

Name _____ Class _____ Date _____
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Chapter 01 - Introducing the Economic Way of Thinking

Multiple Choice

1. When economists say scarcity, they mean:

- a. there are only a limited number of consumers who would be interested in purchasing goods.
- b. human wants exceed the available supply of time, goods and resources.
- c. most people in poorer countries do not have enough goods.
- d. goods are so expensive that only the rich can afford it.

ANSWER:

b

2. When economists say goods are scarce, they mean:

- a. consumers are too poor to afford the goods and services available.
- b. consumers are unwilling to buy goods unless they have very low prices.
- c. goods are generally freely available from nature in most countries.
- d. the desire for goods and services exceeds our ability to produce them with the limited resources available.

ANSWER:

d

3. Scarcity is a problem:

- a. measured by the amount of goods available.
- b. of the poor, but not the rich.
- c. because human wants are unlimited while resources are limited.
- d. only in industrialized economies.

ANSWER:

c

4. Scarcity:

- a. is a problem only in industrialized economies.
- b. is a condition measured by the quantity of goods available.
- c. exists everywhere because human wants can never be satisfied.
- d. is a problem only in poor economies.

ANSWER:

c

5. Scarcity:

- a. exists because resources are unlimited while human wants are limited.
- b. means we are unable to have as many goods and services or as much time for activities as we would like to have.
- c. will likely be eliminated as technology continues to expand.
- d. is not an issue addressed in economics.

ANSWER:

b

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

- a. will be solved if only we would learn to conserve.
- b. is only a problem in developing countries.
- c. will be solved as technology advances.
- d. will always be with us.

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ANSWER: d

7. Human wants:

- a. are unfilled only in the poorer countries of the world.
- b. can be completely satisfied by advancing technology.
- c. can never be fully satisfied.
- d. only apply to necessities.

ANSWER: c

8. Which of the following is an example of scarcity?

- a. Adam has more than enough food to eat each day.
- b. Benito is wealthy so he has everything he could ever want.
- c. Camden would like to have more designer clothes than he can afford.
- d. Dennis takes as many vacations as he would like since he won the lottery.

ANSWER: c

9. The perpetual problem in economics is:

- a. our inability to work together effectively.
- b. our inability to satisfy everyone's wants with the available resources.
- c. likely to be solved in resource-rich countries.
- d. our inability to utilize resources efficiently.

ANSWER: b

10. Wealthy families wanting finer homes and nicer vacations exemplify

- a. capital.
- b. production.
- c. resources.
- d. scarcity.

ANSWER: d

11. People are forced to make choices because of:

- a. unlimited wants and unlimited resources.
- b. limited wants and unlimited resources.
- c. unlimited wants and limited resources.
- d. limited wants and limited resources.

ANSWER: c

12. Relate the term scarcity to the action(s) it causes.

- a. Scarcity causes developed nations to have more material goods than developing nations.
- b. Scarcity causes fewer technological advances.
- c. Scarcity forces people to want more material goods.
- d. Scarcity forces everyone to make choices.

ANSWER: d

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13. Which of the following is true of resources?

- a. Resources are outputs from the production of goods and services.
- b. A \$1,000 investment is an example of a capital resource.
- c. Entrepreneurship organizes resources to produce goods and services.
- d. Land resources do not include water.

ANSWER:

c

14. Natural resources are:

- a. not considered scarce because no one pays for them.
- b. rarely used in production.
- c. included in the category of resources called land.
- d. available in unlimited quantities.

ANSWER:

c

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

- a. 100 shares of Microsoft stock.
- b. \$50 bill.
- c. credit card.
- d. lawyer's personal computer.

ANSWER:

d

16. An entrepreneur is a(n):

- a. individual who has much education.
- b. organizer who seeks profitable opportunities and is willing to accept risks.
- c. business organization that uses inputs to produce output.
- d. depot or warehouse for commercial products.

ANSWER:

b

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

- a. A forest.
- b. A computer program.
- c. An assembly-line worker.
- d. Dollars.

ANSWER:

d

18. An economics textbook is an example of:

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

ANSWER:

a

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19. The mental and physical capacity of workers to produce goods and services is known as:

- a. labor.
- b. entrepreneurship.
- c. value judgment.
- d. product sensitivity.

ANSWER:

a

20. The services of farmers are an example of:

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

ANSWER:

c

21. Which of the following is the *best* example of a nonrenewable resource?

- a. forests
- b. oil
- c. solar power
- d. clean air

ANSWER:

b

22. 100 shares of stock in General Motors is considered which type of resource?

- a. land
- b. labor
- c. capital
- d. It is not a resource.

ANSWER:

d

23. Which of the following is *not* an example of a capital input?

- a. A person's skills and abilities, which can be employed to produce valuable goods and services.
- b. Factories and offices where goods and services are produced.
- c. Tools and equipment.
- d. Computers used by a company to record inventory, sales, and payroll.

ANSWER:

a

24. A factor of production is the same as:

- a. the amount of a good produced.
- b. the price of a good.
- c. an opportunity cost.
- d. a resource.

ANSWER:

d

25. All of the following are examples of capital *except*:

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- a. the robot used to help produce your car.
- b. the classroom in which you learn.
- c. the factory that produces the costume jewelry you buy.
- d. an uncut diamond that you discover in your backyard.

ANSWER:

d

26. The silly clothes worn by a circus clown are an example of:

- a. a natural resource.
- b. capital goods.
- c. labor.
- d. entrepreneurship.

ANSWER:

b

27. Entrepreneurs can delegate every one of the following tasks to labor except:

- a. hiring and training new employees.
- b. assuming business risk and uncertainty.
- c. supervision of the production process.
- d. marketing the goods and services produced.

ANSWER:

b

28. An entrepreneur is:

- a. an employee in a factory.
- b. the manager of a factory.
- c. the person who conceives and starts a business.
- d. the person who does not assume any risk in business.

ANSWER:

c

29. Labor resources:

- a. include only physical activities.
- b. include human effort involved in the production of goods, but not services.
- c. include only skilled labor.
- d. include both physical and mental activities.

ANSWER:

d

30. Economics is the study of how people:

- a. vote for political leaders.
- b. make choices to produce and consume goods and services.
- c. establish social institutions that maximize well-being.
- d. develop value systems.

ANSWER:

b

31. The central question in economics is how to:

- a. deal with the problem of scarcity.

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- b. change government economic policy.
- c. change people's wants to match their needs.
- d. manage money and become wealthy.

ANSWER:

a

32. The subject of economics is primarily the study of:

- a. the government decision-making process.
- b. how to operate a business successfully.
- c. decision-making because of the problem of scarcity.
- d. how to make money in the stock market.

ANSWER:

c

33. Microeconomics approaches the study of economics from the viewpoint of:

- a. inflation, unemployment, and economic growth.
- b. the federal government.
- c. individual economic units, such as consumers, firms, industries, and units of government.
- d. the economy as a whole.

ANSWER:

c

34. The basic difference between macroeconomics and microeconomics is:

- a. microeconomics concentrates on individual markets while macroeconomics focuses primarily on international trade.
- b. microeconomics concentrates on the behavior of individual consumers while macroeconomics focuses on the behavior of firms.
- c. microeconomics concentrates on the behavior of individual consumers, firms, and industries while macroeconomics focuses on the performance of the entire economy.
- d. microeconomics explores the causes of inflation while macroeconomics focuses on the causes of unemployment.

ANSWER:

c

35. Determining the price of mobile phones is a concern of:

- a. macroeconomics.
- b. microeconomics.
- c. both macroeconomics and microeconomics.
- d. neither macroeconomics nor microeconomics.

ANSWER:

b

36. Which of the following is the *best* example of a microeconomic topic?

- a. The impact that the money supply has on inflation.
- b. The reasons for increases in the price of soft drinks.
- c. The effect that federal budget deficits have on the interest rate.
- d. The tradeoff between inflation and unemployment.

ANSWER:

b

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37. The price of milk would be of particular interest to
- a microeconomist.
 - a macroeconomist.
 - neither a microeconomist nor a macroeconomist.
 - both a microeconomist and a macroeconomist.

ANSWER: a

38. The study of microeconomics and macroeconomics differ in that:
- microeconomics is concerned with the domestic economy and macroeconomics is concerned only with the international economy.
 - microeconomics examines the individual markets of the economy while macroeconomics studies the whole economy.
 - microeconomics studies the actions of households and macroeconomics studies the actions of business firms.
 - microeconomics examines the whole economy while macroeconomics studies the individual units of the economy.

ANSWER: b

39. Microeconomics deals with the analysis of all the following questions except how:
- the wages of carpenters are determined.
 - high did unemployment rise during the Great Depression.
 - does Ford decide how to price its cars.
 - does a college student decide how to spend her income.

ANSWER: b

40. Which of the following is the *best* example of a microeconomics topic?
- a price of a new home
 - the inflation rate
 - the economy's growth rate
 - forecasts of a recession next year

ANSWER: a

41. Arrange the following topics into lists of microeconomic and macroeconomic topics:

- wages of textile workers
- cost of producing 10,000 bookcases
- the economy's annual growth rate
- national demand for fish
- the unemployment rate
- the gold futures market
- money supply
- projected inflation rate next year

a. Microeconomics: wages of textile workers, the unemployment rate, cost of producing 10,000 bookcases, the gold futures market

Macroeconomics: the economy's annual growth rate, money supply, national demand for fish, projected inflation rate next year

b. Microeconomics: wages of textile workers, cost of producing 10,000 bookcases, the economy's annual

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growth rate, unemployment rate

Macroeconomics: national demand for fish, the gold futures market, money supply, projected inflation rate next year

- c. Microeconomics: wages of textile workers, cost of producing 10,000 bookcases, the gold futures market, national demand for fish

Macroeconomics: the economy's annual growth rate, the unemployment rate, money supply, projected inflation rate next year

- d. Microeconomics: the economy's annual growth rate, the unemployment rate, money supply, projected inflation rate next year

Macroeconomics: wages of textile workers, cost of producing 10,000 bookcases, the gold futures market, national demand for fish

ANSWER: c

42. Which of the following is included in the study of macroeconomics?

- a. wage rate of Ford's assembly-line workers
- b. prices of automobiles
- c. unemployment in the nation
- d. price of silver and gold

ANSWER: c

43. The television network newscaster reports that the national inflation rate the past year equaled 4 percent. This report would be of particular interest to a

- a. microeconomist.
- b. normative economist.
- c. macroeconomist.
- d. social science economist.

ANSWER: c

44. Macroeconomics deals with the analysis of all of the following questions except:

- a. why do national economies grow.
- b. how does Microsoft price its software packages.
- c. how does a central bank influence inflation.
- d. why does a country experience recessions.

ANSWER: b

45. Which of the following would be studied by a macroeconomist rather than a microeconomist?

- a. shipping rates
- b. price of corporate stock
- c. market price of Japanese cars
- d. unemployment rate in the nation

ANSWER: d

46. The question "why do national economies grow" would be a macroeconomic, rather than a microeconomic topic, because it

- a. relates to the economy as a whole.

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- b. studies a single market.
- c. considers the decisions of one industry.
- d. depends on the actions of suppliers.

ANSWER:

a

47. Which of the following statements best illustrates the form of an economic theory?

- a. If A, then B.
- b. If A, then B, when C, D, E, and F are also changing.
- c. A, B, and C all occurred at the same time.
- d. If A, then B, other things held constant.

ANSWER:

d

48. An economist at the University of Alaska at Anchorage has been asked to explain why the price of Alaskan crude oil has fallen recently. In order to develop a model, the professor should take which steps?

- a. Identify the problem, develop a model based on simplifying assumptions and test the model to formulate a conclusion.
- b. Gather data on crude oil prices and seemingly unrelated variables to look for associations, then formulate a hypothesis based on those unexpected associations.
- c. Ask people in Alaska why they are not purchasing oil.
- d. None of these. The oil industry is controlled by a cartel; therefore price changes in the industry cannot be explained using economic theories.

ANSWER:

a

49. To test the theory that if the price of pens rises, then pen purchases fall, an economist would

- a. analyze data on the price of pens and the price of pencils without holding other factors constant.
- b. investigate whether people purchase more pens when their income rises.
- c. analyze data on pen purchases linked to the price of pens, holding other factors constant.
- d. ask his or her friends if they would buy fewer pens when the price rises.

ANSWER:

c

50. An economic model is defined as:

- a. a value judgment.
- b. a presentation of all possible relevant real-world variables.
- c. a simplified representation of the way in which facts are related.
- d. data adjusted for irrational actions.

ANSWER:

c

51. An economic model is useful only if it:

- a. contains no positive statements.
- b. captures all the complexities of reality.
- c. yields accurate predictions.
- d. has both macro- and microeconomic applications.

ANSWER:

c

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52. Suppose an economist collects the following data between May and December of a given year: gasoline prices rose sharply, consumer incomes remained constant, consumers purchases of fuel efficient vehicles remained constant from the previous year, the size of the population did not change, sales of gasoline decreased by 15 percent. Which of the following theories could be tested with this information?

- a. When the price of gasoline rises, gasoline purchases fall.
- b. When consumer incomes rise, gasoline purchases rise.
- c. When the population increases, purchases of fuel efficient vehicles increase.
- d. No economic theory could be tested with this information.

ANSWER:

a

53. When building a model, an economist must:

- a. adjust for exceptional situations.
- b. provide a complete description of reality.
- c. make simplifying assumptions.
- d. develop a set of behavioral equations.

ANSWER:

c

54. Which of the following is *not* an example of a model?

- a. a small plastic airplane tested in a wind tunnel
- b. a highway map
- c. a photograph of the inside of a computer
- d. a poster of the human digestive system

ANSWER:

c

55. Complete the following analogy: A criminal is to a police artist's sketch as the economy is to:

- a. money.
- b. an economic model.
- c. a resource.
- d. scarcity.

ANSWER:

b

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

- a. we include only a few of the essential aspects of reality.
- b. the economic study surveys only a very limited period of time.
- c. we include only those elements which support our hypothesis.
- d. the model includes every aspect of the real world.

ANSWER:

a

57. Organize the steps an economist would follow in the model-building process into their proper order.

- Develop a model based on simplifying assumptions
- Collect data
- Identify the problem
- Formulate a conclusion

- a. 1. Develop a model based on simplifying assumptions. 2. Collect data. 3. Identify the problem. 4. Formulate

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a conclusion

- b. 1. Collect data. 2. Develop a model based on simplifying assumptions. 3. Identify the problem. 4. Formulate a conclusion.
- c. 1. Identify the problem. 2. Develop a model based on simplifying assumptions. 3. Collect data. 4. Formulate a conclusion
- d. 1. Formulate a conclusion. 2. Collect data. 3. Identify the problem. 4. Develop a model based on simplifying assumptions.

ANSWER:

c

58. To be valid, an economic model must:

- a. include every activity which occurs in the real world.
- b. not be based on an abstraction of the real world.
- c. be able to predict events occurring in the real world.
- d. exclude any link to the real world.

ANSWER:

c

59. Which of the following is *most* likely to represent causality rather than association?

- a. In years that fashion dictates wider lapels on men's jackets, the stock market grows by at least 5 percent.
- b. Interest rates are higher in years ending with a 1 or a 6.
- c. Unemployment falls when the AFC champion wins the Super Bowl.
- d. Quantity demanded goes up when price falls because lower prices increase consumer purchasing power, *ceteris paribus*.

ANSWER:

d

60. When economists use the term *Ceteris paribus*, they are indicating that:

- a. the relationship between two economic variables cannot be determined.
- b. the analysis is true for the individual but not for the economy as a whole.
- c. all other variables except the ones specified are assumed to be constant.
- d. their conclusions are based on normative economics rather than positive economic analysis.

ANSWER:

c

61. The statement, "John buys more of good X as his income increases, *Ceteris paribus*," 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. the price of good X is being held constant.

ANSWER:

d

62. Which of the following statements is an example of confusing association and causation?

- a. Senator Jones believes that more tax revenue should be distributed to the poor.
- b. A map includes roads, but not every restaurant, telephone pole, and
- c. Interest rates rise when it rains, all other factors constant.

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d. When the price of Coca-Cola increases, consumers buy more Pepsi, all other factors constant.

ANSWER:

c

63. The Latin expression *Ceteris paribus* means:

- a. everything else being equal.
- b. economic model.
- c. economists are partly right.
- d. partial scarcity is certain.

ANSWER:

a

64. When economists want to hold a number of factors constant, they are demonstrating which of the following expressions?

- a. Positive economics model.
- b. Consumer sovereignty.
- c. *Ceteris paribus*.
- d. Normative economics.

ANSWER:

c

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

- a. students' incomes fall.
- b. tuition decreases.
- c. the number of students increases.
- d. everything else is constant.

ANSWER:

d

66. If an economist finds that when consumer incomes increase, consumers buy more cars, *Ceteris paribus*, then the economist is assuming

- a. the price of cars must be decreasing.
- b. all other things remain constant.
- c. the price of gas must be decreasing.
- d. the interest rate on car loans must be decreasing.

ANSWER:

b

67. Someone notices that sunspot activity is high just prior to recessions and concludes that sunspots cause recessions. This person has:

- a. confused association and causation.
- b. misunderstood the *Ceteris paribus* assumption.
- c. used normative economics to answer a positive question.
- d. built an untestable model.

ANSWER:

a

68. Suppose an economist tests the theory that when the price of leather increases, fewer pairs of shoes are produced. He observes more shoes being produced when the price of leather increases. At the same time, a new production technology

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allowed for more shoes to be produced in less time. He has

- a. has confused association and causation.
- b. cannot test his theory because his observations violate the ceteris paribus assumption.
- c. used normative economics to answer a positive question.
- d. built a model with too many variables.

ANSWER:

b

69. "As soon as a mayor announced his/her 'get tough on crime' policy on New Year's day, criminals got scared and the crime rate went down." Suppose that the lower crime rate was actually caused by freezing cold temperatures in January—it was just too cold for anybody to be out robbing other people. Which fundamental hazard of the economic way of thinking did the mayor make?

- a. believing that what's good for one person is good for the whole group (the fallacy of composition)
- b. failing to take into account the benefits of crime (the payoff fallacy)
- c. believing that association is the same as causation
- d. failing to understand the difference between positive and normative economics.

ANSWER:

c

70. If individuals who sit in the back of the classroom receive lower grades on average than the rest of the class, does that mean that sitting in the back of a classroom causes one to perform poorly on exams?

- a. Not necessarily. The reoccurrence of a certain relationship between two variables does not necessarily imply causation.
- b. The recurrence of such a relationship is definitely caused by the variation of another variable.
- c. The recurrence of such a relationship is sufficient evidence that sitting in the back of a classroom will lead to lower grades.
- d. The reoccurrence of such a relationship is sufficient evidence that students who receive low grades prefer to keep a low profile and always sit in the back of the classroom.

ANSWER:

a

71. The statement, "Violent crime has decreased in the last five years," is:

- a. obviously wrong and, therefore, cannot be a positive statement.
- b. normative since it can be answered by simply looking at the facts.
- c. positive because it is testable.
- d. not very interesting because all normative issues are of little importance.

ANSWER:

c

72. Which one of the following is a positive economic statement?

- a. An increase in the minimum wage will reduce employment for teenagers.
- b. The minimum wage should be increased.
- c. Social justice will be served by increasing the minimum wage.
- d. Thoughtful people oppose an increase in the minimum wage.

ANSWER:

a

73. Select the normative statement that completes the sentence: If wages rise more rapidly than productivity:

- a. profits will fall.

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- b. workers will earn 3/4 of GDP.
- c. the rate of inflation increases.
- d. policymakers should impose a wage ceiling.

ANSWER:

d

74. "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 judgment.
- d. fallacy of composition.

ANSWER:

a

75. A positive economic statement is:

- a. an opinion of an action that should be taken.
- b. an action that will have a positive effect on the economy.
- c. a statement testable by facts.
- d. a claim that the speaker is positive will occur.

ANSWER:

c

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

- a. The economy's real output increased at about 3 percent last year and the unemployment rate decreased.
- b. A central bank should not print too much money because inflation could result.
- c. Congress should stabilize the social security system by raising taxes now.
- d. The surplus of farm products should be distributed to the needy.

ANSWER:

a

77. Which of the following is a normative statement?

- a. A decrease in price leads to an increase in quantity consumed.
- b. Incomes grow more rapidly in high-tax states than low-tax states.
- c. People would be better off if government expenditures were higher.
- d. People will buy less butter at \$1.50 per pound than they will at \$1 per pound.

ANSWER:

c

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

- a. 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.

ANSWER:

b

79. "The government should provide health care for all citizens." This statement is an illustration of:

- a. positive economic analysis.
- b. correlation analysis.

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- c. fallacy of association analysis.
- d. normative economic analysis.

ANSWER:

d

80. The Secretary of Labor states that wage rates in the country have risen by 2 percent this past year. The head of a local labor union states that wage gains have not kept pace with the 3 percent rate of inflation. The Secretary's statement is a (n) _____ economic statement, and the labor head's statement is a (n) _____ economic statement.

- a. normative; normative
- b. normative; positive
- c. positive; normative
- d. positive; positive

ANSWER:

d

81. Normative economics deals with _____ and positive economics deals with _____.

- a. what should be; what is
- b. fiction; fact
- c. microeconomics; macroeconomics
- d. negative aspects; positive aspects

ANSWER:

a

Essay

82. What is scarcity and why does it exist? How is scarcity related to the study of economics?

ANSWER: Scarcity exists because resources are limited while wants are unlimited. Scarcity means we are unable to have as much as we would like. Economics is the study of how human beings attempt to maximize satisfaction in the face of scarcity.

83. Distinguish macroeconomics and microeconomics.

ANSWER: Macroeconomics studies the entire national economy. Microeconomics focuses on a particular segment within the entire economic system.

84. What is an economic theory or model? What constitutes a "good" economic theory or model?

ANSWER: An economic theory is a simplified version of reality. It is a general statement about the causal relationship between economic phenomena based on facts. A truly "good" theory will predict well, explain economic behavior, indicate to what extent the predicted outcome is expected to occur, and indicate how long it will take for the predicted outcome to be observed.

85. What is the difference between positive and normative economics? How can knowledge of positive economics be useful in normative economics?

ANSWER: Positive economics deals with "what is" while normative economics deals with "what ought to be." Knowledge of positive economic theories (the causal relationship between economic variables) can guide us in finding workable policies designed to achieve a normative economic goal.