

chapter 1

Indicate the answer choice that best completes the statement or answers the question.

1. *Ceteris paribus* means

- a. everything changes.
- b. everything is held constant.
- c. other things being equal.
- d. nothing changes.

2. When economists say that all societies face scarcity, they are describing

- a. free lunches.
- b. unlimited resources.
- c. unlimited wants.
- d. tradeoffs societies must make.

3. Stylized economic models must include

- a. assumptions.
- b. inflation.
- c. money.
- d. complexity.

4. Time series graphs

- a. show data that can be split into percentages that, when combined, make up the whole.
- b. show the relative importance of some variable's components as a share of the whole.
- c. include the value of a variable on the horizontal axis and minutes, hours, days, months, quarters, or years on the vertical axis.
- d. include the value of a variable on the vertical axis and minutes, hours, days, months, quarters, or years on the horizontal axis.

5. Suppose Mike has three hours of time to spend so he ranks the following activities in order of priority: (1) see a movie, (2) attend a ball game, (3) study economics. Assume that each activity takes three hours. What is Mike's opportunity cost of seeing a movie?

- a. attending a ball game and studying economics
- b. studying economics
- c. attending a ball game
- d. either attending a ball game or studying economics

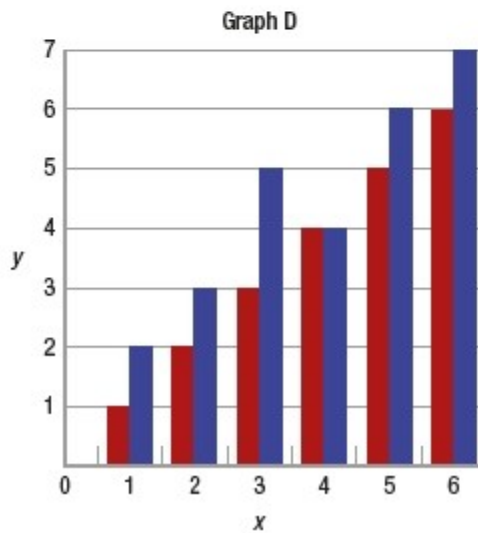
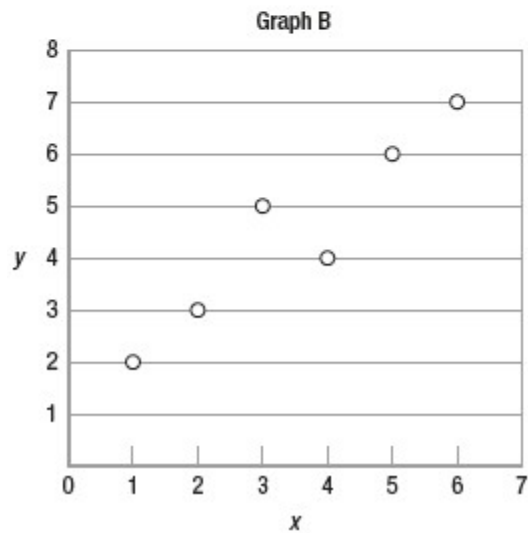
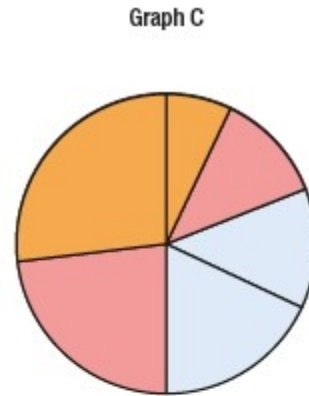
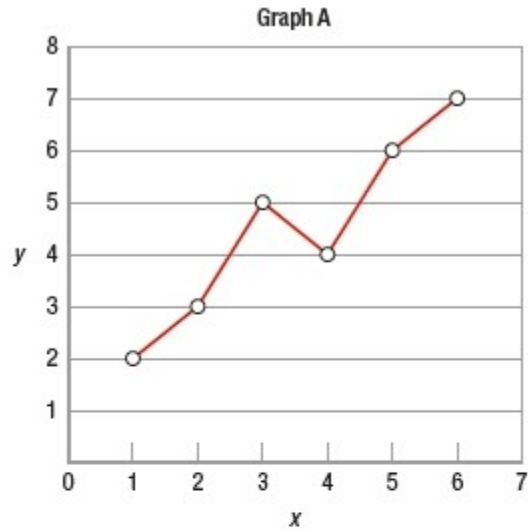
6. Economists like to use graphs and equations primarily because

- a. these tools efficiently express economic concepts.
- b. economics should be difficult.
- c. mathematical aptitude is necessary to understand economics.
- d. the use of mathematics reduces rigor.

chapter 1

7. The opportunity cost of undertaking an activity is defined as the _____ activity.
- cost forgone by not undertaking another
 - monetary cost of undertaking that
 - benefit forgone by not undertaking the next best
 - monetary benefit of undertaking that

8. (Figure: Graph Examples) Which graph is an example of a bar chart?



- graph A
- graph B
- graph C
- graph D

9. Microeconomics is concerned with issues such as
- inflation.

chapter 1

- b. unemployment.
- c. which job to take.
- d. interest rates.

10. Economic problems are analyzed using stylized models that are

- a. as detailed as possible.
- b. based on recent case studies.
- c. very complex and mathematical.
- d. simplified by using assumptions.

11. Opportunity cost involves nonmonetary costs rather than monetary costs.

- a. True
- b. False

12. Which statement about economic models is FALSE?

- a. In practice, it is easy for an economist to isolate economic variables.
- b. Economists hold all other variables constant in order to see the impact of one particular variable.
- c. Economic models lead to economic theories that must be tested.
- d. Economic models are built using assumptions.

13. Production efficiency occurs when goods are

- a. produced with the lowest possible resource cost.
- b. allocated equally to those who paid the most for them.
- c. delivered to those who have the greatest willingness and ability to acquire them.
- d. allocated to those with the greatest need.

14. A society that is able to produce goods and services at the lowest possible cost is experiencing

- a. allocative efficiency.
- b. production efficiency.
- c. opportunity costs.
- d. scarcity.

15. Which statement is NOT considered a key principle of economics?

- a. Scarcity exists for everyone.
- b. People face economic incentives on a regular basis.
- c. Irrational behavior requires thinking at the margin.
- d. Information is important to producers and consumers.

16. Setting government policy to achieve economic goals is challenging because policies that tend to reduce unemployment are likely to

- a. reduce economic growth.

chapter 1

- b. cause upward pressure on inflation.
- c. be completely ineffective in the short run.
- d. reduce inflation to nearly zero.

17. The highest valued alternative that is forgone when you choose an action is called its

- a. opportunity cost.
- b. utility.
- c. scarcity.
- d. benefit.

18. Which concept would be addressed by microeconomics?

- a. the national unemployment rate
- b. the reasons for a decline in a country's total output
- c. the price of college tuition that an individual student pays
- d. the inflation rate in Brazil

19. Economists believe that

- a. making information available to market participants improves market function.
- b. information should be sold to the highest bidder.
- c. the flow of information has minimal impact on market efficiency.
- d. data is more important to traders than information.

20. When two variables appear to be related according to a scatter plot, one must be causing the other to occur.

- a. True
- b. False

21. Scarcity occurs when an individual's resources exceed his wants.

- a. True
- b. False

22. Heather has one employee in her sweater shop who can sew 6 sweaters a day. When she hires a second person, the two employees can make 10 sweaters together. Thinking at the margin, the extra benefit received from hiring a second worker is _____ sweaters.

- a. 4
- b. 6
- c. 10
- d. 16

23. Supply and demand analysis is used

- a. only in microeconomics.
- b. only in macroeconomics.

chapter 1

- c. in both microeconomics and macroeconomics.
 - d. in neither microeconomics nor macroeconomics.
24. Normative questions involve societal beliefs on what should or should not be done.
- a. True
 - b. False
25. Macroeconomics deals with aggregate variables, and microeconomics deals with individual issues.
- a. True
 - b. False
26. Which topic is a macroeconomic topic?
- a. the study of the business cycle
 - b. price of a pair of Nike shoes
 - c. total sales for General Electric in 2009
 - d. labor market for computer analysts
27. Which paired variables might indicate a correlation but NOT causation?
- a. advertising expenditures and sales
 - b. snowfall amounts and stock market performance
 - c. age and health care expenditures
 - d. grade point average and future income
28. Which statement is NOT true?
- a. There are often tradeoffs between efficiency and equity.
 - b. Both efficiency and equity are subjective concepts.
 - c. There are often disagreements over what is an equitable distribution of income.
 - d. Another term for "equity" is "fairness."
29. When specialization is used
- a. society is more productive, while individuals are less productive.
 - b. there are greater gains in overall well-being.
 - c. there is more emphasis on self-reliance.
 - d. opportunity costs tend to be constant.
30. Which statement is NOT a key principle of economics?
- a. People follow incentives.
 - b. Productivity determines the standard of living.
 - c. Rational thinking requires perfect information.
 - d. Government can sometimes correct market failure.

chapter 1

31. The government can always successfully intervene in the case of market failure.

- a. True
- b. False

32. The idea that wants are virtually unlimited but the resources to meet those wants are limited is called

- a. the want–resource paradox.
- b. the economic gap.
- c. the dismal conclusion.
- d. scarcity.

33. John, a farmer, thinks he will make a profit next year if the weather stays the same, if the price of his crop doesn't change, and if the price of fertilizer and seed does not change. An economist would say that this farmer thinking he will make a profit the following year is an example of

- a. *laissez-faire*.
- b. *ceteris paribus*.
- c. *post hoc ergo propter hoc*.
- d. *e pluribus unum*.

34. Economists look for rational responses to incentives.

- a. True
- b. False

35. For a nation, _____ productivity growth leads to _____ standards of living.

- a. high; low
- b. low; high
- c. high; unchanging
- d. high; high

36. In the equation $S = 130 - 2T$, where S is hot chocolate sales and T is temperature, the slope is

- a. -65 .
- b. -2 .
- c. 2 .
- d. 130 .

37. The opportunity costs of attending college do NOT include

- a. food expenditures.
- b. the costs of textbooks or eBooks.
- c. the forgone wages that could have been earned working.
- d. required student activity fees.

38. Marginal analysis is defined as when a person continues to make a decision until the value of the outcome is

chapter 1

zero.

- a. True
- b. False

39. Which statement does NOT involve thinking at the margin?

- a. If John works another hour, he will beat the rush hour traffic.
- b. Sally worked eight hours today.
- c. Dylan's supervisor asked him to work an extra four hours this week.
- d. If Jill works on her day off, she will make an additional \$300.

40. Which statement is NOT true of economic model building?

- a. There may be exceptions to economic models.
- b. Adding more complexity to models does not always provide greater insights.
- c. Economic models always reach verifiable results.
- d. Economic models provide generalizations about economic behavior.

41. Consider the equation $Y = e + fX$. Which letter represents the intercept?

- a. e
- b. f
- c. X
- d. Y

42. If a restaurant that traditionally has served only lunch and dinner wants to open for breakfast, which factor should be considered?

- a. rent
- b. furniture
- c. cost of the additional food
- d. insurance costs

43. Assume that a student attends a four-year college with tuition costs of \$20,000 per year; room and board costs of \$5,000 per year; and books/entertainment costs of \$1,000 per year. If the student did not go to college, she would work at a job that pays \$25,000 per year but still face the same room and board, as well as entertainment expenses. The opportunity cost of attending college for this student for four years is

- a. \$80,000.
- b. \$100,000.
- c. \$124,000.
- d. \$180,000.

44. Which statement about economic models is TRUE?

- a. In practice, it is easy for an economist to isolate economic variables.
- b. Economists hold all other variables constant in order to see the impact of one particular variable.

chapter 1

- c. To be useful, an economic model must include every detail possible and not be an abstraction.
d. Complex models are always better than simple ones.
45. Which statement is a characteristic of economic models?
- a. Models try to boil down an economic situation to its most basic elements.
 - b. Models are always complex because the economy is complex.
 - c. Models attempt to reproduce reality exactly.
 - d. Models try to avoid invoking the *ceteris paribus* assumption.
46. Admission prices to Dollywood are \$50 for a one-day ticket, \$80 for a two-day ticket, and \$100 for an annual pass. Based on these prices, the marginal cost of visiting Dollywood the second day is _____, the third day is _____, and the fourth day is _____.
- a. \$30; \$20; \$0
 - b. \$30; \$10; \$10
 - c. \$40; \$33.33; \$25
 - d. \$80; \$100; \$100
47. Employers give stock options to full-time employees who have been on the job more than three years. This is an example of
- a. people following incentives.
 - b. thinking on the margin.
 - c. irrational behavior.
 - d. opportunity costs.
48. Much of economic analysis is directed toward ensuring an efficient allocation of resources.
- a. True
 - b. False
49. A national health care system is an example of an institution that influences the wealth of nations.
- a. True
 - b. False
50. The _____ the opportunity cost of an activity, the _____ a person will do that activity.
- a. higher; more
 - b. higher; less
 - c. lower; less
 - d. It doesn't matter. Price alone will determine the action.
51. The problem of the medically uninsured involves
- a. opportunity cost.
 - b. equity.

chapter 1

- c. production efficiency.
- d. allocative efficiency.

52. Rational behavior requires thinking at the margin. Which example represents this type of thinking?

- a. deciding whether a second burger is worth the extra \$2
- b. deciding whether the overtime pay is worth working on your day off
- c. deciding whether to pay a fine for polluting the local harbor or installing antipollution machinery
- d. All of these examples represent thinking at the margin.

53. The question "How do interest rates influence employment?" is an example of a normative question.

- a. True
- b. False

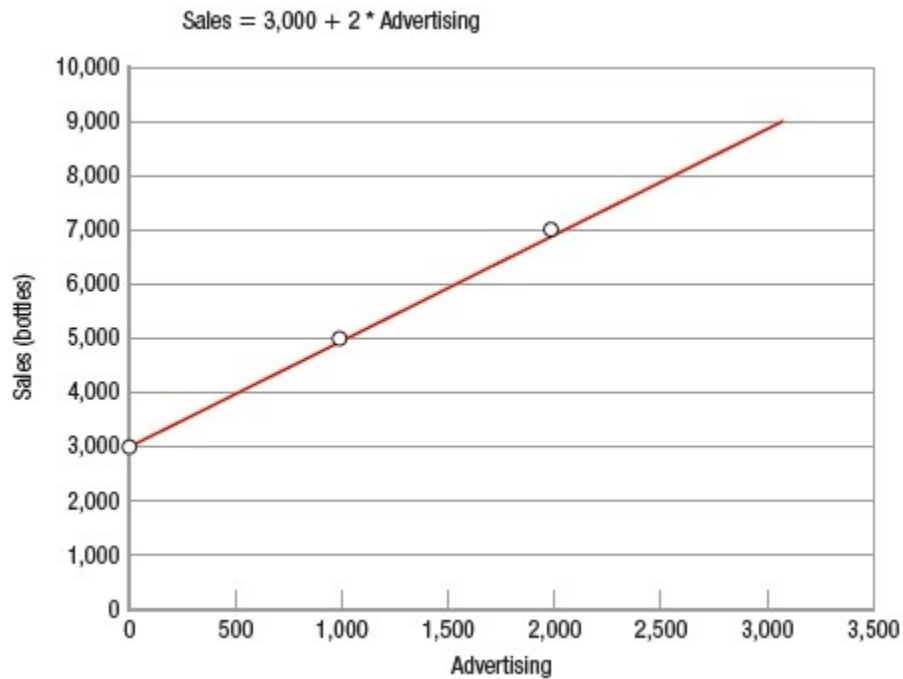
54. What would be a possible opportunity cost of a person going to a doctor for a check-up?

- a. the cost of getting nontraditional care
- b. the opportunity to make an acquaintance in the waiting room
- c. lost income due to not being at work for those hours
- d. the cost of the insurance reimbursing the doctor

55. The height of the bars in a bar chart may depict the number of data points in each category.

- a. True
- b. False

56. (Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. If consumer tastes change in the region where Jump is marketed and base sales increase by 1,500 bottles, what is the equation of the *shifted* line?

chapter 1

- a. sales = 1,500 + 2 × advertising
- b. sales = 3,000 + 2 × advertising
- c. sales = 3,000 + 1,502 × advertising
- d. sales = 4,500 + 2 × advertising

57. Excessive pollution is an example of market failure.

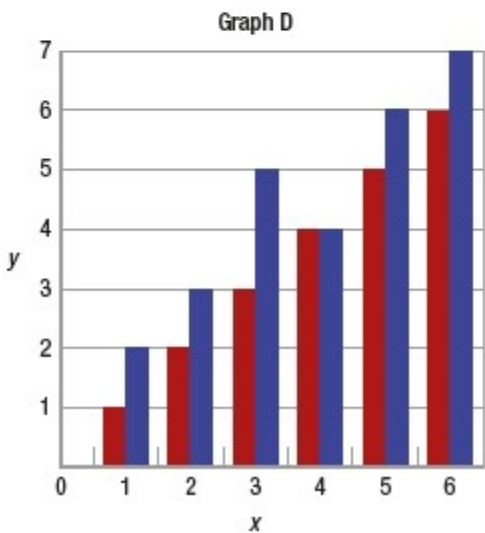
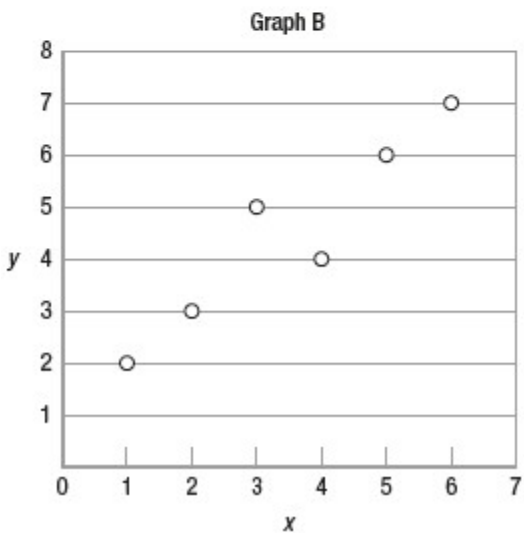
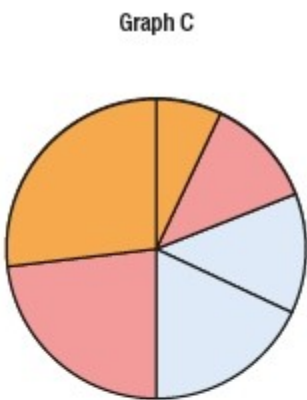
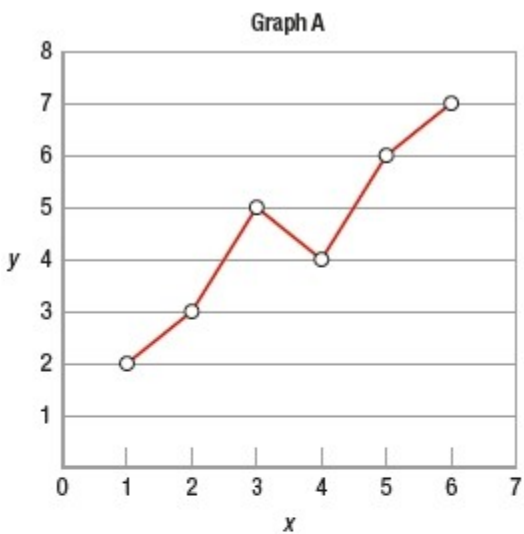
- a. True
- b. False

58. A nation's standard of living is primarily a function of

- a. natural resource availability.
- b. government benefits.
- c. national defense.
- d. productivity.

59. (Figure: Graph Examples) Which graph is an example of a scatter plot?

chapter 1



- a.

graph A
- b.

graph B
- c.

graph C
- d.

graph D

60. There are no instances where efficient solutions to problems conflict with equity issues.

- a.

True
- b.

False

61. Which is the BEST example of a microeconomic issue?

- a.

The Federal Reserve will raise interest rates this week.
- b.

The unemployment rate will exceed 6% this month.
- c.

The country's price level has increased over the last quarter.
- d.

The production of automobiles decreased last year.

chapter 1

62. Government intervention in the market is helpful when

- a. consumers are free to buy from a number of different firms.
- b. consumers and firms have good information.
- c. firms face increasing competition from new entrants into the market.
- d. firms engage in production activities that pollute the air and water.

63. Consider the equation $Y = e + fX$. Which letter represents the slope?

- a. e
- b. f
- c. X
- d. Y

64. Macroeconomics studies the outcomes of individual markets in the national economy.

- a. True
- b. False

65. In the equation $S = 130 - 2T$, where S is hot chocolate sales and T is temperature, sales _____ if temperature falls by 5 degrees.

- a. decrease by 2
- b. decrease by 10
- c. increase by 2
- d. increase by 10

66. Government policy to achieve high employment may cause inflation to rise too quickly.

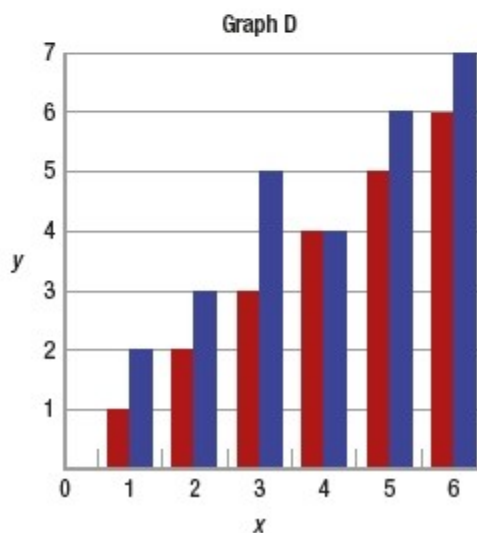
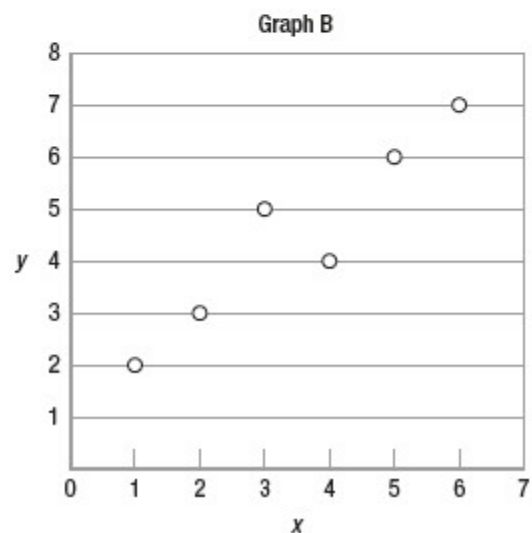
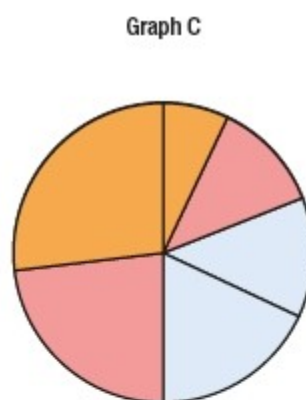
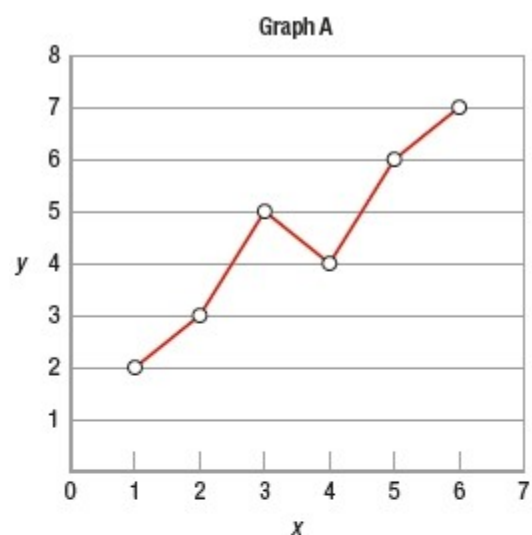
- a. True
- b. False

67. A store sells one candy bar for \$0.89 and two candy bars for \$1.50. The marginal cost of the second candy bar is \$0.75.

- a. True
- b. False

68. (Figure: Graph Examples) Which graph is an example of a pie chart?

chapter 1



- a. graph A
- b. graph B
- c. graph C
- d. graph D

69. To be useful, an economic model must include every detail possible and not be an abstraction.

- a. True
- b. False

70. Most economists agree that there is no legitimate role for government to play in the economy.

- a. True
- b. False

71. Macroeconomics is concerned about the broader issues in the economy, such as inflation, unemployment,

chapter 1

and national output of goods and services.

- a. True
- b. False

72. Questions that involve the understanding of basic facts are _____ questions.

- a. positive
- b. subjective
- c. evaluative
- d. normative

73. The answers to normative questions

- a. are the same for all societies and cultures.
- b. can be answered one way or another as long as the relevant information is available.
- c. involve understanding basic facts.
- d. often involve value judgments.

74. The purpose of invoking *ceteris paribus* is to

- a. simplify the analysis being done.
- b. make the economic model more realistic.
- c. allow the model to take more complexity into account.
- d. introduce risk into the model.

75. In the equation $Y = e + fX$, _____ is the independent variable and _____ is the slope.

- a. Y ; e
- b. Y ; f
- c. X ; e
- d. X ; f

76. In the equation $Y = b - aX$, a is the intercept.

- a. True
- b. False

77. Which statement is CORRECT?

- a. "Correlation" and "causation" are synonyms.
- b. Shortly after a new president takes office, the unemployment rate goes down. One must conclude that the new president's economic policies are responsible for the economic upturn.
- c. The fact that two variables are correlated with each other does not mean that one causes the other.
- d. If two variables move together, then they are causally related.

78. Correlation between two variables is not enough evidence to suggest that a causal relationship exists between the two variables.

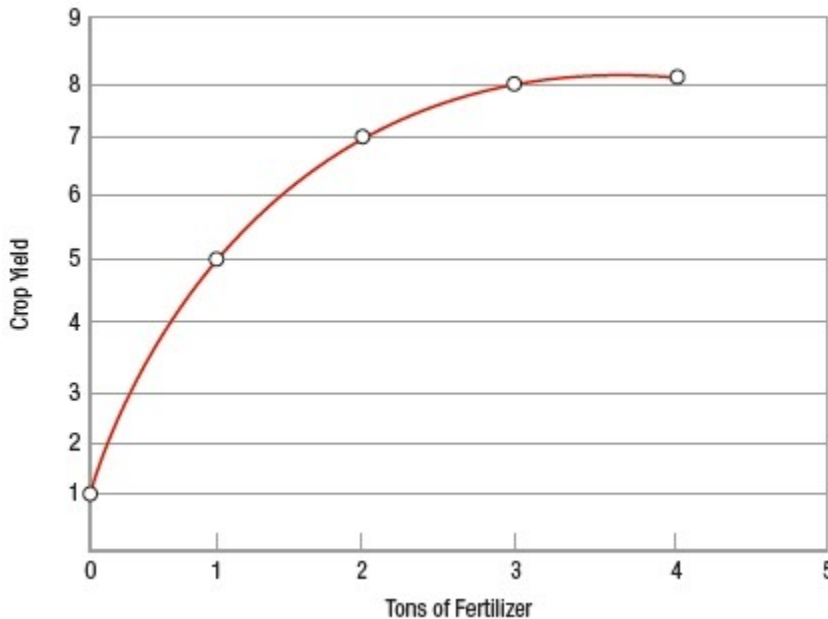
chapter 1

- a. True
- b. False

79. People use _____ to determine how many hours to work, and businesses use _____ to determine how much of their product they are willing to supply to the market.

- a. marginal analysis; marginal analysis
- b. allocative efficiency; production efficiency
- c. production efficiency; marginal analysis
- d. marginal analysis; allocative efficiency

80. (Figure: Crop Yield and Fertilizer) The graph shows a hypothetical relationship between tons of fertilizer used and crop yields. Which statement is NOT correct?



- a. The slope of the curve between 1 and 2 tons of fertilizer is approximately 2.
- b. The relationship between fertilizer usage and yield is nonlinear.
- c. Because the relationship is nonlinear, it is difficult to create an economic model describing the relationship between the two variables.
- d. Using more than 3 tons of fertilizer has minimal effect on yield.

81. Economic models must fully reflect reality.

- a. True
- b. False

82. When goods are produced at the lowest possible cost, an economy is said to have achieved

- a. production efficiency.
- b. allocative efficiency.
- c. cheap production.

chapter 1

- d. inferior quality goods.

83. Tax policy is partly based on the notion that

- a. high taxes are preferable to low taxes.
- b. governments must always run a budget surplus.
- c. markets never work efficiently.
- d. people respond to financial incentives.

84. Which of these is NOT an example of market failure?

- a. Water is polluted by a paper company located by the river.
- b. Air is polluted by a manufacturing firm.
- c. Competition leads firms to provide products at the lowest possible price.
- d. Consumers must buy water from one local water utility.

85. The field of economics that focuses on decision making by individuals, businesses, industries, and governments is called

- a. macroeconomics.
- b. decision science.
- c. bargaining theory.
- d. microeconomics.

86. _____ people are forced to make tradeoffs.

- a. Only wealthy
- b. Only middle-class
- c. Only poor
- d. All

87. The situation in which markets fail to provide efficiently is called

- a. market failure.
- b. uneconomic efficiency.
- c. market collapse.
- d. government failure.

88. Private markets will typically maximize production efficiency because they provide

- a. profit incentives.
- b. equity.
- c. market information.
- d. tax revenue for the government sector.

89. Economists create simplistic models in order to explain complex economic topics.

- a. True

chapter 1

b. False

90. Which situation(s) may require government intervention?

I. A local business has made a profit in each of the last 10 years.

II. Students are having difficulty deciding whether to go the beach or to go hiking for their class trip.

III. A manufacturing firm on a river is dumping production runoff into the water.

- a. I and II
- b. II and III
- c. II only
- d. III only

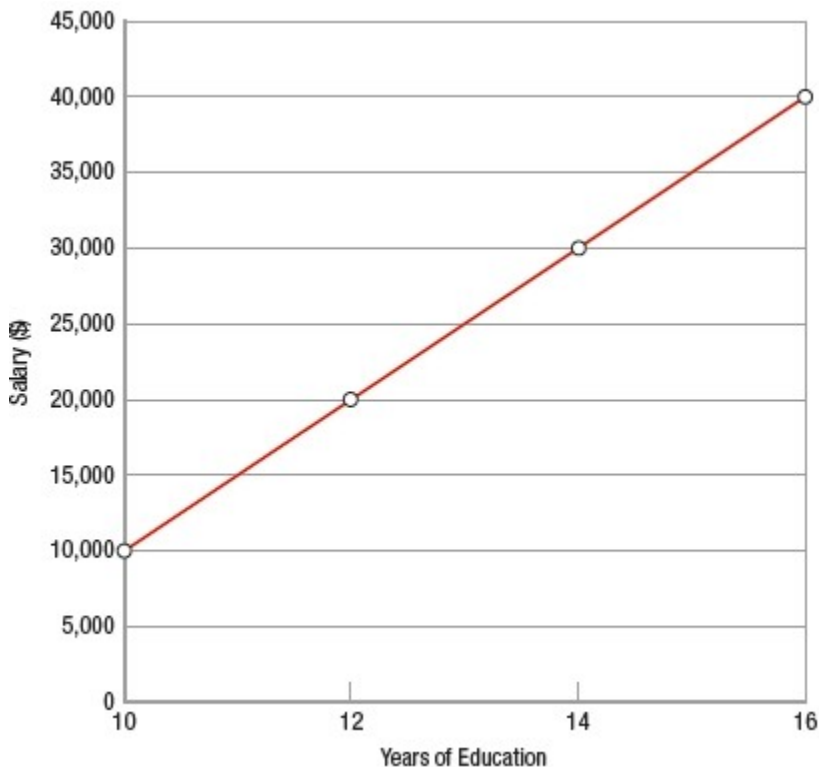
91. Which statement regarding macroeconomics and microeconomics is TRUE?

- a. Microeconomics examines consumer behavior, while macroeconomics studies business behavior.
- b. Macroeconomics employs many of the same analytical tools as microeconomics.
- c. Because it focuses on national economies, macroeconomics does not study international trade and finance.
- d. Neither macroeconomics nor microeconomics is concerned with prices.

92. When government policies are being designed

- a. there is usually a tradeoff between equity and efficiency.
- b. equity and efficiency goals are usually independent of each other.
- c. equity can usually be achieved without a decrease in efficiency.
- d. increasing efficiency usually results in more equity.

93. (Figure: Education and Earnings) The data in the graph show the relationship between years of education and salary. Which statement is NOT correct?

chapter 1

- A person with 13 years of education can expect to earn \$25,000.
- The slope of the line is 5,000.
- The line represents a simple model of the relationship between education and earnings.
- The relationship between the two variables is nonlinear.

94. Thinking at the margin is defined as maximizing a firm's or individual's well-being.

- True
- False

95. The main difference between macroeconomics and microeconomics is that macroeconomics _____, and microeconomics _____.

- largely deals with the fallacy of composition; does not deal with the fallacy of composition
- focuses on the aggregate economy; focuses on small components of the economy
- looks at how individuals make choices; looks at the aggregate of those choices
- is concerned with economic policy; is concerned with international policies

96. When each member of a farm co-op specializes in one task, this will generally lead to

- some members becoming better off while some become worse off.
- the same outcome as without specialization because it has a neutral impact on productivity.
- a worse outcome than if every member learns how to do every task as best as they can.
- gains to all members as long as trade is possible.

chapter 1

97. Efficiency within economics focuses on

- a. how well resources are used and allocated.
- b. the fairness of various policies.
- c. how quickly a task can be completed.
- d. calculations of opportunity cost.

98. Stylized models boil down issues and facts to their basic relevant elements.

- a. True
- b. False

99. Economics is about allocating limited resources to maximize an individual or society's well-being or satisfaction.

- a. True
- b. False

100. It must be recognized that private markets

- a. will always produce the most rational level of production.
- b. can fail.
- c. satisfy everyone.
- d. will never produce the most rational outcome.

101. The opportunity cost of buying a ticket to a major league baseball game and then going to the game is

- a. the price of the ticket.
- b. the next best alternative that could have been undertaken.
- c. the time spent at the game.
- d. all other alternative activities that could have been undertaken.

102. Scarcity is not a problem faced by Bill Gates or Warren Buffett.

- a. True
- b. False

103. A situation in which output is produced at the lowest possible cost is called allocative efficiency.

- a. True
- b. False

104. The broad scope of economic analysis allows people to reflect on everyday choices in addition to more global issues.

- a. True
- b. False

105. Rational behavior

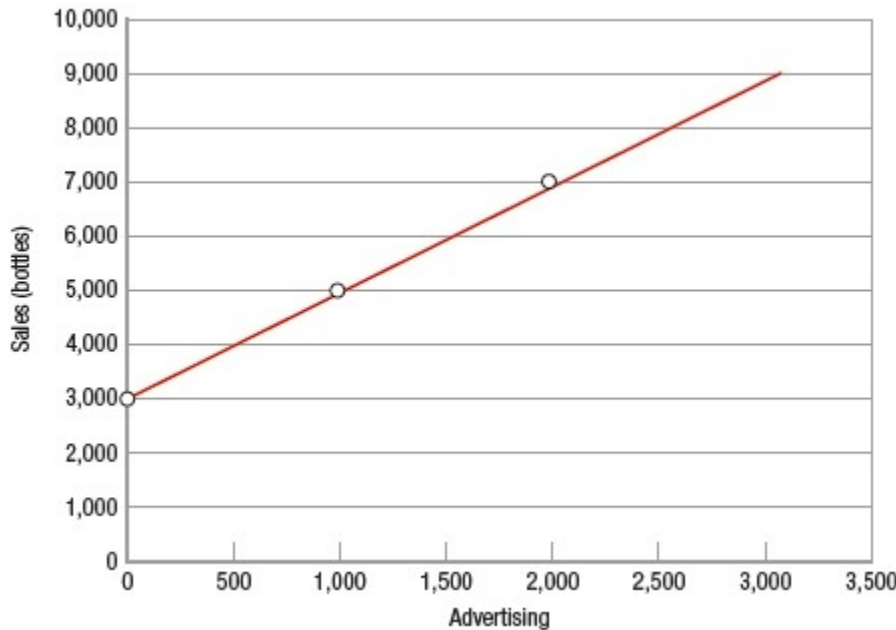
- a. means incentives don't matter.

chapter 1

- b. requires people to consider the total costs and total benefits of their decisions.
- c. requires thinking at the margin.
- d. requires perfect information.

106. (Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. The slope for the equation graphed is 3,000.

$$\text{Sales} = 3,000 + 2 * \text{Advertising}$$



- a. True
- b. False

107. Microeconomics looks at how markets are structured.

- a. True
- b. False

108. If variable X rises as variable Q falls, then X and Q have a positive relationship and the slope of the line is positive.

- a. True
- b. False

109. Which statement describes a time in the economy when the government should intervene?

- a. Consumers cannot make up their minds what they want to purchase.
- b. Sellers make poor business decisions.
- c. Producers use the least-cost method of production.
- d. The market fails to provide goods efficiently.

110. When the government chooses to use resources to build tourist centers, the selected resources are no longer

chapter 1

available to build highways. This BEST illustrates the concept of

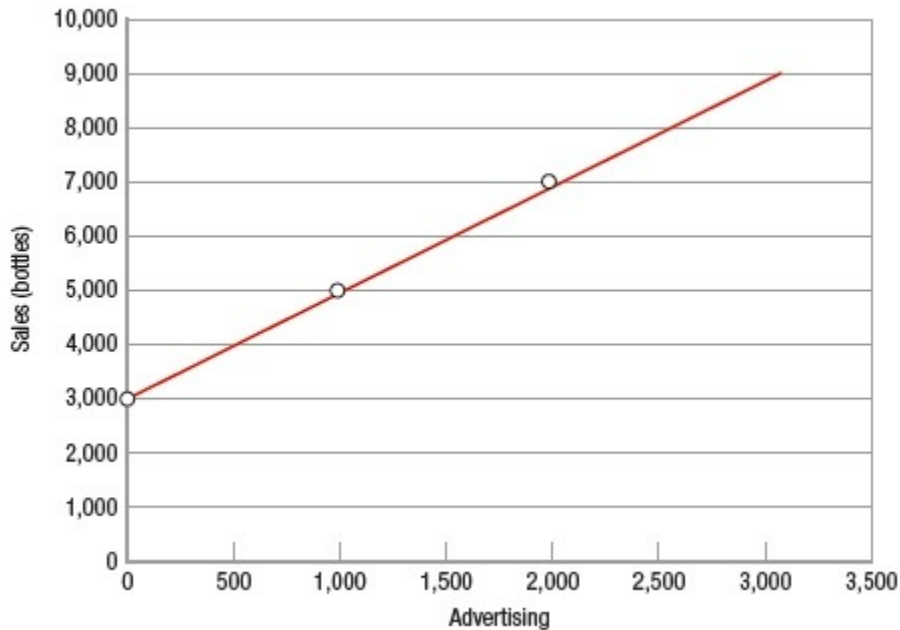
- a. macroeconomics.
- b. scarcity.
- c. opportunity cost.
- d. efficiency.

111. When economists use the word "additional," they generally mean

- a. rational.
- b. economics.
- c. marginal.
- d. opportunity cost.

112. (Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. If the company that manufactures Jump spends \$3,000 on advertising, how many bottles of Jump will it sell?

$$\text{Sales} = 3,000 + 2 * \text{Advertising}$$



- a. 7,000
- b. 9,000
- c. 10,000
- d. 13,500

113. Model building leads to theories that must then be tested.

- a. True
- b. False

114. A common definition of "economics" is that it is the study of

chapter 1

- a. the allocation of scarce resources to satisfy competing wants.
- b. maximizing net personal disposable income.
- c. the factors underlying financial markets.
- d. maximizing personal financial wealth.

115. Discounted matinee movie ticket prices demonstrate that

- a. people follow incentives.
- b. government intervention in the market is helpful.
- c. market outcomes are always equitable.
- d. the cost of living is decreasing.

116. Economists generally have _____ to say about equity than efficiency.

- a. less
- b. a little bit more
- c. about the same
- d. much more

117. Production inefficiency implies that

- a. goods are produced at too high a cost.
- b. people who want the specific goods cannot get them at any price.
- c. too many Twinkies and too few Ding Dongs are produced.
- d. workers are lazy.

118. The concept of scarcity implies that people must make choices among alternatives.

- a. True
- b. False

119. Tradeoffs occur because resources are scarce.

- a. True
- b. False

120. The extra cost associated with undertaking some action is its

- a. marginal benefit.
- b. marginal cost.
- c. net cost.
- d. total cost.

121. If two variables are positively related, then, as one variable

- a. decreases the other variable decreases, and as one variable increases the other variable decreases.
- b. increases the other variable increases, and as one variable decreases the other variable increases.
- c. decreases the other variable increases, and as one variable increases the other variable decreases.

chapter 1

d. increases the other variable increases, and as one variable decreases the other variable decreases.

122. Wants are usually greater than resources.

- a. True
- b. False

123. Which statement about markets is TRUE?

- a. They always operate efficiently.
- b. They bring buyers and sellers together.
- c. Profits are never an effective discipline in the market.
- d. Markets need to always be controlled by the government.

124. Complex models are always better than simple ones.

- a. True
- b. False

125. Economic analysis gives us a structure for making decisions in a rational manner.

- a. True
- b. False

126. Markets provide an incentive structure to

- a. maximize equity.
- b. eliminate scarcity.
- c. maximize market information.
- d. maximize efficiency.

127. Individuals do not experience opportunity costs unless external costs occur.

- a. True
- b. False

128. Macroeconomics is concerned with issues such as

- a. which orange juice to buy.
- b. unemployment.
- c. which job to take.
- d. what price to charge for goods.

129. Another definition of opportunity cost is the value of the next best alternative.

- a. True
- b. False

130. Economics is a _____ science.

- a. natural

chapter 1

- b. physical
- c. life
- d. social

131. When we analyze the relationship between inflation and the money supply, we assume

- a. all other factors that affect the rate of inflation remain constant.
- b. this relationship holds only in a democratic country.
- c. this relationship reflects a nonlinear relationship.
- d. the money supply is backed by gold alone.

132. Which effect does NOT deal with macroeconomics?

- a. effect of the budget deficit on the economy
- b. effect of monetary policy on inflation
- c. effect of Walmart's pricing policies on consumers
- d. effect of government policies on the country's unemployment rate

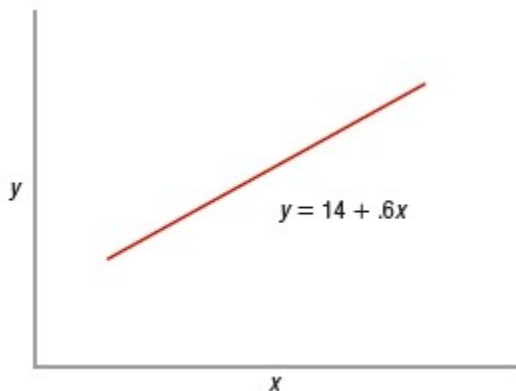
133. In the study of economics, the goals of efficiency and equity are often

- a. compatible.
- b. in conflict with one another.
- c. objectively definable.
- d. given equal emphasis.

134. Which statement does NOT deal with microeconomics?

- a. Profits for some manufacturing firms fell in 2009.
- b. The unemployment rate in the United States rose to 10% in 2009.
- c. Salaries of top executives fell in 2009.
- d. Competitive markets promote efficiency.

135. (Figure: Interpreting Equations on a Graph) In the graph, if x is 0, then the y -intercept is



- a. 0.
- b. 0.6.

chapter 1

- c. 14.
- d. 14.6.

136. Information plays an important role in the market because it allows

- a. market participants to make good decisions based on cost-benefit analysis.
- b. sellers to enhance their sales pitch.
- c. the media to grow in importance.
- d. managers to make more risky decisions.

137. The *ceteris paribus* assumption holds some variables constant in order to aid in model building.

- a. True
- b. False

138. A question whose answer is based on what should or should not take place is a _____ question.

- a. positive
- b. fact-based
- c. objective
- d. normative

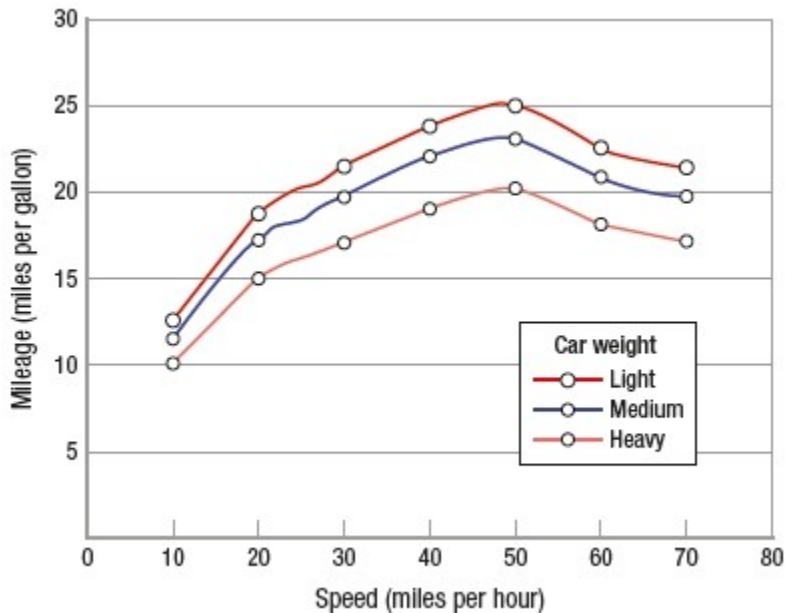
139. Which would BEST represent a positive statement?

- a. Congress should use income taxes to fund Social Security.
- b. Dreamers should become legal citizens.
- c. Eligibility for Supplemental Nutrition Assistance Program benefits ought to be restricted to those at or below the poverty line.
- d. Taxes on sugary drinks cause people to drink less of them.

140. To say that economics is a way of thinking about how people make rational decisions means that people

- a. don't consider the cost of their decisions.
- b. consider only monetary terms in their decisions.
- c. respond to incentives.
- d. are irrational.

141. (Figure: Mileage and Speed by Car Weight) Which statement about the graph is CORRECT?

chapter 1

- Mileage is related only to speed, not car weight.
- Speed is related to mileage and car weight.
- Mileage is related to both speed and car weight.
- Mileage is unrelated to speed and car weight.

142. Which would best represent a normative question?

- Are there well-paying jobs in economics upon graduation?
- Should the minimum age to collect Social Security benefits be raised?
- By how much did the Fed raise interest rates in the past year?
- What is the profit-maximizing quantity to produce?

143. The field of economics that is concerned about the broader issues in the economy, such as inflation, unemployment, and national output of goods and services is called

- macroeconomics.
- microeconomics.
- national economics.
- labor force economics.

144. Allocative inefficiency implies that

- goods are produced at too high a cost.
- the people who want a specific good the most cannot get it, while others can.
- too many Twinkies and too few Ding Dongs are produced.
- workers are lazy.

145. A strong monetary system is an example of an institution that influences the wealth of nations.

- True

chapter 1

b. False

146. The private market for education can be considered a market failure because it leads to a price of education that society believes is too _____ and a quantity of education that is too _____.

- a. low; low
- b. low; high
- c. high; high
- d. high; low

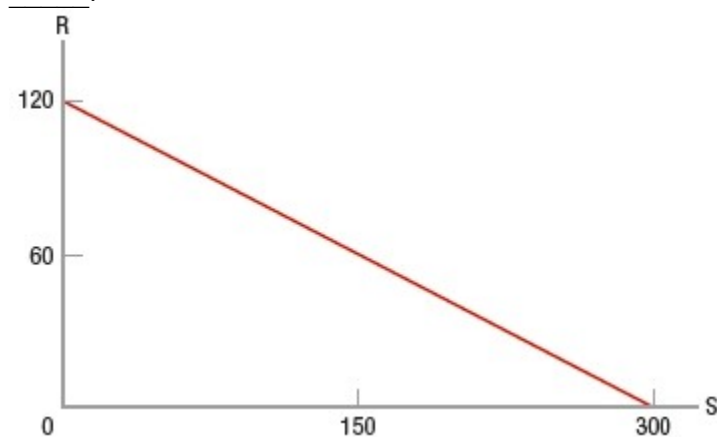
147. The observation that highly productive countries have taller populations is an example of

- a. cause and effect.
- b. correlation.
- c. causation.
- d. allocative efficiency.

148. Resources are

- a. unlimited, but wants are limited.
- b. limited, but efficiency is unlimited.
- c. limited, but wants are unlimited.
- d. unlimited, but efficiency is limited.

149. (Figure: Graph Interpretation) In the graph, _____ is the dependent variable and the slope of the line is _____.



- a. R ; negative
- b. R ; positive
- c. S ; negative
- d. S ; positive

150. Economists point out that the quality of economic decisions depends on the quality of the information underlying those decisions.

chapter 1

- a. True
- b. False

151. Examining whether the country's price level has increased last quarter is a macroeconomic topic.

- a. True
- b. False

152. Changes in stock prices are correlated with the amount of rainfall. Therefore, rainy weather causes the stock market to fall.

- a. True
- b. False

153. An example of a microeconomic question would be asking about the reasons for increases or decreases in the price of bread.

- a. True
- b. False

154. Joan is trying to gather information on the membership at her Zen Center. She estimates that it will cost around \$1,000 to gather the information but expects the information to lead to increased membership revenue of \$1,100. Based on this information, Joan should

- a. not gather the information since she will only gain \$100.
- b. gather the information since the net gain will be \$100.
- c. not gather the information since it will cost money and the Zen Center is a not-for-profit organization.
- d. gather the information regardless of the cost.

155. Economists use graphs because

- a. they represent relationships between variables.
- b. they are more efficient than models.
- c. they are less efficient than models.
- d. their use makes the analysis more complicated.

156. The concept of scarcity

- a. exists in all societies.
- b. affects only greedy people.
- c. is the cause of poverty.
- d. used to be a problem but is not an issue for industrialized nations.

157. Which statement is TRUE about specialization and exchange between two individuals?

- a. They generally benefit the poorer individual at the expense of the richer individual.
- b. They generally benefit the richer individual at the expense of the poorer individual.
- c. They generally benefit the poorer individual as well as the richer individual.

chapter 1

d. They generally benefit neither the poorer individual nor the richer individual.

158. A theory composed of a number of assumptions and facts boiled down to their basic relevant elements is called a

- a. metaphor.
- b. model.
- c. conclusion.
- d. practice.

159. When the _____ outweigh(s) the _____ of information, people will attempt to obtain the information.

- a. costs; benefits
- b. benefits; costs
- c. equity; efficiency
- d. efficiency; equity

160. Which statement is an example of a normative question?

- a. How do interest rates influence employment?
- b. How should a society achieve full employment?
- c. How do unemployment rates differ among nations?
- d. What are the long-term effects of unemployment?

161. A person will decide to take the day off work if the

- a. marginal cost exceeds the marginal benefit.
- b. marginal cost is less than the marginal benefit.
- c. person can make up the missed work the next day.
- d. person has additional sick days to spare.

162. Simple graphs never provide information about the relationship between variables.

- a. True
- b. False

163. If the price of carrots drops, *ceteris paribus*, people will buy more carrots. Which statement BEST describes this phenomenon?

- a. The relationship between the price of carrots and the number of carrots that people buy is independent of other things.
- b. If carrots are the only available good, people will buy more of them if the price decreases.
- c. If the price of carrots drops and everything else remains the same, the number of carrots people buy will increase.
- d. As the price of carrots decreases, and all other prices decrease, then the quantity of carrots purchased will increase.

164. Which is NOT considered to be an institution that influences the wealth of nations?

chapter 1

- a. national health care system
- b. legal system to enforce contracts and laws to protect the rights of citizens
- c. strong monetary system
- d. legislative process to develop laws and policies that provides incentives to work hard

165. Economics is only about money.

- a. True
- b. False

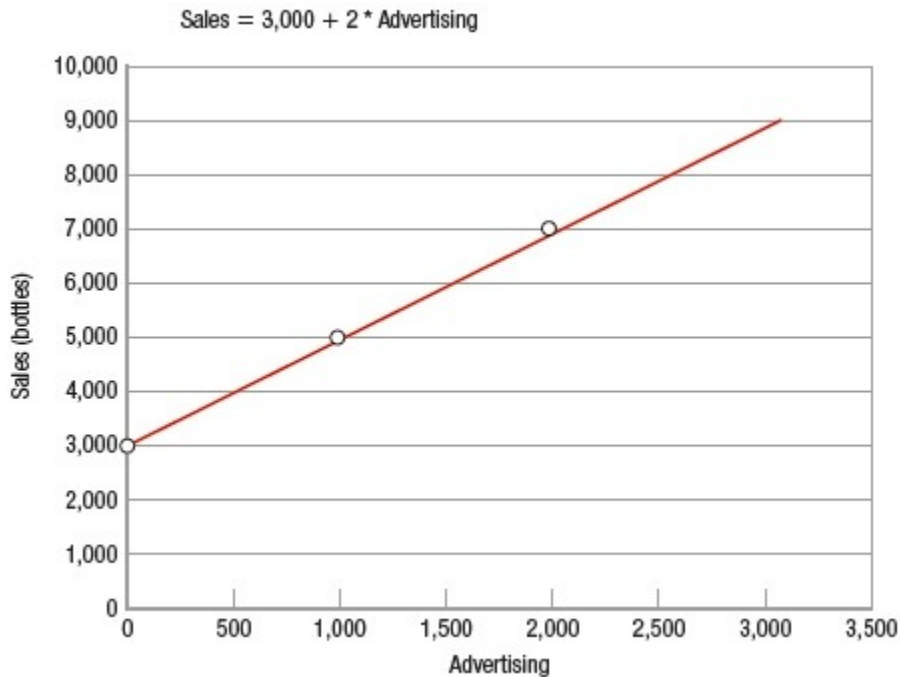
166. Thinking at the margin means that the individual thinks about the additional costs and benefits of doing something.

- a. True
- b. False

167. There is general agreement as to which economic policies are fair, or equitable.

- a. True
- b. False

168. (Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. The vertical intercept for the equation graphed is 3,000 bottles.



- a. True
- b. False

169. Government intervention in the market is helpful when

chapter 1

- a. consumers are free to buy from many different firms.
- b. consumers are forced to buy from just one firm.
- c. business firms face increasing competition from new entrants into the market.
- d. business firms always use the cleanest technologies available to mitigate pollution.

170. An increase in the price of gold is always associated with the outbreak of wars; increasing gold prices cause wars. This would be an example of what logical misconception?

- a. *ceteris paribus*
- b. correlation is causation
- c. laissez-faire
- d. nonlinearity

171. The study of economics

- a. primarily considers the stock market.
- b. is about people making decisions regarding their use of scarce resources.
- c. does not apply to decisions made by businesses.
- d. states that efficiency and equity do not conflict.

172. Economic models must

- a. be completely realistic to be useful.
- b. include all relationships that exist in the relevant issue to be modeled.
- c. completely represent the real world.
- d. rely on the *ceteris paribus* assumption.

173. _____ costs include the time and money that could have been spent on another highly valued activity.

- a. Opportunity
- b. Marginal
- c. Social
- d. Total

174. Which statement does NOT describe model building in economics?

- a. Models are developed to cover specific behaviors only.
- b. Models are created and then tested.
- c. Models are used to help understand the general economy.
- d. Assumptions are used to analyze an economic issue.

175. Opportunity costs exist because

- a. using resources for one activity means that their use elsewhere must be given up.
- b. sellers are unwilling to give up their product without a price.
- c. there are opportunities to find ways to reduce costs.
- d. buyers always have an opportunity to go to another seller.

chapter 1

176. (Table) If the numbers in the table were placed on a graph, with hot chocolate sales on the vertical axis and temperature on the horizontal axis, a

Temperature	Hot Chocolate Sales
25	100
30	90
35	80
40	70
45	60
50	50
55	40

- a. positive, nonlinear curve would result.
- b. negative, linear relationship between temperature and hot chocolate sales would be shown.
- c. positive, linear relationship between temperature and hot chocolate sales would be shown.
- d. negative, nonlinear curve would result.

177. Scatter plots use time and one other variable to determine possible relationships.

- a. True
- b. False

178. John chose to buy a pizza. If he had not bought the pizza, he would have bought either a hot dog or a hamburger. John's opportunity cost of buying the pizza is

- a. the hot dog.
- b. the hamburger.
- c. both the hot dog and the hamburger.
- d. whichever alternative, the hot dog or the hamburger, has the next highest value to John.

179. Which example represents incentives for decisions?

- a. tax deductions for individual retirement accounts
- b. investment tax credits for businesses
- c. tax deductions for education saving accounts
- d. All of these are incentives.

180. If a graph between hot chocolate sales and temperature is downward sloping, then sales of hot chocolate

- a. fall as temperature falls.
- b. rise as temperature falls.
- c. rise over time.
- d. fall over time.

181. The core problem in economics is

- a. unemployment.
- b. economic growth.
- c. inflation.

chapter 1

d. scarcity.

182. A pie chart is useful for business presentations but not for macroeconomic analysis.

- a. True
- b. False

183. _____ is the fairness of various issues and policies.

- a. Equity
- b. Efficiency
- c. Choice
- d. Scarcity

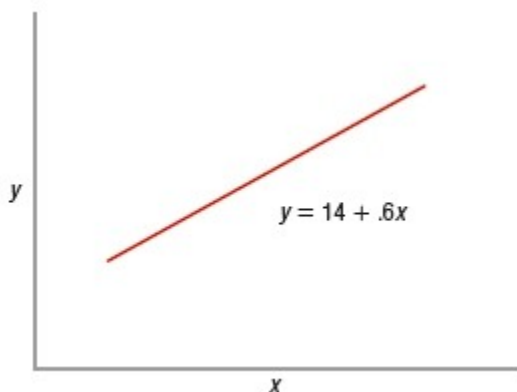
184. Linear relationships show the same slope between any two points on a line.

- a. True
- b. False

185. Because people make decisions at the margin, when deciding whether to purchase a second car, they would therefore compare the

- a. dollar cost of having two cars with the potential income the two cars may generate.
- b. additional benefit expected from a second car with the total cost of the two cars.
- c. additional benefit expected from a second car with the additional costs of the second car.
- d. None of the answers is correct.

186. (Figure: Interpreting Equations on a Graph) In the graph, if y stands for inflation and x stands for the money supply, then



- a. for every 1% increase in the money supply, inflation increases by 0.6%.
- b. for every 1% increase in inflation, the money supply increases by 0.6%.
- c. if the money supply increases by 14, then inflation goes up 0.6%.
- d. if inflation increases by 14, then inflation goes up 0.6%.

187. Although the United States hardly produces any coffee, it is able to acquire various types of coffee from other countries to satisfy the desires of every American coffee drinker. This example best represents _____

chapter 1

efficiency.

- a. production
- b. allocative
- c. Pareto
- d. marginal

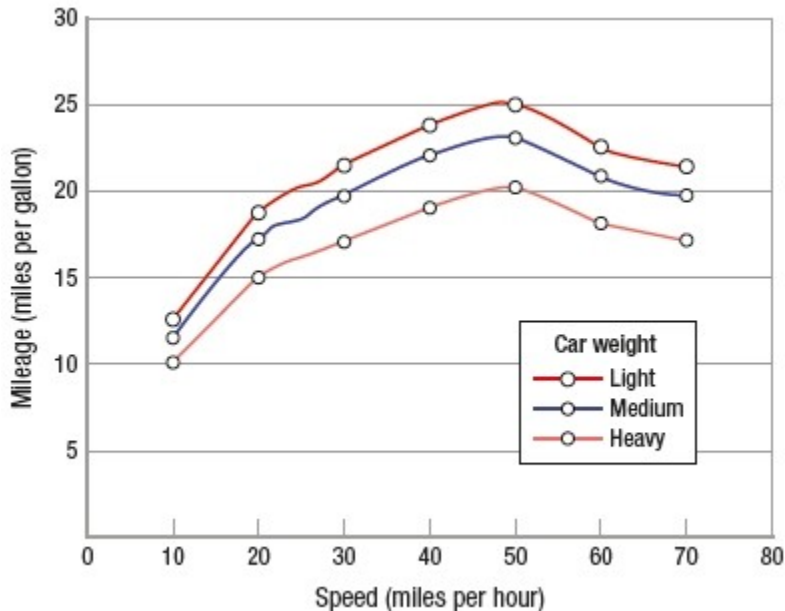
188. Which question is NOT an example involving marginal analysis?

- a. Should a university offer another section of a class?
- b. Should a restaurant stay open another hour?
- c. Should Kmart rebrand all of its stores to use the Sears name?
- d. Should Boeing hire another assembly-line worker?

189. Suppose an economist discovers that the relationship between grades and hours of tutoring is $grade = 60 + 5(hours)$. Based on the equation, which statement is TRUE?

- a. Tutoring is not worthwhile because each hour raises the grade by only 5 points.
- b. If no tutoring is done, then the grade will be zero.
- c. The expected grade with 5 hours of tutoring is 85.
- d. The relationship between tutoring and grades is weak.

190. (Figure: Mileage and Speed by Car Weight) Which statement about the graph is CORRECT?



- I. The heavier the vehicles, *ceteris paribus*, the lower the mileage.
- II. The higher the speed of the vehicle past 50 miles per hour, *ceteris paribus*, the lower the mileage.
- III. Weight and speed have a linear relationship with mileage.

- a. I only
- b. II only
- c. I and II

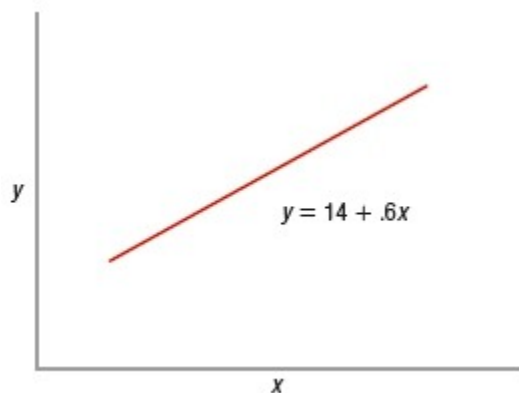
chapter 1

d. I, II, and III

191. Macroeconomics does NOT deal with

- a. recessions.
- b. inflation.
- c. job creation rates.
- d. the market for semiconductor chips.

192. (Figure: Interpreting Equations on a Graph) The graph illustrates



- a. a nonlinear equation.
- b. a linear equation.
- c. the concept of efficiency.
- d. a rectangular hyperbola.

193. Titles, labels for axes, and a statement of how the data are measured help with the interpretation of graphs.

- a. True
- b. False

194. Which topic is MOST likely to be studied in a microeconomics course?

- a. energy policy
- b. unemployment
- c. inflation
- d. recessions

195. Which statement about incentives is TRUE?

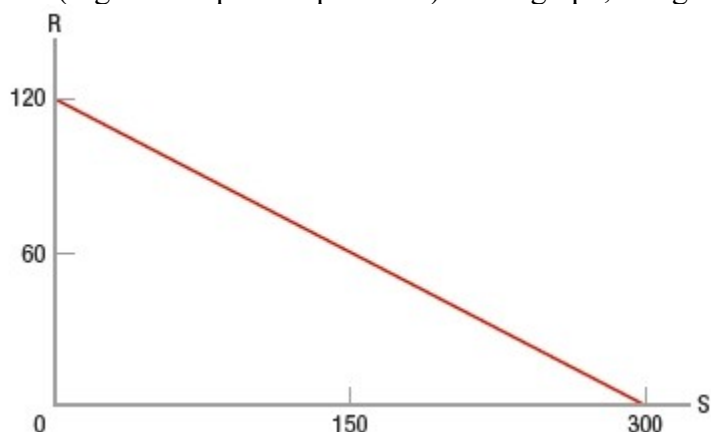
- a. Each person is motivated by the same incentive.
- b. Each person is motivated by different incentives.
- c. Incentives can be manipulated with precision.
- d. Price is the only relevant economic incentive.

196. When goods are produced at the lowest possible cost, the economy is experiencing

chapter 1

- a. allocative efficiency.
- b. production efficiency.
- c. equity.
- d. deflation.

197. (Figure: Graph Interpretation) In the graph, a negative relationship is depicted with a slope of -0.4 .



- a. True
- b. False

198. Which topic is a microeconomic topic?

- a. U.S. inflation rate in 2009
- b. the price of an iPad sold by Apple
- c. U.S. unemployment rate in March 2010
- d. U.S. rate of growth in GDP for the first quarter in 2016

199. _____ is how well resources are used and allocated.

- a. Equity
- b. Efficiency
- c. Choice
- d. Scarcity

200. A graph of a business cycle that plots output on the vertical axis and quarters of the year on the horizontal axis is an example of a

- a. bar chart.
- b. pie chart.
- c. scatter plot.
- d. time series.

201. (Table) Assume the relationship between temperature (T) and hot chocolate (C) sales can be written as $C = 150 - 2T$. An updated study shows that the amount of hot chocolate sales at every temperature has actually doubled. The new equation for this relationship would be

chapter 1

Temperature	Hot Chocolate Sales
25	100
30	90
35	80
40	70
45	60
50	50
55	40

- a. $C = 150 - 2T$
- b. $C = 75 - T$
- c. $C = 300 - 4T$
- d. $C = 300 - 2T$

202. Which statement represents a microeconomic issue?

- a. The unemployment rate fell by 2% last year.
- b. Businesses in the United States experienced a decrease in revenues of 5% last month due to the recession.
- c. About 15% of teachers were laid off last week.
- d. GDP increased by 6% last quarter.

203. Which example represents a *bad* incentive?

- a. charging drivers a gasoline tax to fund green energy projects
- b. offering factories tax credits for reducing pollution
- c. rewarding students for studying and earning high grades
- d. raising homeowners' property taxes because of home improvements

204. Open access to information is necessary in order for a market to work efficiently.

- a. True
- b. False

205. Allocative efficiency occurs when

- a. production is allocated equally among all citizens.
- b. people who want a product the most get it.
- c. goods are produced at the lowest possible cost.
- d. resources are equally allocated between the private and public sectors of the economy.

206. An economy exhibits production efficiency if

- a. it produces more than enough clothes to clothe everyone.
- b. economic growth increases every year.
- c. it produces goods at the lowest possible cost.
- d. it eliminates poverty.

207. A basic belief of economics is that

chapter 1

- a. people always, and in every case, respond to economic incentives.
- b. in general, people respond to economic incentives.
- c. history shows that tax incentives rarely work.
- d. people do not respond to changes in costs and prices.

208. Economists never assume that people respond to economic incentives.

- a. True
- b. False

209. If variable S falls as variable X falls, then S and X have a positive relationship and the slope of the line is positive.

- a. True
- b. False

210. The key difference between microeconomics and macroeconomics is microeconomics focuses on _____ while macroeconomics focuses on _____.

- a. time issues; money issues
- b. economic growth; labor issues
- c. individual decisions; aggregate issues
- d. normative questions; positive questions

211. Choosing to work an extra hour of overtime is an example of

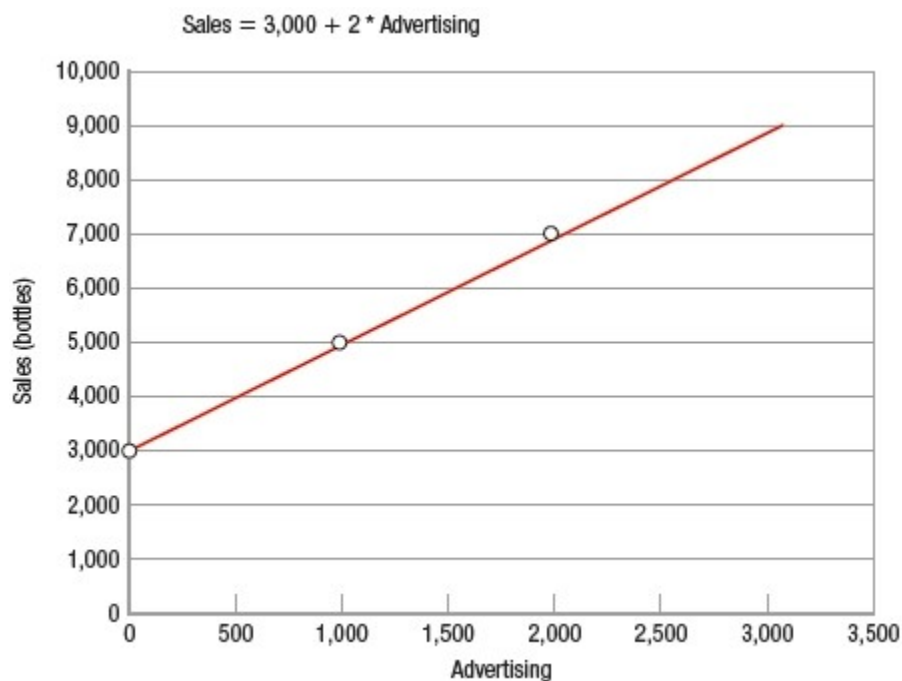
- a. thinking at the margin.
- b. efficiency.
- c. equity.
- d. market equilibrium.

212. Economic analysis cannot be applied to concepts outside economics.

- a. True
- b. False

213. (Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. If a new health advisory is released that warns consumers about problems associated with too much caffeine consumption and the level of base sales of Jump then decreases by 2,000 bottles, what is the equation of this *shifted* line?

chapter 1



- a. sales = 1,000 + 2 × advertising
- b. sales = 3,000 + 2 × advertising
- c. sales = 3,000 + 2,002 × advertising
- d. sales = 5,000 + 2 × advertising

214. What drives and disciplines markets?

- a. equity
- b. prices and profits
- c. the *ceteris paribus* assumption
- d. efficiency

215. Specialization and exchange between two individuals generally benefit the poorer individual at the expense of the richer individual.

- a. True
- b. False

216. Marginal analysis would put an emphasis on _____ costs and benefits.

- a. total monetary
- b. total opportunity
- c. additional
- d. total tangible

217. Which statement is TRUE?

- a. Low productivity and low pay go together.

chapter 1

- b. High productivity and low pay go together.
- c. Low productivity and high pay go together.
- d. The most productive countries are those with the lowest per capita incomes.

218. Economics deals only with financial issues.

- a. True
- b. False

219. If a graph showed that as the amount of time a person spent partying increased, her GPA decreased, then this relationship would be

- a. negative.
- b. positive.
- c. linear.
- d. nonlinear.

220. Which statement is NOT a macroeconomic issue?

- a. The Federal Reserve will raise interest rates this week.
- b. The unemployment rate will exceed 6% this month.
- c. The country's price level has increased over the last quarter.
- d. The production of automobiles decreased last year.

221. The concept of equity relates to how quickly something can be produced.

- a. True
- b. False

222. The purpose of an economic model is to

- a. be a complex, exact replica of reality.
- b. demonstrate which values and beliefs are best for the economy.
- c. explain the behavior of the issue being examined.
- d. manage the economy like an automatic pilot.

223. When countries specialize in producing a particular product and trade products they don't produce, it will generally lead to a worse outcome than if every country produces all the products as best they can.

- a. True
- b. False

224. Efficiency in markets is generally increased by the discipline of

- a. planning and profits.
- b. prices and planning.
- c. prices and profits.
- d. production and planning.

chapter 1

225. Which scenario does NOT fall under the category of microeconomics?

- a. Cooks at McDonalds supply labor in return for wages.
- b. The cost of living rises due to rising housing and food prices.
- c. Jonathan decides to go to the movies instead of going to work.
- d. Pepsi is experiencing an increase in revenue for this quarter.

226. Consider the following statements. Which, if any, are positive statements?

I. Main Street needs more coffee shops.

II. A new parking garage on campus will reduce parking congestion.

III. Last winter, the state should have spent more money on snow removal.

- a. I
- b. I and II
- c. II only
- d. I, II, and III

227. Why is it important for students to study economics?

- a. Most students will work as professional economists.
- b. It helps us reduce our personal income taxes.
- c. It helps us make better and wiser decisions, given our limited resources.
- d. There is no long-term benefit to studying economics.

228. When consumers have no choice but to buy from one firm

- a. they usually end up paying too much for the good or service.
- b. government regulation is usually used to protect consumers.
- c. they will always get the good or service at the lowest price available.
- d. None of these occur.

229. Economists understand that people respond to

- a. laws.
- b. incentives.
- c. threats more than rewards.
- d. positives but not negatives.

230. If two variables are correlated with one another, it is possible but not necessary that one variable causes the other.

- a. True
- b. False

231. The basic idea of opportunity cost is that

- a. buyers miss opportunities to find better bargains.
- b. using resources in an activity imposes costs on other people.

chapter 1

- c. the decision to use resources in one activity means that the resources cannot be used elsewhere.
- d. economic agents are always looking for better opportunities.

232. Economists generally do NOT define an institution as a

- a. government free of corruption.
- b. government that controls resource allocation.
- c. legal system that enforces contracts and laws.
- d. strong monetary system.

233. "Scarcity" is best defined as when the quantity demanded exceeds the quantity supplied.

- a. True
- b. False

234. Reasons to study economics include all of these EXCEPT that you

- a. will always live in a world of scarcity and choices.
- b. will understand more about how governments and businesses interact.
- c. may become a better prepared voter.
- d. will learn exactly how to invest your cash in the short term for the highest return on investment.

235. In the equation $C = a + bY$, Y is the dependent variable and a is the intercept.

- a. True
- b. False

236. When economists assume people make rational decisions, it means that

- a. people never make mistakes.
- b. a rational person can never appear to make irrational decisions.
- c. people are always selfish.
- d. a rational person will respond to the benefits and costs associated with incentives.

237. Which statement about economics is CORRECT?

- a. Economists do not believe that criminals behave rationally.
- b. Economists have little to say about social issues.
- c. Economists consider how rational people respond to incentives.
- d. Economists assume that people don't respond to incentives.

238. Production efficiency reflects

- a. how often economists make assumptions about important variables.
- b. how well resources are allocated.
- c. the fact that all labor is equally productive.
- d. the assumption made by economists that holds important variables constant.

chapter 1

239. The main focus of efficiency is for

- a. firms to charge high prices for their goods.
- b. firms to earn the largest profits.
- c. consumers to get the goods and services they want at the lowest possible cost.
- d. consumers to pay high prices.

240. Macroeconomics focuses on

- a. decisions made by individuals.
- b. decisions made by firms.
- c. the decision to purchase a new home for a family.
- d. decisions affecting the entire economy.

241. Positive questions are questions about how things ought to be.

- a. True
- b. False

242. Thinking at the margin involves

- a. influencing how individuals make decisions.
- b. making wiser decisions given limited information.
- c. maximizing a firm's or individual's well-being.
- d. weighing the impact of one additional activity.

243. A rich person does not experience scarcity.

- a. True
- b. False

244. When the *ceteris paribus* assumption is violated in economics, the effect is shown by

- a. a movement down along the curve.
- b. a movement up along the curve.
- c. a shift of the entire curve.
- d. correlation but not causation.

245. The country of Economica has a higher productivity rate than Productstan. Which statement is therefore correct?

- a. Economica has a lower standard of living than Productstan.
- b. Economica has a higher standard of living than Productstan.
- c. It can be assumed that both have the same high standard of living because productivity and living standards are unrelated.
- d. It cannot be determined from what is given which country has the higher standard of living.

246. Which scenario can occur when specialization in tasks is coupled with trade?

chapter 1

- a. It can lead to gains for all parties.
- b. It leads to gains for one party and losses for the other parties.
- c. It leads to losses for all parties.
- d. It works only with government intervention.

247. Which statement is a key idea in economic thinking?

- a. Scarcity exists for the poor but not for the rich.
- b. Incentives matter.
- c. The value of a good can be objectively measured and is the same for everyone.
- d. All of these are key ideas in economic thinking.

248. The assumption that people will act in such a way as to maximize their self-interest is a reasonable one for most cases that economists analyze.

- a. True
- b. False

249. It is impossible to have a conflict between allocative efficiency and production efficiency.

- a. True
- b. False

250. Scarcity is BEST defined as when

- a. the quantity demanded exceeds the quantity supplied.
- b. the quantity supplied exceeds the quantity demanded.
- c. unlimited resources exceed limited wants.
- d. unlimited wants exceed limited resources.

251. The decisions made by individuals and firms are covered in microeconomics.

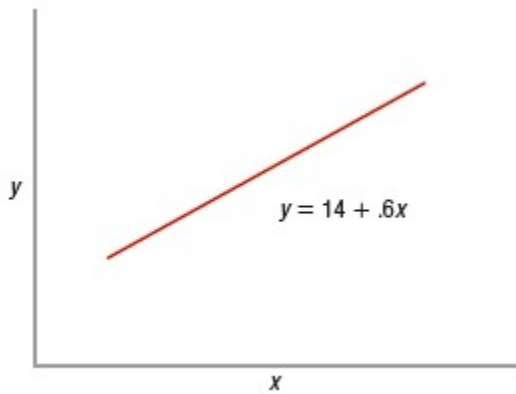
- a. True
- b. False

252. Economics is BEST defined as the study of how

- a. to classify resources used to produce final goods and services.
- b. resources are apportioned to satisfy human wants.
- c. people make rational decisions.
- d. technology can be used to change scarce resources into free resources.

253. (Figure: Interpreting Equations on a Graph) In the graph, the slope of the line is

chapter 1



- a. 0.
- b. 0.6.
- c. 14.
- d. 14.6.

254. If temperature and ice cream sales are positively related, as the temperature _____, ice cream sales _____.

- a. rises; fall
- b. rises; stay the same
- c. falls; decline
- d. falls; rise

255. There would be no economic problems in a world where all resources are

- a. unlimited.
- b. privately owned.
- c. owned by the government.
- d. scarce.

256. In the equation $S = 130 - 2T$, where S is hot chocolate sales and T is temperature, hot chocolate sales are _____ when the temperature is 0.

- a. 65
- b. 128
- c. 130
- d. 132

257. (Table) Using the information in the table, the equation that represents the relationship between temperature (T) on the horizontal axis and hot chocolate (C) sales on the vertical axis would be

chapter 1

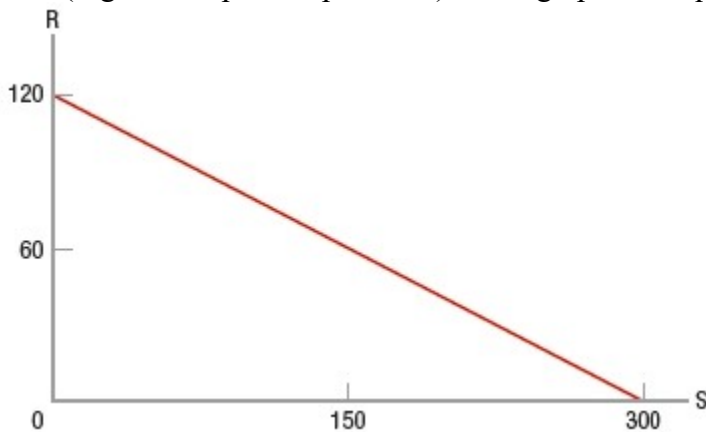
Temperature	Hot Chocolate Sales
25	100
30	90
35	80
40	70
45	60
50	50
55	40

- a. $C = 150 - 2T$
- b. $C = 50 - 1/2T$
- c. $T = 75 - 2C$
- d. $T = 25 - 1/2C$

258. Macroeconomics focuses on decisions made for the entire economy.

- a. True
- b. False

259. (Figure: Graph Interpretation) In the graph, the equation for the line is



- a. $R = 120 - 0.4S$.
- b. $R = 120 - 300S$.
- c. $R = 120 + 0.4S$.
- d. $R = 300 + 120S$.

260. Pie charts

- a. depict two variables to see if any correlation exists.
- b. show how data can be split into percentages by category.
- c. include a variable for time.
- d. show trends of data over time.

261. If a society produces a pie at the lowest possible cost and then distributes the pie evenly among its population, then _____ achieved.

- a. production and allocative efficiency are

chapter 1

- b. only production efficiency is
- c. neither production efficiency nor allocative efficiency is
- d. only allocative efficiency is

262. International finance is generally studied in

- a. microeconomics.
- b. macroeconomics.
- c. deductive logic.
- d. inductive logic.

263. If you plot temperature on the y axis and world carbon emissions on the x axis, you have created a

- a. time series.
- b. scatter plot.
- c. pie chart.
- d. bar chart.

264. If you plot temperature on the y axis and time on the x axis, you have created a

- a. time series.
- b. scatter plot.
- c. pie chart.
- d. bar chart.

265. Which of the following words BEST describes what economics is about?

- a. choices
- b. scheduling
- c. opportunity
- d. money

266. The opportunity cost of one good is the quantity of resources that could be used to purchase the next best choice.

- a. True
- b. False

267. Sujata has a stopover in Iceland and can choose one of three tours: visit the thermal springs, hike the glaciers, or view the Northern Lights. If Sujata chooses the Northern Lights, her opportunity cost would be

- a. the combined value of visiting the thermal springs and the glaciers.
- b. zero as long as the Northern Lights was her top choice.
- c. the value of visiting the thermal springs if that was her second choice after the Northern Lights.
- d. the value of visiting the thermal springs if that was her last choice among the three tours.

268. Suppose that a store sells candy bars for \$0.89 for one and \$1.50 for two. The marginal cost of the second

chapter 1

candy bar is

- a. \$0.61.
- b. \$0.75.
- c. \$0.89.
- d. \$1.50.

269. Microeconomics looks at particular markets within an economy.

- a. True
- b. False

270. When the individuals who get a good or service are the ones who desire that product the most, the economy is experiencing

- a. allocative efficiency.
- b. production efficiency.
- c. equity.
- d. deflation.

271. One of the key ingredients in making rational choices is access to

- a. sufficient funds.
- b. information.
- c. foreign markets.
- d. a university psychology department.

272. The economics of uranium mining would be studied in

- a. microeconomics.
- b. macroeconomics.
- c. deductive logic.
- d. inductive logic.

273. Time series graphs include the value of a variable on the vertical axis and minutes, hours, days, months, quarters, or years on the horizontal axis.

- a. True
- b. False

274. People tend to make rational choices for which they rely on

- a. scarcity.
- b. utility.
- c. information.
- d. *ceteris paribus*.

275. Paying a salesperson more for increased sales is an example of

chapter 1

- a. an incentive.
- b. an opportunity cost.
- c. efficiency.
- d. equity.

276. Positive questions involve the understanding of basic facts.

- a. True
- b. False

277. Opportunity costs

- a. are generally the same from individual to individual.
- b. involve monetary rather than nonmonetary costs.
- c. decrease as individuals become wealthier.
- d. influence all economic decisions.

278. (Table) If the numbers in the table were placed on a graph, with hot chocolate sales on the vertical axis and temperature on the horizontal axis, the slope would be

Temperature	Hot Chocolate Sales
25	100
30	90
35	80
40	70
45	60
50	50
55	40

- a. -10.
- b. -2.
- c. -1/2.
- d. 2.

279. Microeconomics focuses on decision making by individuals, businesses, industries, and governments.

- a. True
- b. False

280. Economics is a social science that involves the study of how individuals, firms, and societies

- a. maximize happiness.
- b. maximize incomes.
- c. choose among alternatives to satisfy their unlimited wants.
- d. develop their tastes and preferences.

281. In the equation $S = 130 - 2T$, where S is hot chocolate sales and T is temperature, sales _____ if temperature increases by 10 degrees.

- a. increase by 2

chapter 1

- b. increase by 20
- c. decrease by 2
- d. decrease by 20

282. An airline finds that its morning flights are half-empty, but the mid-afternoon flights are full. Which would be the MOST plausible statement for an economist to make?

- a. Cut the prices of early morning flights and raise the prices of afternoon flights.
- b. Nothing can be done to rectify the situation because of consumer sovereignty.
- c. Fewer flights should be scheduled in the afternoon to force travelers to take morning flights.
- d. Nothing can be done because travelers are inflexible with their schedules.

283. Positive statements

- a. are concerned with how something ought to be.
- b. involve societal beliefs.
- c. involve understanding basic facts.
- d. often include the words "should" or "ought."

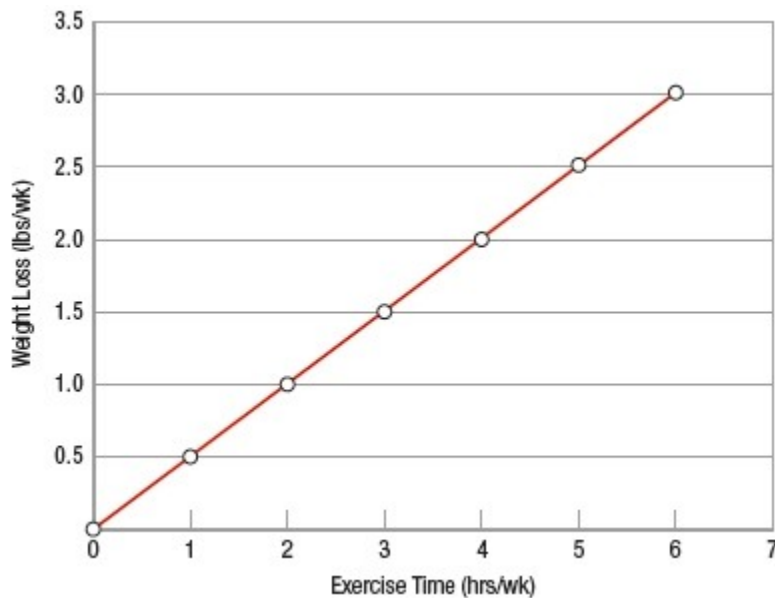
284. Time series graphs allow us to see trends in one variable over a set time frame.

- a. True
- b. False

285. A question whose answer is based on societal beliefs is a ____ question.

- a. positive
- b. fact-based
- c. objective
- d. normative

286. (Figure: Weight Loss and Exercise Time) According to the data in the graph, where weight loss is shown on the y axis, every two extra hours of exercise

chapter 1

- decreases weight by $\frac{1}{2}$ a pound.
- increases weight by $\frac{1}{2}$ a pound.
- decreases weight by 1 pound.
- increases weight by 1 pound.

287. Hitting your snooze alarm before you get out of bed is an example of

- thinking at the margin.
- efficiency.
- equity.
- market equilibrium.

288. If a student were not studying economics, he could be doing one of the following: sleeping in (which he values at \$5), playing cards with his friends (which he values at \$10), or working (he would have earned an extra \$8). The opportunity cost of studying economics is therefore

- \$5.
- \$8.
- \$10.
- \$23.

289. The _____ of parking at school includes the amount of time a person has to search for a parking space.

- opportunity cost
- equity concerns
- efficiency
- productivity

290. Because of scarcity

- resources are limitless.

chapter 1

- b. wants are limited.
- c. choices are unlimited.
- d. people face tradeoffs in nearly every choice they make.

291. Which topic is MOST likely to be studied in a macroeconomics course?

- a. market structures
- b. recession
- c. public utility regulation
- d. game theory

292. _____ occur(s) when goods are produced at the lowest possible cost, and _____ occur(s) when individuals who desire a product the most receive those goods and services.

- a. Production efficiency; allocative efficiency
- b. Production possibilities; allocative possibilities
- c. Allocative efficiency; production efficiency
- d. Allocative possibilities; production possibilities

293. Economists tend to look

- a. at costs but not at benefits.
- b. at benefits but not at costs.
- c. for rational responses to incentives.
- d. only at macroeconomic topics.

294. Scarcity

- a. is synonymous with poverty.
- b. is eliminated with greater technology.
- c. is faced by all individuals and societies.
- d. can be eliminated with adequate resources.

295. Generally speaking, private markets are the most efficient institutions for providing goods and services.

- a. True
- b. False

296. Scarcity refers to the fact that

- a. some goods are scarce.
- b. something is scarce.
- c. a person must make choices given the resource limitations he or she faces.
- d. there is no long-term benefit to studying economics.

297. Markets tend to be efficient because

- a. people respond to incentives.

chapter 1

- b. Adam Smith created markets.
- c. entrepreneurs always try to produce at the lowest possible cost.
- d. decisions are always made at the margin.

298. A recent decision regarding the Federal Reserve's impending interest rate increase is an example of a _____ topic. On the other hand, a debate on the impact of the arrival of Uber on local taxi businesses is an example of a _____ topic.

- a. microeconomics; macroeconomics
- b. macroeconomics; macroeconomics
- c. microeconomics; microeconomics
- d. macroeconomics; microeconomics

299. Discuss the difference between efficiency and equity.

300. Evaluate this statement: There is more than one concept of economic efficiency.

301. Briefly describe how macroeconomics and microeconomics are related. How do they differ?

302. Describe how economists use models and how the results of stylized models may compare with those from more complex models.

303. What is the opportunity cost of taking an economics class?

304. Explain the following statement: Economic theories must be tested.

305. How do the concepts of scarcity and opportunity cost relate to each other?

306. Provide two examples of what economists refer to as *institutions*.

307. Distinguish between macroeconomics and microeconomics.

308. Explain the difference between positive questions and normative questions.

309. What are the benefits of learning the techniques and tools involved within economic analysis?

310. What assumption about human motivation is made in economics? Explain.

311. Is understanding recessions a macroeconomic or a microeconomic issue? Explain.

312. Describe the *ceteris paribus* assumption and discuss how it might affect a person's fast-food purchase.

313. Explain what is meant by economic efficiency. Does efficiency imply that the fastest production processes or the most powerful equipment must always be used? Explain.

chapter 1

314. Evaluate the following statement: *To be useful, a model must be completely realistic.*
315. Explain the meaning of the phrase "People respond to incentives."
316. Why are markets efficient?
317. Why do economists develop models (*stylized facts*) to help with analysis? Discuss the strengths and weaknesses of such an approach.
318. At the start of the war in Iraq, homeowners in the United States found it difficult to find plywood. At the same time, the U.S. military was constructing buildings in Iraq. How do the two situations reflect economic tradeoffs?
319. What are some ways a person uses marginal analysis in daily life?
320. What are some examples of the types of issues analyzed by macroeconomics? What are some topics examined by microeconomics?
321. Explain why incentives are important, and give examples of incentives that a business might provide to its customers to increase product sales on weekdays.
322. Compare and contrast the focuses of macroeconomics and microeconomics.
323. Why do economists focus on efficiency rather than equity?
324. Why is model building considered a process of understanding the economy?

Name _____ Class _____ Date _____
: _____ : _____ e: _____

chapter 1

Answer Key

1. c
2. d
3. a
4. d
5. c
6. a
7. c
8. d
9. c
10. d
11. b
12. a
13. a
14. b
15. c
16. b
17. a
18. c
19. a
20. b
21. b
22. a
23. c

Name _____ Class _____ Date _____

chapter 1

24. a

25. a

26. a

27. b

28. b

29. b

30. c

31. b

32. d

33. b

34. a

35. d

36. b

37. a

38. b

39. b

40. c

41. a

42. c

43. b

44. b

45. a

46. a

47. a

Name _____ Class _____ Date _____

chapter 1

48. a

49. b

50. b

51. b

52. d

53. b

54. c

55. a

56. d

57. a

58. d

59. b

60. b

61. d

62. d

63. b

64. b

65. d

66. a

67. b

68. c

69. b

70. b

71. a

Name _____ Class _____ Date _____

chapter 1

72. a

73. d

74. a

75. d

76. b

77. c

78. a

79. a

80. c

81. b

82. a

83. d

84. c

85. d

86. d

87. a

88. a

89. a

90. d

91. b

92. a

93. d

94. b

95. b

Name _____ Class _____ Date _____

chapter 1

96. d

97. a

98. a

99. a

100. b

101. b

102. b

103. b

104. a

105. c

106. b

107. a

108. b

109. d

110. c

111. c

112. b

113. a

114. a

115. a

116. a

117. a

118. a

119. a

Name _____ Class _____ Date _____

chapter 1

120. b

121. d

122. a

123. b

124. b

125. a

126. d

127. b

128. b

129. a

130. d

131. a

132. c

133. b

134. b

135. c

136. a

137. a

138. d

139. d

140. c

141. c

142. b

143. a

Name _____ Class _____ Date _____

chapter 1

144. b

145. a

146. d

147. b

148. c

149. a

150. a

151. a

152. b

153. a

154. b

155. a

156. a

157. c

158. b

159. b

160. b

161. b

162. b

163. c

164. a

165. b

166. a

167. b

Name _____ Class _____ Date _____

chapter 1

168. a

169. b

170. b

171. b

172. d

173. a

174. a

175. a

176. b

177. b

178. d

179. d

180. b

181. d

182. b

183. a

184. a

185. c

186. a

187. b

188. c

189. c

190. c

191. d

Name _____ Class _____ Date _____

chapter 1

192. b

193. a

194. a

195. b

196. b

197. a

198. b

199. b

200. d

201. d

202. c

203. d

204. a

205. b

206. c

207. b

208. b

209. a

210. c

211. a

212. b

213. a

214. b

215. b

Name _____ Class _____ Date _____

chapter 1

216. c

217. a

218. b

219. a

220. d

221. b

222. c

223. b

224. c

225. b

226. c

227. c

228. b

229. b

230. a

231. c

232. b

233. b

234. d

235. b

236. d

237. c

238. b

239. c

Name _____ Class _____ Date _____

chapter 1

240. d

241. b

242. d

243. b

244. c

245. b

246. a

247. b

248. a

249. b

250. d

251. a

252. c

253. b

254. c

255. a

256. c

257. a

258. a

259. a

260. b

261. b

262. b

263. b

Name _____ Class _____ Date _____

chapter 1

264. a

265. a

266. b

267. c

268. a

269. a

270. a

271. b

272. a

273. a

274. c

275. a

276. a

277. d

278. b

279. a

280. c

281. d

282. a

283. c

284. a

285. d

286. c

287. a

chapter 1

288. c

289. a

290. d

291. b

292. a

293. c

294. c

295. a

296. c

297. a

298. d

299. *Efficiency deals with how well resources are utilized and allocated. No one likes waste. Much of economic analysis is directed toward ensuring that the most efficient outcomes result from public policy. On the other hand, there is equity, or fairness. There are many divergent views about fairness until extreme cases result. There are instances in which efficiency and equity collide. A person may agree that a specific policy is efficient, but he or she may also think it is unfair to a particular group of people.*

300. *Efficiency has to do with how things are allocated and utilized. When a firm tries to produce a product efficiently, it uses the mix of inputs (labor, raw materials, and so on) that has the lowest cost. However, there is also allocative efficiency, which deals with what is produced and who gets it. A society that produces large quantities of laptop computers, even at a minimal cost, is not allocatively efficient if consumer demand favors other technologies, such as tablet computers. Society would be better off if more tablet computers and fewer laptop computers were made.*

301. *Macroeconomics looks at the economy as a whole. Microeconomics looks at the individual components of the economy: consumers, businesses, governments, and imports/exports. For example, macroeconomics examines the overall demand for goods and services, while microeconomics is concerned with the demand for particular products.*

302. *Economists boil down facts to their basic relevant elements and use assumptions to develop a stylized (simple) model to analyze the issue. Although there are always situations that lie outside the models, they are exceptions. Economists generalize about economic behavior and reach generally applicable results. They can add more dimensions and make the model more complex, but, often, complexity does not provide any greater insight than the simple model does.*

303. *Each student will have a different response. The opportunity cost is the value of what is given up in order*

chapter 1

to study and to come to class. Some students may be giving up sleeping late, the chance to go on a trip because they use their money to pay tuition, or the income and experience of a job.

304. Economists build models to explain economic relationships. To be useful, the model must bring insight into an economic situation. Therefore, as in any scientific endeavor, economists test models against real-world data. If the model does a poor job of explaining real-world observations, then new models must be developed.

305. There are limited resources (scarcity), so people must make tradeoffs in nearly everything they do. In fact, economics is often defined as the study of the allocation of scarce resources to competing wants. People have to decide between alternatives, and they have limited resources. Every activity involves opportunity costs. Sleeping, eating, studying, partying, running, hiking, and so on all require spending resources that could be used in another activity. The activity not chosen represents the opportunity cost of the current activity that was chosen.

306. Institutions include a legal system to enforce contracts and laws and to protect the rights of citizens and the ideas they create; a legislative process to develop laws and policies that provide incentives to individuals and firms to work hard; a government free of corruption; and a strong monetary system.

307. Macroeconomics focuses on the behavior of the economy as a whole, while microeconomics is concerned with the decisions of individuals, such as households and firms. Macroeconomics is concerned with aggregates such as the total output of the economy or unemployment, while microeconomics deals with the decisions of one firm or industry.

308. Positive questions involve the understanding of basic facts, and can be answered one way or another as long as information is available. Normative questions, in contrast, involve societal beliefs on what should or should not be done, and will be answered differently by people with different beliefs.

309. Economic analysis provides a structure for making decisions in a rational manner. It is a way of analyzing decisions that are not economic in the general sense of the term. That is the benefit of learning economic analysis—it can be applied to many areas.

310. In economics, economists assume that people act as if motivated by self-interest and that people respond predictably to opportunities for gain. That is, people look out for their own self-interest and do so in a rational manner. A central assumption about human motivation is that people respond to incentives.

311. It is a macroeconomic issue; it is concerned with the overall economy.

312. To aid in model building, economists use the ceteris paribus assumption. Holding all other things equal means that some important variables are held constant. For example, to determine how many fast-food meals a person might be willing to purchase in any given week, we would hold his or her weekly income constant. Then economists would change the prices of fast-food meals to see the impact on the number purchased. Fast-food businesses, such as McDonald's, use this information to set what they hope is an optimum price.

313. Efficiency does not imply that the fastest production processes or the most powerful equipment must always be used. Output is greater when people produce goods for which the opportunity cost of producing them is lower than in other locations. They trade for those goods for which they do not have a comparative advantage. International trade based on production taking place in areas with the lowest opportunity cost

chapter 1

increases total output of the two countries and can result in higher standards of living for citizens of both countries.

314. This statement is NOT true. To be useful, a model must be fairly realistic, but it does not have to account for every detail of the real world. The model needs to capture the essential relationships that enable economists to analyze the problem they are concerned about. A model is useful so long as it sheds light on the problem at hand.

315. People are rational, that is, they make decisions based on cost-benefit analyses. If the price of something rises, people buy less of it. For example, higher taxes on certain items discourage buyers from purchasing them. Retailers discount items they wish to sell more of. Rising gasoline prices discourage people from buying cars that are not fuel-efficient.

316. Private markets and the incentives they provide are the best mechanisms known today for providing products and services. Markets bring buyers and sellers together. Competition for the consumer dollar forces firms to provide products at the lowest possible price; otherwise, some other firm will undercut their high prices. New products enter the market and old products die out.

317. By using stylized facts, economists distill economic phenomena to their most basic relationships. The main advantage of the process is that it simplifies reality so that it is easier to grasp and analyze. The disadvantage is that an economic model cannot account for all details.

318. All economic resources, including plywood, are limited. The decision to send and supply an army in the Middle East meant that resources had to be diverted to military use. The tradeoffs involved more than building material because many workers were sent to Iraq, whether as members of the National Guard or as contractors.

319. Students can provide many examples of marginal analysis. Should the student stay up an extra hour to study or go to sleep? Should the student take on an extra course when they register? Should the student work an extra hour at a part-time job?

320. There are many different examples of the types of situations a macro-oriented economist would analyze. The answer should center on the overall outcome of the economy, captured under several categories of indicators: employment, price stability, production, and international trade. Students can cite the business cycle, unemployment rate, inflation, or the balance of trade. Microeconomics focuses on a particular market outcome or structure: Pricing, employment in a particular trade, monopolization, changing demands, and resource usage are all typical microeconomic topics.

321. Incentives cause people to change their behavior. By providing the proper incentives, businesses can help increase their sales. A 40%-off sale, like that used by Macy's on Wednesdays only, can bring more customers into the store and increase weekday sales. Not everyone leaps to use the incentives all the time, but they are helpful. Another possibility is early-bird previews of seasonal merchandise on Mondays only.

322. Macroeconomics focuses on the broader issues in the economy. Microeconomics, in contrast, deals with decision making by individuals, business firms, industries, and governments.

323. Economists generally stay out of discussions about fairness, leaving the issue to philosophers and

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chapter 1

politicians. When it comes to public policy issues, economics will help people see the tradeoffs between efficiency and equity, but given these tradeoffs, people will ultimately have to make up their own mind about the wisdom of the policy. Economists tend to focus on matters of efficiency and to avoid making sweeping judgments about equity, leaving people to decide what is fair.

324. Although model building can lead to surprising insights into how economic actors and economies behave, it is NOT the end of the story. Economic insight leads to economic theories, but the theories must then be tested. So, it may be best to think of model building as a process of understanding economic actors and the general economy: Models are created and then tested; if they fail to explain, new models are constructed. Some models have stood the test of time. Others have had to be corrected or discarded. Progress has, however, been made.