

Chapter 1

The Scope and Method of Economics

1.1 Why Study Economics?

1) Which of the following is NOT listed in the book as a reason to study economics?

- A) to learn a way of thinking
- B) to understand society and global affairs
- C) to examine the debate about the role of government
- D) to learn how to make lots of money

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Fact

2) Among the fundamental concepts in economics are

- A) opportunity cost.
- B) marginalism.
- C) efficient markets.
- D) all of the above

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

3) Which of the following is the best definition of economics?

- A) the study of how individuals and societies choose to use the scarce resources that nature and previous generations have provided
- B) the study of how consumers spend their income
- C) the study of how business firms decide what inputs to hire and what outputs to produce
- D) the study of how the federal government allocates tax dollars

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

4) The rise of the modern factory system in England during the late eighteenth and early nineteenth centuries is known as the

- A) Great Migration.
- B) Industrial Revolution.
- C) Wealth of Nations.
- D) Dark Ages.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

5) Which of the following statements is NOT correct?

- A) Economics is a behavioral science.
- B) In large measure, economics is the study of how people make choices.
- C) If poverty was eliminated there would be no reason to study economics.
- D) Economic analysis can be used to explain how both individuals and societies make decisions.

Answer: C

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

6) The study of economics

- A) is a very narrow endeavor.
- B) is a way of analyzing decision-making processes caused by scarcity.
- C) is concerned with proving that capitalism is better than socialism.
- D) focuses on how a business should function.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Definition

7) Sunk costs are

- A) costs that cannot be avoided, because they have already been incurred.
- B) the costs of what we give up when we make a choice or a decision.
- C) the additional costs of producing an additional unit of a product.
- D) the additional costs of consuming an additional unit of a product.

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

8) Suppose that you purchased a ticket to a jazz festival for \$100 a month ago. Last week someone invited you to a hockey game on the same night as the jazz festival. You would much rather go to the hockey game than the jazz festival. You have tried unsuccessfully to sell the jazz festival ticket. Which of the following statements regarding this situation is correct?

- A) The \$100 you paid for the jazz festival ticket is relevant to the decision, as this represents the opportunity cost of attending the hockey game.
- B) You should base your decision on whether or not the hockey game will provide you with more than \$100 in satisfaction.
- C) The \$100 you paid for the jazz festival ticket should be irrelevant in your decision making, because it is a sunk cost.
- D) The \$100 jazz festival ticket should be irrelevant in your decision making, because it represents the marginal cost of attending the hockey game.

Answer: C

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 9) You have decided that you want to attend a costume party as Iron Man. You estimate that it will cost \$40 to assemble your costume. After spending \$40 on the costume, you realize that the additional pieces you need will cost you \$25 more. The marginal cost of completing the costume is
- A) \$15.
 - B) \$25.
 - C) \$40.
 - D) \$65.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

- 10) The concept of opportunity cost
- A) is relevant only to economics.
 - B) can be applied to the analysis of any decision-making process.
 - C) applies to consumers but not to firms.
 - D) refers only to actual payments and incomes.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 11) Opportunity cost is
- A) that which we forgo, or give up, when we make a choice or a decision.
 - B) a cost that cannot be avoided, regardless of what is done in the future.
 - C) the additional cost of producing an additional unit of output.
 - D) the additional cost of buying an additional unit of a product.

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

- 12) The reason that opportunity costs arise is that
- A) an economy relies on money to facilitate exchange of goods and services.
 - B) resources are scarce.
 - C) there are no alternative decisions that could be made.
 - D) people have limited wants.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

- 13) Which of the following is NOT an opportunity cost of attending college?
- A) the tuition you pay
 - B) the income you could have earned if you didn't attend college
 - C) the alternative uses of the time you spend studying
 - D) the cost of the food that you consume while you are attending college

Answer: D

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 14) If your tuition is \$5,000 this semester, your books cost \$600, you can only work 20 rather than 40 hours per week during the 15 weeks you are taking classes and you make \$15 per hour, and your room and board is \$3000 this semester, then your opportunity cost of attending college this semester is
- A) \$5,600.
 - B) \$5,900.
 - C) \$10,100.
 - D) \$11,600.

Answer: C

Diff: 3

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

- 15) If your tuition is \$25,000 this semester, your books cost \$1,500, you can only work 20 rather than 40 hours per week during the 15 weeks you are taking classes and you make \$15 per hour, and your room and board is \$7,500 this semester, then your opportunity cost of attending college this semester is
- A) \$26,500.
 - B) \$26,800.
 - C) \$31,000.
 - D) \$38,500.

Answer: C

Diff: 3

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

- 16) If you own a building and you decide to use that building to open a book store,
- A) there is no opportunity cost of using this building for a book store because you own it.
 - B) there is an opportunity cost of using this building for a book store because it could have been used in other ways.
 - C) there are no sunk costs involved in this decision.
 - D) the only cost relevant to this decision is the price you paid for the building.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 17) You own the *Star Wars* six DVD set. The opportunity cost of watching these DVDs for the second time
- A) is zero.
 - B) is one-half the cost of the DVDs, as this is the second time you have watched it.
 - C) is the value of the alternative use of the time you spend watching the DVDs.
 - D) cannot be calculated.

Answer: C

Diff: 2

Topic: *Why Study Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 18) That which we forgo, or give up, when we make a choice or decision is called
- A) sunk cost.
 - B) marginal cost.
 - C) real cost.
 - D) opportunity cost.

Answer: D

Diff: 1

Topic: *Why Study Economics?*

Skill: *Definition*

- 19) Costs that cannot be avoided, regardless of what is done in the future, because they have already been incurred are
- A) total costs.
 - B) sunk costs.
 - C) marginal costs.
 - D) allocative costs.

Answer: B

Diff: 1

Topic: *Why Study Economics?*

Skill: *Definition*

- 20) If you can buy 9 DVDs for \$126 or you could buy 10 DVDs for \$130, then the marginal cost of the tenth DVD is:
- A) \$4.
 - B) \$13.
 - C) \$14.
 - D) \$130.

Answer: A

Diff: 2

Topic: *Why Study Economics?*

Skill: *Analytical*

- 21) If you eat at a sushi restaurant that charges \$20 for its all you can eat sushi special, then the marginal cost of your 10th piece of sushi is
- A) zero.
 - B) \$2.
 - C) \$200.
 - D) \$2,000.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

- 22) A market in which profit opportunities are eliminated almost instantaneously is
- A) a laissez-faire market.
 - B) a capitalist market.
 - C) a socialist market.
 - D) an efficient market.

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Definition

- 23) If information is less costly and more easily available, then usually this
- A) makes markets more efficient.
 - B) makes markets less efficient.
 - C) increases profit opportunities.
 - D) increases the opportunity cost of acquiring more information.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 24) An efficient market is a market
- A) in which everyone always gets what they want.
 - B) in which profit opportunities are eliminated almost instantaneously.
 - C) in which profits are always very high and persistent.
 - D) in which opportunity costs are zero.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Definition

- 25) Related to the *Economics in Practice* on p. 6: An example of a sunk cost to Mattel in its production of the Barbie doll is

- A) the cost of the Taiwanese–fashioned plastic used to make the dolls.
- B) the 35 cent–per–doll Chinese labor.
- C) the cost of conception and design of the original Barbie doll.
- D) the cost of the Japanese–made hair which is used for the dolls.

Answer: C

Diff: 2

Topic: *Why Study Economics?: Economics in Practice*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 26) Related to the *Economics in Practice* on p. 6: The opportunity cost to Mattel of having its Barbie doll assembled in China is

- A) the low wages paid to Chinese workers.
- B) the \$2 export value the doll carries when it leaves Hong Kong.
- C) the \$8 of its \$10 retail value which is captured in the United States.
- D) having the Barbie doll assembled in the next best available location.

Answer: D

Diff: 2

Topic: *Why Study Economics?: Economics in Practice*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 27) Resources are unlimited in a wealthy society.

Answer: FALSE

Diff: 1

Topic: *Why Study Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 28) The value of the best alternative foregone is the opportunity cost of making a decision.

Answer: TRUE

Diff: 1

Topic: *Why Study Economics?*

Skill: *Definition*

- 29) Opportunity costs arise due to scarce resources.

Answer: TRUE

Diff: 1

Topic: *Why Study Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 30) Sunk costs do not affect marginal decision making.

Answer: TRUE

Diff: 1

Topic: *Why Study Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

31) Marginal costs are those that can not be recaptured.

Answer: FALSE

Diff: 1

Topic: *Why Study Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

1.2 The Scope of Economics

1) The branch of economics that examines the functioning of individual industries and the behavior of individual decision-making units is

- A) positive economics.
- B) normative economics.
- C) macroeconomics.
- D) microeconomics.

Answer: D

Diff: 1

Topic: *The Scope of Economics*

Skill: *Definition*

2) Studying how the management of Hewlett Packard decides how many computers to produce and the price to charge for its computers would be considered

- A) descriptive economics.
- B) empirical economics.
- C) microeconomics.
- D) macroeconomics.

Answer: C

Diff: 1

Topic: *The Scope of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

3) Studying how Joshua allocates his time between school and video games is an example of

- A) macroeconomics.
- B) microeconomics.
- C) industrial organization.
- D) descriptive economics.

Answer: B

Diff: 1

Topic: *The Scope of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 4) The study of how benefits are determined for city employees would be considered
- A) microeconomics.
 - B) macroeconomics.
 - C) descriptive economics.
 - D) institutional economics.

Answer: A

Diff: 1

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 5) Inflation and unemployment
- A) are the focus of normative economics.
 - B) are a focus of microeconomics.
 - C) are a focus of positive economics.
 - D) are a focus of macroeconomics.

Answer: D

Diff: 1

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 6) Related to the *Economics in Practice* on p. 9: The study on trust and gender found that men trust more than women, and women are more trustworthy than men. If you conclude from that result that men trust more than women because women are more trustworthy than men, you have committed what error?
- A) the fallacy of composition
 - B) the *post hoc ergo propter hoc* fallacy
 - C) mistaking correlation and causation
 - D) the *ceteris paribus* error

Answer: B

Diff: 2

Topic: The Method of Economics: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

- 7) Related to the *Economics in Practice* on p. 9: The study on trust and gender found that men trust more than women, and women are more trustworthy than men. Which of the following is an example of a normative statement concerning this study?
- A) Women are more trustworthy than men.
 - B) Men trust more than women.
 - C) There is a link between trust and gender.
 - D) Men should only trust women who are trustworthy.

Answer: D

Diff: 2

Topic: The Method of Economics: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

- 8) The rate of economic growth is a topic of microeconomics.

Answer: FALSE

Diff: 1

Topic: *The Scope of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 9) The aggregate price level is a topic of macroeconomics.

Answer: TRUE

Diff: 1

Topic: *The Scope of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

1.3 The Method of Economics

- 1) Better insurance benefits increase the incentive of some individuals to work. This statement is best described as a

- A) positive statement.
- B) Marxist ideology.
- C) normative statement.
- D) descriptive economics statement.

Answer: A

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 2) The Bureau of Labor Statistics announced that the unemployment rate fell by one percentage point. This is best described as

- A) an economic model.
- B) Marxist ideology.
- C) a normative statement.
- D) descriptive economics.

Answer: D

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 3) The amount of education that one has is an important factor in the determination of his or her wage rate. This is best described as

- A) a positive statement.
- B) Marxist ideology.
- C) a normative statement.
- D) descriptive economics.

Answer: A

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

4) The cost involved when choosing between alternatives is known as the

- A) marginal cost.
- B) sunk cost.
- C) opportunity cost.
- D) normative cost.

Answer: C

Diff: 1

Topic: The Method of Economics

Skill: Definition

5) Positive economics is an approach to economics that

- A) seeks to understand behavior and the operation of systems while making judgments about their usefulness to society.
- B) analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe preferred courses of action.
- C) applies statistical techniques and data to economic problems.
- D) examines the role of government in the economy.

Answer: C

Diff: 1

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

6) Normative economics is an approach to economics that

- A) seeks to understand behavior and the operation of systems without making judgments.
- B) analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe preferred courses of action.
- C) applies statistical techniques and data to economic problems.
- D) examines the role of government in the economy.

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

7) Which of the following is a normative question?

- A) Why do gasoline prices increase between Memorial Day and Labor Day?
- B) What will happen to gasoline consumption if the federal tax on gasoline is eliminated?
- C) To reduce the regressive nature of the gasoline excise tax, should the portion of the gasoline excise tax paid by high-income individuals be increased?
- D) How will oil exploration be affected if the government subsidizes oil producers?

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

8) Which of the following is a positive question?

- A) Will the level of teenage unemployment increase if the minimum wage is increased?
- B) Should the minimum wage be set at one-half the average manufacturing wage to guarantee individuals a decent standard of living?
- C) Wouldn't it be more equitable if the minimum wage increased automatically with the cost of living?
- D) Wouldn't it be better to try to increase people's wages through job-training programs rather than by requiring employers to pay minimum wages?

Answer: A

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

9) Health insurance should be provided to every citizen in a wealthy nation such as the United States. This statement is best described as

- A) a positive statement.
- B) a normative statement.
- C) a descriptive economics statement.
- D) an implication of an efficient market.

Answer: B

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

10) There is great concern over the fact that millions of Americans do not have health insurance. A study of the costs and benefits of implementing a national health-insurance program is an example of

- A) laissez-faire economics.
- B) positive economics.
- C) labor economics.
- D) normative economics.

Answer: B

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

11) Descriptive economics

- A) identifies actions and reactions.
- B) requires model building.
- C) looks at the outcomes of economic behavior and asks if they are good or bad.
- D) mainly involves the compilation of data that describe phenomena and facts.

Answer: D

Diff: 1

Topic: *The Method of Economics*

Skill: *Definition*

- 12) An example of descriptive economics is when an economist
- A) collects data on the wage rates and employment levels in the farming industry.
 - B) tries to develop a model to explain the changes in employment and wages in the farming industry.
 - C) tries to understand the relationship between the price of imported agricultural products and the level of employment in the U.S. farming industry.
 - D) tries to determine if there are any regular patterns in the employment levels in the farming industry and then makes generalizations from these patterns.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

Refer to Scenario 1.1 below to answer the questions that follow.

SCENARIO 1.1: An economist wants to understand the relationship between minimum wages and the level of teenage unemployment. The economist collects data on the values of the minimum wage and the levels of teenage unemployment over time. The economist concludes that a 1% increase in minimum wage causes a 0.2% increase in teenage unemployment. From this information he concludes that the minimum wage is harmful to teenagers and should be reduced or eliminated to increase employment among teenagers.

- 13) Refer to Scenario 1.1. The statement that a 1% increase in the minimum wage causes a 0.2% increase in teenage unemployment is an example of
- A) descriptive economics.
 - B) normative economics.
 - C) positive economics.
 - D) Marxist economics.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 14) Refer to Scenario 1.1. The statement, "the minimum wage is harmful to teenagers and should be reduced or eliminated to increase employment among teenagers," is an example of
- A) descriptive economics.
 - B) normative economics.
 - C) positive economics.
 - D) Marxist economics.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 15) Refer to Scenario 1.1. The process of collecting data on minimum wage and teenage unemployment levels is an example of
- A) law and economics.
 - B) economic history.
 - C) econometrics.
 - D) descriptive economics.

Answer: D

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 16) Refer to Scenario 1.1. The statement that an increase in the minimum wage causes an increase in teenage unemployment is an example of
- A) descriptive reasoning.
 - B) an economic theory.
 - C) normative economics.
 - D) deductive reasoning.

Answer: B

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 17) Refer to Scenario 1.1. A graph of the value of the minimum wage on one axis and the level of teenage unemployment on the other axis is an example of
- A) an economic theory.
 - B) an economic model.
 - C) inductive reasoning.
 - D) a variable theory.

Answer: B

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 18) To isolate the impact of one single factor, economists invoke the assumption of
- A) inductive reasoning.
 - B) Ockham's razor.
 - C) ceteris paribus.
 - D) post hoc, ergo prompter hoc.

Answer: C

Diff: 1

Topic: *The Method of Economics*

Skill: *Definition*

19) The principle that irrelevant detail should not be included in a model is known as

- A) Say's Identity.
- B) *ceteris paribus*.
- C) Ockham's razor.
- D) Hobson's choice.

Answer: C

Diff: 1

Topic: The Method of Economics

Skill: Definition

20) Economists use the phrase *ceteris paribus* to express the assumption

- A) "all else equal."
- B) "everything affects everything else."
- C) "scarcity is a fact of life."
- D) "there is no such thing as a free lunch."

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Definition

21) The Latin phrase economists use that means all else equal is:

- A) *ceteris paribus*.
- B) *cogito ergo sum*.
- C) *carpe diem*.
- D) *caveat emptor*.

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Definition

22) Stanley Jevons, an economist in the nineteenth century, noted a high correlation between economic prosperity and sunspots. Based on this observation he developed a "sunspot theory" of how the economy operated. We now know that Jevons

- A) committed the fallacy of composition.
- B) committed the *ceteris paribus* error.
- C) was too quick to conclude that correlation implies causation.
- D) showed good reasoning for the nineteenth but not the twentieth century.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 23) Whenever the Democrats gain control of the Congress, spending on social programs increases; whenever Republicans gain control of the Congress, spending on defense increases. Hence, we know what the next party in control will do. This statement is an example of

- A) fallacy of inductive reasoning.
- B) *post hoc, ergo prompter hoc* fallacy.
- C) fallacy of composition.
- D) *ceteris paribus* fallacy.

Answer: B

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 24) I have lived in a house on the Mississippi River for many years and have never seen a flood. Therefore, there is no reason for anyone to buy flood insurance. This statement is an example of

- A) fallacy of composition.
- B) *post hoc, ergo prompter hoc* fallacy.
- C) fallacy of inductive reasoning.
- D) *ceteris paribus* fallacy.

Answer: A

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 25) The economy was expanding during all of the years that I was a student, but as soon as I graduated, the economy contracted. Therefore, the labor market was waiting until I started looking for a job to contract. This statement is an example of

- A) *ceteris paribus* fallacy.
- B) *post hoc, ergo prompter hoc* fallacy.
- C) fallacy of composition.
- D) fallacy of inductive reasoning.

Answer: B

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 26) Experimental research in small cities suggests that mandating work for welfare recipients increases their income. Therefore, we should mandate work requirements for all welfare recipients. This statement is an example of

- A) fallacy of inductive reasoning.
- B) *ceteris paribus* fallacy.
- C) fallacy of composition.
- D) *post hoc, ergo prompter hoc* fallacy.

Answer: C

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 27) Rent control laws are imposed when city officials believe landlords have been exploiting tenants. Which of the following criteria are they using to guide their actions?

- A) efficiency
- B) equity
- C) growth
- D) stability

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 28) A government policy that tries to minimize inflation and unemployment can best be described as trying to achieve economic

- A) efficiency.
- B) equity.
- C) profitability.
- D) stability.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 29) Redistribution of income from the rich to the poor is achieved from a tax system that requires taxes to rise with income. Which of the following criteria best explains the goal of this tax system?

- A) efficiency
- B) equity
- C) growth
- D) stability

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 30) You know that the computer lab at school gets very crowded at about 3:00 p.m. To avoid the crowds, you start going to the computer lab one hour earlier every day. However many students make the same decision, and now the computer lab becomes very crowded at 2:00 p.m. This is an example of the

- A) *post hoc, ergo prompter hoc* fallacy.
- B) *ceteris paribus* fallacy.
- C) fallacy of division.
- D) fallacy of composition.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 31) It always rains about an hour after you finish washing your car. Concluding that washing your car caused it to rain is an example of the
- A) fallacy of composition.
 - B) *post hoc, ergo prompter hoc* fallacy.
 - C) fallacy of inductive reasoning.
 - D) *ceteris paribus* conditions.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 32) At a political rally, you stand up to see better. Everyone else stands up, as well. This is an example of
- A) *ceteris paribus*.
 - B) the *post hoc, ergo prompter hoc* fallacy.
 - C) the fallacy of composition.
 - D) Ockham's razor.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 33) You have observed that every time you do 30 minutes of cardio exercise before taking an exam you get an A. You therefore conclude that to get an A on an exam, all you have to do is 30 minutes of cardio exercise before you take an exam. You have committed the
- A) fallacy of composition.
 - B) fallacy of inductive reasoning.
 - C) *post hoc, ergo prompter hoc* fallacy.
 - D) fallacy of division.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 34) If you observe that Event A happens before Event B happens, and you conclude that Event A caused Event B, you would be guilty of an error called the
- A) fallacy of composition.
 - B) fallacy of inductive reasoning.
 - C) fallacy of *ceteris paribus*.
 - D) *post hoc, ergo prompter hoc* fallacy.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Definition

35) Two variables are said to be _____ if one variable changes when the other variable changes.

- A) causally related
- B) correlated
- C) statistically related
- D) dependent

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

36) The fallacy of composition is

- A) the belief that if Event A happens before Event B happens, then Event A causes Event B to occur.
- B) the belief that what is true for the whole is necessarily true of the parts.
- C) the belief that what is true for a part is necessarily true for the whole.
- D) the belief that it is impossible to draw generalizations about cause and effect.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Definition

37) The collection and use of data to test economic theories is

- A) empirical economics.
- B) descriptive economics.
- C) normative economics.
- D) positive economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

38) A change in economic output is potentially efficient

- A) if the value of the resulting gains exceeds the value of the resulting losses.
- B) if the value of the resulting gains exactly equals the value of the resulting losses.
- C) only if no one is made worse off.
- D) if the value of the resulting gains is less than the value of the resulting losses.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 39) An efficient economy is an economy
- A) in which output is steady or growing and there is low inflation.
 - B) that produces what consumers demand and does so at the least possible cost.
 - C) that distributes output equally among all consumers.
 - D) in which there is a fair distribution of wealth.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 40) An efficient market is characterized by the fact that
- A) output is steady or growing and there is low inflation.
 - B) profit opportunities are eliminated almost instantaneously.
 - C) there are no opportunity costs.
 - D) wealth is distributed fairly.

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 41) The four criteria that are frequently used in judging the outcome of economic policy are
- A) efficiency, equity, stability, and economic growth.
 - B) efficiency, equality, stability, and economic growth.
 - C) efficiency, equality, profitability, and stability.
 - D) efficiency, equity, profitability, and stability.

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 42) You have noticed that there is an increase in the number of homeless people in your city. At the same time you observe that there are also a number of vacant apartments. You believe that the government could reduce the number of homeless people if landlords were required to rent their apartments for less than they are currently charging. This policy recommendation would be motivated by concerns over
- A) efficiency.
 - B) equity.
 - C) economic growth.
 - D) stability.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 43) There is a possibility that a national sales tax will be implemented. Many economists argue that items such as food and clothing should be exempt from such a tax because low-income people spend a greater percentage of their income on these goods than do high-income individuals.

This argument is motivated by concerns over

- A) economic growth.
- B) economic stability.
- C) efficiency.
- D) equity.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

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

- A) The unemployment rate is six percent.
- B) There should be no unemployment in an advanced industrial society.
- C) Higher prices cause consumers to buy less.
- D) Equilibrium price implies that quantity demanded equals quantity supplied.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

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

- A) There should be no unemployment in an advanced industrial society.
- B) Higher prices cause consumers to purchase less.
- C) Consumption should be distributed fairly in society.
- D) People should pollute as little as possible.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 46) Normative economics looks at outcomes of economic behavior and evaluates them as good or bad.

Answer: TRUE

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 47) Positive economics looks at outcomes of economic behavior and evaluates them as good or bad.

Answer: FALSE

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

48) An efficient economy is one that produces what consumers demand and does so at the least possible cost.

Answer: TRUE

Diff: 1

Topic: *The Method of Economics*

Skill: *Definition*

49) *Ceteris paribus* literally translated means, "buyer beware."

Answer: FALSE

Diff: 1

Topic: *The Method of Economics*

Skill: *Definition*

50) Positive economics seeks to understand behavior, but not make judgments.

Answer: TRUE

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

51) Stability implies a steady rate of economic growth and low inflation.

Answer: TRUE

Diff: 2

Topic: *The Method of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

52) The compilation of data to describe phenomena and facts is known as descriptive economics.

Answer: TRUE

Diff: 1

Topic: *The Method of Economics*

Skill: *Definition*

1.4 Appendix: How to Read and Understand Graphs

Refer to the information provided in Figure 1.1 below to answer the questions that follow.

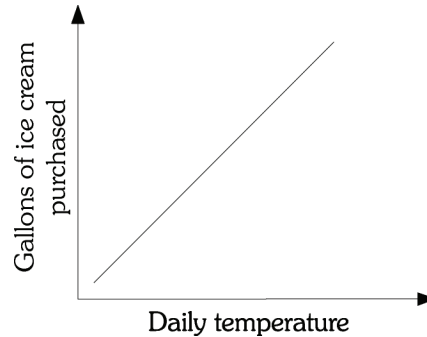


Figure 1.1

- 1) Refer to Figure 1.1. There is _____ relationship between the daily temperature and the number of gallons of ice cream purchased.
- A) a negative
 - B) a positive
 - C) either a negative or a positive
 - D) an inverse

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

Refer to the information provided in Figure 1.2 below to answer the questions that follow.

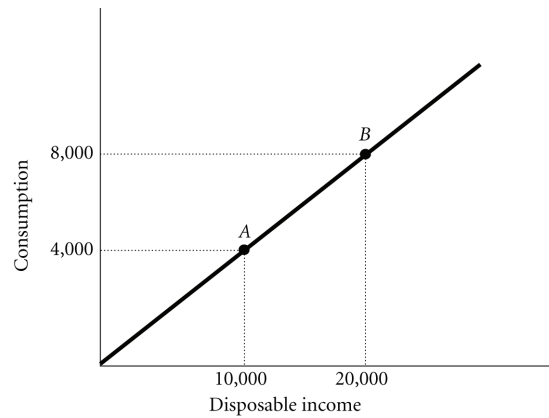


Figure 1.2

2) Refer to Figure 1.2. The slope of the line between Points A and B is

- A) 0.4.
- B) 1.2.
- C) 2.5.
- D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

3) If the slope of a straight line is -3 , and if Y (the variable on the vertical axis) decreases by 6, then X (the variable on the horizontal axis) will

- A) increase by 2.
- B) decrease by 2.
- C) increase by 18.
- D) decrease by 18.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

Refer to the information provided in Figure 1.3 below to answer the questions that follow.

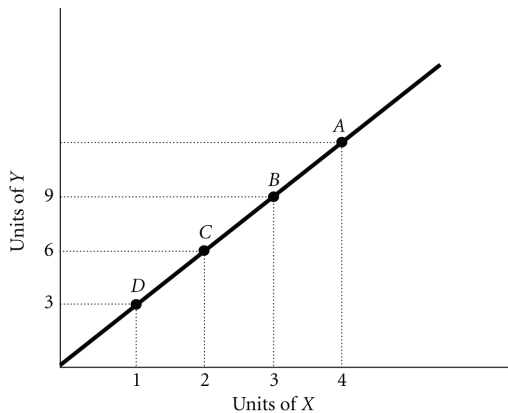


Figure 1.3

4) Refer to Figure 1.3. The slope of the line is

- A) positive.
- B) negative.
- C) increasing at an increasing rate.
- D) decreasing at an increasing rate.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

5) Refer to Figure 1.3. The slope of the line between Points B and D is

- A) -3.
- B) -0.33.
- C) 0.33.
- D) 3.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

6) Refer to Figure 1.3. The slope of the line between Points D and C is

- A) -3.
- B) -0.33.
- C) 0.33.
- D) 3.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

- 7) Refer to Figure 1.3. If a 45 degree line were also graphed, the existing line shown on the graph would _____ it.
- A) lie above
 - B) lie below
 - C) cross
 - D) indeterminate from this information

Answer: A

Diff: 3

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

- 8) Refer to Figure 1.3. At Point A, what is the value of Y?
- A) 10.
 - B) 12.
 - C) 15.
 - D) indeterminate from this information

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

- 9) Refer to Figure 1.3. At Point A the slope of the line is 3, so at Point D the slope would be
- A) greater than 3.
 - B) less than 3.
 - C) equal to 3.
 - D) indeterminate from this information.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

Refer to the information provided in Figure 1.4 below to answer the questions that follow.

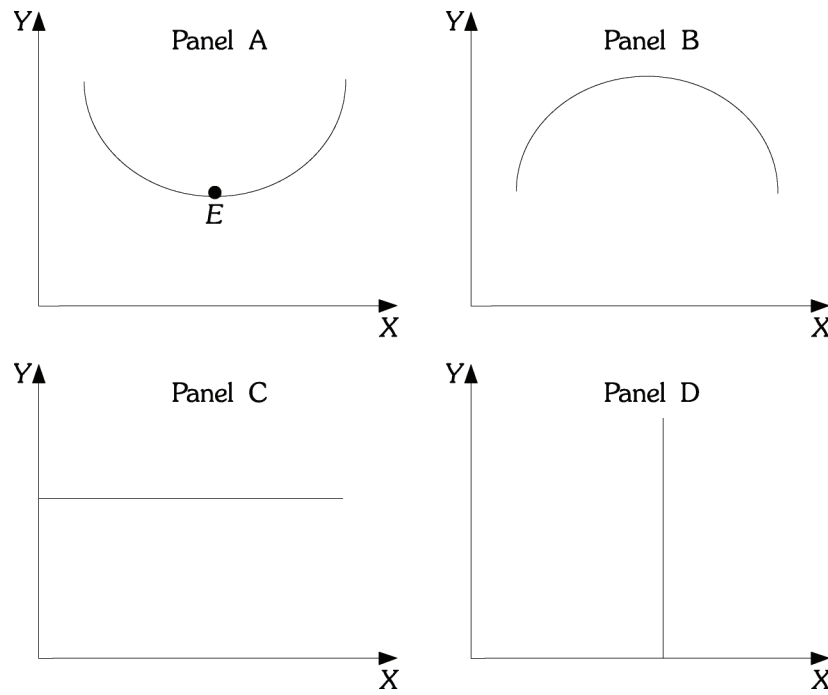


Figure 1.4

- 10) Refer to Figure 1.4. Which of the curves or lines has a slope that is first positive and then negative?

A) A
B) B
C) C
D) D

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

- 11) Refer to Figure 1.4. Which of the curves or lines has a slope that is negative and then positive?

A) A
B) B
C) C
D) D

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

12) Refer to Figure 1.4. Which of the following curves or lines has a zero slope throughout?

- A) A
- B) B
- C) C
- D) D

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

13) Refer to Figure 1.4. Which of the curves or lines has an infinite slope throughout?

- A) A
- B) B
- C) C
- D) D

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

14) Refer to Figure 1.4. At Point *E* in panel A, the slope is

- A) zero.
- B) infinite.
- C) negative.
- D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

15) The slope of a non-linear curve

- A) is always positive.
- B) must first increase then decrease.
- C) is not constant.
- D) is constant.

Answer: C

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

16) The slope of a horizontal line is

- A) negative.
- B) zero.
- C) continually changing.
- D) infinite.

Answer: B

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

17) If the slope of a straight line is 4 and if X (the variable on the horizontal axis) increases by 12, then Y (the variable on the vertical axis) will

- A) decrease by 3.
- B) decrease by 0.33.
- C) increase by 3.
- D) increase by 48.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

18) If the slope of a straight line is 4 and if Y (the variable on the vertical axis) decreases by 20, then X (the variable on the horizontal axis)

- A) increases by 5.
- B) decreases by 5.
- C) increases by 80.
- D) decreases by 80.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

19) The slope of a vertical line is

- A) zero.
- B) infinite.
- C) continually changing.
- D) negative.

Answer: B

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

Refer to the information provided in Figure 1.5 below to answer the questions that follow.

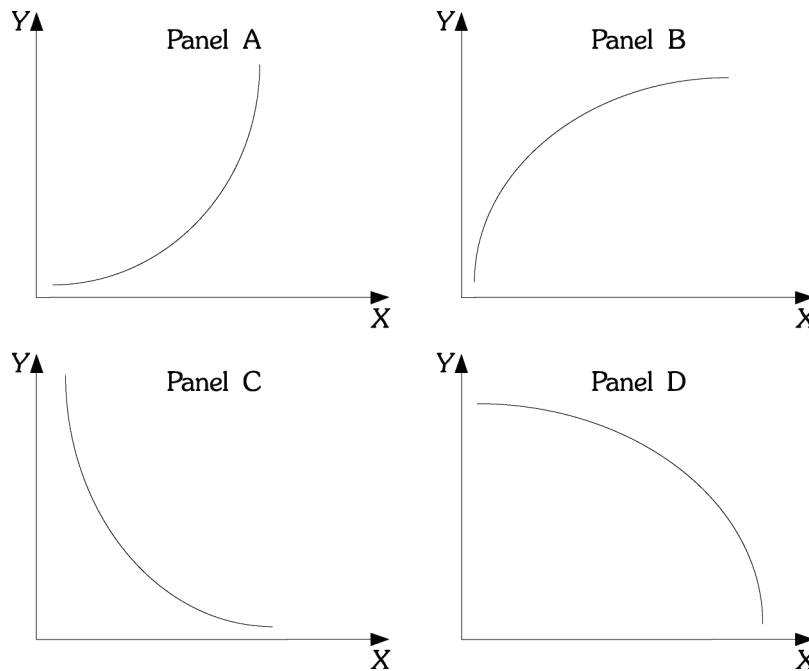


Figure 1.5

20) Refer to Figure 1.5. Which of the curves has a slope that is positive and decreasing?

- A) A
- B) B
- C) C
- D) D

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

21) Refer to Figure 1.5. Which of the curves has a slope that is positive and increasing?

- A) A
- B) B
- C) C
- D) D

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

- 22) Refer to Figure 1.5. As income increases, consumption increases, but for each additional increase in income, consumption increases by a larger and larger amount. If consumption is graphed on the vertical axis and income is graphed on the horizontal axis, the relationship between consumption and income would look like which of the following panels?

A) A
B) B
C) C
D) D

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

- 23) Refer to Figure 1.5. In many industries, as firms produce additional units, average costs of production decline as the firm produces an additional unit, but average costs declines by a smaller and smaller amount as production continues to increase. If output is graphed on the horizontal axis and average costs are graphed on the vertical axis, the relationship between average costs and output would be like which of the following panels?

A) A
B) B
C) C
D) D

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

- 24) Dividing the change in quantity on the Y axis by the change in quantity on the X axis calculates the slope of a line.

Answer: TRUE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

- 25) A graph illustrating how one variable changes over time is a Cartesian coordinate system.

Answer: FALSE

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

- 26) If as the variable on the Y-axis rises the variable on the X-axis rises, the relationship between X and Y is said to be direct.

Answer: TRUE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

- 27) If as the variable on the Y-axis falls the variable on the X-axis rises, the relationship between X and Y is said to be inverse.

Answer: TRUE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

- 28) The slope of a straight line is not constant unless the line is vertical or horizontal.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition