E.	The government farm products surplus should be distributed to the needy.

ANS: A PTS: 1 DIF: Difficult REF: Positive economics

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

A.	The inflation rate in Australia decreased from 4 per cent last year to 3 per cent this year as a result of lower energy prices.
B.	The economy grew at an annual rate of 5 per cent during the first quarter of this year.
C.	Australia should use more renewable energy to reduce greenhouse gas emissions.
D.	An increase in international trade benefits some workers but hurts others.
E.	An increase in inflation by 2 per cent should push up nominal interest rates by 2 per cent to leave real interest rates unchanged.

ANS: C PTS: 1 DIF: Difficult REF: Normative economics

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

A.	the cost per unit of output will rise.'
B.	workers will gain their rightful share of total income.'
C.	the rate of inflation will increase.'
D.	profits will fall.'
E.	voluntary unemployment should rise.'

ANS: B PTS: 1 DIF: Moderate REF: Normative economics

47. Normative statements:

A.	deal with facts
B.	express a collective judgement
C.	can be tested
D.	are the only statements that are true
E.	are the only statements that are false

ANS: B PTS: 1 DIF: Moderate REF: Normative economics

48. Which of the following pairs of words indicates a positive statement?

A.	good, bad
B.	should, need
C.	if, then
D.	ought, to
E.	equity, fair

ANS: C PTS: 1 DIF: Easy REF: Positive economics

49. Economists:

A.	always disagree over policy, predictions and applications
B.	generally agree on theoretical fundamentals
C.	never agree on predictions and theoretical fundamentals
D.	always agree on personal values
E.	always agree on policy, predictions and applications

ANS: B PTS: 1 DIF: Moderate REF: Why do economists disagree?

50. 'It is not fair to increase the federal minimum wage because it causes an increase in unemployment among teenagers.' This is a(n):

A.	correct statement of positive economics
B.	correct statement of normative economics
C.	testable value judgement
D.	incorrect statement of positive economics
E.	incorrect statement of normative economics

ANS: B PTS: 1 DIF: Difficult REF: Normative economics

TRUE/FALSE

1. Scarcity means that it is impossible to satisfy every desire.

ANS: T PTS: 1 DIF: Easy REF: The problem of scarcity

2. Microeconomics studies decision-making by individuals.

ANS: T PTS: 1 DIF: Easy REF: Microeconomics

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

ANS: F PTS: 1 DIF: Moderate REF: Microeconomics

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

ANS: F PTS: 1 DIF: Moderate REF: Economics: the study of scarcity and choice

5. The first step is to define the problem; the next is to develop a model; and the final step is to collect data and test the model.

ANS: T PTS: 1 DIF: Moderate REF: Identifying the problem

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

ANS: T PTS: 1 DIF: Moderate REF: Developing a model

7. *Ceteris paribus* is a German phrase that means everything is allowed to be changed.

ANS: F PTS: 1 DIF: Easy REF: The ceteris paribus assumption

8. A positive economic statement does not have to be verifiable.

ANS: F PTS: 1 DIF: Easy REF: Positive economics

9. Economists most often disagree about positive, rather than normative economic issues.

ANS: F PTS: 1 DIF: Moderate REF: Why do economists disagree?

10. The statement 'It is better to suffer slightly more unemployment than slightly lower prices' is an example of normative economic analysis.

ANS: T PTS: 1 DIF: Moderate REF: Normative economics