

**Test Bank for Macroeconomics Principles and Policy 13th Edition Baumol Blinder  
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**True / False**

1. Both parties gain in a voluntary exchange.

- a. True
- b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and o - DISC: Scarcity, tradeoffs, and opportunity cost

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Gains from trade, specialization and trade

**KEYWORDS:** BLOOM'S: Knowledge

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

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and o - DISC: Scarcity, tradeoffs, and opportunity cost

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**KEYWORDS:** BLOOM's: Knowledge

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

- a. True
- b. False

*ANSWER:*

False

*POINTS:*

1

**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and opportunity cost - DISC: Scarcity, tradeoffs, and opportunity cost  
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**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

4. It is impossible for both nations to gain when trading with one other.  
a. True  
b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and opportunity cost - DISC: Scarcity, tradeoffs, and opportunity cost  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and opportunity cost - DISC: Scarcity, tradeoffs, and opportunity cost  
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**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and opportunity cost - DISC: Scarcity, tradeoffs, and opportunity cost

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**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and o - DISC: Scarcity, tradeoffs, and opportunity cost

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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and o - DISC: Scarcity, tradeoffs, and opportunity cost

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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and o - DISC: Scarcity, tradeoffs, and opportunity cost

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economics

**TOPICS:** Ideas for Beyond the Final Exam

**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** DISC: Scarcity, tradeoffs, and o - DISC: Scarcity, tradeoffs, and opportunity cost

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

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**TOPICS:** DISC: Monetary and fiscal policy

**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Moderate

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**KEYWORDS:** BLOOM'S: Comprehension

13. If Japan is twice as good at producing cameras and three times as good at producing TV sets as the United States,

Japan is said to have a comparative advantage in TV sets and the United States has a comparative advantage in cameras.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
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**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Marginal costs & benefits  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - Analytic - BB-Legal  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Marginal costs & benefits  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate

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**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
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**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Moderate

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**TOPICS:** DISC: Markets, market failure, and externalities

**KEYWORDS:** BLOOM'S: Comprehension

21. The market mechanism provides a financial incentive for firms to minimize the pollution they create.

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Moderate

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**TOPICS:** DISC: Markets, market failure, and externalities

**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Moderate

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**TOPICS:** DISC: Productivity and growth

**KEYWORDS:** BLOOM'S: Comprehension

23. In both the 1970s and the 1990s, extreme economic events caused unemployment to move in the same direction as inflation.

- a. True
- b. False



**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

24. The high unemployment of 2008-2010 caused a substantial decrease in inflation which created fears of deflation.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
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**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

25. A small increase in productivity growth can have a huge impact on a country's standard of living.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

26. Greater economic efficiency often leads to greater economic inequality.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**TOPICS:** DISC: Productivity and growth

**KEYWORDS:** BLOOM'S: Comprehension

27. The concept of economic efficiency refers to the size of the "economic pie" whereas the concept of equality refers to how the "pie" is distributed.

a. True

b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: Productivity and growth

**KEYWORDS:** BLOOM'S: Comprehension

28. There is no trade-off between efficiency and equality.

a. True

b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

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**TOPICS:** DISC: Productivity and growth

**KEYWORDS:** BLOOM'S: Comprehension

29. The United States has chosen to balance the competing claims of efficiency versus equality by emphasizing greater efficiency over greater equality.

a. True

b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

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**KEYWORDS:** BLOOM'S: Comprehension

30. The achievement of greater efficiency in the United States has been at the expense of growing inequality.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True

**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**KEYWORDS:** BLOOM'S: Comprehension

34. One of the consequences of allowing wages to fall in the United States has been growing wage inequality.  
a. True  
b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**KEYWORDS:** BLOOM'S: Comprehension

35. Economic efficiency and income equality are often conflicting goals in an economy.  
a. True  
b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
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**TOPICS:** DISC: Monetary and fiscal policy  
**KEYWORDS:** BLOOM'S: Comprehension

36. Lower inflation rates are usually correlated with lower unemployment rates.  
a. True  
b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy  
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**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

37. Attempts by the government to reduce the rate of inflation often result in higher unemployment in the short run.
- a. True
  - b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
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**KEYWORDS:** BLOOM'S: Comprehension

38. Productivity growth is the main cause of rising living standards.
- a. True
  - b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
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**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

39. Over the past century, the main factor responsible for rising living standards in the United States has been productivity growth.
- a. True
  - b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
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**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

40. The growth rate of productivity is the most important determinant of material well-being in the short run.
- a. True

b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
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**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

41. Unemployment and inflation are important determinants of short-run material welfare, whereas productivity growth is an important determinant of long-run material well-being.

a. True

b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

42. Economic analysis requires both mathematical reasoning and historical study.

a. True

b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

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**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
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45. Economists are often required to make unrealistic assumptions concerning the problems they are investigating.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
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**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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50. Economic problems are made manageable by stripping away some of the unnecessary details.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate



**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**KEYWORDS:** BLOOM'S: Comprehension

53. Inaccurate prediction generally invalidates the use of theory in economics.  
a. True  
b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

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**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

57. A theory is a deliberate simplification or abstraction of factual relationships.

- a. True
- b. False

**ANSWER:** True

**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**KEYWORDS:** BLOOM'S: Comprehension

58. A theory is an explanation of the causal mechanism behind observed phenomena.  
a. True  
b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**KEYWORDS:** BLOOM'S: Comprehension

60. A theory is an untested assertion of alleged fact.  
a. True  
b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

61. "Correlation" is a measure of how one variable causes another to change.

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

62. The terms "correlation" and "causation" are synonymous.

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Moderate

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**KEYWORDS:** BLOOM'S: Comprehension

63. Two variables that systematically change together are correlated.

- a. True
- b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

64. Models are used to describe cause-and-effect relationships.

- a. True

b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

65. Models are simplifications that are used to observe the workings of a system.

a. True

b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

66. Economic theory simplifies relationships to explain how the relationships interact.

a. True

b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

67. An economic model is a realistic depiction of the operation of the economy.

a. True

b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

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**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

68. Economists disagree on most economic issues facing an economy.

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**KEYWORDS:** BLOOM'S: Comprehension

69. Only economists and other "social" scientists have areas of dispute within their disciplines.

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
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**KEYWORDS:** BLOOM'S: Comprehension

70. Economists probably agree more often than they disagree.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1

**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOM'S: Comprehension

81. A horizontal line has a slope of 0.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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82. A line that rises from left to right has a positive slope.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

84. Slope is measured as rise/run.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOM'S: Comprehension

85. Slope is measured as run/rise.

a. True

b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
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**KEYWORDS:** BLOOM'S: Comprehension

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

a. True

b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
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**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** True  
**RATIONALE:** Fiscal and monetary policy are ways the government can affect the economy, with the goal of limiting inflation and/or unemployment.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The role of government  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** False  
**RATIONALE:** Often policymakers fail to make the right decisions for both political and economic reasons. Even when the government does implement the "right" policies, the economy may not respond as expected.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The role of government  
**KEYWORDS:** BLOOM'S: Comprehension

94. Abstract economic theory can be used by academicians, but not by politicians or business people.  
a. True  
b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** Ideas for Beyond the Final Exam

**KEYWORDS:** BLOOM'S: Comprehension

95. Statistical correlation always implies causation.

- a. True
- b. False

**ANSWER:** False

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** Inside the Economist's Tool Kit

**KEYWORDS:** BLOOM'S: Comprehension

### Multiple Choice

96. Opportunity cost can best be defined as the

- a. value of what must be given up in order to acquire an item.
- b. money cost to the buyer to acquire a good or service.
- c. total value of all the other items that otherwise could be acquired.
- d. cost to the seller to produce an item.
- e. time cost to obtain the money to buy an item.

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost

**KEYWORDS:** BLOOM'S: Comprehension

97. Rational choice requires that opportunity cost be

- a. ignored in making a decision.
- b. considered for individual choices, but not for societal choices.
- c. computed, but not actually used in making a decision.
- d. considered as part of making a decision.
- e. used as the sole decision criterion.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost

**KEYWORDS:** BLOOM'S: Comprehension

99. Which person has the highest opportunity cost of obtaining a college degree (assuming that attending college requires giving up his or her current position)?
- Bill, who is unemployed.
  - Jane, who is an unwed mother and earns \$15,000 a year.
  - Larry, who is a technician in the Navy earning \$18,000 a year with free food and housing.
  - Mary, who has a job earning \$60,000 a year as a computer programmer.
  - Unable to determine from the data given.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost

**KEYWORDS:** BLOOMS: Application

100. Some college students think that because a college degree greatly increases their earning potential there is no opportunity cost of attending college. How would an economist look at the matter?
- There is no opportunity cost, assuming that future earnings actually increase as expected.
  - The opportunity cost is much less than it would appear, assuming that earnings increase.

- c. Opportunity cost is a meaningless concept in this situation.
- d. The college students are completely correct in all respects.
- e. There is still an opportunity cost, even if it is justified by higher future earnings.

**ANSWER:** e  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost  
**KEYWORDS:** BLOOM'S: Analysis

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

- a. \$20,000.
- b. \$30,000.
- c. \$32,000.
- d. \$50,000.
- e. \$18,000.

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost  
**KEYWORDS:** BLOOMS: Application

102. The term opportunity cost refers to the

- a. value of what is gained when a choice is made.
- b. difference between the value of what is gained and the value of what is forgone when a choice is made.
- c. value of what is forgone when a choice is made.
- d. direct costs involved in making a choice.

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost  
**KEYWORDS:** BLOOM'S: Comprehension



103. Jack buys a computer from Sam, knowing fully well that the technology used in it is obsolete. In this case, the trade is
- a. beneficial to both parties.
  - b. beneficial only to Sam.
  - c. beneficial only to Jack.
  - d. not beneficial to either of them.

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Utility and consumer choice  
**KEYWORDS:** BLOOMS: Application

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

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Monetary and fiscal policy

**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost

**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** c

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost

**KEYWORDS:** BLOOM'S: Comprehension

108. During a war, a government will often draft people, most of whom are presently employed, into the army. An economist, computing the real cost of the war, would be sure to include which of the following items?
- the value of the civilian goods no longer produced by the new soldiers
  - the cost of feeding and clothing the new soldiers
  - the dollar cost of the payroll
  - the higher prices of civilian goods due to wartime shortages
  - the cost of transporting the soldiers to combat

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Difficult

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost

**KEYWORDS:** BLOOM'S: Analysis

109. The opportunity cost of any good or service is the

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

**ANSWER:** c

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Scarcity, tradeoffs, and opportunity cost

**KEYWORDS:** BLOOM'S: Comprehension

110. Throughout the 1980s, accounting departments in U.S. universities were unable to fill many available faculty positions. This fact suggests that the salaries offered by these departments

- a. suffered from the cost disease of the service sector.
- b. were below the market price for qualified accountants.
- c. created externalities.
- d. failed to reflect productivity growth in teaching.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Markets, market failure, and externalities

**KEYWORDS:** BLOOM'S: Comprehension

111. The principle of comparative advantage explains how

- a. one nation can take advantage of another one through international trade.
- b. two nations may engage in mutually beneficial trade, even though one of them is more productive than the other.
- c. one individual can take advantage of another through international trade.
- d. some people are good at producing everything, while others have no comparative advantages.
- e. some nations end up with large trade surpluses.

**ANSWER:** b

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOMS: Application

114. The United States produces both automobiles and computers more efficiently than Mexico. Nevertheless, it is possible that both nations would benefit from trade in these items. The reason for this is

- a. the law of comparative advantage.
- b. the inflation-unemployment trade-off.
- c. externalities.
- d. the cost disease of personal services.
- e. attempts to repeal the law of supply and demand.

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of

economics

**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Gains from trade, specialization and trade

**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Gains from trade, specialization and trade

**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** e

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Marginal costs & benefits  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Marginal costs & benefits  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Marginal costs & benefits  
**KEYWORDS:** BLOOM'S: Comprehension

122. When a teacher in a private school points out to her high school principal that since there are empty seats in all classrooms, the cost of additional students is really zero, she is using the
- law of comparative advantage.

- b. principle of marginal analysis.
- c. theory of externalities.
- d. notion of the cost decreases of the service sector.
- e. concept of opportunity cost.

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Marginal costs & benefits  
**KEYWORDS:** BLOOM'S: Comprehension

123. An externality is defined as

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

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Knowledge

124. Which of the following is an example of an undesirable side effect of the operation of the market mechanism?

- a. negative externalities
- b. comparative advantages
- c. abstractions
- d. productivity growth

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension



125. When residents surrounding an airport complain about noise from aircraft landings and takeoffs, the relevant economic analysis is that of

- a. externalities.
- b. equality-efficiency trade-off.
- c. comparative advantage.
- d. the cost decrease of the service sector.
- e. the cost disease of personal services.

**ANSWER:**

a

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Analytic

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: Markets, market failure, and externalities

**KEYWORDS:**

BLOOM'S: Comprehension

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

- a. an externality.
- b. the antiquity problem.
- c. a free-rider problem.
- d. the public good problem.
- e. the trade-off between equity and output.

**ANSWER:**

a

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Analytic

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: Markets, market failure, and externalities

**KEYWORDS:**

BLOOM'S: Comprehension

127. A large factory pours its toxic wastewater into a nearby river, and as a result, the residents of a downstream community experience high rates of illness and birth defects. The economic problem illustrated by this example is

- a. marginal thinking.
- b. comparative advantage.
- c. repealing the laws of supply and demand.
- d. externalities.

e. productivity growth.

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension

128. When interdiction efforts manage to stem the flow of illegal drugs into the United States, assuming no change in demand, the price of these substances rises. This price increase leads to more crime as addicts attempt to maintain their now more-expensive habits. Economists call this side-effect of the drug business

- a. the illusion of rationality.
- b. an externality.
- c. the cost disease of personal services.
- d. inflation.
- e. unemployment.

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension

129. The use of chlorofluorocarbons in refrigerators and air conditioners is alleged to cause the destruction of the ozone layer that surrounds the earth. This layer protects humans from ultraviolet radiation, which causes skin cancer. Industry has been prohibited from using these substances in aerosol cans, but the government has been reluctant to ban their use altogether because of the serious economic consequences. Economists analyze such problems and refer to them as

- a. issues of unfairness.
- b. examples of excess abstraction.
- c. externalities.
- d. comparative advantage issues.
- e. examples of trade-offs between output and equality.

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Markets, market failure, and externalities  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. efficiency.
- b. equality.
- c. externalities.
- d. cost disease of services.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Efficiency and equity

**KEYWORDS:** BLOOM'S: Comprehension

131. Because there is a trade-off between total output and equality of income distribution,

- a. greater equality of distribution will generally result in higher levels of output.
- b. greater output is generally associated with more equal distribution.
- c. policies designed to increase output will only succeed if distribution is more equal.
- d. policies intended to expand output must necessarily fail.
- e. policies designed to equalize distribution may adversely affect the size of output.

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Efficiency and equity

**KEYWORDS:** BLOOM'S: Comprehension

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

- a. law of comparative advantage.
- b. equality-efficiency trade-off.
- c. cost disease of the service sector.

d. unemployment-inflation trade-off.

e. All of the above are correct.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Efficiency and equity

**KEYWORDS:** BLOOM'S: Comprehension

133. In terms of the competing claims of equality and efficiency, in the United States we have

a. chosen greater wage inequality for lower unemployment.

b. chosen higher unemployment for less wage inequality.

c. both greater wage inequality and higher unemployment.

d. not faced a trade-off between wage inequality and unemployment.

e. been able to choose both less wage inequality and lower unemployment.

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Efficiency and equity

**KEYWORDS:** BLOOM'S: Comprehension

134. In contrast to the United States, the European Union has chosen

a. greater wage inequality for lower unemployment.

b. less wage inequality and lower unemployment.

c. greater wage inequality and higher unemployment.

d. similar wage inequality but more unemployment.

e. less wage inequality for higher unemployment.

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Efficiency and equity

**KEYWORDS:** BLOOM'S: Comprehension

135. In the United States, the fact that the gap between the rich and the poor has been increasing is often justified by economists on the grounds that greater

- a. efficiency can never be achieved without greater inequality.
- b. inequality does not create any problems.
- c. inequality is a desirable end in itself.
- d. inequality is an undesirable consequence of greater efficiency.
- e. efficiency should be achieved at any cost.

**ANSWER:**

d

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Analytic

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: Efficiency and equity

**KEYWORDS:**

BLOOM'S: Comprehension

136. The 1981 tax reform act reduced taxes on high-income individuals. Many economists believed that high tax rates would deter high-income individuals from working and investing, thus slowing the growth of income. This illustrates the issue of

- a. the equality-efficiency trade-off.
- b. usury.
- c. the effects of budget deficits on future generations.
- d. the cost disease of the public sector.
- e. the importance of externalities.

**ANSWER:**

a

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Analytic

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: Efficiency and equity

**KEYWORDS:**

BLOOM'S: Comprehension

137. Because there is a trade-off between inflation and unemployment in the short run,

- a. lower unemployment will typically cause inflation to fall.
- b. policies designed to reduce unemployment will typically set off a recession.
- c. policies designed to reduce inflation will cause unemployment to fall as well.
- d. higher inflation will generally be associated with higher unemployment.
- e. lower inflation will generally be associated with higher unemployment.

**ANSWER:**

e

**POINTS:**

1

**DIFFICULTY:**

Difficult

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Monetary and fiscal policy  
**KEYWORDS:** BLOOM'S: Comprehension

138. An article in a recent economics periodical asks the question: "Is low inflation worth it?" By "it," the article probably means

- a. the loss of comparative advantage.
- b. enduring externalities.
- c. unemployment.
- d. repealing the law of supply and demand.
- e. the opportunity cost of higher interest rates.

**ANSWER:** c

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Monetary and fiscal policy

**KEYWORDS:** BLOOM'S: Comprehension

139. In the short run, efforts to reduce the unemployment rate are likely to cause

- a. a decrease in the inflation rate.
- b. an increase in the inflation rate.
- c. no change in the inflation rate.
- d. Uncertain-economists have found no relationship between the two variables.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Efficiency and equity

**KEYWORDS:** BLOOM'S: Comprehension

140. If a government enacts a rent control to protect apartment tenants, the result is likely going to be

- a. an increase in rents with a surplus of apartments.
- b. an increase in rents with a shortage of apartments.
- c. a decrease in rents with a surplus of apartments.
- d. a decrease in rents with a shortage of apartments.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Efficiency and equity  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Efficiency and equity  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Gains from trade, specialization and trade  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

144. Probably the most important factor affecting material well-being is

- a. inflation rates.
- b. unemployment rates.
- c. budget deficits.
- d. growth in productivity.
- e. monopoly power.

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

145. In 1971, a bank worker could process 265 checks in 1 hour. Currently, computers with built-in reader-sorter processing capacity have pushed that number above 100,000 checks per hour. Economists describe this type of activity as

- a. exploitation of labor.
- b. an increase in labor productivity.
- c. speed-up.
- d. comparative advantage.
- e. mutual gains from voluntary trade.

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Productivity and growth  
**KEYWORDS:** BLOOM'S: Comprehension

146. Economics

- a. is a narrowly focused discipline.



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

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

149. For the typical student, taking an introductory course in economics should

- a. turn the student into an economist.
- b. teach the student solutions to most social problems.
- c. teach the student how to answer complex social questions.
- d. help the student learn to make rational decisions.
- e. All of the above are correct.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

150. Tools used by economists include

- a. historical study.
- b. mathematical reasoning.
- c. statistical inference.
- d. All of the above are correct.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

151. Economics is a social science rather than a "hard" science like physics because

- a. economists abstract from reality when creating their theories.
- b. economics is easier to study than physics.
- c. economists must explain their theories to policy makers who lack formal mathematical training.
- d. economists study human behavior, which is affected by an unpredictable and vast range of influences.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Difficult

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

155. Economists make assumptions because
- they need to incorporate value judgments into their models.
  - analysis without assumptions would be impossibly complex.
  - they always have imperfect information about reality.
  - assumptions are the final product of careful economic analysis.
  - assumptions allow economists to ignore things that they cannot explain.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Difficult

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

157. A theory can best be defined as
- an untested assertion of untested fact.
  - a collection of assumptions that simplify the real world.
  - an opinion of a reliable person who studies a subject or discipline.
  - a deliberate simplification of factual relationships that attempts to explain how those relationships work.

e. the body of knowledge that has been scientifically verified by the scientific community.

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** e  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

160. During one winter quarter at Frozen U., snow falls every Friday night. Students assume that, on their campus, Fridays cause snow. This hypothesis
- should more properly be considered a theory.

- b. assumes that correlation implies causation.
- c. assumes that causation implies correlation.
- d. reflects the fallacy of composition.

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

163. A theory is an abstraction used often by economists to

- a. describe a problem.
- b. keep all assumptions in their proper places.
- c. explain why things work the way they do.
- d. describe a hierarchical ordering of facts.
- e. arrange variables into a graphical format.

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

164. Economic theory is a necessity, not a luxury. This statement is true because theory

- a. always leads to practical and useful policy.
- b. can prevent depressions in the economy.
- c. substitutes for vast amounts of data.
- d. provides a structure for organizing and analyzing data.
- e. always leads to accurate predictions.

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

165. Policy-oriented economists seek to develop theories to

- a. explain how things work so policies can be formulated.
- b. describe what happened in a particular time period in history.
- c. describe current economic events.
- d. find correlations between events.
- e. change people's values and ethics.

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

166. In the 19th century, Russian peasants noticed that during cholera epidemics there were lots of doctors around; in an attempt to eliminate cholera, they killed all the doctors. This is an example of

- a. mistaking correlation with causation.
- b. the fallacy of opportunism.
- c. excessive abstraction.
- d. rationality.
- e. marginal analysis.

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

167. An economic model can be defined as

- a. a testable claim which can be evaluated with proper data.
- b. a representation of a theory or a part of a theory.
- c. another word for theory.
- d. a method to distinguish correlation from causation.
- e. All of the above are correct.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Understanding and Applying Economic Models

**KEYWORDS:** BLOOM'S: Comprehension

168. Economists use models in order to

- a. experiment with alternative circumstances.
- b. make educated guesses about real life events.
- c. predict outcomes under various hypothetical conditions.
- d. increase understanding of how a relationship actually works.
- e. All of the above are correct.

**ANSWER:** e

**POINTS:** 1



**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

169. Why do economists tend to create models in diagrammatic form?
- Diagrams hide reality, and theory is an attempt to avoid reality.
  - It is easier than building models out of physical objects.
  - Economic reality cannot possibly be represented except in diagrams.
  - Most economists are frustrated artists, and like to draw when possible.
  - All of the above are correct.

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

171. A useful economic model
- deals only with possibilities that actually occurred.
  - makes only realistic assumptions.
  - may make some unrealistic assumptions in order to simplify a complex reality.

d. should avoid drawing conclusions that have public policy implications, since economics is not equipped to make value judgments.

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

172. Economic models are often expressed in

- a. equations.
- b. words.
- c. graphs.
- d. physical objects..

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

173. Economic models

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

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**KEYWORDS:** BLOOM'S: Comprehension

174. Economists are often perceived as disagreeing with each other. Is this the way things really are?

- a. No, economists agree on much more than is commonly supposed.

- b. No, the problem is that some economists are smarter than others.
- c. No, economists "stage" disagreements for public amusement.
- d. Yes, economists rarely agree on much of anything.
- e. Yes, economists are unable to analyze problems dispassionately.

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

175. Which of the following is one source of disagreement between economists?

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

**ANSWER:** e  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
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**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

176. What is the "right" degree of abstraction necessary to analyze an economic problem?

- a. simple abstraction of only minor details
- b. simple abstraction of only irrelevant details
- c. total abstraction of all variables
- d. total abstraction of all irrelevant details
- e. There is no "right" degree of abstraction to analyze an economic problem.

**ANSWER:** e  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

177. Economists may disagree about how to solve an economic problem because they

- a. use different models to analyze the problem and its solutions.
- b. have different political and moral beliefs.
- c. disagree about the facts of the situation.
- d. All of the above are correct.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

178. Economic analysis and policy are made more difficult by

- a. having so much data to work with.
- b. inadequate and imperfect information.
- c. an incomplete consensus on the basic goals of social policy.
- d. the lack of public interest and opinion on economic questions.
- e. the major economic problems society faces.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

179. An economist might be hired to answer which of the following questions?

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

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

180. To analyze policy options, economists are forced to deal with:

- a. politicians
- b. business people
- c. rotating statistical values
- d. things that have not occurred
- e. None of these is correct.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

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**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

181. Although economic science can contribute theoretical and factual knowledge on a particular issue, the final decision on policy questions often depends on:

- a. information that is not currently available
- b. social values
- c. ethical considerations
- d. all of these

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Comprehension

182. Two advisors to the president have given their policy recommendations, and they are in disagreement. Why do these economists disagree?

- a. because they do not have all relevant information about the problem
- b. because they disagree on the nature of some cause-effect relationship
- c. because they have different values and opinions
- d. All of the above are reasons for disagreements among economists.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** e  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

- d. square one.
- e. the beginning.

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

188. The slope of a curved line differs from that of a straight line in that
- a. the numerical value of the slope of a straight line is different at every point, but is the same at every point for a

- curved line.
- b. the numerical value of the slope of a straight line is always higher than the numerical value of the slope of a curved line.
  - c. the numerical value of the slope of a curved line is different at every point, but is the same at every point for a straight line.
  - d. the numerical value of the slope of a curved line is an irrational number, but the numerical value of the slope of a straight line is always a rational number.
  - e. straight lines are more realistic, but curved lines are not descriptively accurate for the real world.

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

190. The tangent at point A on a curve has a positive slope. Therefore, the curve has a
- a. positive slope at all points.
  - b. positive slope at point A.
  - c. negative slope at all points.
  - d. negative slope at point A.

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics



**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Difficult

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** c

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOM'S: Comprehension

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

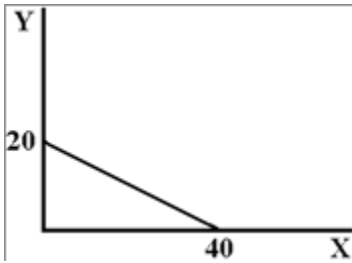
**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

**Figure 1-1**



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

**ANSWER:** c

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOMS: Application

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

- $Y = a + X$
- $X = bY$
- $X = a$
- $Y = a$

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Difficult

**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:**

**BLOOMS:** Application

196. A vertical line has a slope of

- a. infinity.
- b. zero.
- c. undefined.
- d. 1,000.

**ANSWER:**

a

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:**

United States - BPROG: Analytic

**ACCREDITING STANDARDS:**

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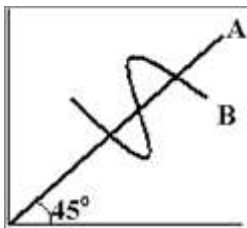
**TOPICS:**

DISC: Reading and interpreting graphs

**KEYWORDS:**

**BLOOMS:** Application

**Figure 1-2**



197. Identify the slope of the two curves A and B in Figure 1-2.

- a. A - zero, B - one.
- b. A - one, B - zero.
- c. A - one, B - different at different points.
- d. A - different at different points, B - zero.

**ANSWER:**

c

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Appendix: Using Graphs: A Review

**NATIONAL STANDARDS:**

United States - BPROG: Analytic

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: Reading and interpreting graphs

**KEYWORDS:**

**BLOOMS:** Application

198. A line that rises at a 45 degree angle has a slope of

- a. 0.45.
- b. 1.
- c. 45.

d. 1/45.

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
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**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

- a. 5.
- b.  $-.5$ .
- c.  $-2$ .
- d.  $-72$ .

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

200. The slope of a curved line at a particular point is

- a. always greater than the slope of a straight line at the same point.
- b. always smaller than the slope of a straight line at the same point.
- c. defined as the slope of the straight line representing the average values for the entire curve.
- d. defined as the slope of the straight line that is tangent to the curve at that point.

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

201. It is possible to represent three dimensions on a two-dimensional graph by using

- a. a contour map.
- b. a razor blade.

- c. curved lines.
- d. all of the above.

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** c  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

204. A \_\_\_\_ is a graph whose axes show the quantities of two inputs that are used to produce some output.

- a. production indifference map
- b. two-variable diagram
- c. scalar diagram
- d. time-series graph

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** Appendix: Using Graphs: A Review  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

205. An "opportunity cost" may be described as:

- a. the value of what must be given up
- b. the opportunity foregone
- c. the value of the next best alternative
- d. the correct measure of cost
- e. all of these are correct

**ANSWER:** a  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** Ideas for Beyond the Final Exam  
**KEYWORDS:** BLOOM'S: Comprehension

206. Regarding economic models, which of the following statements is NOT true?

- a. An economic model is a simplified representation of a theory or part of a theory
- b. An economic model can provide answers for policy makers.
- c. An economic model can illuminate an important economic problem
- d. An economic model can depict 3-variable diagrams.

**ANSWER:** b  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Understanding and Applying Economic Models  
**KEYWORDS:** BLOOM'S: Comprehension

## Essay

207. Carefully define the following terms, and explain their importance in economics.

- a. opportunity cost
- b. abstraction
- c. theory
- d. model
- e. marginal analysis

**ANSWER:**

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

**POINTS:**

1

**DIFFICULTY:**

Easy

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Analytic

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: The study of economics, and definitions in economics

**KEYWORDS:**

BLOOMS: Application

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

**ANSWER:**

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

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Reflective Thinking - BPROG: Analysis

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: The study of economics, and definitions in economics

**KEYWORDS:**

BLOOMS: Application

209. How do markets respond to price ceilings and price floors? Do attempts to repeal the laws of supply and demand

meet their objectives?

**ANSWER:**

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

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Reflective Thinking - BPROG: Analysis

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: The study of economics, and definitions in economics

**KEYWORDS:**

BLOOMS: Application

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

**ANSWER:**

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

**POINTS:**

1

**DIFFICULTY:**

Easy

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Analytic

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: The study of economics, and definitions in economics

**KEYWORDS:**

BLOOMS: Application

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

**ANSWER:**

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

**POINTS:**

1

**DIFFICULTY:**

Moderate

**LEARNING OBJECTIVES:**

Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:**

United States - BPROG: Reflective Thinking - BPROG: Analysis

**ACCREDITING STANDARDS:**

The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:**

DISC: The study of economics, and definitions in economics



**KEYWORDS:** BLOOMS: Application

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

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

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOMS: Application

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

**ANSWER:** (1) Positive slope, where variable Y rises as variable X rises.  
(2) Zero slope, where the value of Y is the same irrespective of the value of X.

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOM'S: Analysis

214. How is a production indifference map helpful?

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

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit

**NATIONAL STANDARDS:** United States - BPROG: Analytic

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: Reading and interpreting graphs

**KEYWORDS:** BLOOMS: Application

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

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

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOMS: Application

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

**POINTS:** 1  
**DIFFICULTY:** Difficult  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOMS: Application

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

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Analysis

218. Suppose that one can read a graph that shows information about price and quantity of some product. Relying solely on the graph, is it possible to explain the relationship between the two variables?  
**ANSWER:** No. The graph does not, by itself, provide an explanation of the cause-effect relationship. For this, one needs economic theory.

**POINTS:** 1  
**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Comprehension

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

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

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Analysis

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

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

**POINTS:** 1

**DIFFICULTY:** Difficult

**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam

**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis

**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics

**TOPICS:** DISC: The study of economics, and definitions in economics

**KEYWORDS:** BLOOM'S: Analysis

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

**ANSWER:** The statistician confused correlation with causation. The doctors were not the cause of the smallpox deaths. If the statistician were correct, then we should get rid of hospitals, since so many people die there. One cannot conclude that the army doctors could have

helped thirty years later; this would require additional data comparing smallpox deaths with and without medical assistance.

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Analysis

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

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

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Analysis

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

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

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOMS: Application

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

**ANSWER:** This problem illustrates the trade-off between efficiency and equality. Workers in the

Soviet Union were guaranteed jobs and decent wages regardless of their work effort, and thus they had less incentive to reach higher levels of productivity. In the United States, generally speaking, workers receive greater rewards for greater effort, and thus output per workers tends to be higher.

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Efficiency and equity  
**KEYWORDS:** BLOOMS: Application

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

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

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Analytic  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOM'S: Analysis

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

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

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Ideas for Beyond the Final Exam  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: The study of economics, and definitions in economics  
**KEYWORDS:** BLOOMS: Application

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

**ANSWER:** The United States has chosen greater efficiency at the expense of greater equality. In

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

<b>POINTS:</b>	1
<b>DIFFICULTY:</b>	Moderate
<b>LEARNING OBJECTIVES:</b>	Ideas for Beyond the Final Exam
<b>NATIONAL STANDARDS:</b>	United States - BPROG: Reflective Thinking - BPROG: Analysis
<b>ACCREDITING STANDARDS:</b>	The study of economics, and defi - The study of economics, and definitions of economics
<b>TOPICS:</b>	DISC: The study of economics, and definitions in economics
<b>KEYWORDS:</b>	BLOOMS: Application

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

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

<b>POINTS:</b>	1
<b>DIFFICULTY:</b>	Easy
<b>LEARNING OBJECTIVES:</b>	Ideas for Beyond the Final Exam
<b>NATIONAL STANDARDS:</b>	United States - BPROG: Analytic
<b>ACCREDITING STANDARDS:</b>	The study of economics, and defi - The study of economics, and definitions of economics
<b>TOPICS:</b>	DISC: The study of economics, and definitions in economics
<b>KEYWORDS:</b>	BLOOMS: Application

229. Carefully define the following terms and explain their importance.

- variable
- ray
- slope
- contour map

**ANSWER:**

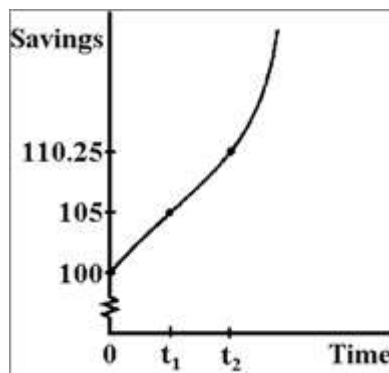
- A variable is an object, such as price, whose magnitude is measured by a number. It is used to analyze what happens to other things when the size of that number changes.
- A ray is a straight line emanating from a particular point and extending endlessly in one direction.
- The slope of a line is change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

chapters.)

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOM'S: Comprehension

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

**ANSWER:** **Figure 1-3**

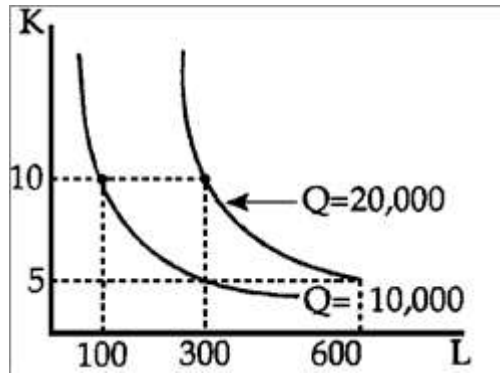


Placing time on the horizontal axis (the independent variable) and savings on the vertical axis (the dependent variable), savings will increase at an increasing rate (Figure 1-2). Slope is positive, and increasing. For example, \$100 saved at 5 percent interest will yield \$105 at the end of one year.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

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**LEARNING OBJECTIVES:** Inside the Economist's Tool Kit  
**NATIONAL STANDARDS:** United States - BPROG: Reflective Thinking - BPROG: Analysis  
**ACCREDITING STANDARDS:** The study of economics, and defi - The study of economics, and definitions of economics  
**TOPICS:** DISC: Reading and interpreting graphs  
**KEYWORDS:** BLOOMS: Application

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

**ANSWER:** **Figure 1-4**



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

<b>POINTS:</b>	1
<b>DIFFICULTY:</b>	Difficult
<b>LEARNING OBJECTIVES:</b>	Inside the Economist's Tool Kit
<b>NATIONAL STANDARDS:</b>	United States - BPROG: Reflective Thinking - BPROG: Analysis
<b>ACCREDITING STANDARDS:</b>	The study of economics, and defi - The study of economics, and definitions of economics
<b>TOPICS:</b>	DISC: Reading and interpreting graphs
<b>KEYWORDS:</b>	BLOOMS: Application

232. Explain the following statement: "Good decisions typically require marginal analysis, which weighs added costs against added benefits."

**ANSWER:** A marginal analysis of an economic decision requires considering the marginal costs of taking the proposed action against the benefits of taking the action. A good example is the case of an airlines which is considering whether to sell empty seats at a reduced price. Can or should they do so? To make that determination, the airline must consider the cost of having additional passengers fly, such as food and beverage costs, the costs of writing additional tickets. Most other costs must be paid whether the plane contains 20 passengers or 120. In this case, it makes sense to sell tickets at a reduced price, and have those additional revenues contribute to the company's profit. If the company refuses to sell tickets at a reduced price, and some seats remain empty, the company will pass up the opportunity to generate more income at a very small marginal cost. The decision to earn extra income at a slight cost would be a good economic decision.

<b>POINTS:</b>	1
<b>LEARNING OBJECTIVES:</b>	Inside the Economist's Tool Kit
<b>NATIONAL STANDARDS:</b>	United States - BPROG: Analytic
<b>ACCREDITING STANDARDS:</b>	The study of economics, and defi - The study of economics, and definitions of economics
<b>TOPICS:</b>	Inside the Economist's Tool Kit
<b>KEYWORDS:</b>	BLOOMS: Application