

Chapter 1—What Is Economics?

TRUE/FALSE

1. Both parties gain in a voluntary exchange.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

2. Even though international trade is undertaken voluntarily, a country that engages in trade may not benefit from it.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

3. In international trade, one country's gain is another country's loss.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

4. It is impossible for both nations to gain when trading with one other.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

5. In economics the true cost of making a choice is the value of what must be given up.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

6. Opportunity cost is the value of the next best alternative to a given choice.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

7. Opportunity cost is the highest possible price you can receive when you sell an object.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

8. As a student, one of the costs of sleeping in rather than going to class is likely to be a lower grade in the class.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

9. In her calculation of the cost of going to college, an economist would include the amount of forgone earnings over the years spent at college.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

10. Government controls over market prices frequently "backfire."

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

11. There are never any adverse consequences of government attempts to modify the laws of supply and demand.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

12. Comparative advantage explains how two nations can benefit from trade.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

13. If Japan is twice as good at producing cameras and three times as good at producing TV sets as the United States, Japan is said to have a comparative advantage in TV sets and the United States has a comparative advantage in cameras.

ANS: T PTS: 1 DIF: Difficult NAT: Reflective
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

14. The marginal cost of an airline ticket is the total cost of flying the plane divided by the number of passengers.

ANS: F PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

15. Marginal analysis involves looking at the extra costs involved in a decision.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

16. There are frequently market solutions that the government can use to deal with externalities.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

17. Externalities are social costs that affect parties external to a particular economic transaction.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

18. Externalities affect only the buyer and seller involved in an exchange.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

19. Externalities are created when parties not involved in an economic transaction are affected by it.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

20. All economic transactions involve only buyers and sellers; no third parties are involved.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
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21. The market mechanism provides a financial incentive for firms to minimize the pollution they create.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

22. The relatively low rate of inflation coupled with a low unemployment rate that occurred in the 1990s represented a "normal" economic situation.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

23. In both the 1970s and the 1990s, extreme economic events caused unemployment to move in the same direction as inflation.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam
24. The high unemployment of 2008-2010 caused a substantial decrease in inflation which created fears of deflation.
- ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam
25. A small increase in productivity growth can have a huge impact on a country's standard of living.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam
26. Greater economic efficiency often leads to greater economic inequality.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam
27. The concept of economic efficiency refers to the size of the "economic pie" whereas the concept of equality refers to how the "pie" is distributed.
- ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam
28. There is no trade-off between efficiency and equality.
- ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam
29. The United States has chosen to balance the competing claims of efficiency versus equality by emphasizing greater efficiency over greater equality.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam
30. The achievement of greater efficiency in the United States has been at the expense of growing inequality.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
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TOP: Ideas for Beyond the Final Exam

31. One problem with the European Union's choice regarding equality versus efficiency is that it may inadvertently shrink the size of its "economic pie".

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
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TOP: Ideas for Beyond the Final Exam

32. The United States has been willing to trade off greater efficiency for greater wage equality.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

33. One of the consequences of preventing wages from falling in the European Union has been growing unemployment.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
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34. One of the consequences of allowing wages to fall in the United States has been growing wage inequality.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
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35. Economic efficiency and income equality are often conflicting goals in an economy.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
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36. Lower inflation rates are usually correlated with lower unemployment rates.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
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37. Attempts by the government to reduce the rate of inflation often result in higher unemployment in the short run.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
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38. Productivity growth is the main cause of rising living standards.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
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39. Over the past century, the main factor responsible for rising living standards in the United States has been productivity growth.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
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40. The growth rate of productivity is the most important determinant of material well-being in the short run.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
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41. Unemployment and inflation are important determinants of short-run material welfare, whereas productivity growth is an important determinant of long-run material well-being.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
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42. Economic analysis requires both mathematical reasoning and historical study.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

43. Abstraction ignores many details in order to focus on the most important elements of a problem.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

44. Abstraction can lead to gross distortions of pertinent facts.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

45. Economists are often required to make unrealistic assumptions concerning the problems they are investigating.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

46. In economics, abstraction from reality is necessary because of the complexity of the real world.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

47. Eliminating important details in economic analysis is necessary to understand the complexity of the economy.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

48. The optimal degree of abstraction depends on the objective of the analysis.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

49. A model that is an oversimplification for one purpose will likely be an oversimplification for other purposes as well.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

50. Economic problems are made manageable by stripping away some of the unnecessary details.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

51. The use of abstraction in economics is analogous to the use of a road map providing directions to a location.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

52. Abstraction is used in economics to omit unnecessary details and focus on the essence of the problem being studied.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

53. Inaccurate prediction generally invalidates the use of theory in economics.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

54. The word "theory" means the same to the scientist as it does to the man on the street.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

55. In scientific language, a theory is an untested assertion of alleged fact.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
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TOP: Inside the Economist's Tool Kit

56. The statement "saccharine causes cancer" is not a theory; it is a hypothesis.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
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57. A theory is a deliberate simplification or abstraction of factual relationships.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
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58. A theory is an explanation of the causal mechanism behind observed phenomena.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

59. Economic theory is necessary and extremely important because of its relationship to economic policy.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

60. A theory is an untested assertion of alleged fact.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

61. "Correlation" is a measure of how one variable causes another to change.
- ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit
62. The terms "correlation" and "causation" are synonymous.
- ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit
63. Two variables that systematically change together are correlated.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit
64. Models are used to describe cause-and-effect relationships.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit
65. Models are simplifications that are used to observe the workings of a system.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit
66. Economic theory simplifies relationships to explain how the relationships interact.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit
67. An economic model is a realistic depiction of the operation of the economy.
- ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit
68. Economists disagree on most economic issues facing an economy.
- ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit
69. Only economists and other "social" scientists have areas of dispute within their disciplines.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

70. Economists probably agree more often than they disagree.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

71. Value judgments are based on people's tastes, preferences, and ethical opinions.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

72. Individuals will have different value judgments about the appropriate rate of unemployment and the appropriate rate of inflation.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

73. In economic theorizing, common sense will always lead to the correct answer.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

74. A graph conveys information about a cause-and-effect relationship.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

75. Graphs are valuable because they facilitate interpretation of data.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

76. All two-dimensional graphs must have an origin, a horizontal axis, and a vertical axis.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

77. A graph's origin is the point of intersection of all lines or curves in the graph.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

78. The lower left-hand corner of a graph where the two axes meet is called the graph's origin.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

79. A vertical line always has a slope of one.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

80. A horizontal line always has a slope of one.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

81. A horizontal line has a slope of 0.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

82. A line that rises from left to right has a positive slope.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

83. A line that slopes downward from left to right has a positive slope.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

84. Slope is measured as rise/run.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

85. Slope is measured as run/rise.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

86. The slope of a line with rise of five and run of two is positive.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

87. The steepness of a curve is partially determined by the units of measurement.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

88. Slope will vary along a curve (as opposed to a straight line).

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

89. A graph with a positive slope indicates that the variables depicted on the axes move in the same directions.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

90. A ray through the origin always has a slope of one.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

91. A contour map illustrates a cause and effect relationship among three variables.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

92. The government uses fiscal and monetary policy to mitigate the effects of economic fluctuations.

ANS: T
Fiscal and monetary policy are ways the government can affect the economy, with the goal of limiting inflation and/or unemployment.

PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics

TOP: Ideas for Beyond the Final Exam

93. When the economy experiences a bust, the government knows exactly which policies will spur an economic recovery.

ANS: F

Often policymakers fail to make the right decisions for both political and economic reasons. Even when the government does implement the "right" policies, the economy may not respond as expected.

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Ideas for Beyond the Final Exam

MULTIPLE CHOICE

1. Opportunity cost can best be defined as the
- value of what must be given up in order to acquire an item.
 - money cost to the buyer to acquire a good or service.
 - total value of all the other items that otherwise could be acquired.
 - cost to the seller to produce an item.
 - time cost to obtain the money to buy an item.

ANS: A

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Ideas for Beyond the Final Exam

2. Rational choice requires that opportunity cost be
- ignored in making a decision.
 - considered for individual choices, but not for societal choices.
 - computed, but not actually used in making a decision.
 - considered as part of making a decision.
 - used as the sole decision criterion.

ANS: D

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Ideas for Beyond the Final Exam

3. To an economist, the cost of a college education
- includes the income that the student could have earned during the time spent in college.
 - can be measured solely by the dollar cost of tuition, books, and other fees.
 - includes only the cost of schooling, not the cost of housing and food.
 - excludes financial aid in computation of the cost of schooling.
 - All of the above are correct.

ANS: A

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Ideas for Beyond the Final Exam

4. Which person has the highest opportunity cost of obtaining a college degree (assuming that attending college requires giving up his or her current position)?

- a. Bill, who is unemployed.
- b. Jane, who is an unwed mother and earns \$15,000 a year.
- c. Larry, who is a technician in the Navy earning \$18,000 a year with free food and housing.
- d. Mary, who has a job earning \$60,000 a year as a computer programmer.
- e. Unable to determine from the data given.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Ideas for Beyond the Final Exam

5. Some college students think that because a college degree greatly increases their earning potential there is no opportunity cost of attending college. How would an economist look at the matter?
 - a. There is no opportunity cost, assuming that future earnings actually increase as expected.
 - b. The opportunity cost is much less than it would appear, assuming that earnings increase.
 - c. Opportunity cost is a meaningless concept in this situation.
 - d. The college students are completely correct in all respects.
 - e. There is still an opportunity cost, even if it is justified by higher future earnings.

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Ideas for Beyond the Final Exam

6. Consider the following information regarding a person's decision to go to college: college tuition is \$20,000 per year, room and board is \$10,000 per year, and books and materials are \$2,000 per year. Suppose that instead of going to college this person could have earned \$18,000 working in a store. An economist would calculate the cost of going to college as
 - a. \$20,000.
 - b. \$30,000.
 - c. \$32,000.
 - d. \$50,000.
 - e. \$18,000.

ANS: D PTS: 1 DIF: Easy NAT: Reflective
 LOC: The Study of economics, and definitions in economics
 TOP: Ideas for Beyond the Final Exam

7. The term opportunity cost refers to the
 - a. value of what is gained when a choice is made.
 - b. difference between the value of what is gained and the value of what is forgone when a choice is made.
 - c. value of what is forgone when a choice is made.
 - d. direct costs involved in making a choice.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Ideas for Beyond the Final Exam

8. Jack buys a computer from Sam, knowing fully well that the technology used in it is obsolete. In this case, the trade is
 - a. beneficial to both parties.
 - b. beneficial only to Sam.

- c. beneficial only to Jack.
- d. not beneficial to either of them.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

9. Which of the following is an example of an externality?
- a. Drug abuse affecting David's health.
 - b. Sara taking a break from work.
 - c. A transaction between two parties, affecting them alone.
 - d. Tom's smoking affecting his roommate's health.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
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TOP: Ideas for Beyond the Final Exam

10. Which of the following is an example of a fiscal policy initiative?
- a. Lowering of interest rates.
 - b. Increase in reserve requirements.
 - c. Reduction in taxes.
 - d. Decrease in money supply.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

11. The opportunity cost to you of an action is
- a. how much you must pay for the opportunity to take the action.
 - b. the value to you of the next best action you could have taken.
 - c. the cost to society of giving you the opportunity to take the action.
 - d. the dollar cost to you of the action.

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

12. Opportunity cost is the
- a. cost incurred when one fails to take advantage of an opportunity.
 - b. cost incurred in order to increase the availability of attractive opportunities.
 - c. cost of the best option forgone as a result of choosing an alternative.
 - d. drudgery of the undesirable aspects of an option.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

13. During a war, a government will often draft people, most of whom are presently employed, into the army. An economist, computing the real cost of the war, would be sure to include which of the following items?
- a. the value of the civilian goods no longer produced by the new soldiers

- b. the cost of feeding and clothing the new soldiers
- c. the dollar cost of the payroll
- d. the higher prices of civilian goods due to wartime shortages
- e. the cost of transporting the soldiers to combat

ANS: A PTS: 1 DIF: Difficult NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Ideas for Beyond the Final Exam

14. The opportunity cost of any good or service is the
- a. actual dollar cost of doing or making it.
 - b. highest price that a seller can get for the item.
 - c. value of the next best alternative.
 - d. cost associated with a value judgment.
 - e. cost of producing the good or service.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
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15. Throughout the 1980s, accounting departments in U.S. universities were unable to fill many available faculty positions. This fact suggests that the salaries offered by these departments
- a. suffered from the cost disease of the service sector.
 - b. were below the market price for qualified accountants.
 - c. created externalities.
 - d. failed to reflect productivity growth in teaching.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
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16. The principle of comparative advantage explains how
- a. one nation can take advantage of another one through international trade.
 - b. two nations may engage in mutually beneficial trade, even though one of them is more productive than the other.
 - c. one individual can take advantage of another through international trade.
 - d. some people are good at producing everything, while others have no comparative advantages.
 - e. some nations end up with large trade surpluses.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Ideas for Beyond the Final Exam

17. If Taiwanese workers can produce all goods at lower wages than American workers, then
- a. Americans can still gain by trading with Taiwan.
 - b. Americans can only lose if they import from Taiwan.
 - c. Taiwan can only lose if it trades with America.
 - d. there are no gains from trade that are possible in this case.
 - e. Americans should be self-sufficient.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

18. Suppose Tammy grew up on a farm and is very good at plowing. In addition suppose she is a popular country singer who earns \$4,000 per performance. If her husband Bob can plow (but not as well as Tammy) but he can't carry a tune, then it would be most efficient if
- Tammy did both the plowing and the singing.
 - Tammy specialized in plowing and Bob in singing.
 - Bob did both the plowing and singing.
 - Tammy specialized in singing and Bob in plowing.
 - They both plowed and sang.

ANS: D PTS: 1 DIF: Easy NAT: Reflective
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

19. The United States produces both automobiles and computers more efficiently than Mexico. Nevertheless, it is possible that both nations would benefit from trade in these items. The reason for this is
- the law of comparative advantage.
 - the inflation-unemployment trade-off.
 - externalities.
 - the cost disease of personal services.
 - attempts to repeal the law of supply and demand.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

20. The law of comparative advantages explains why
- advanced nations will not trade with less-developed countries.
 - an advanced nation will not trade with other countries.
 - less-developed countries only trade among themselves.
 - nations trade with each other, regardless of their relative levels of economic development.
 - nations erect trade barriers.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

21. You have just bought a used car, and drive away satisfied that you've made a good deal on the purchase. What would an economist say about your "gain" on the deal?
- Your gain has clearly meant that the seller lost on the deal.
 - The seller has clearly gained, and you have actually lost on the deal.
 - Both you and the seller have gained something.
 - If your gain is too large, then the deal should be re-negotiated.
 - If the seller's loss is too large, then the deal should be re-negotiated.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics

TOP: Ideas for Beyond the Final Exam

22. If trade between two countries is voluntary, one can expect that
- one country's gain is necessarily the other's loss.
 - one country will exploit the other one.
 - neither country really gains from trade.
 - the larger country will always gain at the expense of the smaller.
 - both countries expect to gain something.

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

23. When economists are critical of government regulations that prohibit free individuals from making certain kinds of contracts, for example, to purchase a good or service, they will usually invoke the concept of
- marginal analysis.
 - mutual gains from voluntary trade.
 - inflation-unemployment trade-off.
 - the need for abstraction.
 - externalities.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

24. If a decision maker uses marginal analysis, then the relevant costs are the
- full costs of a particular activity or product.
 - fixed costs which do not vary with the extra activity or output.
 - profits obtained on the activity or product.
 - average costs for a particular activity or product.
 - additional costs of a particular activity or product.

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

25. Standby passengers on airlines who pay low rates for seats benefit from the low price. How are the airlines affected?
- They lose, because the standby passengers do not cover the full cost of the seats.
 - They gain, because the additional revenue covers the "fixed costs" of the flight.
 - They lose, because the gain of the passengers must necessarily come at the expense of the airline.
 - They benefit as long as the additional revenue from the passengers exceeds the marginal cost.
 - Uncertain, because economic theory says nothing about this sort of situation.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

26. If an airline company has several empty seats on a flight and the full price of an air ticket is \$500 and the marginal cost per passenger is \$100, then it will be profitable for the airline to
- charge a stand-by passenger no less than the full fare of \$500.
 - charge a stand-by passenger less than \$100.
 - charge a stand-by passenger more than \$500.
 - charge a stand-by passenger more than \$100.
 - fill the seats at the last minute for any price.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

27. When a teacher in a private school points out to her high school principal that since there are empty seats in all classrooms, the cost of additional students is really zero, she is using the
- law of comparative advantage.
 - principle of marginal analysis.
 - theory of externalities.
 - notion of the cost decreases of the service sector.
 - concept of opportunity cost.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

28. An externality is defined as
- an opportunity cost that is not considered, which causes inefficiency.
 - a social cost that affects parties external to a transaction.
 - a transaction which imposes a loss on one of the parties involved.
 - a "cost of doing business" that cannot be allocated to any particular good.
 - the increase in cost associated with increased production.

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

29. Which of the following is an example of an undesirable side effect of the operation of the market mechanism?
- negative externalities
 - comparative advantages
 - abstractions
 - productivity growth

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

30. When residents surrounding an airport complain about noise from aircraft landings and takeoffs, the relevant economic analysis is that of
- externalities.
 - equality-efficiency trade-off.
 - comparative advantage.

- d. the cost decrease of the service sector.
- e. the cost disease of personal services.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

31. In Egypt, in 1970, the Aswan Dam was completed. By preventing the annual flood of the Nile (thereby providing millions of acres of arable land) and by providing electricity, the dam was expected to raise the living standard of the Egyptian people-and it has. However, it has also led to a rise in the water table which causes Egypt's limestone structures, including the pyramids, to absorb more salt water and to suffer serious erosion from crystallized salts. Combined with air pollution and traffic vibration, this erosion is turning the pyramids to dust. Economists analyze this type of problem with the concept of
- a. an externality.
 - b. the antiquity problem.
 - c. a free-rider problem.
 - d. the public good problem.
 - e. the trade-off between equity and output.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

32. A large factory pours its toxic wastewater into a nearby river, and as a result, the residents of a downstream community experience high rates of illness and birth defects. The economic problem illustrated by this example is
- a. marginal thinking.
 - b. comparative advantage.
 - c. repealing the laws of supply and demand.
 - d. externalities.
 - e. productivity growth.

ANS: D PTS: 1 DIF: Easy NAT: Reflective
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

33. When interdiction efforts manage to stem the flow of illegal drugs into the United States, assuming no change in demand, the price of these substances rises. This price increase leads to more crime as addicts attempt to maintain their now more-expensive habits. Economists call this side-effect of the drug business
- a. the illusion of rationality.
 - b. an externality.
 - c. the cost disease of personal services.
 - d. inflation.
 - e. unemployment.

ANS: B PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

34. The use of chlorofluorocarbons in refrigerators and air conditioners is alleged to cause the destruction of the ozone layer that surrounds the earth. This layer protects humans from ultraviolet radiation, which causes skin cancer. Industry has been prohibited from using these substances in aerosol cans, but the government has been reluctant to ban their use altogether because of the serious economic consequences. Economists analyze such problems and refer to them as
- issues of unfairness.
 - examples of excess abstraction.
 - externalities.
 - comparative advantage issues.
 - examples of trade-offs between output and equality.

ANS: C PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

35. Rent control is usually justified on the grounds that it protects moderate- to low-income families from the burden of rapidly rising rents and from eviction if they are unable to pay. It also prevents landlords from reaping windfalls as property values rise. Opponents note that rent controls usually lead to a reduced supply of rental housing and shortages. The proponents of rent controls support them primarily on the grounds of
- efficiency.
 - equality.
 - externalities.
 - cost disease of services.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

36. Because there is a trade-off between total output and equality of income distribution,
- greater equality of distribution will generally result in higher levels of output.
 - greater output is generally associated with more equal distribution.
 - policies designed to increase output will only succeed if distribution is more equal.
 - policies intended to expand output must necessarily fail.
 - policies designed to equalize distribution may adversely affect the size of output.

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

37. In 1980, in order to stimulate agricultural production, Fidel Castro allowed Cuban farmers to sell their goods directly to consumers and keep whatever profit they made. Some farmers were earning \$50,000 per year, compared with the average worker income of \$2,400. The workers resented this. Castro denounced the farmers as "capitalist gangsters" and closed the free markets. Cuban cash income declined five percent and fresh vegetables were in short supply. This illustrates the economic concept of the
- law of comparative advantage.
 - equality-efficiency trade-off.
 - cost disease of the service sector.
 - unemployment-inflation trade-off.

e. All of the above are correct.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

38. In terms of the competing claims of equality and efficiency, in the United States we have
- chosen greater wage inequality for lower unemployment.
 - chosen higher unemployment for less wage inequality.
 - both greater wage inequality and higher unemployment.
 - not faced a trade-off between wage inequality and unemployment.
 - been able to choose both less wage inequality and lower unemployment.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

39. In contrast to the United States, the European Union has chosen
- greater wage inequality for lower unemployment.
 - less wage inequality and lower unemployment.
 - greater wage inequality and higher unemployment.
 - similar wage inequality but more unemployment.
 - less wage inequality for higher unemployment.

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

40. In the United States, the fact that the gap between the rich and the poor has been increasing is often justified by economists on the grounds that greater
- efficiency can never be achieved without greater inequality.
 - inequality does not create any problems.
 - inequality is a desirable end in itself.
 - inequality is an undesirable consequence of greater efficiency.
 - efficiency should be achieved at any cost.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

41. The 1981 tax reform act reduced taxes on high-income individuals. Many economists believed that high tax rates would deter high-income individuals from working and investing, thus slowing the growth of income. This illustrates the issue of
- the equality-efficiency trade-off.
 - usury.
 - the effects of budget deficits on future generations.
 - the cost disease of the public sector.
 - the importance of externalities.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics

TOP: Ideas for Beyond the Final Exam

42. Because there is a trade-off between inflation and unemployment in the short run,
- lower unemployment will typically cause inflation to fall.
 - policies designed to reduce unemployment will typically set off a recession.
 - policies designed to reduce inflation will cause unemployment to fall as well.
 - higher inflation will generally be associated with higher unemployment.
 - lower inflation will generally be associated with higher unemployment.

ANS: E PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

43. An article in a recent economics periodical asks the question: "Is low inflation worth it?" By "it," the article probably means
- the loss of comparative advantage.
 - enduring externalities.
 - unemployment.
 - repealing the law of supply and demand.
 - the opportunity cost of higher interest rates.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

44. In the short run, efforts to reduce the unemployment rate are likely to cause
- a decrease in the inflation rate.
 - an increase in the inflation rate.
 - no change in the inflation rate.
 - Uncertain-economists have found no relationship between the two variables.

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

45. If a government enacts a rent control to protect apartment tenants, the result is likely going to be
- an increase in rents with a surplus of apartments.
 - an increase in rents with a shortage of apartments.
 - a decrease in rents with a surplus of apartments.
 - a decrease in rents with a shortage of apartments.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

46. If a government enacts a price floor on agricultural products to protect wheat farmers, the result is likely going to be
- an increase in price with a surplus of wheat.
 - an increase in price with a shortage of wheat.
 - a decrease in price with a surplus of wheat.
 - a decrease in price with a shortage of wheat.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

47. If a voluntary trade takes place,
- both parties will benefit from the transaction.
 - only one party will benefit from the transaction.
 - neither party will benefit from the transaction.
 - both parties will benefit only if the government regulates the transaction.

ANS: A PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

48. The dramatic increase in the standard of living since the Industrial Revolution
- means that societies and individuals face no constraints.
 - has not meant unlimited abundance for societies or persons.
 - means that "opportunity cost" is a meaningless concept.
 - has reduced the choices open to persons.
 - has made economics less useful to persons.

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

49. Probably the most important factor affecting material well-being is
- inflation rates.
 - unemployment rates.
 - budget deficits.
 - growth in productivity.
 - monopoly power.

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

50. In 1971, a bank worker could process 265 checks in 1 hour. Currently, computers with built-in reader-sorter processing capacity have pushed that number above 100,000 checks per hour. Economists describe this type of activity as
- exploitation of labor.
 - an increase in labor productivity.
 - speed-up.
 - comparative advantage.
 - mutual gains from voluntary trade.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Ideas for Beyond the Final Exam

51. Economics

- a. is a narrowly focused discipline.
- b. is a broad-ranging discipline.
- c. concerns itself only with the U.S. economy.
- d. says little about "everyday life."
- e. deals with minor problems.

ANS: B PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

52. Which of the following statements is true?
- a. Economic theory does not make unrealistic assumptions.
 - b. Economists should not ignore details while focusing on complex problems.
 - c. Abstraction forms an important part of economic analysis.
 - d. The word *theory* means same for both economists and laymen.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

53. Economics is a social science in the sense that it
- a. rigorously examines human behavior.
 - b. is not as scientific as physics.
 - c. relies on historical data instead of mathematical data.
 - d. relies on statistics instead of mathematics.
 - e. All of the above are correct.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

54. For the typical student, taking an introductory course in economics should
- a. turn the student into an economist.
 - b. teach the student solutions to most social problems.
 - c. teach the student how to answer complex social questions.
 - d. help the student learn to rationally analyze social problems.
 - e. All of the above are correct.

ANS: D PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

55. Tools used by economists include
- a. historical study.
 - b. mathematical reasoning.
 - c. statistical inference.
 - d. All of the above are correct.

ANS: D PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

56. Economics is a social science rather than a "hard" science like physics because
- economists abstract from reality when creating their theories.
 - economics is easier to study than physics.
 - economists must explain their theories to policy makers who lack formal mathematical training.
 - economists study human behavior, which is affected by an unpredictable and vast range of influences.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

57. Abstraction can be thought of as
- ignoring reality in order to build theory.
 - omitting unimportant details in order to understand complex phenomena.
 - creating absurdity in order to explain simplicity.
 - assuming complexity when simplicity will do.
 - stylizing reality rather than analyzing cause and effect.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

58. What is the appropriate degree of abstraction?
- The more detail there is, the better.
 - The detail should be minimized in order to avoid all complexity.
 - Abstraction is unnecessary, and should be avoided.
 - Abstraction is the essence of analysis, and is pursued for its own sake.
 - It depends on the objective of the analysis.

ANS: E PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

59. The process of focusing on only the most important factors to explain a phenomenon is called
- abstraction.
 - marginal analysis.
 - rational choice.
 - controlled experimentation.
 - the trade-off between efficiency and equality.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

60. Economists make assumptions because
- they need to incorporate value judgments into their models.
 - analysis without assumptions would be impossibly complex.
 - they always have imperfect information about reality.
 - assumptions are the final product of careful economic analysis.

e. assumptions allow economists to ignore things that they cannot explain.

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

61. "Assume that all individuals have perfect information about prices now and in the future, that they have identical tastes, that all markets are competitive, and that there is no government." This statement is indicative of how economists
- apply the law of supply and demand.
 - employ marginal analysis.
 - are prevented from getting correct answers.
 - abstract for analytic purposes.
 - use realistic assumptions to develop theory.

ANS: D PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

62. A theory can best be defined as
- an untested assertion of untested fact.
 - a collection of assumptions that simplify the real world.
 - an opinion of a reliable person who studies a subject or discipline.
 - a deliberate simplification of factual relationships that attempts to explain how those relationships work.
 - the body of knowledge that has been scientifically verified by the scientific community.

ANS: D PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

63. To an economist, theory can be thought of as
- abstraction for the sake of argument.
 - one person's opinion, which is just as good as another's.
 - another term for the description of a situation.
 - beliefs which cannot necessarily be verified.
 - explanation of mechanisms behind observed phenomena.

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

64. Which of the following statements is correct?
- Theory and hypothesis are interchangeable terms for the same thing.
 - A hypothesis may result from a tested and confirmed theory.
 - A theory may result from a tested and confirmed hypothesis.
 - A hypothesis is a theory whose formulation relies on mathematics.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

65. During one winter quarter at Frozen U., snow falls every Friday night. Students assume that, on their campus, Fridays cause snow. This hypothesis
- should more properly be considered a theory.
 - assumes that correlation implies causation.
 - assumes that causation implies correlation.
 - reflects the fallacy of composition.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

66. Economists and others use economic theory
- only to analyze situations in which money changes hands.
 - as a partial basis for public policy recommendations.
 - to confuse their enemies.
 - to replace value judgments about important policy issues.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

67. Economic theory
- is a deliberate simplification of factual relationships.
 - seeks to disprove a hypothesis.
 - is based mainly on assumptions.
 - seeks to prove political ideals.

ANS: A PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

68. A theory is an abstraction used often by economists to
- describe a problem.
 - keep all assumptions in their proper places.
 - explain why things work the way they do.
 - describe a hierarchical ordering of facts.
 - arrange variables into a graphical format.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

69. Economic theory is a necessity, not a luxury. This statement is true because theory
- always leads to practical and useful policy.
 - can prevent depressions in the economy.
 - substitutes for vast amounts of data.
 - provides a structure for organizing and analyzing data.
 - always leads to accurate predictions.

ANS: D PTS: 1 DIF: Easy NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

70. Policy-oriented economists seek to develop theories to
- explain how things work so policies can be formulated.
 - describe what happened in a particular time period in history.
 - describe current economic events.
 - find correlations between events.
 - change people's values and ethics.

ANS: A

PTS: 1

DIF: Easy

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

71. In the 19th century, Russian peasants noticed that during cholera epidemics there were lots of doctors around; in an attempt to eliminate cholera, they killed all the doctors. This is an example of
- mistaking correlation with causation.
 - the fallacy of opportunism.
 - excessive abstraction.
 - rationality.
 - marginal analysis.

ANS: A

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

72. An economic model can be defined as
- a testable claim which can be evaluated with proper data.
 - a representation of a theory or a part of a theory.
 - another word for theory.
 - a method to distinguish correlation from causation.
 - All of the above are correct.

ANS: B

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

73. Economists use models in order to
- experiment with alternative circumstances.
 - make educated guesses about real life events.
 - predict outcomes under various hypothetical conditions.
 - increase understanding of how a relationship actually works.
 - All of the above are correct.

ANS: E

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

74. Why do economists tend to create models in diagrammatic form?
- Diagrams hide reality, and theory is an attempt to avoid reality.
 - It is easier than building models out of physical objects.

- c. Economic reality cannot possibly be represented except in diagrams.
- d. Most economists are frustrated artists, and like to draw when possible.
- e. All of the above are correct.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

75. Is it possible to express an economic model in words without diagrams?
- a. No, models can only be stated in diagrams.
 - b. No, the very definition of model requires mathematical form.
 - c. Yes, some of the simplest models are verbal statements.
 - d. Yes, although the best models always use diagrams.
 - e. Uncertain, economic theory has not answered this question yet.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

76. A useful economic model
- a. deals only with possibilities that actually occurred.
 - b. makes only realistic assumptions.
 - c. may make some unrealistic assumptions in order to simplify a complex reality.
 - d. should avoid drawing conclusions that have public policy implications, since economics is not equipped to make value judgments.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

77. Economic models are often expressed in
- a. equations.
 - b. words.
 - c. graphs.
 - d. physical objects..

ANS: C PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

78. Economic models
- a. are always based on realistic assumptions.
 - b. usually predict perfectly.
 - c. can never be tested with real world data.
 - d. are used to describe cause-and-effect relationships.
 - e. are too simple to be of much use.

ANS: D PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Inside the Economist's Tool Kit

79. Economists are often perceived as disagreeing with each other. Is this the way things really are?
- a. No, economists agree on much more than is commonly supposed.
 - b. No, the problem is that some economists are smarter than others.
 - c. No, economists "stage" disagreements for public amusement.
 - d. Yes, economists rarely agree on much of anything.
 - e. Yes, economists are unable to analyze problems dispassionately.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

80. Which of the following is one source of disagreement between economists?
- a. Some facts about the economy are unknown.
 - b. Economists differ in their political persuasions.
 - c. Economic theory may not always give an unambiguous answer to a question.
 - d. Solving one problem may make another problem worse.
 - e. All of the above are correct.

ANS: E PTS: 1 DIF: Moderate NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

81. How useful is economic analysis in solving complex social problems?
- a. It is reliable in analyzing problems, and can usefully serve as the "final word" on solutions.
 - b. It is unreliable for understanding much of anything about social problems, and cannot offer much advice.
 - c. It is useful in clarifying options, but the final decision often rests on ethical decisions about which people differ.
 - d. It is useful in understanding economic problems but is only useful within that very narrow boundary.
 - e. It is not useful because economists agree on so little when they use their analysis.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

82. Economists may disagree about how to solve an economic problem because they
- a. use different models to analyze the problem and its solutions.
 - b. have different political and moral beliefs.
 - c. disagree about the facts of the situation.
 - d. All of the above are correct.

ANS: D PTS: 1 DIF: Easy NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: Inside the Economist's Tool Kit

83. Economic analysis and policy are made more difficult by
- a. having so much data to work with.
 - b. inadequate and imperfect information.
 - c. an incomplete consensus on the basic goals of social policy.

- d. the lack of public interest and opinion on economic questions.
- e. the major economic problems society faces.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

84. An economist might be hired to answer which of the following questions?
- a. What will the price of oil be next year?
 - b. Why is the median income of women about half the median income of men?
 - c. How much will interest rates change as the federal deficit decreases?
 - d. How much will inflation change if import restrictions are imposed?
 - e. All of the above are correct.

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

85. In the fall of 1992, candidate Bill Clinton's campaign office had a large sign which read, "It's the economy, stupid." This was meant to say that
- a. economic problems were the most important in the campaign.
 - b. there is no agreement on economic goals.
 - c. economists have let the country down.
 - d. economic theory is too abstract for people to understand.
 - e. there has been a loss of comparative advantage.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

86. The purpose of economic science is to
- a. show people that it is better to want less.
 - b. encourage people to care more about others.
 - c. analyze the problems of market economies only.
 - d. develop principles by which to rank alternative uses of scarce resources.
 - e. reach consensus on economic goals and objectives

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

87. Two advisors to the president have given their policy recommendations, and they are in disagreement. Why do these economists disagree?
- a. because they do not have all relevant information about the problem
 - b. because they disagree on the nature of some cause-effect relationship
 - c. because they have different values and opinions
 - d. All of the above are reasons for disagreements among economists.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Inside the Economist's Tool Kit

88. Graphs are useful because of the way they
- facilitate interpretation and analysis of data.
 - clarify interpretation and analysis of ideas.
 - permit a person to easily see relationships.
 - convey an idea that might otherwise take many words.
 - All of the above are correct.

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

89. A diagram is a good example of a(n)
- hypothesis.
 - abstraction.
 - theory.
 - concept.
 - instrumentation.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

90. The beginning point of a graph (the 0,0 point) is known as
- ground zero.
 - mother lode.
 - the origin.
 - square one.
 - the beginning.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

91. "The hotter it gets, the more water people drink." This statement implies that the relationship between temperature and water consumption must have a
- negative slope.
 - positive slope.
 - slope always equal to one.
 - slope always equal to 45 degrees.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

92. Suppose that a curve has a slope equal to zero at some point A. To the right of A, the curve may
- have a positive slope.
 - have a negative slope.
 - be a straight line.
 - All of the above are correct.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

93. The slope of a curved line differs from that of a straight line in that
- the numerical value of the slope of a straight line is different at every point, but is the same at every point for a curved line.
 - the numerical value of the slope of a straight line is always higher than the numerical value of the slope of a curved line.
 - the numerical value of the slope of a curved line is different at every point, but is the same at every point for a straight line.
 - the numerical value of the slope of a curved line is an irrational number, but the numerical value of the slope of a straight line is always a rational number.
 - straight lines are more realistic, but curved lines are not descriptively accurate for the real world.

ANS: C PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

94. If an economic curve has a negative slope, then one variable
- falls as the other rises.
 - changes at a slower rate than another.
 - has a smaller value than another.
 - changes after another variable.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

95. The tangent at point A on a curve has a positive slope. Therefore, the curve has a
- positive slope at all points.
 - positive slope at point A.
 - negative slope at all points.
 - negative slope at point A.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

96. When variable A rises by 10 units, variable B rises by 15 units. The slope of the line describing this relationship is
- always $2/3$.
 - either $2/3$ or 1.5 , depending on which variable goes on which axis of the graph.
 - either 1.5 or -1.5 , depending on which variable goes on which axis.
 - always -1.5 .

ANS: B PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

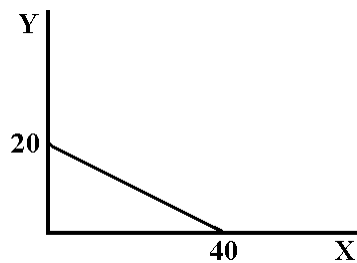
97. The slope of a downward-sloping straight line can be calculated as the distance from the
- horizontal intercept of the line to the origin divided by the distance from the origin to the vertical intercept of the line.
 - origin to the horizontal intercept of the line minus the distance from the origin to the vertical intercept of the line.
 - vertical intercept of the line to the origin divided by the distance from the origin to the horizontal intercept of the line.
 - vertical intercept of the line to the origin minus the distance from the origin to the horizontal intercept of the line.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

98. A horizontal line has a slope of
- one.
 - zero.
 - infinity.
 - undefined.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

Figure 1-1



99. The slope of the line in Figure 1-1 is
- 0.5.
 - 2.0.
 - 0.5.
 - 2.0.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

100. Which of the following mathematical expressions represents the equation of a straight line with a slope of zero at all points on a graph with Y on the vertical axis and X on the horizontal axis?
- $Y = a + X$
 - $X = bY$
 - $X = a$

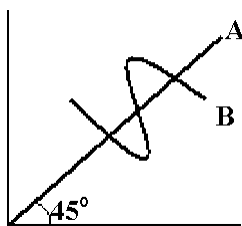
d. $Y = a$

ANS: D PTS: 1 DIF: Difficult NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

101. A vertical line has a slope of
- infinity.
 - zero.
 - undefined.
 - 1,000.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

Figure 1-2



102. Identify the slope of the two curves A and B in Figure 1-2.
- A - zero, B - one.
 - A - one, B - zero.
 - A - one, B - different at different points.
 - A - different at different points, B - zero.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

103. A line that rises at a 45 degree angle has a slope of
- 0.45.
 - 1.
 - 45.
 - 1/45.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

104. If movement along a graph causes the value on the vertical axis to rise by 5 units and the value on the horizontal axis to fall by 10 units, the slope of the function is
- 5.
 - .5.
 - 2.

d. -72.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

105. The slope of a curved line at a particular point is
- always greater than the slope of a straight line at the same point.
 - always smaller than the slope of a straight line at the same point.
 - defined as the slope of the straight line representing the average values for the entire curve.
 - defined as the slope of the straight line that is tangent to the curve at that point.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

106. It is possible to represent three dimensions on a two-dimensional graph by using
- a contour map.
 - a razor blade.
 - curved lines.
 - all of the above.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

107. A contour map illustrates which of the following?
- the cause-effect relationship between two variables
 - the cause-effect relationship between three variables
 - the way that three variables are correlated
 - the way that one variable affects another, which in turn affects a third variable
 - the way that two variables are correlated and in turn cause changes in a third variable

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

108. People generally purchase less of a commodity as its price increases. This implies that the relationship between quantity purchased and the price of the commodity must have a
- slope always equal to one.
 - positive slope.
 - zero slope.
 - negative slope.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Appendix: Using Graphs: A Review

109. A ____ is a graph whose axes show the quantities of two inputs that are used to produce some output.
- production indifference map

- b. two-variable diagram
- c. scalar diagram
- d. time-series graph

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: Appendix: Using Graphs: A Review

ESSAY

1. Carefully define the following terms, and explain their importance in economics.
 - a. opportunity cost
 - b. abstraction
 - c. theory
 - d. model
 - e. marginal analysis

ANS:

- a. Opportunity cost for a decision is the value of the next best alternative which one has to give up because of that decision. It is central to rational thinking and economic analysis.
- b. Abstraction is ignoring many details in order to focus on the most important elements of a problem. The appropriate degree of abstraction depends on the topic under consideration.
- c. Theory is a deliberate simplification of relationships with the purpose of explaining how those relationships work. Theory is cause-and-effect reasoning.
- d. A model is a simplified, small-scale version of some aspect of the economy. Much economic analysis employs models of one or more parts of the economy.
- e. Marginal analysis is making decisions based on a comparison of the increase or change in benefits to the increase or change in costs when making some sort of change.

PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics

2. How does correlation differ from causation? Give an example of each to illustrate your answer.

ANS:

Correlation means that two (or more) variables change in a systematic fashion. Economic examples include large cash withdrawals from banks at the end of the month, which coincide with payday and the due dates of bills. (The end of the month does not cause withdrawals.) Causation means that two (or more) variables are related so that a change in one actually causes a change in the other. Economic examples include a change in price leading to a change in the amount of an object which people wish to buy. (Non-economic examples can be used as well.)

PTS: 1 DIF: Moderate NAT: Reflective
 LOC: The Study of economics, and definitions in economics

3. How do markets respond to price ceilings and price floors? Do attempts to repeal the laws of supply and demand meet their objectives?

ANS:

Attempts to repeal the laws of supply and demand usually backfire and sometimes produce results virtually the opposite of those intended. Where rent controls are adopted to protect tenants, housing grows scarce because the law makes it unprofitable to build and maintain apartments. When price floors are placed under agricultural products, surpluses pile up because people buy less.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: The Study of economics, and definitions in economics

4. Economists often say that trade is a win-win situation. How do you justify this?

ANS:

One of the fundamental ideas of economics is that both the parties must expect to gain something in voluntary exchange. Laws sometimes prohibit mutually beneficial exchanges between buyers and sellers—as when the resale of tickets to sporting events is outlawed even though the buyer is happy to get the ticket that he could not obtain at a lower price. In such instances, misguided reasoning blocks the mutual gains that arise from voluntary exchange. No one will voluntarily agree for a trade if they do not expect any benefit from it. So trade is a win-win situation since both parties are going to gain from it.

PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics

5. What are the tools available to governments to mitigate cycles of boom and bust? Why do these tools fail?

ANS:

Some of the tools available to the government constitute what is called fiscal policy: control over taxes and government spending. Others come from monetary policy: control over money and interest rates. Fiscal and monetary policies sometimes fail—for both political and economic reasons. Policymakers do not always make the right decisions. And even when they do, the economy does not always react as expected. Furthermore, it is not always clear what the "right" decision is.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: The Study of economics, and definitions in economics

6. Why might well-educated economists disagree on appropriate public policy in some situations?

ANS:

Economists might disagree because of imperfect information, different theories on relevant cause-effect relationships, and because of their different values.

PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics

7. How would you interpret (1) an upward sloping curve and (2) a zero slope curve in a two variable diagram?

ANS:

- (1) Positive slope, where variable Y rises as variable X rises.

(2) Zero slope, where the value of Y is the same irrespective of the value of X.

PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics

8. How is a production indifference map helpful?

ANS:

A production indifference map is a graph whose axes show the quantities of two inputs that are used to produce some output. A curve in the graph corresponds to some given quantity of that output, and the different points on that curve show the different quantities of the two inputs that are enough to produce the given output.

PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics

9. Why do economists abstract, and is it appropriate?

ANS:

Economists (and other scientists) abstract in order to be able to focus on key variables. It is appropriate, because the economy is very complex; trying to keep track of everything is extremely difficult. Thus, economists focus on relevant variables and ignore those that are less relevant to the problem at hand. Abstraction allows focus on the forest instead of the trees.

PTS: 1 DIF: Moderate NAT: Analytic | Reflective
LOC: The Study of economics, and definitions in economics

10. Carefully distinguish between an economic theory and economic model.

ANS:

An economic theory is a deliberate simplification or abstraction of factual relationships that attempts to explain how those relationships work. It is an explanation of the mechanism behind observed phenomena. An economic model is a representation of a theory or a part of a theory used to gain insight into cause and effect. A theory can give rise to a large number of models. Thus, a theory is logically prior to a model, and will ordinarily be more inclusive than a model.

PTS: 1 DIF: Difficult NAT: Analytic | Reflective
LOC: The Study of economics, and definitions in economics

11. What is the role of value judgments in economic analysis?

ANS:

Economists employ value judgments in making policy statements, because of differences in goals or political persuasion. Liberal and conservative economists will look at the economy differently, and see different problems with different solutions. It is important to note that value judgments do not generally interfere with most economic analysis, as there are many areas of agreement among economists.

PTS: 1 DIF: Moderate NAT: Reflective

LOC: The Study of economics, and definitions in economics

12. Suppose that one can read a graph that shows information about price and quantity of some product. Relying solely on the graph, is it possible to explain the relationship between the two variables?

ANS:

No. The graph does not, by itself, provide an explanation of the cause-effect relationship. For this, one needs economic theory.

PTS: 1 DIF: Moderate NAT: Reflective

LOC: The Study of economics, and definitions in economics

13. It has been said that "economics is the science of common sense." Is economics synonymous with common sense?

ANS:

A large portion of economics will agree with common sense, such as higher prices leading to a cutback in purchases or more government spending creating jobs. But economic logic provides findings that may conflict with a non-economist's common sense, such as tariffs and quotas costing, rather than creating, jobs. Economics may be the science of common sense, but that common sense must include a logical way of thinking.

PTS: 1 DIF: Moderate NAT: Reflective

LOC: The Study of economics, and definitions in economics

14. Harry Truman is credited with the statement, "Give me a one-armed economist," because economists are likely to say, "On the one hand, . . . on the other hand." Why do economists "waffle" more than physicists or chemists?

ANS:

Economists describe human behavior, which cannot be predicted as accurately as physical or chemical reactions. Waffling can be found at the frontiers of all sciences, but the media pay more attention to economic debates, such as the effect of supply-side tax cuts on tax revenues, than to the debates of physicists (are quarks the smallest particle of matter?) or chemists. Value judgments also play a larger role in economic debates, since economics often deals with matters that directly affect the welfare of large numbers of people.

PTS: 1 DIF: Difficult NAT: Reflective

LOC: The Study of economics, and definitions in economics

15. In the early 1800s, there was a smallpox outbreak in a remote part of Russia. The government sent in a large group of army doctors, but they were too late to stop the epidemic. Thirty years later, there was another smallpox scare. A local statistician cautioned the government against a similar response, noting the increased mortality and high number of army doctors during the earlier epidemic. Was the statistician providing good advice?

ANS:

The statistician confused correlation with causation. The doctors were not the cause of the smallpox deaths. If the statistician were correct, then we should get rid of hospitals, since so many people die there. One cannot conclude that the army doctors could have helped thirty years later; this would require additional data comparing smallpox deaths with and without medical assistance.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: The Study of economics, and definitions in economics

16. A student was heard to remark, "Even though I am certain to fail this course, I cannot withdraw from it since it is too late to get back my tuition." Use one or more "Ideas for Beyond the Final Exam" to analyze this reasoning.

ANS:

The student is failing to use marginal analysis. Tuition is paid and gone whether or not she withdraws from the course. If getting an F requires retaking the course, it will still be necessary to pay tuition again. One could also note that the student is disregarding an important component of opportunity cost. An F on a transcript is more detrimental than a W.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: The Study of economics, and definitions in economics

17. A large airline calculates that the additional cost of a having a passenger on a flight to the Bahamas as the cost of a bag of peanuts and a soft drink, which totals \$1.50, but the airline's price is \$600 for potential customers who want to buy vacant seats on the day of the flight. Which economic principle is this airline failing to utilize?

ANS:

The airline is failing to think at the margin. If the cost of having another passenger on the flight is only \$1.50, then the airline could charge a price well below \$600 in order to encourage people to buy vacant seats, and for each seat sold, the airline would make additional profits.

PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics

18. In the United States the distribution of income is relatively unequal, and output is relatively high, while in the former Soviet Union the distribution of income was more equal and output per worker was much lower. Give one possible explanation for this phenomenon.

ANS:

This problem illustrates the trade-off between efficiency and equality. Workers in the Soviet Union were guaranteed jobs and decent wages regardless of their work effort, and thus they had less incentive to reach higher levels of productivity. In the United States, generally speaking, workers receive greater rewards for greater effort, and thus output per workers tends to be higher.

PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics

19. It has been found that people die at a much higher rate in hospitals than in most other environments, leading some to conclude that hospitals cause death. What is the problem with this reasoning?

ANS:

This illustrates a confusion of correlation with causation. The fact that mortality rates are higher in hospitals than in other environments reflects the fact that hospital patients are more likely to be ill, not that hospitals cause death.

PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics

20. Explain why an airline may decide to sell an air ticket to a stand-by passenger at less than the full-fare if there are empty seats on the airplane?

ANS:

The decision depends on the marginal, or extra, cost of selling that person a ticket. Marginal cost will include such things as the cost of writing and processing the ticket, the food and beverages the person will consume, and the extra fuel that will be needed. If those costs are less than the cost of a full-fare ticket then it will be profitable for the airline to charge the stand-by passenger a price that is greater than or equal to the sum of the marginal costs.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: The Study of economics, and definitions in economics

21. How does the United States differ from the European Union in how it balances the competing claims of equality and efficiency?

ANS:

The United States has chosen greater efficiency at the expense of greater equality. In the United States, wages have been allowed to fall and labor markets have been allowed to operate relatively free of government intervention. The result has been lower wages, fewer benefits for workers and a larger gap between the rich and the poor. What has been gained is lower unemployment. The EU has emphasized greater equality rather than greater efficiency. Wages have not been allowed to fall due to minimum wage laws and the government has protected worker's benefits through generous social welfare programs. The gap between the rich and the poor has not increased but it has been at the expense of higher unemployment.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: The Study of economics, and definitions in economics

22. Many believe that fairness calls for higher income taxes on the wealthy. Using one of the "Ideas for Beyond the Final Exam," explain how higher taxes on the wealthy will affect output.

ANS:

Greater equality comes at the expense of reduced output. The reversal of Ronald Reagan's tax cuts will diminish the incentive of the wealthy to earn taxable income. They will work fewer hours or less hard, or they will accept nonwage benefits such as country club memberships, find more tax loopholes, or even seek illegal channels to reduce their tax liability.

PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics

23. Carefully define the following terms and explain their importance.
- variable
 - ray
 - slope
 - contour map

ANS:

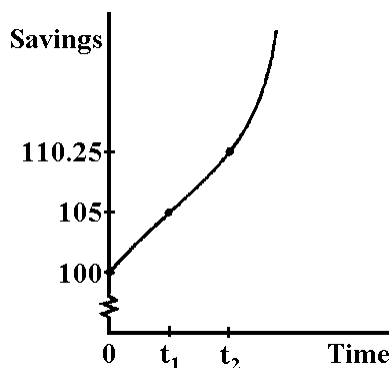
- A variable is an object, such as price, whose magnitude is measured by a number. It is used to analyze what happens to other things when the size of that number changes.
- A ray is a straight line emanating from a particular point and extending endlessly in one direction.
- The slope of a line is change per unit from left to right. It is measured by the change in the variable on the vertical axis divided by the change in the variable on the horizontal axis.
- A contour map shows all points representing different combinations of two variables, e.g., combinations of labor and raw materials capable of producing a given output. (Other examples of contour maps could be drawn from later chapters.)

PTS: 1 DIF: Moderate NAT: Analytic | Reflective
LOC: The Study of economics, and definitions in economics

24. If you leave your money in the bank at a fixed interest rate and allow for compounding of interest, show what will happen to your savings over time. Indicate with a graph whether there is a negative or positive slope between savings and time and what happens to the slope over time.

ANS:

Figure 1-3



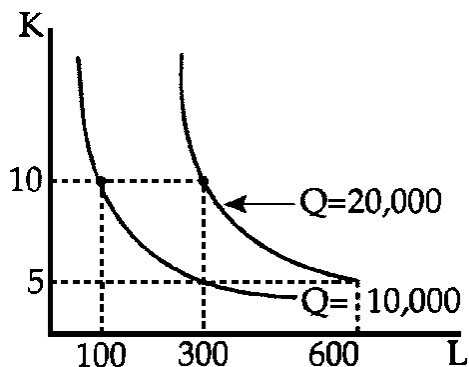
Placing time on the horizontal axis (the independent variable) and savings on the vertical axis (the dependent variable), savings will increase at an increasing rate (Figure 1-2). Slope is positive, and increasing. For example, \$100 saved at 5 percent interest will yield \$105 at the end of one year. At the end of the second year, one has $\$105 + \$105(.05) = \$110.25$. Savings increases by \$5.25 in year 2, a greater increase than the \$5 increase in year 1.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: The Study of economics, and definitions in economics

25. Dryden Press can produce 10,000 textbooks using 10 machines and 100 workers or using five machines and 300 workers. It can produce 20,000 textbooks using 10 machines and 300 workers or five machines and 600 workers. Construct a two-dimensional contour-type graph to show the relationship between the output of textbooks and the labor and machinery inputs.

ANS:

Figure 1-4



The labor and capital inputs are measured along the X and Y axes; it does not matter which input goes on which axis (Figure 1-3). The first contour line is at an output level of 10,000 and contains a line connecting two points: $K = 10$ and $L = 100$, and $K = 5$ and $L = 300$. The higher output level for $Q = 20,000$ is a higher contour line to the right of $Q = 10,000$, again containing two points. The second line connects $K = 10$ and $L = 300$ with $K = 5$ and $L = 600$.

PTS: 1 DIF: Difficult NAT: Reflective
 LOC: The Study of economics, and definitions in economics