

Principles of Macroeconomics, 10e (Case/Fair/Oster) – TB1
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 the information provided in 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 propter 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.

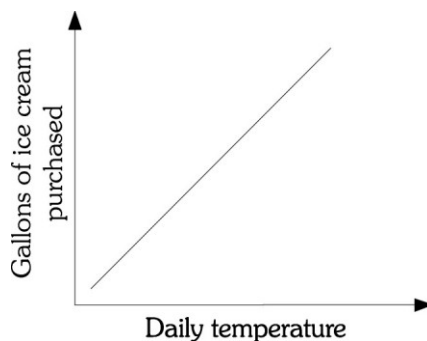


Figure 1.1

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.

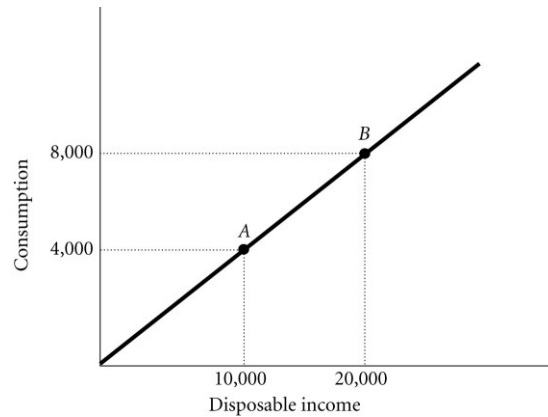


Figure 1.2

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.

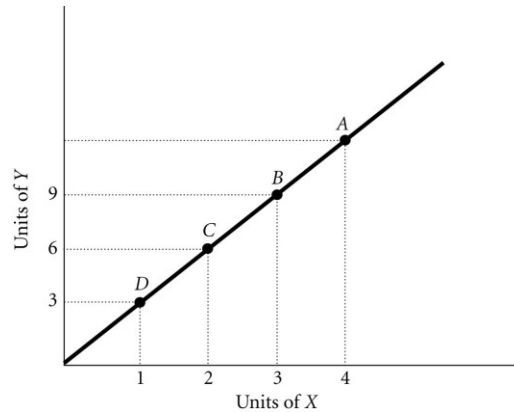


Figure 1.3

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.

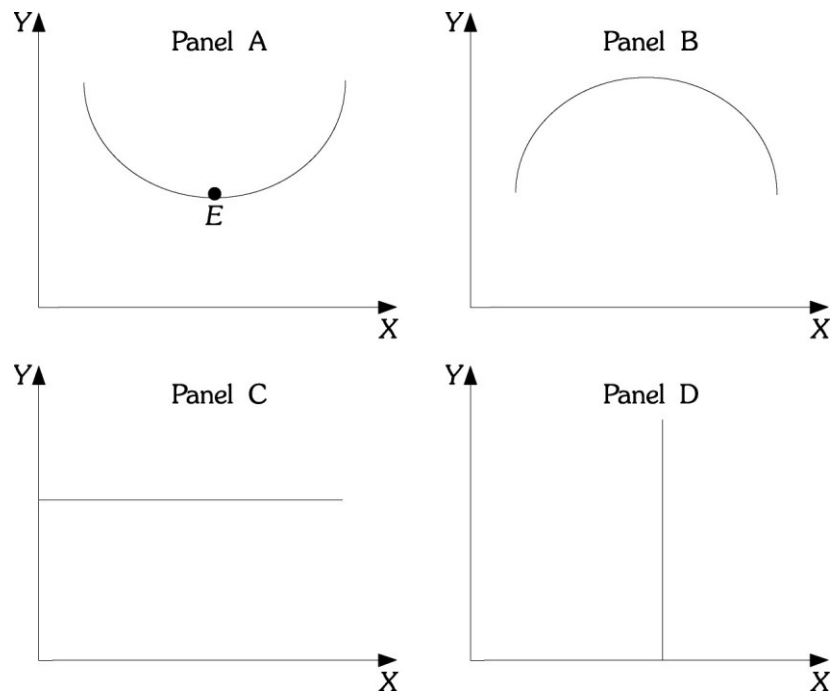


Figure 1.4

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.

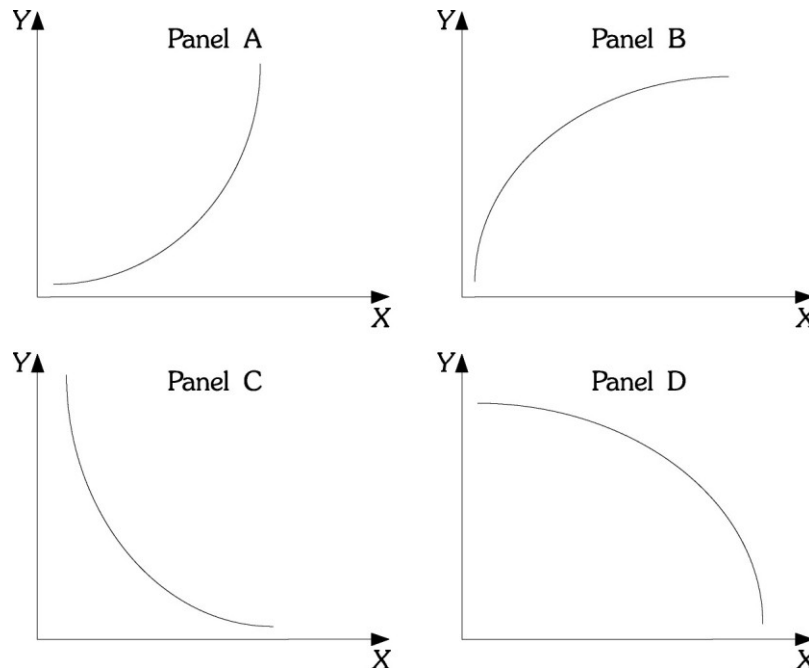


Figure 1.5

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

Principles of Macroeconomics, 10e (Case/Fair/Oster) – TB2
Chapter 1 The Scope and Method of Economics

1.1 Why Study Economics?

1) The reasons to study economics include which of the following?

- A) to examine the debate about the role of government
- B) to understand society and global affairs
- C) to learn a way of thinking
- D) all of the above

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

2) Marginalism is

- A) the best alternative that we forego when making a decision.
- B) the study of how societies choose to use scarce resources
- C) a market situation in which profit opportunities are eliminated almost instantaneously.
- D) the process of analyzing the additional costs or benefits arising from a decision.

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Definition

3) Economics is best defined as the study of

- A) financial decision-making.
- B) how consumers make purchasing decisions.
- C) choices made by people faced with scarcity.
- D) inflation, unemployment, and economic growth.

Answer: C

Diff: 1

Topic: Why Study Economics?

Skill: Definition

4) The Industrial Revolution refers to the rise of the modern factory system in _____ during the late eighteenth and early nineteenth centuries.

- A) the United States
- B) England
- C) France
- D) Germany

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

5) Which of the following statements is correct?

- A) Economics is a natural 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 societies, but not individuals, make decisions.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

6) Economics is the study of

- A) how to invest in the stock market.
- B) how society uses limited resources.
- C) the role of money in markets.
- D) how government officials decide which goods and services are produced.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Definition

7) Costs that cannot be avoided, because they have already been incurred are known as

- A) differential costs.
- B) marginal costs.
- C) opportunity costs.
- D) sunk costs.

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Definition

8) Suppose that two weeks ago you purchased a ticket to the symphony for \$40. Last week someone invited you to go camping on the same night as the symphony concert. You would much rather go camping than go to the symphony. You have tried unsuccessfully to sell the symphony concert ticket. Which of the following statements regarding this situation is correct?

- A) The \$40 symphony ticket should be irrelevant in your decision making, because it represents the marginal cost of going camping.
- B) The \$40 you paid for the symphony ticket should be irrelevant in your decision making, because it is a sunk cost.
- C) The \$40 you paid for the symphony ticket is relevant to the decision, as this represents the opportunity cost of going camping.
- D) You should base your decision on whether or not going camping will provide you with more than \$40 in satisfaction.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

9) You have decided that you want to attend a renaissance fair as King Henry VIII. You estimate that it will cost \$80 to assemble your costume. After spending \$80 on the costume, you realize that the additional pieces you need will cost you \$20 more. The marginal cost of completing the costume is

- A) \$20.
- B) \$60.
- C) \$80.
- D) \$100.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

10) The concept of opportunity cost can be applied to the analysis of _____ decision-making processes.

- A) only economy-wide
- B) only global
- C) only-small-scale
- D) any

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

11) That which we forgo, or give up, when we make a choice or a decision is known as

- A) equity.
- B) causation.
- C) correlation.
- D) opportunity cost.

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Definition

12) Scarce resources give rise to the concept of

- A) efficient markets.
- B) opportunity costs.
- C) laissez-faire.
- D) positive economics.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

13) Which of the following is an opportunity cost of attending college?

- A) the cost of your apartment or dorm
- B) the income you could have earned if you didn't attend college
- C) the cost of the food that you consume while you are attending college
- D) the education you gain from attending college

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

14) If your tuition is \$2,000 this semester, your books cost \$400, you can only work 10 rather than 40 hours per week during the 15 weeks you are taking classes and you make \$12 per hour, and your room and board is \$4,000 this semester, then your opportunity cost of attending college this semester is

- A) \$2,400.
- B) \$2,760.
- C) \$7,800.
- D) \$11,800.

Answer: C

Diff: 3

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

15) If your tuition is \$20,000 this semester, your books cost \$2,000, you can only work 10 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 \$8,000 this semester, then your opportunity cost of attending college this semester is

- A) \$22,000.
- B) \$22,150.
- C) \$28,750.
- D) \$36,750.

Answer: C

Diff: 3

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

16) If you own a condo and you decide to lease it to your cousin

- A) there is no opportunity cost of leasing the condo because you own it.
- B) there is an opportunity cost of leasing the condo because you could have chosen to live in it.
- C) there is no opportunity cost of leasing the condo because you collect rent from your cousin.
- D) the only cost relevant to this decision is the price you paid for the condo.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

17) You own *The Wedding Crasher* on DVD. The opportunity cost of watching this DVD for the fourth time

- A) is zero, since you own it.
- B) is one-fourth the cost of the DVD, as this is the fourth time you have watched it.
- C) is the value of the alternative use of the time you spend watching the DVD.
- D) must be the same as the opportunity cost of watching it the first time.

Answer: C

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

18) Opportunity cost is

- A) what we give up to get something else.
- B) marginal cost divided by sunk cost.
- C) the same as real cost.
- D) all of the above

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

19) Sunk costs

- A) are costs which have been incurred.
- B) are costs which cannot be avoided but have yet to be incurred.
- C) the sum of all marginal costs.
- D) the sum of all opportunity costs.

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

20) If you can download 10 ring tones for your cell phone for \$10 or you could download 11 ring tones for your cell phone for \$10.50, then the marginal cost of the eleventh ring tone is

- A) \$0.50.
- B) \$10.00.
- C) \$10.50.
- D) \$20.50.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

21) If you eat at a Las Vegas casino that charges \$12 for its all you can eat buffet, then the marginal cost of your third trip to the buffet is

- A) zero.
- B) \$4.
- C) \$12.
- D) \$36.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytical

AACSB: Analytic Skills

22) An efficient market is a market

- A) that deals in unlimited resources.
- B) in which long-term profits are guaranteed.
- C) in which profit opportunities are eliminated almost instantaneously.
- D) in which there are no opportunity costs.

Answer: C

Diff: 1

Topic: Why Study Economics?

Skill: Definition

23) If information is more costly and less easily available, then usually this

- A) makes markets more efficient.
- B) makes markets less efficient.
- C) decreases profit opportunities.
- D) decreases the opportunity cost of acquiring more information.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

24) The common way of expressing the efficient market concept is

- A) "the only true market is a profitable market."
- B) "there's no such thing as a free lunch."
- C) "only without government interference can a market survive."
- D) "once an efficient market, always an efficient market."

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

25) Related to the *Economics in Practice* on p. 6: An example of a sunk cost to Apple in its production of the iPod is

- A) the cost of the hard drive produced in Japan by Toshiba.
- B) the cost of conception and design of the iPod.
- C) the roughly 80 percent of the retail price captured by the United States.
- D) the distribution and production costs for the iPod.

Answer: B

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 Apple of having hard drive produced in Japan by Toshiba is

- A) the wages paid to Japanese workers.
- B) the components of the hard drive which are not produced by Toshiba.
- C) having the hard drive produced by the next best available company.
- D) the value-added captured by Apple in the United States.

Answer: C

Diff: 2

Topic: Why Study Economics?: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

27) Resources are limited in both wealthy and poor societies.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 1

Topic: Why Study Economics?

Skill: Definition

29) Opportunity costs arise because resources are limited.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

30) Sunk costs affect marginal decision making.

Answer: FALSE

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

31) Sunk costs are those that cannot be recaptured.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Definition

1.2 The Scope of Economics

1) Microeconomics is best described as the study of

A) the choices made by individual households, firms, and governments.

B) inflation, unemployment, gross national product, and the nation's economy as a whole.

C) how markets interact in the aggregate economy.

D) marginal changes in the economy.

Answer: A

Diff: 1

Topic: The Scope of Economics

Skill: Definition

2) Macroeconomics is best described as the study of

A) very large issues.

B) the choices made by individual households, firms, and governments.

C) the nation's economy as a whole.

D) the relationship between inflation and wage inequality.

Answer: C

Diff: 1

Topic: The Scope of Economics

Skill: Definition

3) Which of the following is a microeconomics question?

- A) Is it sensible for a government to subsidize tobacco production?
- B) Why do some countries grow faster than others?
- C) Should Congress and the president take action to reduce global warming?
- D) Should the government attempt to influence the interest rate to lower inflation?

Answer: A

Diff: 2

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

4) Which of the following is a macroeconomics question?

- A) Should we have a constitutional amendment to balance the federal budget?
- B) Why does a firm decide to enter a particular market?
- C) Should the government prevent the merger of two large firms?
- D) Should the government put a tax on alcohol in an attempt to reduce highway fatalities?

Answer: A

Diff: 1

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

5) We can use macroeconomic analysis to

- A) learn how to balance a checkbook.
- B) study the choices made by households.
- C) understand marginal changes in the macroeconomy.
- D) understand why economies grow.

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 women are more trustworthy than men because men trust more than women, you have committed what error?

- A) the fallacy of composition
- B) the *post hoc, ergo prompter hoc* fallacy
- C) the fallacy of inductive reasoning.
- 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. All of the following are examples of positive statements concerning this study EXCEPT

- 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 unemployment is a topic of microeconomics.

Answer: FALSE

Diff: 1

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

9) The rate of inflation 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) Which of the following is an example of a normative question?

- A) How will an increase in the price of diesel fuel affect truck drivers?
- B) What fraction of an income-tax rebate check will be spent on consumer goods?
- C) Should the government provide free prescription drugs to lower-income citizens?
- D) How will an increase in the minimum wage affect migrant workers?

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

2) The compilation of data that describe phenomena and facts is referred to as

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

Answer: D

Diff: 1

Topic: The Method of Economics

Skill: Definition

3) The amount of exercise that one gets is an important factor in the determination of his general state of health. 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) Opportunity cost is

- A) the additional cost incurred from the consumption of one more unit of output.
- B) the cost involved when choosing between alternatives.
- C) the cost of production which cannot be recaptured.
- D) the total cost incurred from the consumption of additional output.

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Definition

5) An approach to economics that applies statistical techniques and data to economic problems is called

- A) Ockham's razor.
- B) laissez-faire economics.
- C) positive economics.
- D) normative economics.

Answer: C

Diff: 1

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

6) Normative economics

A) is the focus of most modern economic reasoning.

B) answers the question "What ought to be?"

C) predicts the consequences of alternative actions.

D) answers the question "What is?"

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Definition

7) Which of the following is a question answered with normative economic reasoning?

A) If the college offers free parking for students, will more students drive to campus?

B) If the college provided more financial aid assistance, would more students benefit?

C) If the college increased tuition, would class size decline?

D) Should the college cut tuition to stimulate enrollment?

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

8) Which of the following is a question answered with positive economic analysis?

A) Should the college offers free parking for students?

B) Should the college provide more financial aid assistance?

C) If the college increased tuition, will class size decline?

D) Should the college cut tuition to stimulate enrollment?

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

9) The reoccurrence of contagious diseases should be significantly lower in a technically advanced nation such as the United States. This statement is best described as

A) a normative statement.

B) a positive statement.

C) a descriptive economics statement.

D) an implication of an efficient market.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

10) There is great concern over the fact that global warming is causing permanent damage to the global environment. A study of the costs and benefits of purchasing carbon offsets to combat global warming is an example of

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

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

11) The compilation of data that describe phenomena and facts refers to

- A) descriptive economics.
- B) normative economics.
- C) laissez-faire economics.
- D) collective economics.

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Definition

12) An economist collecting data on the employment benefits and salaries in the chemical engineering industry is an example of

- A) descriptive economics.
- B) the fallacy of composition.
- C) the *post hoc* fallacy.
- D) *ceteris paribus*.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Scenario 1.1 below to answer the following questions.

SCENARIO 1.1: A scientist wants to understand the relationship between automobile emissions and the level of global warming. The scientist collects data on the volume of automobile emissions and the levels of global warming over time. The scientist concludes that a 1% increase in automobile emissions causes a 0.0003% increase in average global temperatures. From this information he concludes that the automobile emissions are harmful to the environment and should be reduced to stop the increase in global temperatures.

13) Refer to Scenario 1.1. The statement that a 1% increase in the automobile emissions causes a 0.0003% increase in average global temperatures is an example of

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

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

14) Refer to Scenario 1.1. The statement, "automobile emissions are harmful to the environment and should be reduced to stop the increase in global temperatures," is an example of

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

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

15) Refer to Scenario 1.1. The process of collecting data on automobile emissions and global warming 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 automobile emissions causes an increase in global warming is an example of

- A) an economic theory.
- B) descriptive reasoning.
- C) deductive reasoning.
- D) normative economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

17) Refer to Scenario 1.1. A graph of the volume of automobile emissions on one axis and the level of average global temperatures on the other axis is an example of

- A) an economic model.
- B) an economic theory.
- C) a variable theory.
- D) inductive reasoning.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

18) By invoking the assumption of *ceteris paribus*, economists

- A) consider the impact of all relevant factors.
- B) hold all variables constant when analyzing a model.
- C) isolate the impact of one single variable while holding all other variables constant.
- D) exclude irrelevant detail when analyzing a model.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

19) Ockham's razor is the principle that states

- A) supply creates its own demand.
- B) we must forego something when making a decision.
- C) costs which have been incurred cannot be avoided.
- D) irrelevant detail should not be included in a model.

Answer: D

Diff: 1

Topic: The Method of Economics

Skill: Definition

- 20) The phrase *ceteris paribus* means
- A) "scarcity is a fact of life."
 - B) "all else equal."
 - C) "there is no such thing as a free lunch."
 - D) "everything affects everything else."

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Definition

- 21) The Latin phrase *ceteris paribus* means that when a relationship between two variables is being studied

- A) both are treated as unpredictable.
- B) neither of those two variables is allowed to change.
- C) all other variables are held fixed.
- D) we recognize that some factors are unknown.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 22) Isabel noted that whenever she wore her green contact lenses, the Chicago White Sox would win that evening. Based on this observation, she developed the "green-eyes-for-White-Sox" theory of winning. It is most likely true that Isabel

- A) showed good reasoning for the reason the White Sox would win.
- B) committed the *ceteris paribus* error.
- C) committed the fallacy of composition.
- D) was too quick to conclude that correlation implies causation.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 23) Whenever a former governor is elected president, the unemployment rate decreases; whenever a former congressman is elected president, the inflation rate increases. This statement is an example of

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

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

24) The erroneous belief that what is true for a part is necessarily true for the whole is referred to as the

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

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Definition

25) The unemployment rate was falling during all of the years that I was a student, but as soon as I graduated, the unemployment rate started to rise. Therefore, the job market was waiting until I started looking for employment to start to go bad. This statement is an example of

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

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

26) Research conducted in border states suggests that speaking a second language increases the prospects for employment. Therefore, we should require all citizens to speak a second language. This statement is an example of

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

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

27) Salary caps are imposed when league officials believe some football team owners are taking advantage of their deep pockets and buying more quality players than the other owners can afford to buy. Which of the following criteria are they using to guide their actions?

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

Answer: D

Diff: 3

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) growth.
- B) stability.
- C) profitability.
- D) equity.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

29) The concept of equity would explain the redistribution from the rich to the poor which is achieved from a tax system that requires taxes to

- A) fall when income rises.
- B) rise when income rises.
- C) remain stable when income rises.
- D) be unrelated to income.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

30) You know that the school parking lot gets very congested about 8:30 a.m. To avoid this congestion, you start arriving at school at 8:00 a.m. However many other students make the same decision, and now the parking lot becomes very congested at 8:00 a.m. This is an example of the

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

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

31) You always have math problems to work in class whenever you forget to bring your calculator to school. Concluding that forgetting your calculator causes your professor to assign math problems is an example of the

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

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

32) At a NASCAR race, you stand up to see better. Everyone else stands up, as well. This is an example of

- A) the fallacy of composition.
- B) the *post hoc, ergo prompter hoc* fallacy.
- C) *ceteris paribus*.
- D) Ockham's razor.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

33) You have observed that every time you get a new tattoo the day before you take an exam you get an A. You therefore conclude that to get an A on an exam, all you have to do is get a new tattoo the day before. You have committed the

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

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

34) If you observe that Kelly Clarkson won American Idol 3 years before Carrie Underwood won, and you conclude that Kelly Clarkson winning caused Carrie Underwood to win 3 years later, you would be guilty of an error called the

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

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

35) Two variables are said to be correlated if

- A) one variable changes when the other variable changes.
- B) the first variable changes when the second variable does not change.
- C) the first variable does not change when the second variable changes.
- D) the variables share no relation with each other.

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Definition

36) The belief that what is true for a part is necessarily true for the whole describes the

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

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Definition

- 37) Empirical economics refers to the
- A) exclusion of irrelevant data when analyzing a model.
 - B) collection and use of data to test economic theories.
 - C) model of economics used prior to the Industrial Revolution.
 - D) belief that what is true for a part is necessarily true for the whole.

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Definition

- 38) A change in economic output is potentially efficient if the value of the resulting gains _____ the value of the resulting losses.

- A) exceeds
- B) is less than
- C) is equal to
- D) is unrelated to

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 39) An efficient economy is an economy that produces what _____ demand and does so at the _____ possible cost.

- A) consumers; highest
- B) consumers; least
- C) the government; highest
- D) the government; least

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 40) An efficient market is characterized by the fact that profit opportunities are

- A) guaranteed to everyone.
- B) eliminated almost instantaneously.
- C) only provided to government-subsidized producers.
- D) available only to the most efficient producers.

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 efficiency, stability, economic growth, and

- A) equity.
- B) equality.
- C) profitability.
- D) resolution.

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 and at the same time you observe that there are a number of vacant apartments. You believe that if landlords were required to rent their apartments for less than they are currently charging, the government could reduce the number of homeless people. This policy recommendation would be motivated by concerns over

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

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

43) Many economists argue that items such as food and clothing should be exempt from sales 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 stability.
- B) economic growth.
- C) equity.
- D) efficiency.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

44) The statement "people should pollute as little as possible" is an example of a

- A) positive statement.
- B) normative statement.
- C) factual statement.
- D) non-judgmental statement.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

45) The statement "the unemployment rate is 5.1%" is an example of a

- A) positive statement.
- B) value judgement.
- C) normative statement.
- D) non-verifiable statement.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

46) Positive economics questions "What ought to be?" Normative economics predicts the consequences of alternative actions, answering the questions "What is?" or "What will be?"

Answer: FALSE

Diff: 1

Topic: The Method of Economics

Skill: Definition

47) Normative economics questions "What ought to be?" Positive economics predicts the consequences of alternative actions, answering the questions "What is?" or "What will be?"

Answer: TRUE

Diff: 1

Topic: The Method of Economics

Skill: Definition

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

Answer: FALSE

Diff: 1

Topic: The Method of Economics

Skill: Definition

49) *Post hoc, ergo prompter hoc* literally translated means, "all else equal."

Answer: FALSE

Diff: 1

Topic: The Method of Economics

Skill: Definition

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

Answer: FALSE

Diff: 1

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

51) Stability implies a steady rate of economic growth regardless of the inflation rate.

Answer: FALSE

Diff: 1

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 1

Topic: The Method of Economics

Skill: Definition

1.4 Appendix: How to Read and Understand Graphs

1) If the slope of a straight line is -2. and if X (the variable on the horizontal axis) decreases by 8, then Y (the variable on the vertical axis) will

A) increase by 4.

B) decrease by 4.

C) increase by 16.

D) decrease by 16.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

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

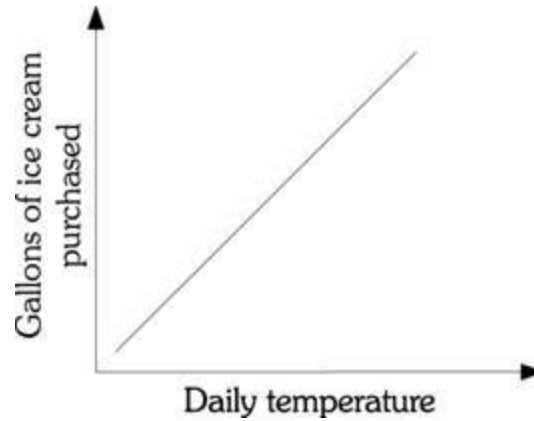


Figure 1.1

2) Refer to Figure 1.1. The relationship between the daily temperature and the number of gallons of ice cream purchased demonstrates

- A) an infinite slope.
- B) a negative slope.
- C) a positive slope.
- D) a zero slope.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

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

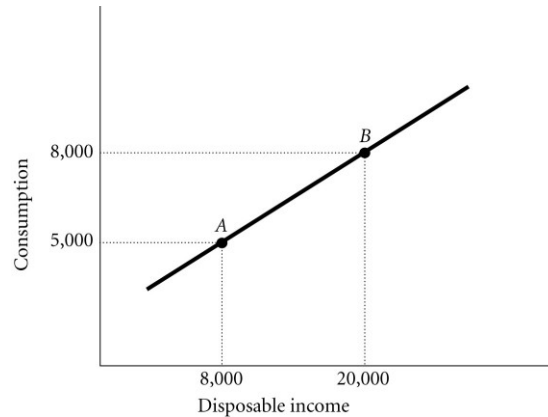


Figure 1.2

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

- A) positive and increasing.
- B) positive and constant.
- C) negative and decreasing.
- D) negative and constant.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

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

- A) 0.25.
- B) 4.
- C) -0.25.
- D) -4.

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.

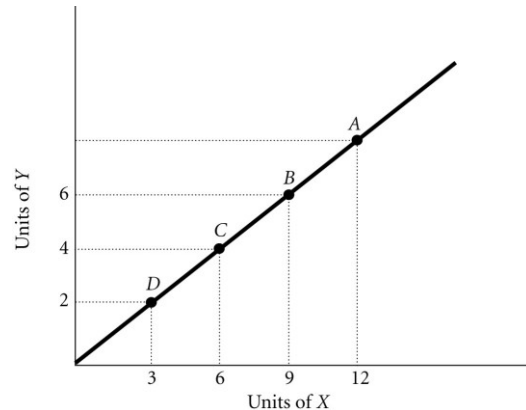


Figure 1.3

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

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

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 *B* is

- A) 1.5.
- B) 0.67.
- C) -0.67.
- D) -1.5.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

7) Refer to Figure 1.3. The slope of the line between Points *A* and *B* is

- A) 1.5.
- B) 0.67.
- C) -0.67.
- D) -1.5.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

8) Refer to Figure 1.3. If a 45 degree line were also graphed, it would _____ the line shown on the graph.

- 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

9) Refer to Figure 1.3. At Point *A*, what is the value of *Y*?

- A) 2
- B) 4
- C) 6
- D) 8

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

10) Refer to Figure 1.3. At Point *A* the slope of the line is 0.67, so at Point *C* the slope would be

- A) greater than 0.67.
- B) less than 0.67.
- C) equal to 0.67.
- 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.

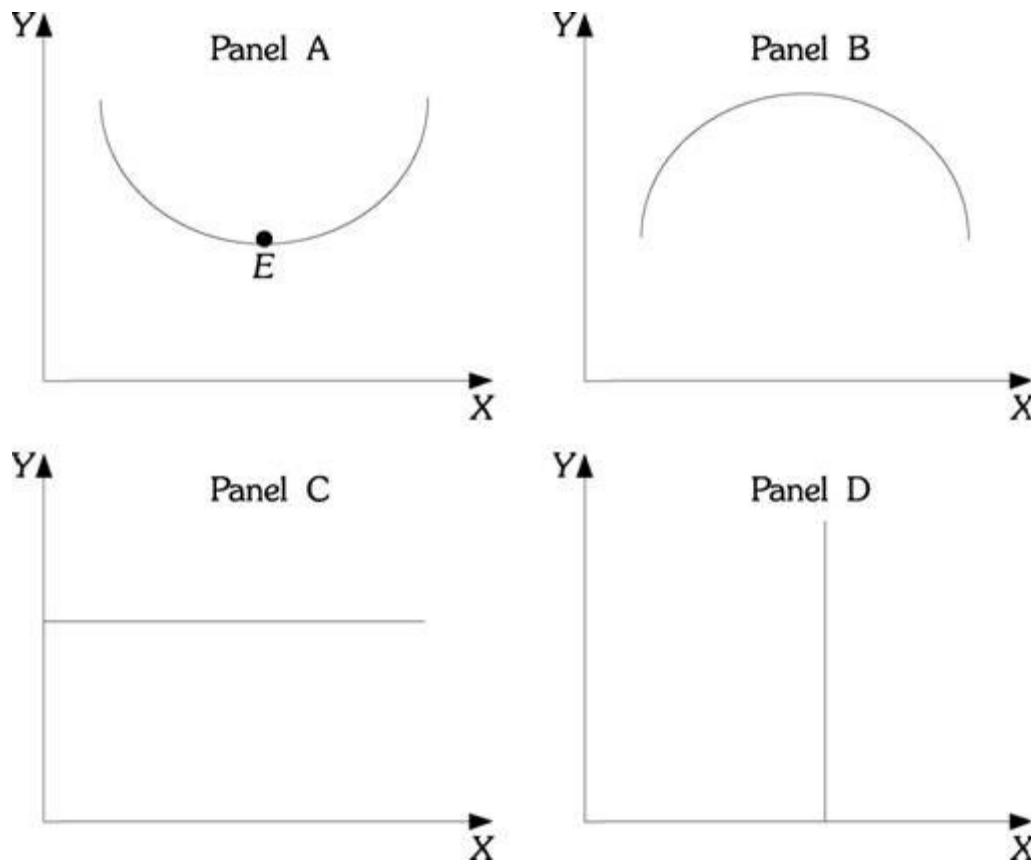


Figure 1.4

11) Refer to Figure 1.4. Panel A shows a curve which has a slope that is

- A) first positive, then zero, and then negative.
- B) first negative, then zero, and then positive.
- C) infinite throughout.
- D) zero throughout.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

12) Refer to Figure 1.4. Panel B shows a curve which has a slope that is

- A) first positive and then negative.
- B) first negative and then positive.
- C) infinite throughout.
- D) zero throughout.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

13) Refer to Figure 1.4. Panel C shows a curve which has a slope that is

- A) first positive and then negative.
- B) first negative and then positive.
- C) infinite throughout.
- D) zero throughout.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

14) Refer to Figure 1.4. Panel D shows a curve which has a slope that is

- A) first positive and then negative.
- B) first negative and then positive.
- C) infinite throughout.
- D) zero throughout.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

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

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

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

16) The slope of a straight line

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

Answer: D

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Conceptual

AACSB: Reflective Thinking

17) The slope of a vertical line is

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

Answer: D

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Conceptual

AACSB: Reflective Thinking

18) If the slope of a straight line is 5 and if X (the variable on the horizontal axis) increases by 4, then Y (the variable on the vertical axis) will

- A) decrease by 0.8.
- B) decrease by 20.
- C) increase by 0.8.
- D) increase by 20.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

19) If the slope of a straight line is 6 and if Y (the variable on the vertical axis) decreases by 60, then X (the variable on the horizontal axis)

- A) increases by 10.
- B) decreases by 10.
- C) increases by 600.
- D) decreases by 600.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

20) The slope of a horizontal line is

A) zero.

B) infinite.

C) continually changing.

D) negative.

Answer: A

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Conceptual

AACSB: Reflective Thinking

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

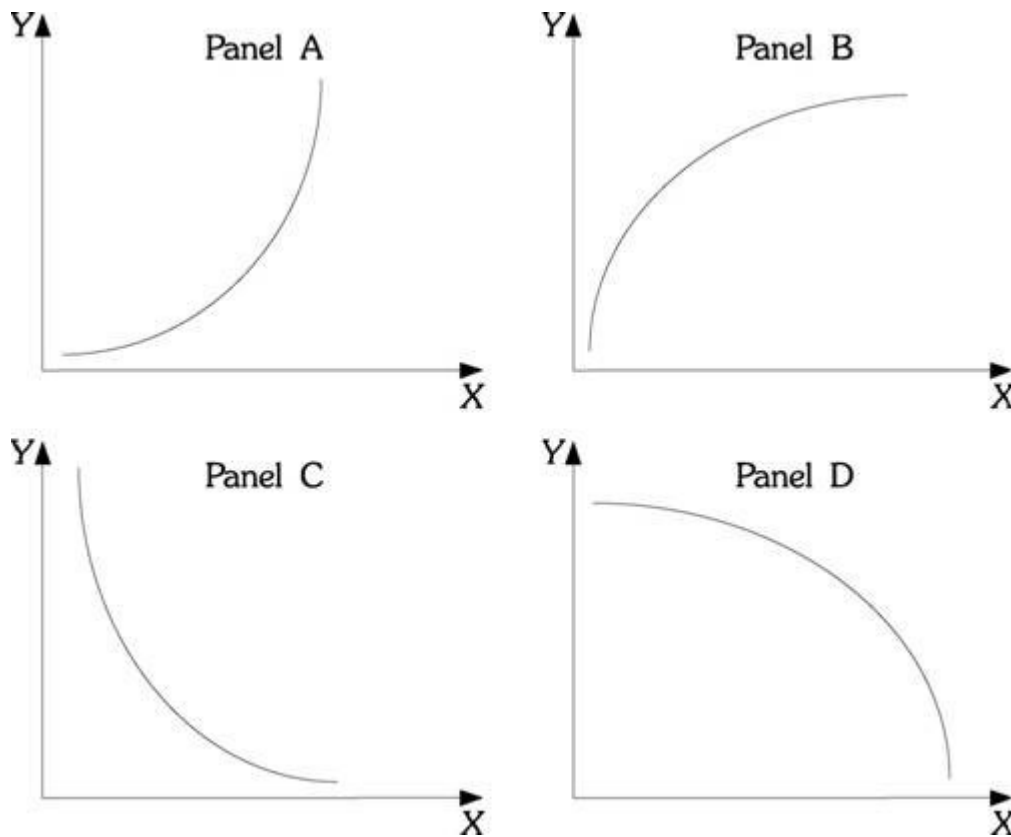


Figure 1.5

21) Refer to Figure 1.5. Panel A shows a curve with a slope that is

- A) positive and increasing.
- B) positive and decreasing.
- C) negative and increasing.
- D) negative and decreasing.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

22) Refer to Figure 1.5. Panel B shows a curve with a slope that is

- A) positive and increasing.
- B) positive and decreasing.
- C) negative and increasing.
- D) negative and decreasing.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

23) Refer to Figure 1.5. As income decreases, consumption decreases by a decreasing 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: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

24) Refer to Figure 1.5. As firms produce additional units, average costs declines by a smaller and smaller amount. 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: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytical

AACSB: Analytic Skills

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

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

26) A graph illustrating how two variables change over time is a Cartesian coordinate system.

Answer: TRUE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

27) 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

28) As the variable on the Y-axis rises the variable on the X-axis falls. The relationship between X and Y is said to be direct.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

29) The slope of a curve is constant.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Conceptual

AACSB: Reflective Thinking

The Scope and Method of Economics

WHY STUDY ECONOMICS?

1. Define the term economics.

Economics is the study of how individuals and societies choose to use the scarce resources that nature and previous generations have provided.

Diff: 1 Skill: Definition Topic: economics
AACSB:

2. Review the following statement. “He who has choice has pain.” What is meant by this?

“He who has choice has pain” refers to the sad but unavoidable fact that whatever we decide to do is going to have a cost. If we decide to buy a hamburger it means we can’t buy a chicken sandwich. The sentence is primarily focused on the idea that all choices involve opportunity costs.

Diff: 1 Skill: Conceptual Topic: choice
AACSB:

3. List four reasons to study economics.

- (1.) **Learn a way of thinking.**
- (2.) **Understand society.**
- (3.) **Understand global affairs.**
- (4.) **Be an informed voter.**

Diff: 1 Skill: Factual Topic: economics
AACSB:

4. Explain what is meant by the term opportunity cost.

The opportunity cost of something is measured by the next best alternative that we forgo, or give up, when we make a choice or a decision.

Diff: 1

Skill: Definition

Topic: opportunity cost

AACSB:

5. Explain how and why an all-volunteer army may actually be cheaper than an army staffed with drafted soldiers.

When men and women decide on their own to choose to join the military they are no doubt looking at their opportunity cost. If they elect to join they are signaling that their opportunity costs are lower compared to other choices they could have made. When people are drafted into the military their opportunity costs are not taken into account. As a result doctors, lawyers, engineers and other high-paid professional can be drafted just as easily as those in lower-paying occupations. This raises the cost to society as a whole by employing people who could be contributing economically to the country.

Diff: 2

Skill: Conceptual

Topic: opportunity cost

AACSB: Reflective Thinking

6. When is it more expensive for a country to go to war – during a recession or during an economic boom? Explain.

It is clearly more expensive for a country to go to war during an economic boom because it is more likely that the soldiers that will be serving are men and women that are already gainfully employed. Society loses the goods and services that they otherwise could have produced. However, if the country were to go to war during a recession the opportunity cost is lower because in many cases large numbers of new recruits will be drawn from the ranks of the unemployed.

Diff: 2

Skill: Conceptual

Topic: opportunity cost

AACSB: Reflective Thinking

7. It is widely known among baseball enthusiasts that Babe Ruth actually performed quite well as a pitcher before leaving the Boston Red Sox for the New York Yankees. He was also of course a famously successful hitter. Why do you believe the Yankees chose not to use him as a pitcher? Explain using economic reasoning. Hint: pitchers typically only play every third or fourth game whereas other players in other positions play in nearly every game. Baseball has a season of 162 games.

The economic reasoning probably had something to do with opportunity cost. Even though the Yankees may have won most of the games when Babe Ruth was pitching he would no doubt be able to contribute to more wins as a hitter since he would be playing in more games as an outfielder or any other non-pitching position. The opportunity cost of having him as a pitcher was simply too high in terms of the number of games that would be lost when he wasn't playing.

Diff: 2

Skill: Conceptual

Topic: comparative advantage

AACSB: Reflective Thinking

8. Why would an economist argue that tuition is not the largest cost of attending a state university?

The largest cost of attending a university is the opportunity cost of the student's time. This could be measured by the foregone income that could have been earned if the student worked instead of attending classes.

Diff: 1

Skill: Conceptual

Topic: opportunity cost

AACSB: Reflective Thinking

Situation #1 Assume that you have hired three executives to run your company each with a different job. All are equally productive and each can do the other person's job if necessary. Assume that the first executive's contribution to the company is worth \$1,000,000 and is assigned to this task; the second one is worth \$800,000 and the third one is worth \$500,000.

9. Referring to Situation #1 suppose that for the time being you can only afford to hire the first executive. What is the opportunity cost of the first executive's work from the viewpoint of the company? Explain.

The opportunity cost of the first executive is \$800,000. That is the value of the next best available alternative which is currently forgone.

Diff: 1

Skill: Conceptual

Topic: opportunity cost

AACSB: Analytic Skills

10. Referring to Situation #1 suppose that you can now hire two workers. What is the opportunity cost of the second executive's work from the viewpoint of the company? Explain.

The second executive's work is simply the value of the next best opportunity which is the work that could have been done by the third executive which is \$500,000

Diff: 1

Skill: Conceptual

Topic: opportunity cost

AACSB: Analytic Skills

11. Referring to Situation #1 suppose that you decide that you have to fire the first and the third executive without hiring any replacements. What would be the opportunity cost of the second executive's work? Explain why your answer is not the same as in the question above.

The opportunity cost of second executive's work is \$800,000. The reason is that since each executive can perform any work that they other can then it makes sense to change the second executive's job so that he is now doing the most highly valued work – that with the \$1,000,000 value. That leaves the \$800,000 job undone which means that becomes the opportunity cost of the second executive's work.

Diff: 3 Skill: Conceptual Topic: opportunity cost
AACSB: Analytic Skills

12. Explain why it is more likely that the opportunity cost of attending a 7:00 a.m. class is forgone sleep but that this is not reasonably likely to be the case for a class that meets at 12:00 noon.

At 7:00 a.m. there might not be too many other opportunity costs for your time. Forgone sleep might reasonably be an opportunity cost of your time. However, at 12:00 noon while it is possible that forgone sleep is your opportunity cost it is not likely since there are probably other things of higher value that you have given up by then unless you are a very late sleeper.

Diff: 1 Skill: Conceptual Topic: opportunity cost
AACSB: Reflective Thinking

13. Why would a company be more enthusiastic in providing more training to its workers during an economic downturn than during an economic boom (assuming that they do not layoff their workers and can keep them when the economy recovers)?

During an economic downturn the opportunity cost of training workers is likely to be much smaller in terms of lost production. However, during an economic boom the costs are much larger because while employees are being trained they are not producing and selling as much output as they otherwise could if they were performing their normal duties.

Diff: 1 Skill: Conceptual Topic: opportunity cost
AACSB: Reflective Thinking

14. If a good is scarce, does that imply that there is a shortage of it?

No. If a good is scarce, that means that it is limited in supply. All resources in the economy are scarce.

Diff: 1 Skill: Conceptual Topic: scarcity
AACSB: Reflective Thinking

15. Evaluate the following statement: “Water is plentiful, therefore it can’t be a scarce resource like oil which is not as plentiful.”

The truth is that both water and oil are scarce because they are both limited in supply. The fact that water happens to be more plentiful than oil doesn’t make it any less scarce of a resource.

Diff: 1 Skill: Conceptual Topic: scarcity
AACSB: Reflective Thinking

16. What are sunk costs?

Sunk costs are costs that cannot be avoided, regardless of what is done in the future, because they have already been incurred and cannot be refunded.

Diff: 1 Skill: Definition Topic: sunk costs
AACSB:

17. Suppose that you have spent two hours waiting on the telephone to get your cable television service restored. You get a call from your spouse who is waiting for you at a restaurant to come as quickly as you can. In making a decision about what to do – stay on the phone or leave immediately, should the time you spent waiting on the phone be part of your decision? If the answer is no then what should be the determining factors?

The time spent waiting on the telephone is a sunk cost. As a consequence it should have no bearing on what you are going to do next. The time has been spent and you can’t retrieve it. The only factors that should matter is whether the additional expense of waiting in line (the fact that your spouse will be unhappy because of your tardiness) is less than the benefit of restoring your TV cable service.

Diff: 1 Skill: Conceptual Topic: opportunity cost
AACSB: Reflective Thinking

18. Suppose that you have purchased a round-trip ticket to the Bahamas for spring break. The ticket is non-refundable and cannot be changed. Your best friend tells you that she is getting married during the same week in Chicago (where you live) and has asked you to be in the wedding party. Does the price you pay for your Bahamas trip matter in your decision of whether to go to the Bahamas or Chicago? Why or why not?

It should not matter because the plane fare is a sunk cost. No matter what decision you make, you will have to pay for the ticket to the Bahamas.

Diff: 2 Skill: Conceptual Topic: opportunity cost
AACSB: Reflective Thinking

19. Assume that you have been waiting in line for one hour at the Department of Motor Vehicles to renew your license. You comment to the person next to you that you really have some important things to do and you are seriously thinking of getting out of the line and returning to renew your license tomorrow. The person responds by telling you that you are making a big mistake since the time that you have spent waiting in line is an investment and that you should not waste it. Evaluate critically this person's response.

The time spent waiting in line is a sunk cost. It has already been "spent" in the sense that you cannot get it back. Therefore, the only thing that should be of concern to you now is the opportunity cost of any further time that you might spend in the line. The time spent in the line should therefore be irrelevant to what you are going to do next.

Diff: 2 Skill: Conceptual Topic: opportunity cost
AACSB: Reflective Thinking

20. What is meant by the phrase, "There is no such thing as a free lunch"?

Markets are generally efficient, which implies that profit opportunities are eliminated quickly.

Diff: 1 Skill: Definition Topic: free lunch
AACSB:

21. Assume that you have heard news that a local radio station is hosting a luncheon at your school by offering hot dogs, chips and cola at no expense to the student body. Why would economists say that this lunch is not truly free?

The lunch is not free for a couple of reasons. First, in order for the radio station to offer it they had to give up real resources in order to provide it. Secondly, it is likely that if the luncheon is offered at no expense to the students they will likely have to spend at least some amount of time waiting in line to get it. This time represents an opportunity cost which is not likely to be free.

Diff: 2 Skill: Conceptual Topic: free lunch
AACSB: Reflective Thinking

22. Using an example, explain why sunk costs are irrelevant in making decisions.

Student responses will vary. The student should describe a situation where there are costs that have already been occurred and therefore cannot be avoided.

Diff: 1 Skill: Conceptual Topic: sunk cost
AACSB: Reflective Thinking

23. What is meant by the terms inflation and recession?

Inflation is an increase in the overall level of prices in an economy. A recession is a period of falling output.

Diff: 1 Skill: Definition Topic: inflation and recession
AACSB:

24. Related to the *Economics in Practice* box on p. 6, what value does Apple add to the production process if it doesn't even manufacture or assemble a single component of its own product.

The value that it adds is the design of the iPod. Essentially each of the parts that go into the iPod on their own would not be worth as much to society as they are when they are put together. The fact that Apple knew that putting them together would create a device that people would value is the contribution that they make to the overall production process.

Diff: 2 Skill: Conceptual Topic: Why Study Economics: Economics in Practice
AACSB:

25. Related to the *Economics in Practice* box on p. 6, can you think of any similarities with that of a "toy maker" like Mattel?

It is also likely that Mattel just as Apple does not actually manufacture or even assemble the very toys that it distributes and sells. These toys are designed by Mattel but are manufactured and assembled in places like Thailand or China. Mattel's contribution like that of Apple is in the design of the product – bringing together generic parts that actually have more value than the parts on their own.

Diff: 2 Skill: Conceptual Topic: Why Study Economics: Economics in Practice
AACSB:

26. Explain the concept of marginalism as it is used in economics.

The process of analyzing the additional or incremental costs or benefits arising from a choice or decision.

Diff: 1 Skill: Definition Topic: Why Study Economics: Economics in Practice
AACSB:

27. Define an efficient market.

An efficient market is one in which profit opportunities are eliminated almost instantaneously.

Diff: 1 Skill: Definition Topic: Why Study Economics: Economics in Practice
AACSB:

28. Consider the following scenario. Assume the price of gold in London is selling for \$1400 an ounce while in New York it is fetching a price of \$1450 an ounce. What would an economist say about the efficiency of this market? What would an economist predict about what would happen next?

An economist would argue that this market is currently not efficient. The reason is that there are still profit opportunities to be had. Market participants could buy gold in London and sell it in New York until there is no more incentive to do so, i.e. (when there are no more profit opportunities).

Diff: 1 Skill: Conceptual Topic: Why Study Economics: Economics in Practice
AACSB:

29. Describe what took place during the Industrial Revolution.

The Industrial Revolution refers to the period in England during the late eighteenth and early nineteenth centuries in which new manufacturing technologies and improved transportation gave rise to the modern factory system and a massive movement of the population from the countryside to the cities.

Diff: 1 Skill: Conceptual Topic: Why Study Economics: Economics in Practice
AACSB:

THE SCOPE OF ECONOMICS

30. Explain the difference between microeconomics and macroeconomics.

Microeconomics is the branch of economics that examines the functioning of individual industries and the behavior of individual decision-making units (such as households and firms). Macroeconomics is the branch of economics that examines the economic behavior of the entire economy, including aggregate income, aggregate employment, and the average level of prices.

Diff: 1 Skill: Definition Topic: macro and microeconomics
AACSB:

31. For each of the following, list whether the topic is microeconomic or macroeconomic in nature:

- (a.) The price of gasoline.
- (b.) The national unemployment rate.
- (c.) The quantity of new cars sold each year.
- (d.) The wage rate paid to steel workers.
- (e.) The amount of national output in an economy.

- (a.) **Microeconomic**
- (b.) **Macroeconomic.**
- (c.) **Microeconomic.**
- (d.) **Microeconomic.**
- (e.) **Macroeconomic.**

Diff: 1

Skill: Conceptual

Topic: macro and microeconomics

AACSB:

32. Referring to the Economics In Practice segment titled “iPod in the World” why is the sticker placed on products labeled “Made in China” often misleading?

It’s often misleading in that if one looks deeper at the web of trade in the production of many goods it is often the case that the country of origin of many products is often the result of the efforts of more than one country. In the case of the iPod in particular it turns out that many of its parts are produced not only in China but also Japan and other parts of the Asian world.

Diff: 1

Skill: Factual

Topic: macro and microeconomics

AACSB:

33. Referring to the Economics In Practice segment titled “Trust and Gender” what did the economists conclude from their experiments concerning trust and trustworthiness as it pertains to men and women?

The conclusion from the experiment was that men were more trusting (that is they sent more money) and women were more trustworthy in that they returned more money back to the sender.

Diff: 1

Skill: Factual

Topic: macro and microeconomics

AACSB:

THE METHOD OF ECONOMICS

34. Explain the difference between positive economics and normative economics.

Positive economics seeks to understand behavior and the operation of systems without making judgments. It describes what exists and how it works. Normative economics analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe courses of action.

Diff: 1

Skill: Definition

Topic: normative and positive economics

AACSB:

35. Give an example of a positive economic statement and a normative economic statement.

Student responses will vary. What is important is that the positive statement is objective and attempts to explain "what is". The normative statement should include some value judgment or "what should be".

Diff: 1 Skill: Definition Topic: normative and positive economics
AACSB:

36. For each of the following, note whether the statement is an example of positive economic analysis or an example of normative economic analysis:

- (a.) An increase in the minimum wage will lead to a higher rate of teenage unemployment.
- (b.) If the government reduces the tax on tobacco, more individuals will start smoking.
- (c.) The government should lower taxes because tax rates are too high for the average U.S. family.
- (d.) Wealthy senior citizens can afford to buy their own health insurance and therefore should not be given Medicare coverage.
- (e.) If the price of apples increases, people will buy more bananas.

- (a.) **Positive.**
- (b.) **Positive.**
- (c.) **Normative.**
- (d.) **Normative.**
- (e.) **Positive.**

Diff: 1 Skill: Definition Topic: normative and positive economics
AACSB:

37. List and describe the two areas of positive economics.

Descriptive economics involves the compilation of data that describe economic phenomena and facts. Economic theory involves a statement or a set of related statements about cause and effect (action and reaction).

Diff: 1 Skill: Factual Topic: positive economics
AACSB:

38. Evaluate the following statement – “Economists are fond of saying that there are positive statements and normative ones but the truth is that all questions are really normative”.

This statement could be interpreted as a normative statement but ironically it may actually be a positive statement. That is it may be a statement that can be verified with the use of logic. Whether it can be proved or not or whether it is true or not is not the issue. It is a statement of fact.

Diff: 3 Skill: Conceptual Topic: normative and positive economics
AACSB: Reflective Thinking

39. List and describe four fields of economics.

Student responses will vary. Possible answers include industrial organization, urban and regional economics, econometrics, comparative economic systems, economic development, labor economics, finance, international economics, public economics, economic history, law and economics, and the history of economic thought.

Diff: 1
AACSB:

Skill: Factual

Topic: economic fields of study

40. Explain what a model is.

A model is a formal statement of a theory. It is generally a mathematical statement of a presumed relationship between two or more variables.

Diff: 1
AACSB:

Skill: Definition

Topic: models

41. A globe is a model. However, it lacks much of the detail that one would find on a map. Does that make the globe an inferior model? Why not?

No. The globe has a different purpose than a map. The details that are suppressed on a globe are simply not necessary for the objective that a globe was designed to serve. Including them would not enhance the power of the globe as a model but actually might get in the way.

Diff: 1
AACSB:

Skill: Conceptual

Topic: models

42. Explain how a model can be useful even if it is not realistic.

Models are used to simplify reality to expose only those aspects of behavior that are important to the question being asked. Thus, while not realistic, the model gets at the heart of the matter and allows us to ignore irrelevant details.

Diff: 1
AACSB:

Skill: Conceptual

Topic: models

43. Should economics be considered a science? Why or why not?

Yes. Economics uses models and theories to make predictions and then tests those predictions using empirical analysis.

Diff: 1

Skill: Conceptual

Topic: science

AACSB: Reflective Thinking

44. Explain what is meant by the term *ceteris paribus*. Why is this concept often used in economic models?

Ceteris paribus means "all else equal". When used in economic models, this concept helps us to simplify reality in order to focus on the relationships we are most interested in.

Diff: 1

Skill: Definition

Topic: *ceteris paribus*

AACSB:

45. Express the following statement using a mathematical expression:

"An increase in the interest rate of 1 percentage point lowers housing sales by 5 percentage points."

Letting Δr = %change in the interest rate and Δh = %change in housing sales, we get: $\Delta h = 5 \times \Delta r$.

Diff: 2

Skill: Analytical

Topic: mathematical expressions

AACSB:

46. Explain what post hoc fallacy means and give an example.

Post hoc fallacy is a common error in thinking about causation. An example would be "if Event A happens before Event B, Event A must have caused Event B to occur".

Diff: 1

Skill: Definition

Topic: post hoc fallacy

AACSB:

47. Suppose an economics forecaster discovers that on days when the sunspot count is high stock market on the following day is bullish, that is stock market prices edge upwards. In addition, he also observes that on days with a low sunspot count the following day the stock market tends to be bearish, that is stock market prices tend to fall. The forecaster then concludes that there is a positive relationship between the sunspot count and stock market prices and proceeds to base his investment decisions on this premise. What kind of an error has this forecaster made?

The forecaster has fallen into the post hoc fallacy. Simply because one set of events precedes another is not enough to say that one is the cause of the other.

Diff: 1

Skill: Definition

Topic: post hoc fallacy

AACSB: Analytic Skills

48. If crime rates in the United States fall, can incumbent lawmakers rightfully claim credit? Why or why not?

Probably not. Lower crime rates can occur for many reasons including a change in the age distribution of the population and lower unemployment rates. One cannot simply conclude that the lawmakers in office were responsible for the lower crime rates, until other plausible reasons have been ruled out.

Diff: 1 Skill: Conceptual Topic: causation
AACSB: Analytic Skills

49. Explain what the fallacy of composition is and give an example.

The fallacy of composition is the incorrect belief that what is true for a part is necessarily true for the whole. For example, intensive fishing in an area by a boat may increase profits earned by the boat owner. However, if many boats excessively fish in the same area, the stock of fish will become depleted and all will be worse off.

Diff: 2 Skill: Definition Topic: fallacy of composition
AACSB:

50. Your younger brother likes to yell at the dinner table so the rest of the family will give him what he wants. Assume that this has proved quite successful for him time and again. Let's say that you are from a family of eight and every member of your family starts to adopt the same strategy. Would this work? Why or why not? Explain.

This strategy will probably not work very well. With everyone yelling at the table it is unlikely that anyone will get heard. This is what is known as the fallacy of composition. What is good for the individual is not necessarily good for the whole.

Diff: 1 Skill: Conceptual Topic: fallacy of composition
AACSB: Reflective Thinking

51. What branch of economics involves the collection and use of data to test economic theories? Why is this task often more difficult in economics than it is in physical sciences?

The branch of economics that involves the collection and use of data to test economic theories is called empirical economics. This is often more difficult in economics than in the physical sciences because economists rarely are able to set up controlled experiments.

Diff: 1 Skill: Definition Topic: empirical economics
AACSB:

52. Explain what is meant by allocative efficiency.

Allocative efficiency means producing the goods and services that people most want at the lowest possible cost.

Diff: 1 Skill: Definition Topic: allocative efficiency
AACSB:

53. List the four criteria that are generally used to evaluate economic outcomes.

- (1.) **Efficiency.**
- (2.) **Equity.**
- (3.) **Growth.**
- (4.) **Stability.**

Diff: 1

Skill: Factual

Topic: economic criteria

AACSB:

54. Most economists will argue that the minimum wage causes unemployment. Even politicians will recognize this when pressed. However, typically liberals will tout the benefits of the minimum wage while conservatives will decry the disruption that it causes in the labor market. Which economic objective seems to be more important for liberals and which is more important to conservatives if this general observation is correct? Which side is right?

If this general observation is correct then it would seem that liberals are more concerned with equity and conservatives are more concerned with efficiency. Neither side is right. That is a normative question. The reason is that there is a tradeoff between equity and efficiency. Which one you want more of is a question of your values.

Diff: 1

Skill: Conceptual

Topic: equity and efficiency

AACSB: Analytic Skills

55. Some politicians have recently suggested changing the income tax system in the U.S. to a flat tax system where all taxpayers would pay the same percentage of their income in tax to the federal government. Explain how such a change can be analyzed in terms of efficiency. Do you believe that this tax will have equity effects as well?

The flat tax will lower the cost of filing taxes for taxpayers and therefore increase the efficiency of government financing. However, this will place a larger tax burden on the poor than currently exists which may lead to some equity concerns.

Diff: 2

Skill: Analytical

Topic: equity and efficiency

AACSB: Analytic Skills

56. Assume that you are the new CEO of a major corporation that has five major product lines each run as separate corporations. You discover that if you invested the company's money outside of the firm that it could earn a 15% rate of return on the investment. You tell all the presidents of each of these subsidiary companies that in order for them to remain with the company that their return on capital must equal to or exceed 15% rate of return. Use two economic principles discussed in chapter 1 to explain why the CEO's advice is sound.

Essentially there is a high opportunity cost associated with investing large sums of money in a corporation when the rate of return is higher if invested elsewhere. By getting the presidents of each of the subsidiary companies to push the rate of return on their capital upwards the stockholder's money is being more efficiently managed.

Diff: 3

Skill: Conceptual

Topic: opportunity cost

AACSB: Analytic Skills

57. Assume that the research team of a major company is building a model of consumer demand that contains approximately 250 variables. Can you think of a principle that might be violated here that was discussed in chapter 1? Explain.

The principle that is probably being violated is Ockham's Razor. This is the idea that irrelevant data should be cut away. With 250 variables it is very likely that many of them are unnecessary and will only make the model more complicated.

Diff: 1 Skill: Conceptual Topic: Ockham's Razor
AACSB: Analytic Skills

58. Explain the difference between economic growth and stability. Can a country experience both at the same time? Why or why not?

Economic growth refers to an increase in the total output of the economy. Stability occurs when output is steady or growing, with low inflation and full employment of resources. Yes, a country can experience both economic growth and stability at the same time, as long as the increase in output is not accompanied by a rising price level. The late 1990s were a period of growth for the U.S. economy with low inflation.

Diff: 1 Skill: Definition Topic: economic growth and stability
AACSB:

59. What is descriptive economics?

Descriptive economics is the compilation of data that describe phenomena and facts.

Diff: 1 Skill: Definition Topic: economic growth and stability
AACSB:

60. Define a variable and give two examples that would apply to economics.

A variable is a measure that can change from time to time or from observation to observation. Income is a variable—it has different values for different people and different values for the same person at different times. The rental price of a movie on a DVD is a variable; it has different values at different stores and at different times.

Diff: 1 Skill: Definition Topic: economic growth and stability
AACSB:

61. Define the concept used in economics known as Ockham's Razor.

Ockham's Razor is the principle that irrelevant data should be cut away.

Diff: 1 Skill: Definition Topic: economic growth and stability
AACSB:

62. What does the phrase “post hoc, ergo propter hoc” mean?

Literally it means, “after this (in time), therefore because of this.” It is common error made in thinking about causation: If Event A happens before Event B, it is not necessarily true that A caused B.

Diff: 1

Skill: Definition

Topic: economic growth and stability

AACSB:

APPENDIX: HOW TO READ AND UNDERSTAND GRAPHS

63. Explain what a graph is and how it can be used.

A graph is a two-dimensional representation of a set of numbers. It can be used to demonstrate the relationship between two or more variables.

Diff: 1

Skill: Definition

Topic: graphs

AACSB:

64. Describe what is meant by the Cartesian coordinate system.

The Cartesian coordinate system is a method used to graph two variables. There are two axes that are perpendicular to one another. One is a horizontal line (the x-axis) and one is a vertical line (the y-axis). The intersection of these two lines is called the origin. Positive values of x lie to the right of the origin, while positive values of y lie above the origin.

Diff: 1

Skill: Definition

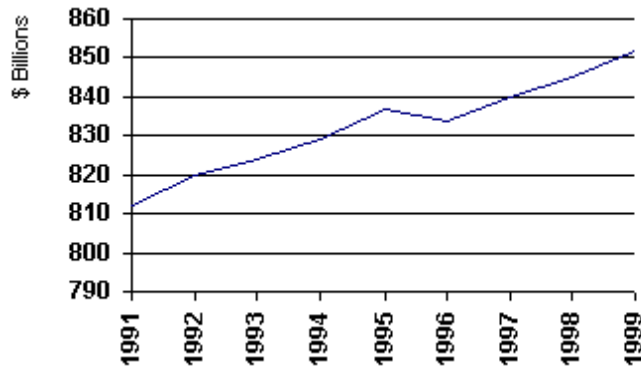
Topic: Cartesian coordinate system

AACSB:

65. Create a time series graph with the data in the table below:

Year	Total Household Purchases (in billions of dollars)
1991	812
1992	820
1993	824
1994	829
1995	837
1996	834
1997	840
1998	845
1999	852

The time series chart should look like the one presented below.



Diff: 1
AACSB:

Skill: Conceptual

Topic: time series graph

66. Draw a graph showing a line with a positive slope. Draw a graph showing a line with a negative slope. Explain what the shape of these lines implies about the relationship between the variable on the x-axis and the variable on the y-axis?

The graph of the line with the positive slope should be upward sloping, while the graph of a line with a negative slope should be downward sloping. When the line is upward sloping, this implies that as the variable on the x-axis increases the variable on the y-axis also increases. These two variables move in the same direction. When the line is downward sloping, this implies that as the variable on the x-axis increases the variable on the y-axis decreases. The two variables move in opposite directions.

Diff: 1
AACSB:

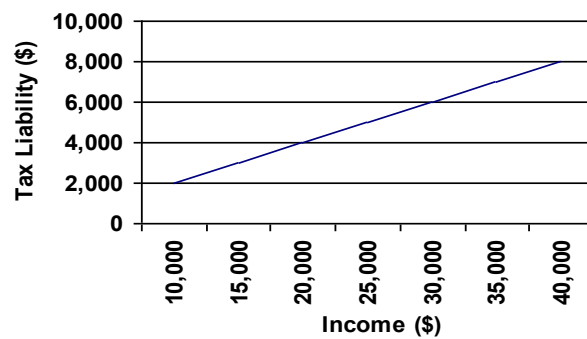
Skill: Conceptual

Topic: line graph

67. Use the Cartesian coordinate system (and putting income on the horizontal axis) to plot the following data:

Income	Tax Liability
10,000	2,000
15,000	3,000
20,000	4,000
25,000	5,000
30,000	6,000
35,000	7,000
40,000	8,000

The graph should look like the one below.

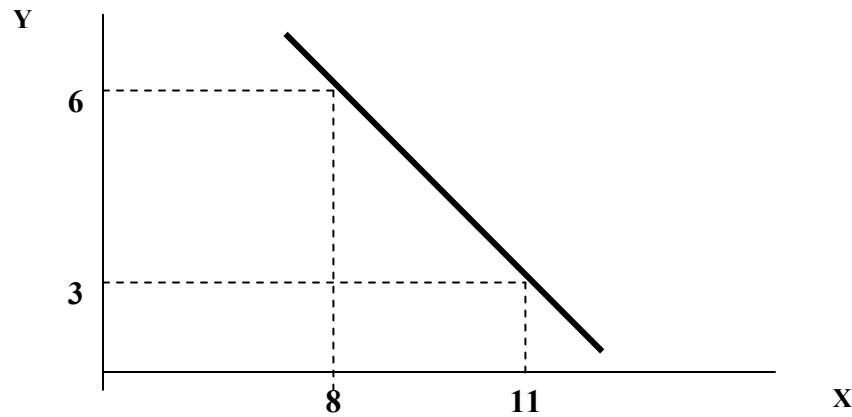


Diff: 1
AACSB:

Skill: Conceptual

Topic: Cartesian coordinate system

68. In the figure below, is the slope positive or negative? Calculate the slope.



The slope is negative because the line is downward sloping. The slope is equal to the change in Y (which is equal to -3) divided by the change in X (which is equal to 3). Therefore, the slope is equal to $(-3/3)$ which equals -1 .

Diff: 1
AACSB:

Skill: Analytical

Topic: slope

69. Explain how to calculate the slope of a line. What does the slope measure?

The slope of a line is a measure that indicates whether the relationship between the variables is positive or negative. It tells us how much of a response there is in variable y (on the vertical axis) when variable x (on the horizontal axis) changes. The slope is calculated by taking the change in variable y and dividing by the change in variable x.

Diff: 1
AACSB:

Skill: Definition

Topic: slope

70. Explain how to calculate the slope of a non-linear function. What does the slope measure?

Since the slope of a non-linear function changes throughout the function one can only measure slope at a specific point along the function. Essentially you would take a line and make it tangent to the point that you want to measure and calculate the slope of that tangent line. The slope of that tangent line will be equivalent to the slope at that point on the function.

Diff: 1
AACSB:

Skill: Definition

Topic: slope

71. The manager of a company has been told by his engineers and cost accountants that the marginal cost of producing additional electronic wafers is likely to remain constant at a \$.50 each for the hundred thousand in production. Explain what the marginal cost function would look like and why. What is the slope of this cost function?

The marginal cost function would be horizontal at a price of \$.50. Since production costs don't change the slope of this function is zero.

Diff: 2 Skill: Analytical Topic: slope
AACSB:

72. An engineer has informed the city manager that the marginal cost of an additional car crossing the city bridge is zero? If you were required to draw this cost function on a graph what would it look like? What is the slope of this graph?

The graphs would be a horizontal line at a cost of \$0. The slope of the line is also zero since the cost of additional cars traveling on it don't change.

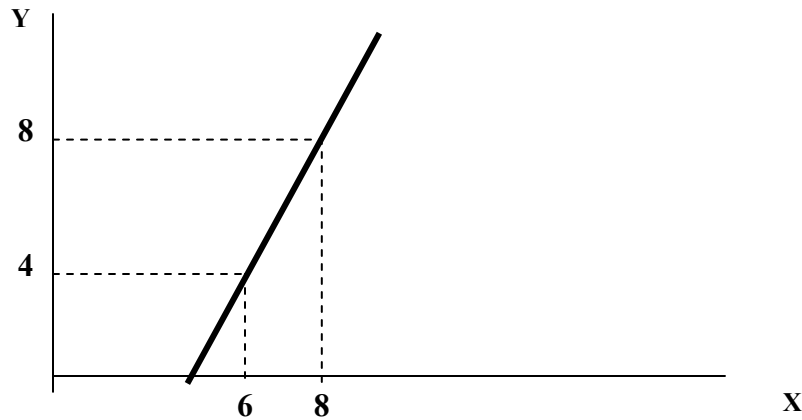
Diff: 2 Skill: Analytical Topic: slope
AACSB:

73. Your boss explains to you that the total fixed costs of the company are \$1 million. He also informs you that each unit of production will cost twenty five cents more with each 100-unit increase. He has asked you to draw the fixed costs of the company with costs on the vertical axis and quantity of goods sold on the horizontal axis. Without drawing a graph tell your boss what the graph will look like using words. What information did your boss give you that you didn't need in order to draw the graph?

The fixed cost graph will be a horizontal line. The costs do not change with changes in output. The information that he gave me concerning how much additional units of production would cost is irrelevant since those are variable expenses and the boss was asking me to draw the fixed cost graph as a function of output.

Diff: 2 Skill: Analytical Topic: slope
AACSB:

74. In the figure below, is the slope positive or negative? Calculate the slope.



The slope is positive because the line is upward sloping. The slope is equal to the change in Y (which is equal to 4) divided by the change in X (which is equal to 2). Therefore, the slope is equal to $(4/2)$ which equals 2.

Diff: 1
AACSB:

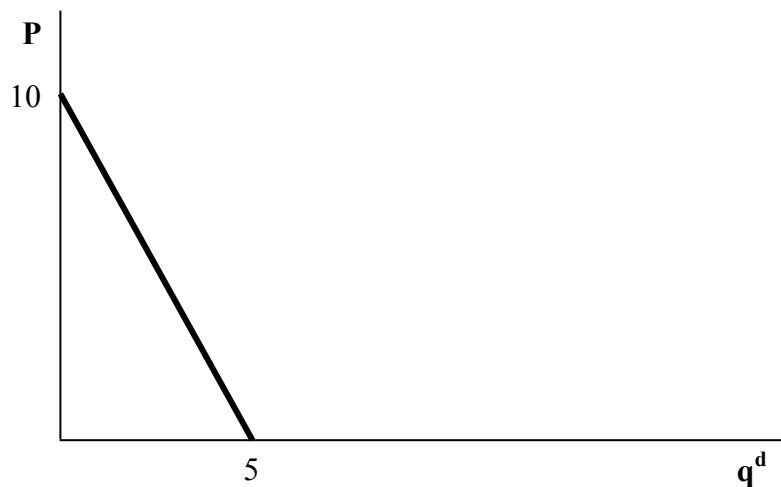
Skill: Analytical

Topic: slope

75. Graph the following equation with q^d on the horizontal axis and calculate the slope:

$$P = 10 - 2q^d$$

The student's graph should look like the one below. The slope of the line is equal to the change in P (which is equal to -10) divided by the change in q^d (which is equal to 5). Thus, the slope is $(-10/5)$ which is equal to -2 .



Diff: 2
AACSB:

Skill: Analytical

Topic: graph an equation

76. Graph the following equation with q^s on the horizontal axis and calculate the slope:

$$P = 6 + 3q^s.$$

The student's graph should look like the one below. The slope of the line is equal to the change in P (which is equal to 3) divided by the change in q^s (which is equal to 1). Thus, the slope is $(3/1)$ which is equal to 3.



Diff: 2
AACSB:

Skill: Analytical

Topic: graph an equation

77. Examine the following function: $Y = 3x + 2$. What is the slope of this function and why?

The slope of this function is 3. That's because slope measures rise divided by run. If X were equal zero then Y would equal 2. If X were equal to 1 then Y would equal 5. This change is equal to 3.

Diff: 2
AACSB:

Skill: Analytical

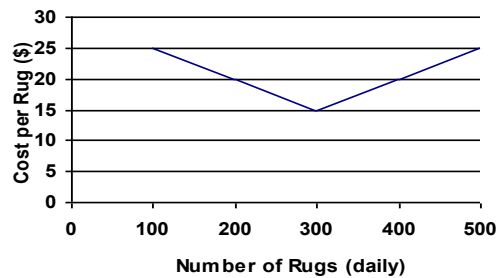
Topic: slope

78. The following table shows how the unit costs of producing cotton rugs varies with daily output for a given factory:

Daily Number of Rugs Produced	Cost per Rug (\$)
100	\$25
200	20
300	15
400	20
500	25

Plot the points and trace a curve through them. Describe the relationship between cost per rug and the number of rugs produced daily.

The graph should look like the one below. The graph shows that as daily output increases, cost per unit begins to fall, reaches a minimum, and begins to rise again.



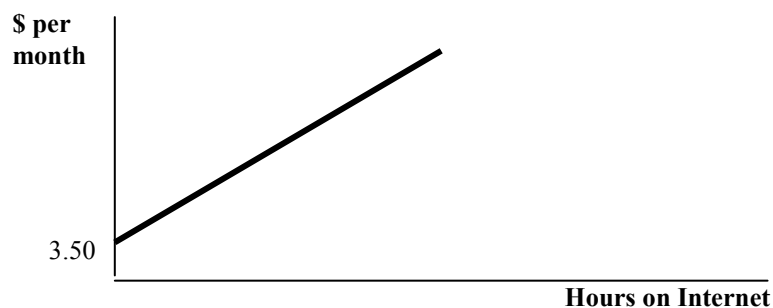
Diff: 2
AACSB:

Skill: Analytical

Topic: line graph

79. Suppose that you buy Internet service from Friendly ISP Corporation. You are charged a monthly fee of \$3.50 and must also pay an hourly charge of \$1.00 for every hour you use the Internet. Draw a diagram of the relationship between your monthly bill from Friendly ISP and the number of hours you use the Internet. What is the slope of the line drawn?

The graph is drawn below. The slope of the line will be equal to \$1/hour.



Diff: 2

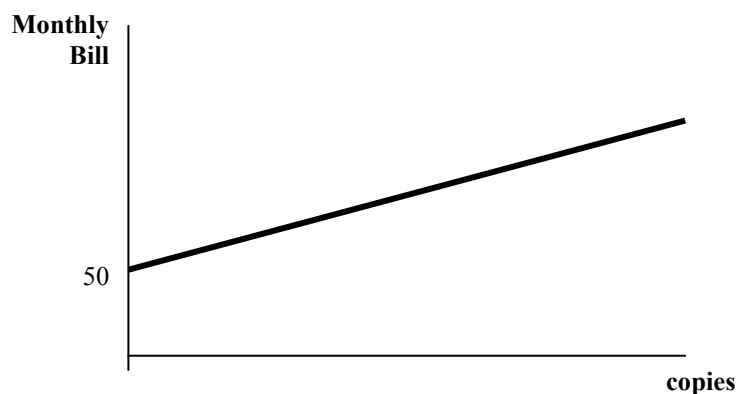
Skill: Analytical

Topic: line graph

AACSB:

80. Michelle's Secretarial Services rents a copying machine for \$50 per month plus a per copy charge of \$0.10 per copy. Draw a diagram showing the relationship between the number of copies made and the firm's monthly copying bill. What is the slope of the line drawn? If the firm makes 5,000 copies in one month, what will be the bill for copying?

The graph is shown below. The slope of the line is equal to 0.10. If the firm makes 5,000 copies in one month, its copying bill will be equal to \$550.



Diff: 2

Skill: Analytical

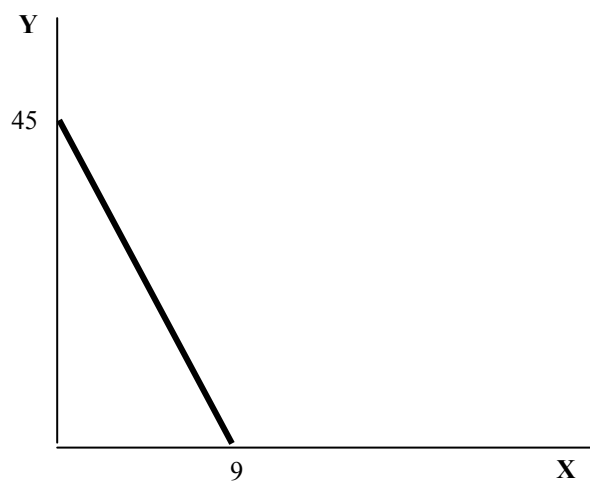
Topic: line graph

AACSB:

81. Graph the following equation and then calculate the slope. If variable X increases by 5, what will happen to variable Y?

$$Y = 45 - 5X$$

The graph is shown below. The slope of the line is equal to -5. This implies that if variable X increases by 5, variable Y will fall by 25.



Diff: 2
AACSB:

Skill: Analytical

Topic: line graph

82. The following equation describes the relationship between the price of scanners (P) and the quantity that buyers will purchase each week (Q):

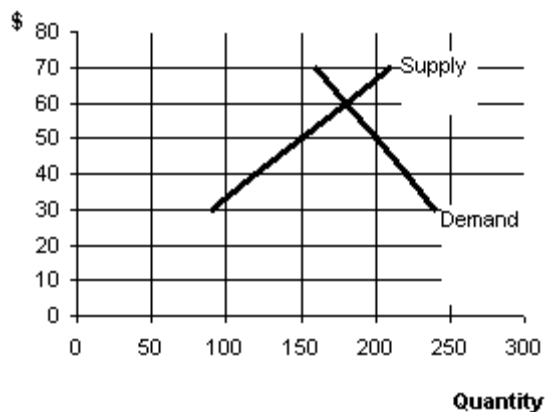
$$Q = 300 - 2P.$$

The following equation describes the relationship between the price of scanners (P) and the quantity that sellers will sell each week (Q):

$$Q = 3P.$$

On a graph (with Q on the horizontal axis and P on the vertical axis), plot the two equations using the following values for P: \$30, \$40, \$50, \$60, and \$70. At what price do the two curves intersect? What is the quantity of scanners at this point?

The graph is drawn below. The two lines intersect at a price of \$60. The quantity of scanners at that price is 180.



Diff: 3
AACSB:

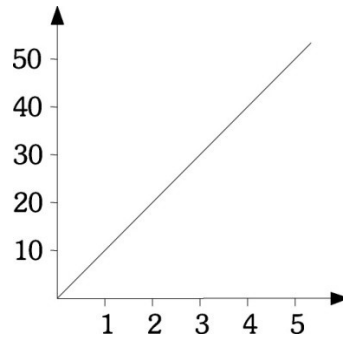
Skill: Analytical

Topic: simultaneous equations

83. Graph the relationship between variables X and Y according to the table below:

X	Y
1	10
2	20
3	30
4	40
5	50

Answer:



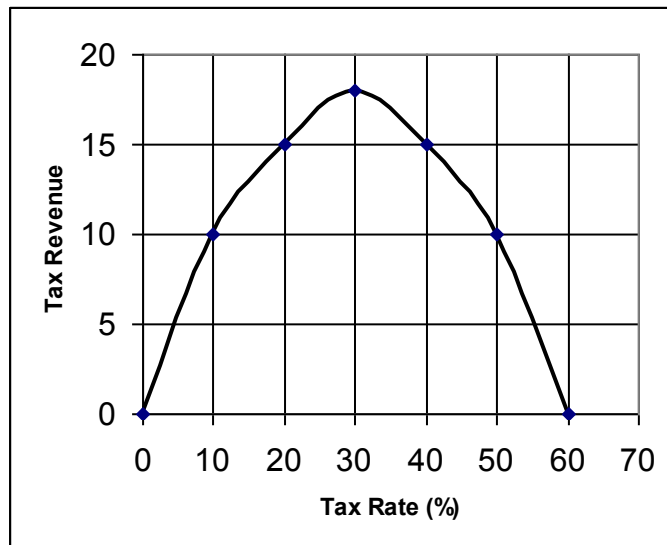
Diff: 1

Skill: Analytical

Topic: line graph

84. Assume that at very low tax rates the government collects a very modest amount of revenue from personal taxes. As the rate is raised the government collects more revenue but at a decreasing rate. Suppose furthermore that at some tax rate of let's say 30% the total amount of tax revenue is maximized. Any tax rate above that leads to a reduction in tax revenue collected. From this information and that contained in the table below graph the relationship between the tax rate and tax revenue with the tax rate on the horizontal axis and tax revenue on the vertical axis.

Tax Rate	Tax Revenue
0	0
10	10
20	15
30	18
40	15
50	10
60	0



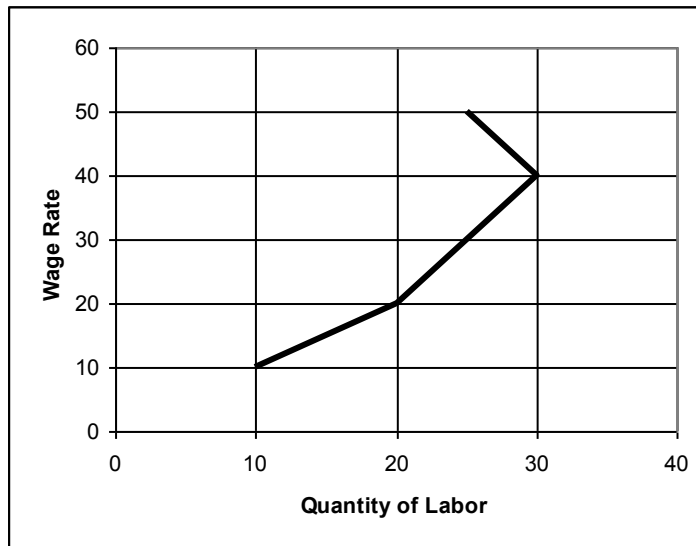
Diff: 2
AACSB:

Skill: Analytical

Topic: non-linear graph

85. Suppose that as wages increase the quantity of labor supplied increases as well. However, assume that at some point as indicated in the table below increases in wages actually lead to a reduction in the quantity of labor supplied. Graph this relationship with the quantity of labor on the horizontal axis and the wage rate on the vertical axis.

Wage	Quantity of Labor
10	10
20	20
30	25
40	30
50	25



Diff: 2
AACSB:

Skill: Analytical

Topic: non-linear graph