

Chapter 01 What Economics Is About

True / False

1. The branch of economics that studies the decisions made by individuals and firms is called *macroeconomics*.

- a. True
- b. False

ANSWER: False

2. Macroeconomics deals with issues involving large corporations, while microeconomics exclusively deals with issues involving small businesses.

- a. True
- b. False

ANSWER: False

3. The effect of a decrease in interest rates upon economic growth is an example of positive economics.

- a. True
- b. False

ANSWER: True

4. Economists use the word *utility* to describe the satisfaction one receives from a good.

- a. True
- b. False

ANSWER: True

5. If variable X rises as a result of variable Y falling, then X and Y have an inverse relationship.

- a. True
- b. False

ANSWER: True

6. In the textbook, economics is defined as the "science of scarcity."

- a. True
- b. False

ANSWER: True

7. In economics, *capital* is defined as a financial asset such as stocks and bonds.

- a. True
- b. False

ANSWER: False

8. A rationing device is a method used to resolve who gets what of available goods and resources.

- a. True
- b. False

ANSWER: True

9. When a person is making a decision at the margin he or she is comparing the total benefits from that activity to the total

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costs of the proposed action.

- a. True
- b. False

ANSWER: False

10. Economists use the terms *resource* and *input* as synonyms.

- a. True
- b. False

ANSWER: True

11. To an economist, the terms *factor* and *output* are synonyms.

- a. True
- b. False

ANSWER: False

12. According to economists, one of the four broad categories of resources is money.

- a. True
- b. False

ANSWER: False

13. The higher the opportunity cost of doing something, the more likely it will be done.

- a. True
- b. False

ANSWER: False

14. Price is the only rationing device that can be used in a modern economy.

- a. True
- b. False

ANSWER: False

15. The resource termed *labor* consists of the physical, but not the mental, talents that people contribute to the production process.

- a. True
- b. False

ANSWER: False

16. The slope of a straight line is always equal to either 1.0 or -1.0.

- a. True
- b. False

ANSWER: False

17. Economists sometimes refer to the resource category *land* as *natural resources*.

- a. True
- b. False

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ANSWER: True

18. Scarcity affects everyone, even billionaires.

- a. True
- b. False

ANSWER: True

19. If someone gives you a free ticket to the movies, then there is no opportunity cost involved with going to the movies.

- a. True
- b. False

ANSWER: False

20. Some economic studies have shown that mandatory seat belt laws do not lead to a reduction in traffic fatalities.

- a. True
- b. False

ANSWER: True

21. The slope of a horizontal line is always equal to zero.

- a. True
- b. False

ANSWER: True

22. The slope of a (nonlinear) curve varies from one point to another.

- a. True
- b. False

ANSWER: True

23. Scarcity occurs in both wealthy societies and poor societies.

- a. True
- b. False

ANSWER: True

24. The higher the opportunity cost of making a new friend, the more likely one is to make a new friend, *ceteris paribus*.

- a. True
- b. False

ANSWER: False

25. Economists use the terms *resource* and *input* as synonyms.

- a. True
- b. False

ANSWER: True

Multiple Choice

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26. The author of the textbook defines economics as the

- a. science of efficiency.
- b. science of scarcity.
- c. study of markets.
- d. study of human activity.

ANSWER:

b

27. When economists speak of scarcity, they are referring to the

- a. condition in which society is not employing all its resources in an efficient way.
- b. condition in which people's wants outstrip the limited resources available to satisfy those wants.
- c. economic condition that exists in only very poor countries of the world.
- d. condition in which society produces too many frivolous goods and not enough socially desirable goods.

ANSWER:

b

28. Which of the following is *not* one of the four broad categories of resources?

- a. labor
- b. government
- c. capital
- d. entrepreneurship

ANSWER:

b

29. Produced goods used as inputs for the production of other goods comprise the resource known as

- a. natural resources.
- b. services.
- c. capital.
- d. entrepreneurship.

ANSWER:

c

30. *Entrepreneurship* is

- a. the talent for organizing the use of land, labor and capital, among other things.
- b. skill in influencing government regulators and legislators.
- c. accumulated technical knowledge in using labor and capital.
- d. knowledge of the particular natural resources to be found in a given area.

ANSWER:

a

31. Many years ago, chemists at 3M Corporation were trying to create a super-strong glue. Somehow they got their molecules twisted and came up with one of the weakest glues ever made. But, rather than pouring it down the drain, they tried coating some paper with it, and the "Post-It Note" was born. In this case, 3M was acting as a(n)

- a. utility.
- b. rationer.
- c. entrepreneur.
- d. abstraction.

ANSWER:

c

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32. The physical and mental talents people bring to production processes comprise the resource called

- a. entrepreneurship.
- b. natural resources.
- c. capital.
- d. labor.

ANSWER: d

33. The headline in the newspaper reads "County Supervisors Debate Building New Schools." The headline relates closest to which economic concept?

- a. goods and bads
- b. utility
- c. choice
- d. efficiency

ANSWER: c

34. The opportunity cost of attending college is

- a. the money one spends on college tuition, books, and so forth.
- b. the highest valued alternative one forfeits to attend college.
- c. the least valued alternative one forfeits to attend college.
- d. equal to the salary one will earn when one graduates from college.

ANSWER: b

35. Here are three things you could do if you do not attend your economics class: watch television with some friends (you value this at \$25), read a good book (you value this at \$17), or go to work (you could earn \$20 during the economics class). The opportunity cost of going to your economics class is

- a. \$20, because this is the only alternative of the three where you would actually receive a monetary payment.
- b. \$17, because this is the lowest valued alternative forfeited.
- c. \$25, because this is the highest valued alternative forfeited.
- d. \$62, because this is the total dollar sum of the three forfeited alternatives.

ANSWER: c

36. It usually takes less time to buy a six-pack of Pepsi, a loaf of bread, and a bag of potato chips at a small convenience store (such as 7-Eleven) than at a large, full-service grocery store. Which of the following persons is most likely to buy these items at a convenience store?

- a. a person with a high opportunity cost of time
- b. a person with a low opportunity cost of time
- c. a person who is out of work
- d. a person who works at a full-service grocery store

ANSWER: a

37. Minerals, water, and forests are all considered to be part of the broad resource category known as

- a. capital.
- b. entrepreneurship.

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- c. labor.
- d. land.

ANSWER:

d

38. The higher the opportunity cost of attending college,
- a. the more likely an individual will go to college.
 - b. the more economics classes an individual will take at college.
 - c. the fewer economics classes an individual will take at college.
 - d. the less likely an individual will go to college.

ANSWER:

d

39. Which of the following is an example of a positive economic statement?
- a. The U.S. public should devote more resources to education.
 - b. The poor should pay lower taxes and the rich should pay higher taxes.
 - c. Soap operas should be taken off television.
 - d. If you drop a ball from the top of a building, it will fall to the ground.

ANSWER:

d

40. Attempts to determine "what is" are part of _____ economics.
- a. positive
 - b. normative
 - c. positive and normative
 - d. neither positive nor normative

ANSWER:

a

41. Microeconomics is the branch of economics that deals with
- a. highly aggregated markets or the entire economy.
 - b. the production side of the economy, exclusively.
 - c. the buying side of the economy, exclusively.
 - d. human behavior and choices as they relate to relatively small units: an individual, a firm, an industry.

ANSWER:

d

42. Which of the following is the best example of a microeconomics topic?
- a. the study of how prices are determined in the computer industry
 - b. the study of unemployment in the economy
 - c. the study of how changes in the nation's money supply affect the nation's output
 - d. the study of inflation in the economy

ANSWER:

a

43. Which of the following is a *positive macroeconomics* statement?
- a. The central bank should increase the nation's money supply.
 - b. The increase in the nation's money supply helped push the nation's unemployment rate down in the short run.
 - c. Ford Motor Company's new advertising campaign ended up hurting General Motors' sales.

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- d. The local government ought to spend more on recreational facilities.

ANSWER:

b

44. Which of the following is a *normative macroeconomics* statement?

- a. The central bank should increase the nation's money supply.
- b. The increase in the nation's money supply helped push the nation's unemployment rate down in the short run.
- c. Ford Motor Company's new advertising campaign ended up hurting General Motors' sales.
- d. The local government ought to spend more on recreational facilities.

ANSWER:

a

45. The condition in an economy that makes a "rationing device" a necessity is:

- a. the economy is organized around free markets.
- b. the economy is centrally planned by the government.
- c. scarcity exists.
- d. there are fewer types of goods than there are people in the economy.

ANSWER:

c

46. The latest Taylor Swift album is available to be downloaded for \$13.99. Is this price a *rationing device*?

- a. No, the album will be sold to anyone having the required number of dollars.
- b. Yes, because the album will only be purchased by people who are willing and able to pay \$13.99.
- c. No, for price to be a rationing device, it must be so high that only one unit of the item is sold.
- d. Yes, since that is a reasonable price.

ANSWER:

b

47. What is the most prominent rationing device you will likely find at your campus bookstore?

- a. dollar price
- b. brute force
- c. anti-theft tags on the high-priced items
- d. rationing coupons

ANSWER:

a

48. Economists believe that people's wants are

- a. finite.
- b. infinite.
- c. irrational.
- d. unimportant because needs are more important than wants.

ANSWER:

b

49. In every economy people vie for the economy's rationing device, a process called

- a. competition.
- b. entrepreneurship.
- c. marginal benefit.
- d. positive economics.

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ANSWER:

a

50. Scarcity means

- a. wants are greater than the limited resources available to satisfy these wants.
- b. wants are less than the limited resources available to satisfy these wants.
- c. resources are infinite.
- d. wants are limited.

ANSWER:

a

51. The need to make choices is most closely related to the economic concept of

- a. opportunity cost.
- b. efficiency.
- c. inefficiency.
- d. utility.

ANSWER:

a

52. Opportunity cost is the value of _____ when a choice is made.

- a. the most highly valued forfeited alternative
- b. the alternative chosen
- c. a free good
- d. the sum of all forfeited alternatives

ANSWER:

a

53. In all cases, *positive economics* deals with

- a. what is.
- b. what should be.
- c. relatively small units in the economy.
- d. aggregates or the entire economy.

ANSWER:

a

54. In all cases, *normative economics* deals with

- a. what is.
- b. what should be.
- c. relatively small units in the economy.
- d. the entire economy.

ANSWER:

b

55. In all cases, *microeconomics* deals with

- a. what is.
- b. what should be.
- c. relatively small units in the economy.
- d. the entire economy.

ANSWER:

c

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56. In all cases, *macroeconomics* deals with

- a. what is.
- b. what should be.
- c. relatively small units in the economy.
- d. the entire economy.

ANSWER:

d

57. *Positive economics* is always concerned with

- a. value judgments.
- b. cause-effect relationships.
- c. observations that cannot be proved.
- d. macroeconomics.

ANSWER:

b

58. *Normative economics*

- a. is concerned with value judgments.
- b. involves objective attempts to explain economic relationships.
- c. is concerned with cause-effect relationships.
- d. relates to observations that can be proved.

ANSWER:

a

59. In economics, a synonym for *utility* is

- a. usefulness.
- b. satisfaction.
- c. sacrifice.
- d. a service.

ANSWER:

b

60. The synonym economists commonly use for *additional* is

- a. capital.
- b. rational.
- c. marginal.
- d. economic.

ANSWER:

c

61. Decision making "at the margin" means making a choice based on _____ of a decision.

- a. the total benefits
- b. the total costs
- c. comparing the total benefits and costs
- d. comparing the additional benefits and costs

ANSWER:

d

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62. Several years ago, a bookstore chain extended its closing time from 9 p.m. to 10 p.m. Now it is considering a further extension to 11 p.m. In making this marginal decision, the results of having gone from 9 p.m. to 10 p.m. are

- a. no longer relevant to the current decision.
- b. relevant if the marginal costs and benefits were unequal.
- c. relevant since they are part of the calculation of total costs and benefits.
- d. relevant if the marginal costs and benefits were equal.

ANSWER:

a

63. At the optimal or efficient level of an activity, the activity's marginal benefit must

- a. be zero.
- b. be greater than zero.
- c. equal the marginal cost of the activity.
- d. exceed the marginal cost of the activity.

ANSWER:

c

64. Which of the following is a positive economic statement?

- a. The temperature is too high today.
- b. The temperature is 105 degrees today.
- c. It is too hot to jog today.
- d. I enjoy summer evenings when it cools off.

ANSWER:

b

65. In economics, one of the effects of scarcity is

- a. disutility.
- b. utility.
- c. choice.
- d. inefficiency.

ANSWER:

c

66. All sellers may be tempted to raise the price of what they sell, but a negative unintended effect for the seller of raising the price could be _____ in units sold that is large enough to _____ the seller's total revenue earned.

- a. an increase; raise
- b. an increase; lower
- c. a decrease; raise
- d. a decrease; lower

ANSWER:

d

67. Most states have instituted mandatory seatbelt laws to reduce traffic fatalities. An economist may point out that an unintended effect of these laws is

- a. an increase in the price of automobiles, further reducing fatalities.
- b. an increase in driving speed, reducing the number of accidents.
- c. a decrease in driving speed, further reducing fatalities.
- d. an increase in risky driving behavior, increasing fatalities.

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ANSWER:

d

68. A mandatory seat-belt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.05 to 0.03 while raising the number of accidents per period from 30,000 to greater than _____ accidents per period.

- a. 48,000
- b. 50,000
- c. 500,000
- d. 45,000

ANSWER:

b

69. A mandatory seatbelt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.11 to 0.08 while raising the number of accidents per period from 100,000 to any more than

- a. 108,000.
- b. 111,111.
- c. 137,500.
- d. 110,000.

ANSWER:

c

70. A mandatory seatbelt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.10 to 0.07 while raising the number of accidents per period from 35,000 to any more than

- a. 35,000.
- b. 38,500.
- c. 37,450.
- d. 50,000.

ANSWER:

d

71. The branch of economics that studies the decisions of individuals and firms is called

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

ANSWER:

b

72. Which of the following would NOT be considered a *macroeconomic* topic?

- a. the reasons for a decline in the price of crude oil
- b. the cause of a downturn in the economy
- c. the effect of the government budget deficit on inflation
- d. the causes of inflation and unemployment

ANSWER:

a

73. Which of the following statements is *false*?

- a. There are always opportunity costs to making choices.
- b. Because of scarcity, choices must be made.

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- c. Elementary education at public schools is free.
- d. When government builds a new highway, taxpayers end up with less of some of the things they would otherwise have.

ANSWER: c

74. Which of the following issues is most *unlikely* to be addressed by an economist practicing positive economics?

- a. the relationship between the minimum wage and the number of unemployed unskilled workers
- b. the effect of a minimum wage increase on inner-city crime rates
- c. the desirability of a minimum wage increase
- d. the consequences of implementing a minimum wage law in China

ANSWER: c

75. The question of how a tax change might impact U.S. economic output is most closely associated with the study of

- a. microeconomics.
- b. managerial economics.
- c. macroeconomics.
- d. consumer economics.

ANSWER: c

76. Jordan's opportunity cost of going to the movies is

- a. the price of the movie ticket only.
- b. zero, if she has a gift card that covers the cost of the movie.
- c. the price of the ticket plus the value to Jordan of what she would have chosen to do with her time had she not chosen to go to the movies.
- d. the price of the movie ticket plus the price any food items purchased at the movie theater.

ANSWER: c

77. The opportunity cost of attending college

- a. consists of the tuition costs only.
- b. consists of the tuition costs plus the costs of room and board and other expenses.
- c. is zero, if the student receives a scholarship that covers the costs of tuition, room and board, and other expenses.
- d. varies from person to person.

ANSWER: d

78. Prior to attending college, Malik mis offered a lucrative four-year contract as an actor on a daytime soap opera. Assuming that acting and attending college are Malik's preferred alternatives and that he must choose between these two options, his opportunity cost of attending college after receiving the offer on the soap opera _____, making him _____ likely to attend college than before he received the offer.

- a. increases; less
- b. decreases; more
- c. stays the same; equally likely
- d. increases; more

ANSWER: a

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79. If it is discovered that using drugs enhances a person's chance of contracting a fatal disease, the cost of using drugs
- increases.
 - decreases.
 - is not affected.
 - is irrelevant, since they are illegal anyway.

ANSWER: a

80. The study of an economy's price level is explicitly a part of
- macroeconomics.
 - microeconomics.
 - positive economics.
 - normative economics.

ANSWER: a

81. Opportunity cost is the _____ alternative forfeited when a choice is made.
- least-valued
 - most highly-valued
 - most convenient
 - most recently considered

ANSWER: b

82. In an interview an economist states, "This problem should be of greater concern to the federal government." We can explicitly put this statement in the category of
- microeconomics.
 - macroeconomics.
 - positive economics.
 - normative economics.

ANSWER: d

83. The absence of value judgments is the essence of
- normative economics.
 - positive economics.
 - microeconomics.
 - macroeconomics.

ANSWER: b

84. If variable X rises as result of variable Y falling, then X and Y are
- directly related.
 - inversely related.
 - independent.
 - positively related.

ANSWER: b

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85. If variable X falls as a result of variable Y falling, then X and Y are

- a. directly related.
- b. negatively related.
- c. inversely related.
- d. independent.

ANSWER:

a

86. Two variables are independent if as one variable _____, the other variable _____.

- a. rises; rises.
- b. falls; falls.
- c. rises; falls.
- d. changes; does not change.

ANSWER:

d

87. The concept that relates how much one variable changes as another variable changes is

- a. slope.
- b. line.
- c. curve.
- d. graph.

ANSWER:

a

88. Let X be the number of hours you spend studying for an exam on Wednesday afternoon and Y be your chances of winning the Wednesday night state lottery. What kind of a relationship do you most likely expect between X and Y?

- a. direct
- b. inverse
- c. linear
- d. independent

ANSWER:

d

89. Scarcity is defined as the condition in which

- a. both wants and resources are limited.
- b. wants are finite and resources infinite.
- c. both wants and resources are infinite.
- d. wants are infinite and resources finite.

ANSWER:

d

90. The primary economic reason why people cannot have everything they want is because

- a. people are selfish.
- b. scarcity exists.
- c. there is not enough economic growth in the world.
- d. the population of the world is declining.

ANSWER:

b

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91. In the textbook, economics is defined as the science of

- a. money and business.
- b. choices.
- c. scarcity.
- d. price.

ANSWER:

c

92. In economics, something that provides utility is called a

- a. good.
- b. bad.
- c. want.
- d. need.

ANSWER:

a

93. In economics, something that provides disutility is called a

- a. good.
- b. want.
- c. need.
- d. bad.

ANSWER:

d

94. A *good* provides _____ and a *bad* provides _____.

- a. utility; satisfaction
- b. disutility; utility
- c. dissatisfaction; satisfaction
- d. utility; disutility

ANSWER:

d

95. Which of the following statements is *false*?

- a. To an economist, the resource *land* includes natural resources such as minerals, forests, water and unimproved land.
- b. To an economist, the resource *capital* consists of unproduced goods that can be turned into produced goods.
- c. To an economist, the resource *labor* consists of the physical and mental talents people contribute to the production process.
- d. To an economist, the resource *entrepreneurship* refers to a particular talent that some people have for organizing the resources of land, labor, and capital to produce goods, seek new business opportunities, and develop new ways of doing things.

ANSWER:

b

96. A person goes into a store and buys a computer for \$1,210. In this case, price is acting as a

- a. resource.
- b. good.
- c. rationing device.

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- d. capital instrument.

ANSWER:

c

97. If people want more cars than there are cars available, then it must be true that

- a. cars are scarce.
- b. there is a surplus of cars.
- c. there is a decreased supply of cars.
- d. the prices of cars are falling.

ANSWER:

a

98. Why do societies need rationing devices?

- a. Because people have too many needs and not enough wants.
- b. Because price exists.
- c. Because scarcity exists.
- d. Because people have opportunity costs.

ANSWER:

c

99. How is scarcity related to competition?

- a. Competition is an effect of scarcity.
- b. Scarcity is an effect of competition.
- c. Both scarcity and competition are effects of a rationing device.
- d. Both scarcity and competition are effects of opportunity cost.

ANSWER:

a

100. Every time you make a _____, you incur a(n) _____.

- a. decision; efficient effect
- b. choice; opportunity cost
- c. competitive move; price
- d. decision; mistake

ANSWER:

b

101. "If you hadn't gone to dinner with your friends, you would have stayed home and watched television." It follows that

- a. watching television is the opportunity cost of having dinner with your friends.
- b. the price of having dinner with your friends is more than the price you would have had to pay to watch television.
- c. the opportunity cost of having dinner with your friends is lower than the opportunity cost of watching television.
- d. it is less costly to watch television than to have dinner with your friends.

ANSWER:

a

102. The _____ the opportunity cost of doing an activity, the _____.

- a. lower; less likely a person will do that activity
- b. lower; more likely a person will do that activity

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- c. higher; more likely a person will do that activity
- d. higher; likelihood of doing the activity will remain unchanged

ANSWER:

b

103. If scarcity didn't exist, neither would

- a. rationing devices.
- b. land.
- c. labor.
- d. capital.

ANSWER:

a

104. The cost of building a new interstate highway system is reported to be high at \$25 billion. Does it necessarily follow that the interstate highway is not worth building?

- a. Yes, because it is better to spend \$25 billion on ending poverty than on building another interstate highway system.
- b. No, because building a new interstate highway system promotes economic growth, which helps everyone.
- c. No, because the benefits of building a new interstate highway system may be greater than \$25 billion.
- d. Yes, because the benefits of building a new interstate highway system may be greater than \$25 billion.

ANSWER:

c

105. Which of the following statements is true?

- a. Oil is classified as part of the resource category land.
- b. A person working for a company is classified as part of the resource category capital.
- c. A machine in a factory is classified as part of the resource category land.
- d. A person with the particular talent for organizing the resources of land, labor, and capital to produce goods, seek new business opportunities, and develop new ways of doing things is classified as part of the resource category labor.

ANSWER:

a

106. Saying "the marginal costs are greater than the marginal benefits" is the same as saying

- a. the average costs are greater than the average benefits.
- b. the total costs are greater than the average benefits.
- c. the benefits are greater than the costs.
- d. the additional costs are greater than the additional benefits.

ANSWER:

d

107. What does it mean if a person makes a "decision at the margin"?

- a. The person compares additional benefits and additional costs when deciding what to do.
- b. The person weighs the good against the bad and then decides what to do.
- c. The person is more likely to say yes than to say no.
- d. The person compares marginal benefits and total costs and then decides what to do.

ANSWER:

a

108. Is it possible for mandatory seatbelt laws to increase vehicle fatalities?

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- a. Yes, if the number of accidents increases by a greater percentage than the number of deaths per accident decreases.
- b. No, because wearing seatbelts decreases the number of deaths per accident.
- c. No, because wearing seatbelts decreases the number of accidents.
- d. There is not enough information to answer the question.

ANSWER:

a

109. Which of the following is a *positive* economic statement?

- a. We should raise the minimum wage in order to provide a decent wage for more people.
- b. Consumers will likely purchase fewer cars in the future when the relative price of cars increases.
- c. The budget deficit has been rising in recent years.
- d. Federal government spending ought to be curtailed.

ANSWER:

c

110. Which of the following statements is *false*?

- a. Microeconomics is the branch of economics that deals with human behavior and choices as they relate to relatively small units—an individual, a firm, an industry, and a single market.
- b. Positive economics attempts to determine what is.
- c. Normative economics addresses what should be.
- d. Positive and normative economics both address what should be.

ANSWER:

d

111. Which of the following is *least* likely to be an effect of scarcity?

- a. rationing device
- b. choice
- c. opportunity cost
- d. utility

ANSWER:

d

112. Which of the following statements is consistent with how changes in opportunity cost are expected to affect behavior?

- a. The lower the opportunity cost of doing X, the more likely X will be done.
- b. The lower the opportunity cost of doing X, the less likely X will be done.
- c. The higher the opportunity cost of doing X, the more likely X will be done.
- d. There is no relationship between opportunity cost and behavior.

ANSWER:

a

113. In most societies, dollar price acts as the main rationing device. If dollar price weren't the main rationing device, would there still be a need for some rationing device to take its place?

- a. No, because with dollar price there would be no scarcity, although shortages would still exist.
- b. Yes, because there is a need for a rationing device as long as scarcity exists.
- c. Yes, because there is a need for a rationing device as long as the world's population is so large.
- d. No, because dollar price creates scarcity and without money price scarcity wouldn't exist.

ANSWER:

b

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114. Which of the following statements is *false*?

- a. Capital consists of produced goods that can be used as inputs for further production.
- b. The terms *resources*, *inputs*, and *factors of production* are synonyms.
- c. Labor consists of the physical, but not mental, talents of people who contribute to the production process.
- d. Entrepreneurship is one of the four categories of resources.

ANSWER:

c

115. Making a decision at the margin is _____ an all-or-nothing decision.

- a. consistent with
- b. inconsistent with
- c. the same as making
- d. conditioned upon making

ANSWER:

b

116. Which of the following is most likely to be a negative unintended effect of placing safety caps on medicine containers?

- a. It is now easier for people to open their medicine containers.
- b. People leave their medicine containers open more often, which ends up making it easier for children to get into the medicine.
- c. Fewer people get sick and need medicine.
- d. Medicine prices fall sharply.

ANSWER:

b

117. In general, there is a _____ relationship between the number of hours spent studying for a test and the grade earned on the test.

- a. independent
- b. direct
- c. inverse
- d. smooth

ANSWER:

b

118. Variables X and Y are independent of each other. If we plot X on the horizontal axis and Y on the vertical axis, the line that connects combinations of X and Y plotted in a two-variable diagram could be

- a. parallel to the horizontal axis.
- b. downward-sloping.
- c. either upward-sloping or downward-sloping.
- d. upward-sloping.

ANSWER:

a

119. Variables A and B are inversely related. If we plot A on the horizontal axis and B on the vertical axis, the line that connects combinations of A and B plotted in a two-variable diagram would be

- a. parallel to the horizontal axis.
- b. downward-sloping (left to right).

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- c. parallel to the vertical axis.
- d. upward-sloping (left to right).

ANSWER: b

120. Variables A and B are directly related. If we plot A on the horizontal axis and B on the vertical axis, the line that connects combinations of A and B plotted in a two-variable diagram would be

- a. parallel to the horizontal axis.
- b. downward-sloping (left to right).
- c. parallel to the vertical axis.
- d. upward-sloping (left to right).

ANSWER: d

121. The coordinates of point A are 30 units of X and 26 units of Y. The coordinates of point B are 22 units of X and 30 units of Y. With X on the horizontal axis and Y on the vertical axis, the slope of the line between points A and B is

- a. + 2.00
- b. + 0.50
- c. - 0.50
- d. - 2.00

ANSWER: d

122. In a two-variable diagram, there is a straight line which is parallel to the vertical axis. The slope of this line is

- a. zero.
- b. infinite.
- c. indicative of an inverse relationship between two variables.
- d. indicative of a direct relationship between two variables.

ANSWER: b

123. In a two-variable diagram, there is a straight line which is parallel to the horizontal axis. The slope of this line is

- a. infinite.
- b. indicative of an inverse relationship between two variables.
- c. indicative of a direct relationship between two variables.
- d. zero.

ANSWER: d

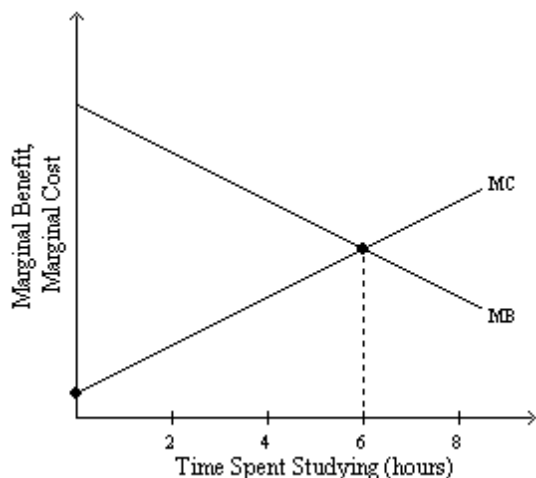
124. By looking at the different slices of a pie chart, and comparing one slice to another, it is possible to quickly estimate

- a. relative relationships.
- b. absolute relationships.
- c. the slope of a line.
- d. the slope of a curve.

ANSWER: a

Figure 1-1

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125. **Refer to Figure 1-1.** The student whose study habits are illustrated in this diagram will maximize the net benefits of studying when she has studied _____ hours.

- a. 2
- b. 4
- c. 6
- d. 8

ANSWER:

c

126. **Refer to Figure 1-1.** The efficient length of time for the student to study in the situation portrayed in this diagram is

- a. 2 hours.
- b. 4 hours.
- c. 6 hours.
- d. 8 hours.

ANSWER:

c

127. A characteristic of a 45-degree line is that

- a. any point on the line is equidistant from the two axes.
- b. it is parallel to the horizontal axis.
- c. the slope of the line is always 1.
- d. it is parallel to the vertical axis.

ANSWER:

a

128. The answer is, "This is principally used to exhibit changes in data over time." The question is,

- a. What is a pie chart?
- b. What is a 45-degree line?
- c. What is a tangent line?
- d. What is a line graph?

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ANSWER: d

129. Which of the following is the best example of a possible rationing device?

- a. dollar price
- b. positive economics
- c. normative economics
- d. scarcity

ANSWER: a

130. To an economist, *utility* means:

- a. additional.
- b. usefulness.
- c. satisfaction.
- d. marginal.

ANSWER: c

131. According to economists, competition exists because of

- a. scarcity.
- b. capitalism.
- c. money.
- d. unintended effects.

ANSWER: a

132. Many people buy one newspaper per day, but rarely do they buy two of the same newspapers on the same day. What is the economic justification for this behavior?

- a. The marginal benefit of purchasing the second newspaper exceeds the marginal cost of purchasing that second paper.
- b. The marginal cost of purchasing the second newspaper exceeds the marginal benefit of purchasing that second paper.
- c. The marginal benefit of purchasing the second newspaper equals the marginal cost of purchasing that second paper.
- d. The marginal benefit of purchasing the second newspaper is greater than or equal to the marginal cost of purchasing that paper.

ANSWER: b

Table 1-1

Point	X	Y
A	50	100
B	60	130
C	70	160
D	80	190

133. **Refer to Table 1-1.** According to the data provided in this table, what is the slope of the line between points A and B, if these data were graphed with X on the horizontal axis and Y on the vertical axis?

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- a. -3.00
- b. -0.33
- c. 3.00
- d. 0.33

ANSWER:

c

134. **Refer to Table 1-1.** According to the data provided in this table, what is the slope of the line between points C and D, if these data were graphed with X on the horizontal axis and Y on the vertical axis?

- a. -3.00
- b. -0.33
- c. 3.00
- d. 0.33

ANSWER:

c

135. **Refer to Table 1-1.** Based on the data provided in this table, if these data were plotted in a two-variable diagram the result would be _____ sloping _____.

- a. a downward; (nonlinear) curve
- b. a downward; (straight) line
- c. an upward; (nonlinear) curve
- d. an upward; (straight) line

ANSWER:

d

136. **Refer to Table 1-1.** Based on the data provided in this table, what type of relationship exists between variables X and Y?

- a. inverse
- b. direct
- c. independent
- d. There is no relationship between variables X and Y.

ANSWER:

b

Table 1-2

Point	X	Y
A	5	18
B	12	16
C	18	14
D	30	12

137. **Refer to Table 1-2.** According to the data provided in this table, what is the approximate slope of the line between points C and D (if these data were graphed with X on the horizontal axis and Y on the vertical axis)?

- a. -0.17
- b. -6.00
- c. 0.17
- d. 6.00

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ANSWER:

a

138. **Refer to Table 1-2.** According to the data provided in this table, what is the approximate slope of the line between points A and B, if these data were graphed with X on the horizontal axis and Y on the vertical axis?

- a. -0.29
- b. -3.50
- c. 0.29
- d. 3.50

ANSWER:

a

139. **Refer to Table 1-2.** Based on the data provided in this table, if these data were plotted in a two-variable diagram the result would be a _____ sloping _____.

- a. downward; (nonlinear) curve
- b. downward; (straight) line
- c. upward; (nonlinear) curve
- d. upward; (straight) line

ANSWER:

a

140. **Refer to Table 1-2.** Based on the data provided in this table, what type of relationship exists between variables X and Y?

- a. inverse
- b. direct
- c. independent
- d. There is no relationship between variables X and Y.

ANSWER:

a

141. A theory

- a. is built on the major factors or variables that the theorist believes explain some event.
- b. is an exact representation of the real world.
- c. very rarely helps to understand the real world.
- d. can be proved, but not disproved.

ANSWER:

a

142. *Ceteris paribus* means

- a. "one variable too many."
- b. "the correct relationship specified."
- c. "assuming economic motives."
- d. "all other things constant" or "nothing else changes."

ANSWER:

d

143. Which of the following statements uses the term *ceteris paribus* correctly?

- a. In economics, there are numerous theories, *ceteris paribus*.
- b. New York City is a major American city, *ceteris paribus*.

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- c. The price of pineapples is low in Hawaii, *ceteris paribus*.
- d. The more ice cream you eat, the more weight you will gain, *ceteris paribus*.

ANSWER:

d

144. If an economist says "the higher the price of oranges, the fewer oranges individuals will buy, *ceteris paribus*," this means that

- a. individuals don't like high-priced oranges.
- b. as the price of oranges rises, individuals' preferences change and they no longer like oranges as much as they once did.
- c. as the price of oranges rises, individuals' preferences do not change, nor does anything else, but individuals buy fewer oranges in response to the higher price of oranges.
- d. the higher the price of oranges, the fewer oranges individuals will buy, assuming that people have economic motives.

ANSWER:

c

145. The purpose of the *ceteris paribus* assumption is to allow economists to

- a. determine the relationship among several variables.
- b. determine the impact of several variables on another variable.
- c. isolate the impact of one variable on several variables.
- d. isolate the relationship between two variables.

ANSWER:

d

146. The condition often used in economics to isolate the relationship between two variables is

- a. causation.
- b. abstraction.
- c. *ceteris paribus*.
- d. efficiency.

ANSWER:

c

147. A three-word synonym for the term *ceteris paribus* is

- a. "nothing else changes."
- b. "in my opinion."
- c. "it is proved."
- d. "under this assumption."

ANSWER:

a

148. Which statement uses the term *ceteris paribus* correctly?

- a. If you exercise regularly, you will be healthier, *ceteris paribus*.
- b. Blue is to green, *ceteris paribus*, as red is to purple.
- c. Most people consider Sunday to be the first day of the week, *ceteris paribus*.
- d. Interest rates usually rise in October, *ceteris paribus*.

ANSWER:

a

Table 1-3

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Units of Good Health	Marginal Benefits (\$)	Marginal Costs (\$)
1	10	2
2	9	3
3	8	4
4	7	5
5	6	6
6	5	7

149. **Refer to Table 1-3.** If the student whose marginal benefits and costs of good health are noted in this table, how many units of good health should the student obtain in order to maximize her net benefits of good health?

- a. 2 units
- b. 3 units
- c. 4 units
- d. 5 units

ANSWER:

d

150. Economists use the *ceteris paribus* assumption primarily in order to

- a. make their analyses easier for them to conduct.
- b. designate what they believe is the correct relationship between two variables.
- c. explain why people sometimes consume more of a good when its price rises.
- d. explain why those things that come first do not necessarily cause those things that come later.

ANSWER:

b

151. A theory is an *abstract representation of reality*. This means a theory

- a. is descriptive of the way the world is.
- b. is an unrealistic representation of reality.
- c. omits certain factors when trying to explain something.
- d. is usually expressed in professional jargon.

ANSWER:

c

152. Efficiency is consistent with

- a. minimizing net benefits.
- b. equating marginal benefits and marginal costs.
- c. maximizing total benefits.
- d. minimizing total costs.

ANSWER:

b

153. Elite colleges and universities use standardized test scores (such as SAT and ACT scores) and high school grades as

- a. a means to raise student utility.
- b. a means to turn a university education from a "good" to a "bad."
- c. rationing devices.
- d. a means to eliminate scarcity.

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ANSWER: c

154. Which of the following is *not* one of the four broad categories of resources?

- a. labor
- b. money
- c. capital
- d. entrepreneurship

ANSWER: b

155. The coordinates of point A are 400 units of X and 40 units of Y. The coordinates of point B are 480 units of X and 60 units of Y. With X on the horizontal axis and Y on the vertical axis, the slope of the line between points A and B is

- a. + 0.25
- b. + 4.00
- c. - 4.00
- d. - 0.25

ANSWER: a

156. The coordinates of point A are 30 units of X and 70 units of Y. The coordinates of point B are 28 units of X and 76 units of Y. With X on the horizontal axis and Y on the vertical axis, the slope of the line between points A and B is

- a. + 3.00
- b. + 0.67
- c. + 0.33
- d. - 3.00

ANSWER: d

157. Something that motivates or encourages people to take an action is referred to as a(n)

- a. utility.
- b. abstract.
- c. market.
- d. incentive.

ANSWER: d

158. Harry is trying to take one more class this semester. He is weighing the marginal benefit of taking one more class to the marginal cost of taking one more class. Which economic concept is most closely related to Harry's decision-making process?

- a. macroeconomics
- b. exchange
- c. rationing devices
- d. decisions made at the margin

ANSWER: d

159. In economics, a synonym for *satisfaction* is

- a. *utility*.
- b. *marginal*.

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- c. *sacrifice.*
- d. *normative.*

ANSWER:

a

160. Which of the following pairs of variables is *most* likely to be inversely related?

- a. sales of toothpaste and sales of running shoes
- b. the price of ice cream and the price of airline tickets
- c. the number of children in a family and the number of toys the family owns
- d. the price of ice cream and sales of ice cream

ANSWER:

d

161. Which of the following pairs of variables is *most* likely to be directly related?

- a. sales of toothpaste and sales of running shoes
- b. the price of ice cream and the price of airline tickets
- c. the number of children in a family and the number of toys the family owns
- d. the price of ice cream and sales of ice cream

ANSWER:

c

Essay

162. Describe at least three of the key concepts in economics introduced in Chapter 1 of the textbook that define how an economist views the world.

ANSWER: Economists view the world using a number of key concepts. A few of these concepts introduced in Chapter 1 are: (a) goods and bads; (b) resources; (c) scarcity; (d) opportunity cost; (e) benefits and costs; (f) decisions made at the margin; (g) efficiency; (h) incentives; (i) unintended effects; (j) exchange.

163. What is the difference between macroeconomics and microeconomics? Give an example of a question that a macroeconomist might be interested in answering, then do the same for a microeconomist.

ANSWER: Macroeconomics is the branch of economics that looks at human behavior and choices as they relate to the entire economy. Microeconomics deals with human behavior and choices as they relate to relatively small units ---an individual, a firm, an industry, a single market. A macroeconomist would be concerned about questions that impact the whole economy such as, "How will the proposed tax cut affect unemployment, inflation and economic growth?" A microeconomist would ask questions that relate to the various parts that make up the economy such as, "How will the drought impact the price of corn?"

164. Describe the difference between positive and normative economics. Cite an example of each.

ANSWER: Positive economics deals with "what is." Normative economics is concerned with "what should be." A positive economist would look at the impact of an increase in minimum wage on the growth of the economy, while a normative economist would focus on whether or not the wage hike should occur and how it might affect the working poor.

165. List and describe the four broad categories of resources. Cite an example of each to help support your answer.

ANSWER: Economists divide resources into four categories: *land*, *labor*, *capital*, and *entrepreneurship*. *Land* refers to natural resources such as minerals, forests, water, oil, animals, and undeveloped land. *Labor* consists of the physical and mental talents people contribute to the production process, for example a teacher in a classroom. *Capital* is produced goods used in the production of other goods, such as buildings, tools, and

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equipment. *Entrepreneurship* consists of the talent that some people have for organizing the other resources to produce goods and develop new ways of doing things.

166. Define the term *rationing device* and give an example of each of three possible rationing devices. Explain how scarcity implies the need for a rationing device.

ANSWER: A rationing device is a mechanism used to determine who gets what. Examples of rationing devices include: dollar price, first-come-first-served, brute force, beauty, and lottery. Scarcity is the condition in which wants are greater than the limited resources. The existence of scarcity implies the need for a rationing device to determine who will have access to the available quantity of goods.

167. Explain what an economist means by the phrase “decisions made at the margin.” Cite an example to support your answer.

ANSWER: When making a decision at the margin an individual compares the additional (marginal) benefit of some choice to the additional (marginal) cost of making that choice. If the additional benefit is at least as great as the marginal cost then the choice is desirable, and if the additional cost is greater than the additional benefit then the choice is undesirable. This method of analyzing a situation is as opposed to comparing the total benefit and total cost of some activity. Examples will vary.

168. Explain why the *ceteris paribus* assumption is essential when assessing an economic theory. Give an example to help support your answer.

ANSWER: Economists use the *ceteris paribus* assumption to isolate the relationship between two variables. It allows them to see the cause and effect relationships, without being confused by other possible influences. Examples will vary.

169. Define the term *scarcity* and discuss two of its consequences.

ANSWER: Scarcity is the condition in which our wants are greater than the limited resources available to satisfy those wants. The consequences of scarcity include: (1) the need to make choices, (2) the need for a rationing device, and (3) competition.

170. Explain what an economist means when he says, “You don’t find any \$10 bills on the sidewalk.”

ANSWER: What an economist means by this statement is that people do not pass by net benefits. Whenever the marginal benefits of some activity exceed the marginal costs of that activity, net benefits result. The benefits of having another \$10 exceed the costs of stooping down to pick up the bill, resulting in a net benefit from picking up the bill.

171. Explain how scarcity can exist in a relatively rich country such as the United States. Give examples to help support your answer.

ANSWER: Even in a wealthy country, the people living in the country have an infinite amount of wants for goods and services but only a finite amount of resources which can be used to produce those goods and services. Examples will vary.