

Student: _____

1. What do economists always do when they are constructing theories or models?
 - A. They make simplifying assumptions.
 - B. They attempt to duplicate the real world precisely.
 - C. They ensure that the theory can be expressed mathematically.
 - D. They try to include as much information as possible.
2. Economists frequently use economic models. These models:
 - A. are tools used in the analysis of economic relationships.
 - B. may be graphs expressing the relationship between two economic variables.
 - C. may be equations expressing a relationship between two or more variables.
 - D. all of the above.
3. The primary reason why economists use models in their analysis is because a model:
 - A. permits economic relationships to be quickly and easily specified.
 - B. makes it possible to predict exact economic relationships.
 - C. helps organize and clarify the thinking process about an issue.
 - D. incorporates all the inner workings of real-world economy.
4. Which one of the following statements does not characterize an economic model?
 - A. Models are controlled experiments with the economy.
 - B. Models should contain a set of stated assumptions.
 - C. Models may very well omit some important economic relationships.
 - D. Models may be an imprecise representation of the real world.
5. When specifying economic models, economists often make assumptions about the real world. The purpose of assumptions in economics is to:
 - A. make the model more realistic.
 - B. simplify the model and provide a primary focus for the theory.
 - C. ensure that the model only covers specific conditions.
 - D. guarantee the accuracy of the theory.
6. Economic models and data allow us to study:
 - A. assumptions.
 - B. the future.
 - C. economic relationships.
 - D. people in laboratories.
7. Which of the following statements is false?
 - A. An economic theory is validated on the basis of observation.
 - B. An economic theory is a mathematically deduced equation and it is unrelated to observations in the real world.
 - C. An economic theory is rejected if it does not pass the test of empirical scrutiny.
 - D. An economic theory can be validated with data.
8. Pieces of evidence about economic behaviour are:
 - A. data.
 - B. assumptions.
 - C. theories.
 - D. models.

9. A sensible theoretical relationship not rejected by evidence over a long period is a(n):
- A. tautology.
 - B. axiom.
 - C. assumption.
 - D. behavioural model.
10. Time series data:
- A. are used very infrequently in economic analysis.
 - B. measure different variables for different economic units at a point in time.
 - C. measure a given variable for different economic units at a point in time.
 - D. measure a variable or variables at different points in time.
11. Which one of the following statements is false?
- A. If the economist wants to examine the distribution of income in 1987, time-series data should be used.
 - B. If the economist wants to examine the relationship between advertising expenditures and sales during 1987, cross-section data is used.
 - C. If the economist wants to examine the effect of intellectual ability upon earnings, cross-section data could be used.
 - D. If the economist wants to forecast gross national product based upon observations from previous years, time-series data should be used.
12. Data that follow the same individuals over time are called:
- A. time-series data.
 - B. cross-section data.
 - C. longitudinal data.
 - D. survey data.
13. A basket of goods in 1987 cost \$783, while the value of the same basket in 1997 was \$1133. The value of this price index in 1997, based on 1987 = 100, was:
- A. 144.7.
 - B. 242.
 - C. 69.1.
 - D. 117.4.
14. The weights used in the consumer price index:
- A. show the relative importance of the prices of the different components in the household's expenditures.
 - B. do not affect changes in the household's cost of living.
 - C. sum to 100.
 - D. are determined by the cost of producing each good in the index.
15. A table titled "Commodity Price Index, 1950-1998 (1970 = 100)" has a base year of:
- A. 1950.
 - B. 1998.
 - C. 1970.
 - D. none of the above.
16. The most frequently recognized and widely used price index is the:
- A. wholesale price index.
 - B. producers price index.
 - C. consumer price index.
 - D. index of leading economic indicators.
17. The CPI measures:
- A. the number of housing starts during a month.
 - B. the prices of goods that households consume.
 - C. changes in the level of unemployment during a given year.
 - D. hourly wage rates of manufacturing workers.

18. If the CPI for 2005 was 284.1, and economists predicted an inflation rate of 3.5 per cent for 2006, the predicted CPI at the end of 2006 was:
- A. 287.1.
 - B. 290.1.
 - C. 297.5.
 - D. 294.1.
19. Adjusting for changes in prices allows us to:
- A. create cross-section data.
 - B. derive a real value from a nominal value.
 - C. create time-series data.
 - D. create a paradigm.
20. When economists compute the real value of an economic variable denominated in dollars, they do so by:
- A. dividing the nominal value by 100.
 - B. multiplying the nominal value by the price level.
 - C. dividing the nominal value by the price index.
 - D. subtracting the price level from the nominal value and multiplying by 100.
21. The nominal value of an economic variable is:
- A. a measure of the goods it will buy.
 - B. expressed in current dollar terms.
 - C. adjusted for changes in the overall price level in the economy.
 - D. affected by the prices of all other goods in the economy.
22. Deflation describes periods when:
- A. the average level of prices is falling.
 - B. real output neither increases nor decreases.
 - C. relative prices remain constant.
 - D. the average level of prices is rising.
23. If your nominal income has increased by 2 per cent in one year, while the inflation rate for the same year is 3 per cent, you can conclude that your real income:
- A. has increased by 1% approximately.
 - B. has decreased by 1% approximately.
 - C. has remained constant.
 - D. has either increased or decreased by 1%
24. The real value of an economic variable is:
- A. a measure of the purchasing power of the variable.
 - B. adjusted for changes in the price level.
 - C. expressed in constant dollars.
 - D. all of the above.
25. Suppose that an individual has earned \$400 per week since 1967 and the CPI is currently 340 (1967 = 100). The real weekly income of this individual in 1967 dollars is:
- A. 361.4.
 - B. 117.6.
 - C. 400.
 - D. 185.9.
26. If you earn a salary of \$24,000 and the CPI is 300 (1970 = 100), then the real value of your income, expressed in 1970s dollars is:
- A. 8,000.
 - B. 6,000.
 - C. 24,000.
 - D. 18,600.

27. If the weekly earnings index for the construction industry was 340 for 1987 (1970 = 100), then:
- the workers in the construction industry earned \$340 per week.
 - the workers earned 340 per cent as much in 1987 as they did in 1970.
 - the workers earned \$100 per week in 1970 and \$340 in 1987.
 - the real weekly earnings of workers fell by 3.4 percent.
28. Product prices, consumer income, and the level of employment:
- are types of economic variables.
 - affect the "what," "how," and for "whom" decisions made in an economic system.
 - are measured by economic data.
 - all of the above are correct.
29. Suppose that the consumer price index has a value of 87 (1980 = 100) for 1987. This means that:
- on average, prices rose by 13 per cent since 1980.
 - all prices fell by 13 per cent since 1980.
 - all prices rose by 87 per cent since 1980.
 - on average, prices fell by 13 per cent since 1980.
30. An individual's real income per year measures the:
- amount of income subject to income tax.
 - number of dollars earned during the year.
 - amount of goods and services that can be purchased by the individual.
 - number of hours worked by the individual.
31. Other things equal, suppose that the general level of prices decreases. You would be correct if you concluded that the real value of your income:
- decreases.
 - remains constant.
 - increases.
 - may either increase or decrease, depending on the percentage fall in prices.
32. All of the following statements are correct except:
- Generally, what matters most to consumers is what a good costs in dollars.
 - The relative price of a good is its price measured relative to the price of other goods.
 - The real price of a good is calculated by adjusting its nominal price to account for changes in the prices of goods in general.
 - When the price of eggs goes up by the same proportion as prices of all other goods, the relative price of eggs does not change.
33. Suppose that in 2006, the CPI was 285, (1982 = 100). This index shows that the real value of a dollar in 2006:
- has remained essentially unchanged since 1982.
 - is much less than it was in 1982.
 - is 2.85 times as large as it was in 1982.
 - has increased since prices have decreased.

Good	Q purchased	Price/unit 1977 (\$)	Price/unit 1997 (\$)
Zaflings	100	2	10
Bluars	75	10	14
Widgets	50	4	2
Skylids	25	40	50

Table 2.1

34. Table 2.1 shows the prices and quantities purchased of four different goods by the typical household in 1977 and 1997. Using 1977 as the base year, the value of the consumer price index in 1997 was:
- 200.
 - 175.
 - 100.
 - between 150 and 200.

35. Using Table 2.1, in 1977 the greatest share of household income was spent on:
- bluars.
 - widgits.
 - zaflings.
 - skylids.
36. Hyperinflation is:
- an unusually low level of price increases in the economy.
 - a high inflation rate.
 - a purely temporary increase in the inflation rate.
 - none of the above.
37. Using Table 2.1, the price index in 1997, using 1977 as the base year, for this basket of goods is:
- 100.
 - 158.
 - 200.
 - 173.

Table 2.2

Year	Nominal Income	Price Index	Real Income
2001	\$400	100	\$400
2002	\$420	-----	\$400
2003	-----	110	\$420
2004	\$528	120	-----

Table 2.2

38. The price index in 2002 was:
- 100
 - 105
 - 115
 - none of the above
39. Jim's weekly nominal income in 2003 was:
- \$440
 - \$460
 - \$462
 - none of the above
40. Jim's weekly real income in 2004 was:
- \$440
 - \$460
 - \$462
 - none of the above
41. What is true about an economic model?
- It is built on a series of assumptions.
 - It establishes cause and effect between variables.
 - It could also be called an economic theory.
 - All of the above.
42. A road map is like an economic model, because it provides us with:
- all the details of the real world.
 - an analysis with no resemblances with the real world.
 - an analysis of the real world.
 - an abstraction of the real world.

43. All of the following except one are true of economic theories or models. Which one is the exception?
- A. They attempt to establish cause and effect between economic variables.
 - B. They always reflect reality.
 - C. They are built with assumptions and then tested with facts.
 - D. They are generalizations used to give context to our observations.
44. The use of economic models means economists believe that:
- A. this is how people explicitly choose between alternatives.
 - B. this is a reasonable abstraction of how people choose between alternatives.
 - C. those who explicitly make decisions this way are smarter.
 - D. with enough education, all people will start to explicitly make decisions this way.
45. In order for an economic model to be valid:
- A. all people must explicitly mimic the model.
 - B. most people must explicitly mimic the model.
 - C. most people must act as if they explicitly mimic the model.
 - D. it must gain professional acceptance.
46. Economic models claim to be:
- A. reasonable abstractions of how people make choices, highlighting the most important factors.
 - B. exact replications of the decision-making process people use.
 - C. interesting chalkboard exercises with little applicability to the real world.
 - D. exceptionally accurate methods of predicting nearly all behavior of everyone.
47. When economists make predictions using the framework of a given economic model, it is usually based on:
- A. personal experiences.
 - B. cause-and-effect explanations.
 - C. mathematical abstractions.
 - D. normative analysis.
48. Given the equation $Q = 16 - 1.5P$, when P has a value of 4, Q has a value of:
- A. 16.
 - B. 22.
 - C. 6.
 - D. 10.
49. The solution to the equations $P = 14 - 2Q$ and $Q = 6$, yields a solution for P of:
- A. 2.
 - B. 3.
 - C. 6.
 - D. 10.
50. The solution to the equations $P = 2 + 0.5Q$ and $P = 10$ yields a solution for Q of:
- A. 12.
 - B. 20.
 - C. 16.
 - D. 24.
51. Solving the equations $P = 2 + 3Q$ and $P = 6 + 3Q$ yields a solution for Q of:
- A. 100.
 - B. -100.
 - C. 0.
 - D. no solution.

52. Solving the equations $P = 6 + 3Q$ and $P = -3Q$ yields a solution for Q of:
- A. 1.
 - B. -1.
 - C. -2.
 - D. 2.
53. When a negative relationship exists between x and y :
- A. an increase in x results in a decrease in y .
 - B. an increase in x results in an increase in y .
 - C. a graph of the relationship slopes up and to the right.
 - D. a graph of the relationship is horizontal.
54. Suppose that a positive relationship exists between the variables x and y . This relationship means that:
- A. a plot of the variables will slope downward and to the right.
 - B. as x increases, the value of y decreases.
 - C. as x increases, the value of y also increases.
 - D. as y increases, the value of x decreases.
55. Knowing the intercept and slope enables you to draw:
- A. a curve.
 - B. a circle.
 - C. an ellipse.
 - D. a straight line.
56. If you have the equation $Q = 20 - 3P$, then:
- A. a plot of the equation will result in a graph with a negative slope.
 - B. a negative relationship exists between P and Q .
 - C. every time P increases by 1 unit, Q falls by 3 units.
 - D. all of the above are correct.
57. The reason that economists often use a scatter diagram in their analysis is that:
- A. it provides a precise relationship between two variables.
 - B. it reveals whether there may be an obvious relationship between two variables.
 - C. it will always plot as a simple linear relationship.
 - D. it may be plotted with many explanatory variables.
58. Consider a negatively sloped linear line in a graph where the vertical axis represents variable Y and the horizontal axis represents variable X . If the vertical intercept is 10 and the slope is -0.5 , the horizontal intercept must be:
- A. 5.
 - B. 10.
 - C. 20.
 - D. none of the above.
59. Consider a negatively sloped linear line in a graph where the vertical axis represents variable Y and the horizontal axis represents variable X . If the vertical intercept is 10 and the slope is -0.5 , the correct equation is:
- A. $X = 10 - 0.5Y$.
 - B. $X = 20 - 2Y$.
 - C. $Y = 20 - 2X$.
 - D. $Y = 10 - 2X$.
60. All of the following statements are characteristic of economic theories except:
- A. theories may change over time as new evidence is discovered.
 - B. theories are the basis for economic principles.
 - C. theories are based upon abstract ideas and hence cannot be tested.
 - D. theories are tested by applying economic data to a model.

61. Which one of the following steps does not belong in the economists' approach to problem solving?
 - A. Observe the phenomenon.
 - B. Disregard all previous theories.
 - C. Develop a theory to explain the phenomenon.
 - D. Test the predictions of the theory with data.
62. Which one of the following will not usually be included in an economic theory?
 - A. A set of assumptions.
 - B. A set of definitions.
 - C. An overall statement of the theory.
 - D. A set of value judgments.
63. What do most of the disagreements among economists involve?
 - A. The appropriate goals and policies for the economy.
 - B. Generalizing about facts.
 - C. Gathering data.
 - D. The use of statistics.
64. Why is there often disagreement amongst economists?
 - A. Some who claim to be economists may not be sufficiently well trained.
 - B. There is disagreement over what is, and what is not, a legitimate goal for society to try to achieve, . possibly because some economists are 'left wing' and others are 'right wing.'
 - C. The discipline is so wide and complex that no one person could be expected to cover the whole range of possible knowledge.
 - D. There is truth in all of the above.
65. We do not expect economists to agree on economic issues that involve:
 - A. positive analysis.
 - B. normative analysis.
 - C. microeconomic analysis.
 - D. cost and benefit analysis.
66. Economic models accurately reflect the workings and complexity of the real world.
True False
67. A theory is a logical view of how the world and its parts work and it is frequently formulated on the basis of observation.
True False
68. When economists use cross-section data, they collect and analyze information about the same economic variable at different points in time.
True False
69. An economic variable is anything that affects the what, how, and for whom questions that every society must answer.
True False
70. When economists use time-series data, they collect and analyze information about different economic variables at a particular point in time.
True False
71. Nominal income is the real income divided by the price index.
True False
72. A rising average price level does not mean that all prices in the economy are rising.
True False
73. If nominal GNP is \$1,000 billion and the GNP deflator is 250, then real GNP is \$400 billion.
True False

74. The CPI is not affected by rising prices of imported consumer goods.
True False
75. If the price of apples is \$1 per pound and the price of peaches is 50 cents per pound, then the relative price ratio of apples to peaches is 2.
True False
76. An increase in the price level as reflected by a rising consumer price index causes the real value of an economic variable to increase.
True False
77. The inflation rate is nothing more than the growth rate of the average price level, and it can be either positive or negative.
True False
78. The slope of a line measures its steepness.
True False
79. Economic theories, like physics or chemistry, can be tested in a laboratory environment.
True False
80. Econometrics is the study of fitting relationships through scatter diagrams.
True False
81. Economic theories are worthless unless they are verified through scientific testing and hold true under all circumstances.
True False
82. Human behaviour, as well as the behaviour of an individual, can always be predicted accurately.
True False
83. An important frequent assumption in economic theories is that all other things remain the same.
True False
84. Assumptions are used in economic theories in order to simplify the theory.
True False
85. Linear relationships are always more accurate representations of reality than non-linear relationships.
True False
86. The primary reason for building and using models in economic analysis is to reveal basic economic principles
True False
87. Consider a negatively sloped linear line in a graph where the vertical axis represents variable Y and the horizontal axis represents variable X. The slope of the horizontal linear curve is zero.
True False
88. Consider a negatively sloped linear line in a graph where the vertical axis represents variable Y and the horizontal axis represents variable X. The slope of the vertical straight line is zero.
True False
89. Road fatalities have increased in recent decades in Canada.
True False
90. CANSIM database, which is managed by Statistics Canada, is the most comprehensive source of data in Canada.
True False

91. Why are economists frequently portrayed as being individuals who act only out of their own self-interest?

92. Why are simple models so important to economists?

93. Explain the difference between real and nominal variables.

94. Explain the meaning of a quantity or price index.

95. Has technological change affected our standard of living?

96. Evaluate the following criticism of economic models: 'Economic models always work with linear functions, and are therefore too simple to be useful or meaningful.'

97. Describe the different forms in which data are available to economic researchers.

ch02 Key

1. (p. 21) A
2. (p. 22) D
3. (p. 22) C
4. (p. 22) A
5. (p. 22) B
6. (p. 22) C
7. (p. 22) B
8. (p. 22) A
9. (p. 22) D
10. (p. 23) D
11. (p. 22) A
12. (p. 23) C
13. (p. 25) A
14. (p. 25) A
15. (p. 25) C
16. (p. 27) C
17. (p. 27) B
18. (p. 27) D
19. (p. 27) B
20. (p. 27) C
21. (p. 27) B
22. (p. 27) A
23. (p. 27) B
24. (p. 27) D
25. (p. 27) B
26. (p. 27) A
27. (p. 27) B
28. (p. 27) D
29. (p. 27) D
30. (p. 27) C
31. (p. 27) C
32. (p. 27) A
33. (p. 27) B
34. (p. 27) C
35. (p. 27) D
36. (p. 27) B

- 37. (p. 27) B
- 38. (p. 27) B
- 39. (p. 27) C
- 40. (p. 27) A
- 41. (p. 29) D
- 42. (p. 29) D
- 43. (p. 29) B
- 44. (p. 29) B
- 45. (p. 29) C
- 46. (p. 29) A
- 47. (p. 29) B
- 48. (p. 31) D
- 49. (p. 31) A
- 50. (p. 31) C
- 51. (p. 31) D
- 52. (p. 31) B
- 53. (p. 31) A
- 54. (p. 31) C
- 55. (p. 31) D
- 56. (p. 31) D
- 57. (p. 31) B
- 58. (p. 31) C
- 59. (p. 31) B
- 60. (p. 33) C
- 61. (p. 33) B
- 62. (p. 33) D
- 63. (p. 33) A
- 64. (p. 33) D
- 65. (p. 33) B
- 66. (p. 22) FALSE
- 67. (p. 21) TRUE
- 68. (p. 23) FALSE
- 69. (p. 23) TRUE
- 70. (p. 23) FALSE
- 71. (p. 27) FALSE
- 72. (p. 27) TRUE
- 73. (p. 27) TRUE
- 74. (p. 27) FALSE

75. (p. 27) TRUE

76. (p. 27) FALSE

77. (p. 27) TRUE

78. (p. 31) TRUE

79. (p. 33) FALSE

80. (p. 33) TRUE

81. (p. 33) FALSE

82. (p. 33) FALSE

83. (p. 33) TRUE

84. (p. 33) TRUE

85. (p. 33) FALSE

86. (p. 33) TRUE

87. (p. 33) TRUE

88. (p. 33) TRUE

89. (p. 32) FALSE

90. (p. 33) TRUE

91. Economists believe that individuals generally respond to incentives. For example, if product prices are higher they will buy less, if they are offered a higher wage they will work more, if unemployment benefits or welfare benefits are higher individuals will avail of them to a greater extent, and so forth. At the same time, economists do not believe that individuals are motivated solely by incentives and self-interest. Being honest, paying one's taxes and not polluting, even in the absence of incentives, are all recognized as valuable contributions to a healthy society.

92. Models are important for several reasons. First, they define a logical framework within which people can reason. They therefore force us to formalize our thinking. Second, models emphasize the essentials of a problem and so provide a means of separating out the essentials from the less essential. Third, they allow us to test hypotheses about human behaviour. Lastly, models interact with data through the testing process. If models are not supported by data they must be discarded or redeveloped.

93. A nominal variable is measured without reference to the general price level. A real variable takes account of the behaviour of the overall price level in the economy. For example, if the price of gasoline increased by 10% in 2007 and the general level of all prices in the economy increased by 3%, we would say that the nominal price of gasoline increased by 10% but that the real price of gasoline increased by 7%. The most frequently cited measure of the overall price level in the economy is the consumer price index — the CPI. We use this price index as a means of deflating individual price series in order to obtain a measure of the real or relative change in price of such individual price series.

94. An index is a composite of individual series. The consumer price index (the CPI) is a measure of how the prices of consumer goods change overall. It is formed as a weighted average of all of its components, where the weights typically reflect the importance of each component in the expenditures of a typical household. A quantity index is a composite measure that embodies how quantities change in a given time interval. For example, the annual quantity of all goods and services produced in Canada each year is a measure of total output — the annual product of the economy. In such an index the amount of every good and service is included. Such an index permits us to make statements such as: Canadian production in the last year increased by 4%.

95. Most definitely, though many economists believe that the degree to which technological change is actually reflected in the indices of total output for the economy is underestimated. For example, personal computers, cameras, movie players, and so forth have not just fallen in price in many cases over the last two decades, their quality has also increased dramatically. Incorporating this quality change into our price or output indices is difficult. While economists have attempted to do this, we still believe that insufficient allowance has been made in these indices for the real value of technological and quality change.

96. Linear descriptions of supply and demand are indeed a simplification of reality. Econometric relationships are rarely so simple, and when fitting econometric functions to data econometricians rarely confine themselves to linear functions. Nonetheless, these linear models are useful in capturing the essence of many problems. First, their ability to give meaning to such concepts as excess supply and excess demand is not compromised by their linearity. Second, even when real-world relationships are nonlinear, they can frequently be represented by linear functions in the neighbourhood of equilibrium.

97. First, some data come in time-series format. Canada's biggest data bank, CANSIM, which is maintained by Statistics Canada, contains about a million time series. Then there are cross-sectional data, which are gathered for different units at a given point in time. For example, data on the unemployment rate in each of Canada's provinces in 2007 would form a cross-sectional sample. Third, there are panel, or longitudinal, data. Such data describe the characteristics of the same units (households, firms, etc.) over a number of time periods.

ch02 Summary

<u>Category</u>	<u># of Questions</u>
Curtis - Chapter 02	99
Difficulty: Difficult	9
Difficulty: Easy	10
Difficulty: Moderate	78
Learning Objective: 2.1	9
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