

***Microeconomics, 8e (Perloff)***

**Chapter 1 Introduction**

**1.1 Microeconomics: The Allocation of Scarce Resources**

1) Microeconomics studies the allocation of

- A) decision makers.
- B) scarce resources.
- C) models.
- D) unlimited resources.

Answer: B

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

2) Microeconomics is often called

- A) price theory.
- B) decision science.
- C) scarcity.
- D) resource theory.

Answer: A

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

3) Most microeconomic models assume that decision makers wish to

- A) make themselves as well off as possible.
- B) act selfishly.
- C) make others as well off as possible.
- D) None of the above.

Answer: A

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

4) Society faces trade-offs because of

- A) government regulations.
- B) profit motive.
- C) faceless bureaucrats.
- D) scarcity.

Answer: D

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

5) A market

- A) always involves the personal exchange of goods for money.
- B) allows interactions between consumers and firms.
- C) always takes place at a physical location.
- D) has no influence on prices.

Answer: B

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

6) What links the decisions of consumers and firms in a market?

- A) the government
- B) prices
- C) coordination officials
- D) microeconomics

Answer: B

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

7) The price of a good is

- A) always equal to the cost of producing the good.
- B) never affected by the number of buyers and sellers.
- C) usually determined in a market.
- D) None of the above.

Answer: C

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

8) Who or what is responsible for bringing together scarce resources to produce most of the goods and services in the U.S.?

- A) the U.S. government
- B) the United Nations
- C) the Federal Reserve Bank
- D) markets and prices

Answer: D

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

9) Which of the following is a fundamental topic addressed by microeconomics?

- A) whether to extend unemployment insurance
- B) determining how many new iPhones the Apple company should produce
- C) the level of inflation in the country
- D) the impact of interest rates on savings in the economy

Answer: B

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

10) A "twinkie tax" on fatty foods would aim to

- A) reduce the consumption of fatty foods.
- B) reduce the production of fatty foods.
- C) raise tax revenues for other uses.
- D) All of the above.

Answer: D

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

11) Which choice below illustrates the tradeoff faced by surfboard manufacturers after Clark foam shut down in 2005, eliminating 80% of the worlds foam blanks used to shape surfboards?

The firms decide to

- A) substitute foam blanks for balsa wood blanks as used in the 1940s.
- B) advertise their new surfboard wax.
- C) offer surf classes.
- D) B and C

Answer: A

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Application of knowledge

12) In the Soviet Union, which boasted about giving every worker a job, some workers were given the task of digging holes and filling them again. What function of microeconomic analysis did this policy address?

- A) What goods/services to produce
- B) How to produce the goods and services
- C) Who gets the goods and services
- D) A and B

Answer: D

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

13) The objective of creating a permit trading system for SO<sub>2</sub> (sulfur dioxide) is to

- A) employ environmental protection agency (EPA) workers.
- B) create a market in which one did not previously exist.
- C) make annual company tax reporting more difficult.
- D) increase the incidence of acid rain.

Answer: B

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Application of knowledge

14) In Faraway country, every citizen receives a birthday cake voucher as a gift for their birthday. What function of microeconomic analysis does this public policy address?

- A) What goods/services to produce
- B) How to produce the goods and services
- C) Who gets the goods and services
- D) A and B

Answer: C

Section: The Allocation of Scarce Resources

Question Status: New

AACSB: Application of knowledge

15) A country produces cars and books. All of its resources are currently being employed in the production of these two goods. If this country increases the production of cars, what will happen with the quantity produced of books?

- A) The quantity of books produced will not change.
- B) The quantity of books produced will decrease.
- C) The quantity of books produced will slightly increase.
- D) The quantity of books produced will substantially increase .

Answer: B

Section: The Allocation of Scarce Resources

Question Status: New

AACSB: Application of knowledge

16) Which of the following situations represents a trade-off?

- A) Each additional hour of leisure reduces Billy's consumption of goods by \$15.
- B) Bob ate a slice of cranberry pie with one scoop of vanilla ice cream.
- C) Jill can afford either a sports car or a 4-year college tuition.
- D) A and C

Answer: D

Section: The Allocation of Scarce Resources

Question Status: New

AACSB: Application of knowledge

*For the following, please answer "True" or "False" and explain why.*

17) Under most circumstances, the application of taxes on goods will only affect who gets the goods.

Answer: False. Taxes will affect which goods are produced, how goods are produced, and who gets the goods.

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

18) Most modern financial centers use computers to match buyers and sellers. This absence of personal contact contradicts the definition of a market.

Answer: False. Buyers and sellers need not meet during a market transaction since a market is not tied to a particular location.

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

19) Governments do not respond to prices.

Answer: False. When products or services that governments purchase become more expensive, governments tend to purchase less of the products. For example, when the price of gasoline increased dramatically in the spring of 2006, the state of Georgia restricted the use of school buses.

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

20) Explain how a market helps determine which goods and services will be produced, how to produce them, and who gets them.

Answer: A market promotes interaction between consumers and firms. This interaction will result in prices, which influence the decisions of consumers and firms.

Section: The Allocation of Scarce Resources

Question Status: Old

AACSB: Analytic thinking

## 1.2 Models

1) The purpose of making assumptions in an economic model is to

A) force the model to yield the correct answer.

B) minimize the amount of work an economist must do.

C) simplify the model while keeping important details.

D) express the relationship mathematically.

Answer: C

Section: Models

Question Status: Old

AACSB: Analytic thinking

2) Einstein was quoted saying "Everything should be made as simple as possible, but not simpler." When it comes to economic models this means that

- A) models shouldn't be too complex.
- B) models shouldn't be too simple.
- C) models should have a level of abstraction appropriate to the topic investigated.
- D) All of the above.

Answer: D

Section: Models

Question Status: Old

AACSB: Analytic thinking

3) Economists tend to judge a model based upon

- A) the reality of its assumptions.
- B) the accuracy of its predictions.
- C) its simplicity.
- D) its complexity.

Answer: B

Section: Models

Question Status: Old

AACSB: Analytic thinking

4) Which of the following is an example of a normative statement?

- A) A higher price for a good causes people to want to buy less of that good.
- B) A lower price for a good causes people to want to buy more of that good.
- C) To make the good available to more people, a lower price should be set.
- D) If you consume this good, you will be better off.

Answer: C

Section: Models

Question Status: Old

AACSB: Analytic thinking

5) Every economic model should include money as a variable. This statement is

- A) true, because every transaction in the economy uses money.
- B) true, because the federal reserve is very important.
- C) false, because some transactions in the economy are accomplished without money.
- D) false, because a model can get unnecessarily complex if it includes money.

Answer: D

Section: Models

Question Status: Old

AACSB: Analytic thinking

6) Which of the following is an example of a normative statement?

- A) Since this good is bad for you, you should not consume it.
- B) This good has bad health effects.
- C) If you consume this good, you will get sick.
- D) People usually get sick after consuming this good.

Answer: A

Section: Models

Question Status: Old

AACSB: Analytic thinking

7) Which of the following is an example of a positive statement?

- A) Since this good is bad for you, you should not consume it.
- B) If this good is bad for you, you should not consume it.
- C) If you consume this good, you will get sick.
- D) None of the above.

Answer: C

Section: Models

Question Status: Old

AACSB: Analytic thinking

8) If an important assumption is omitted from an economic model,

- A) the model's predictions will be accurate 50% of the time.
- B) the model's predictions will be inaccurate.
- C) the model will not predict anything.
- D) the model will be rejected by other economists.

Answer: B

Section: Models

Question Status: Old

AACSB: Analytic thinking

9) Economic models are most useful in

- A) predicting changes in one variable due to a change in one or more other variables.
- B) predicting the direction of the stock market.
- C) explaining the future with the past.
- D) generating untestable hypotheses.

Answer: A

Section: Models

Question Status: Old

AACSB: Analytic thinking

10) Economic modeling requires

- A) mathematics.
- B) logic.
- C) calculus.
- D) trigonometry.

Answer: B

Section: Models

Question Status: Old

AACSB: Analytic thinking

11) Economic models are most often tested

- A) using computer simulations.
- B) using data from the distant past.
- C) using data from the real world.
- D) using logic alone.

Answer: C

Section: Models

Question Status: Old

AACSB: Analytic thinking

12) Which of the following is NOT considered an ingredient to an economic model?

- A) Assumptions
- B) Logic
- C) Hypotheses
- D) Experience

Answer: D

Section: Models

Question Status: Old

AACSB: Analytic thinking

13) Economists make simplifying assumptions to

- A) understand extremely complex phenomenon.
- B) build a model that is as close to the real world as possible.
- C) focus on the variables that are important to an economic theory.
- D) A and C

Answer: D

Section: Models

Question Status: Old

AACSB: Analytic thinking



- 14) Economists will use a model such as the law of demand
- A) forever, ignoring all criticism.
  - B) until it is refuted by someone.
  - C) until the model produces the same results with added complexity.
  - D) until every microeconomic course uses the model.

Answer: B

Section: Models

Question Status: Old

AACSB: Analytic thinking

- 15) Which of the following is an example of a positive statement?
- A) Prices determine what goods and services are produced in a market economy.
  - B) The government of the Soviet Union determined the three fundamental questions of microeconomics (i.e., what is produced, how it is produced, who receives the product).
  - C) The production of goods and services should be determined by market prices.
  - D) A and B

Answer: D

Section: Models

Question Status: Old

AACSB: Application of knowledge

- 16) Which of the statements below is/are normative?
- A) Economists need to include more reality in their models.
  - B) Economists will use a model until it is refuted by someone.
  - C) Microeconomists study economic growth.
  - D) B and C

Answer: A

Section: Models

Question Status: Old

AACSB: Application of knowledge

- 17) Billy developed an economic model to describe the behavior of a stock market index. His model predicts that the index increases on Mondays and declines on the other days of the week. What can be said about Billy's model?

- A) The model's predictions are ambiguous and cannot be tested.
- B) The model's predictions are not ambiguous and cannot be tested.
- C) The model's predictions are ambiguous and can be tested.
- D) The model's predictions are not ambiguous and can be tested.

Answer: D

Section: Models

Question Status: New

AACSB: Application of knowledge

18) A good economic model has

- A) testable predictions.
- B) absence of assumptions.
- C) extreme simplifications.
- D) ambiguous predictions.

Answer: A

Section: Models

Question Status: New

AACSB: Application of knowledge

19) Scarlett developed an economic model to describe the behavior of consumers according to the good price, and their income and tastes. All else equal, her model predicts that an increase in the price of the good may increase or decrease the number of units purchased. What can be said about Scarlett's model?

- A) The model's prediction is ambiguous.
- B) The model's prediction is not ambiguous.
- C) The model has no assumptions.
- D) B and C

Answer: A

Section: Models

Question Status: New

AACSB: Application of knowledge

20) In most microeconomic models, a decision maker

- A) maximizes an objective subject to a constraint.
- B) faces no constraints.
- C) has no clearly defined objective.
- D) B and C

Answer: A

Section: Models

Question Status: New

AACSB: Application of knowledge

21) The maximizing behavior of individuals and firms determines society's three main allocation decisions:

- A) which goods are produced, how they are sold, and who gets them.
- B) which goods are produced, how they are produced, and who finances them.
- C) which goods are imported, how they are stored, and who gets them.
- D) which goods are produced, how they are produced, and who gets them.

Answer: D

Section: Models

Question Status: New

AACSB: Application of knowledge

*For the following, please answer "True" or "False" and explain why.*

22) Normative analysis offers decision makers the most valuable information when choosing among alternatives.

Answer: False. Normative analysis states subjective goals but not how those goals can be achieved. To choose among alternatives decision maker uses positive analysis.

Section: Models

Question Status: Old

AACSB: Analytic thinking

23) If a model fits reality but doesn't generate testable predictions, it is of little value to economists.

Answer: True. If the model doesn't deliver testable predictions it cannot be tested against competing models.

Section: Models

Question Status: Old

AACSB: Analytic thinking

24) If actual experience supports two competing theories, then both theories are proven to be true.

Answer: False. Neither theory can be rejected but if they are competing, then the test is inconclusive.

Section: Models

Question Status: Old

AACSB: Analytic thinking

25) Normative statements are easily debated whereas positive statements are simply rhetorical.

Answer: False. Positive statements are not merely rhetorical. Rather, positive statements are testable statements. On the other hand, normative statements are not testable and therefore are often the most debated topics in society.

Section: Models

Question Status: Old

AACSB: Analytic thinking

26) Legislators argue that a minimum wage law is instituted to help poor people. Economists can attack the minimum wage law on two fronts. First, some argue that government should not help the poor. Second, some argue that minimum wage laws actually hurt the poor because it creates unemployment. Which argument is normative and which is positive?

Answer: An opinion about the role of government is a normative statement. An observation about the impact of a law is a positive statement.

Section: Models

Question Status: Old

AACSB: Analytic thinking

### 1.3 Uses of Microeconomic Models

1) Economic policy of the government is often based on

- A) microeconomic models.
- B) educated guessing.
- C) intuitive reasoning.
- D) hints.

Answer: A

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

2) Microeconomic models are used to

- A) make predictions.
- B) explain real-life phenomena.
- C) evaluate policy alternatives.
- D) All of the above.

Answer: D

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

3) A microeconomic model CANNOT be used to

- A) evaluate the impact of a price change on a firm's revenue.
- B) predict the impact of an increase in the minimum wage on unemployment.
- C) evaluate the fairness of a proposal to nationalize health insurance.
- D) evaluate the effect of an increase in stadium size on the price of a sport team's tickets.

Answer: C

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

4) The testing of economic models facilitates

- A) proving a model is false.
- B) proving a model is true.
- C) proving that one person's opinion is morally incorrect.
- D) proving that one society's legal structure is better than another country's.

Answer: A

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

- 5) Economic models are only useful in analyzing government policy.
- A) True. Individuals are irrational and therefore economic models are useless.
  - B) False. Economic models can be used to predict individual and firm behavior.
  - C) True. Economists only model those questions for which they are hired.
  - D) False. Economic models are not even useful in analyzing government policy.

Answer: B

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

- 6) Economic models are only applicable to free-market countries.
- A) False. Economic models are applicable wherever there is scarcity.
  - B) True. Economic models are applicable only when private citizens are free to make their own decisions.
  - C) False. Economic models are applicable in all countries with more than one million people, regardless of political structure.
  - D) True. Economic models are only applicable when government is small relative to the rest of the economy.

Answer: A

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

- 7) Governments use microeconomic models to
- A) predict the impact of a policy before adopting it.
  - B) consider the tradeoff between clean air and a high level of GDP.
  - C) determine the tradeoff between equity and efficiency.
  - D) All of the above.

Answer: D

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

- 8) Individuals use microeconomic models to determine
- A) their optimal consumption of beer given an increase in inflation.
  - B) their optimal amount of leisure.
  - C) whether or not to go to college given current student loan interest rates.
  - D) All of the above.

Answer: D

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

- 9) Firms do NOT use microeconomic models to
- A) determine what inputs will be used for production.
  - B) determine whether they should advertise in the newspaper or on the radio.
  - C) strategically raise profits over competitors.
  - D) None of the above.

Answer: D

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

- 10) Which of the following can be analyzed using microeconomic models?

- A) economic growth
- B) a country's international trade pattern
- C) a firm's output level decision
- D) determinants of money supply

Answer: C

Section: Uses of Microeconomic Models

Question Status: New

AACSB: Application of knowledge

- 11) Governments may use microeconomic models to study the effects of a new tax on

- A) the prices consumers pay.
- B) the money supply.
- C) the prices charged by producers.
- D) A and C

Answer: D

Section: Uses of Microeconomic Models

Question Status: New

AACSB: Application of knowledge

*For the following, please answer "True" or "False" and explain why.*

- 12) Microeconomics can be used by governments to predict the impacts of a policy and suggest solutions to problems.

Answer: True. Microeconomics models can be used to examine the effects of a policy, and can provide insight into possible solutions to economic problems.

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

13) One million automobiles have a defect that could cause the car to explode; however, only one of those cars will actually explode. Nobody knows which one car it is. When the car does explode, the victim's family will sue the automaker for \$1 million and win. The defect costs \$2 per car to repair. What does economics predict about the automaker's decision to repair the defect?

Answer: Correcting the defect will cost \$2 million. Not correcting the defect will only cost \$1 million. Economics predicts that the automaker will not correct the defect.

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking

14) Describe in words the anatomy of an economic model.

Answer: An economic model is comprised of a set of assumptions that lead to a set of implications. In an effective economic model, if one or more of the assumptions are changed, so too is the set of implications. In other words, any assumption that does not influence the implications is superfluous and can be dropped from the model. In an effective economic model, the implications are clearly stated and testable using real-world data.

Section: Uses of Microeconomic Models

Question Status: Old

AACSB: Analytic thinking