

**Solution Manual for Microeconomics A Contemporary  
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**Chapter 1--The Art and Science of Economic Analysis**

*Student:* \_\_\_\_\_

1. Economics is best defined as the study of how individuals decide to use limited resources in an attempt to satisfy unlimited wants.

- A. True
- B. False

2. Economics studies how decision makers use scarce resources to satisfy unlimited wants.

- A. True
- B. False

3. In economics, money is an example of capital.

- A. True
- B. False

4. Profit is the payment received by resource owners for the use of their capital.

- A. True
- B. False

5. Rent is the payment received by resource owners for the use of their natural resources.

- A. True
- B. False

6. The fact that people have unlimited wants means that

- A. they always want more of at least one good
- B. each person has an unlimited desire for every good
- C. labor unions demand wage increases
- D. selfish people are not concerned about others
- E. people buy goods without regard to what they can afford

7. The problem of scarce resources

- A. means that in some cities there are not enough jobs
- B. could be solved if the unemployment rate fell
- C. is that there are not enough resources to satisfy people's unlimited wants
- D. is that resources are used inefficiently
- E. can be solved by lowering taxes

8. Scarcity is best defined as

- A. unlimited resources
- B. a shortage -- when buyers cannot obtain the goods they want
- C. a surplus -- when sellers cannot sell the goods they produce
- D. insufficient resources to satisfy unlimited wants
- E. the private ownership of society's resources

9. Scarcity

- A. exists because people have wants that are unlimited relative to the availability of resources to satisfy those wants
- B. applies when a resource is not freely available
- C. means that each society and each individual must make choices
- D. exists in all societies
- E. all of the above are true

10. Because people's wants are unlimited but resources are scarce,
- A. only the rich get everything they want
  - B. choices must be made
  - C. there will be more services produced than goods
  - D. people search for spiritual fulfillment rather than material fulfillment
  - E. poor people never get anything they want

11. Which of the following statements regarding the basic economic problem of scarcity is correct?

- A. The problem only exists in countries that are not highly industrialized.
- B. The problem is likely to disappear as production increases.
- C. The problem is sure to disappear as technology improves.
- D. The problem will exist as long as resources are available in limited amounts.
- E. The problem will disappear as a person's income falls.

12. Some individuals or families can become completely saturated with a service such as television. This suggests that

- A. wants are limited
- B. desires for a single commodity can be satisfied but then the focus will switch to other goods and services
- C. a highly productive economy may someday be able to satisfy all human desires
- D. resources are not truly fixed in supply as we generally assume
- E. scarcity does not exist

13. The existence of scarcity as defined by economists means that

- A. societies are inefficiently organized
- B. people are irrational
- C. societies must make choices of how to use their resources
- D. resources are non-renewable
- E. people are greedy

14. Economics is best defined as the study of how

- A. individuals decide to use scarce resources in an attempt to satisfy their unlimited wants
- B. to make money
- C. the government should deal with unemployment and inflation
- D. to eliminate the problem of scarce resources
- E. to run a business

15. Economics is the study of

- A. how to get rich by playing the stock market
- B. the best ways to reduce people's wants, given the scarcity of resources
- C. how rational government officials determine what goods should be produced
- D. money and why it is good
- E. how people use limited resources to try to satisfy unlimited wants

16. 'Which of the following is the best definition of economics?

- A. An investigation of the quantities and prices of the various goods produced by the nations of the world.
- B. A study of why inflation and unemployment periodically plague the U.S. economy.
- C. An analysis of how individuals and societies deal with the problem of scarcity.
- D. An examination of the role that money plays in the economy.
- E. A study of how goods and services are distributed throughout the world.

17. The study of how nations deal with the problem of scarcity is the domain of

- A. economics
- B. political science
- C. sociology
- D. political economy
- E. anthropology

18. Economics is best described as the

- A. study of choice when scarcity exists
- B. study of the production of goods and services
- C. theory of consumer behavior
- D. science of money
- E. art of spending money wisely

19. Michigan has an abundant supply of fresh water. However, an economist would consider it a scarce resource because

- A. water is necessary for humans' physical survival
- B. pollution will eventually destroy all life in the Great Lakes
- C. water is limited relative to people's unlimited wants
- D. water commands a very high price
- E. nature can destroy water as well as create it

20. Economics

- A. studies human behavior when scarcity exists and choices must be made
- B. provides the only reasonable explanation of how people make decisions
- C. can accurately explain all human behavior since it is based on the assumption of rationality
- D. is better at showing the way things ought to be than the other social sciences are
- E. is the only social science that can explain the existence and behavior of public institutions

21. An economist would classify 100 shares of Apple Computer stock as capital.

- A. True
- B. False

22. Profit is the payment made for land resources.

- A. True
- B. False

23. A resource is something that

- A. is used to produce goods and services
- B. is provided by nature, not made by society
- C. exists in unlimited quantities
- D. must be produced by a firm
- E. consumes goods and services

24. Natural resources are

- A. not considered scarce because no one pays for them
- B. only desired for use in producing other goods
- C. included in the category of resources called gifts of nature
- D. available in unlimited quantities
- E. not considered scarce because they are not produced by society

25. The resource identified as land would include

- A. the effort of farmers
- B. the mules that Amish farmers use to work the fields
- C. the barn that a farmer houses her dairy cattle in
- D. the world's forests
- E. the cattle that a dairy farmer owns

26. In economics, capital is defined as

- A. natural resources, such as water, oil, and iron ore
- B. the natural, unskilled abilities of people
- C. human creations used in the production process
- D. money and other financial assets
- E. the willingness of business owners to take risks

27. Which of the following would an economist classify as capital?

- A. 100 shares of Microsoft stock
- B. a \$50 bill
- C. a credit card
- D. a lawyer's personal computer
- E. a bauxite mine in Jamaica

28. Economists classify all of the following as capital, except one. Which one is *not* capital?

- A. a \$20 bill in a firm's petty cash drawer
- B. the building where our economics class meets
- C. a plumber's wrench
- D. a railroad car
- E. a factory

29. When economists refer to capital, they might mean

- A. money
- B. human skills used in production
- C. stocks
- D. bonds
- E. bank loans

30. Which of the following is an example of capital?

- A. pizza ovens
- B. bulldozers
- C. a college education
- D. carpentry skills
- E. all of the above

31. The respective payments for the resources of natural resources, labor, capital, and entrepreneurial ability are

- A. interest, wages, profit, and rent
- B. profit, rent, interest, and wages
- C. rent, wages, profit, and interest
- D. interest, profit, wages, and rent
- E. rent, wages, interest, and profit

32. An entrepreneur

- A. always makes a profit
- B. generally avoids risky situations
- C. claims the residual (i.e., whatever is left over) after other resource suppliers are compensated
- D. is a parasite that benefits by not paying other resources for their services
- E. is the manager who runs an enterprise and keeps the customers happy

33. An entrepreneur

- A. always makes a profit
- B. starts with an idea, organizes the resources to bring the idea to life and assumes the risk of profit or loss
- C. always avoids risk
- D. is a parasite that benefits by not paying other resources for their services
- E. is the manager who runs an enterprise and keeps the customers happy

34. If a business produces and sells only one unit of a good, its profit would be the

- A. price received for the good
- B. price of the product minus the cost of the resources used to produce the product
- C. return paid to the firm's bank on its outstanding loans
- D. price of the product minus the wages paid for the labor used to produce it
- E. wages paid for the labor used to produce the product minus the price

35. Because resources are scarce,

- A. opportunity costs are zero
- B. people must make choices among alternatives
- C. all human wants and desires can be satisfied
- D. resource prices are fixed
- E. commodities are free

36. Resources are divided into the following broad categories:

- A. people, money, and machines
- B. saving, spending, investment, and capital
- C. human, technological, and government
- D. natural resources, labor, capital, and entrepreneurial ability
- E. free, scarce, abundant, and unlimited

37. "Natural resources" refers

- A. bodies of water
- B. trees
- C. oil reserves
- D. minerals
- E. All of the answers are correct.

38. In economics, "capital" refers to

- A. money
- B. stocks, bonds, and other financial assets
- C. the seat of government
- D. machines, buildings, tools, and knowledge
- E. net worth (assets minus liabilities)

39. An entrepreneur is a(n)

- A. individual who has much education
- B. organizer who seeks profitable opportunities and is willing to accept risks
- C. business organization that uses inputs to produce output
- D. administrator who runs an enterprise without accepting any risk of financial loss
- E. depot or storehouse for commercial products

40. Resources are used only in the production of goods, not services.

- A. True
- B. False

41. The difference between a good and a service is that

- A. a good helps satisfy unlimited wants; a service does not
- B. a service helps satisfy unlimited wants; a good does not
- C. a services is available in unlimited quantities; a good is not
- D. a good is available in unlimited quantities; a service is not
- E. a good is tangible; a service is not



42. Which of the following is a service?

- A. anything that is scarce and that satisfies unlimited human wants
- B. a thing for which people pay money
- C. an intangible activity that satisfies human wants
- D. any output produced by a service-sector industry, such as fast food
- E. something less desirable than a good

43. Which of the following is a service?

- A. a college education
- B. an automobile
- C. computer software
- D. a compact disc
- E. a textbook

44. Goods and services are scarce because

- A. people are greedy
- B. they are produced using scarce resources
- C. firms keep production low in order to earn higher profits
- D. they are produced by firms that seeks profits
- E. government wants to maintain its power over the economy

45. The expression "There's no such thing as a free lunch" means that

- A. services may be free, but goods are never free
- B. even if it has a price of zero, a good or service has a cost
- C. charitable organizations should not serve free lunches to the poor
- D. poor people are really the ones who pay for their allegedly free lunches
- E. someone has to pay the market price for a good or service

46. Even if something has a price of zero, every good or service has a cost. Which of the following statements best describes this idea?

- A. Que Sera, Sera.
- B. He who laughs last laughs best.
- C. The early bird catches the worm.
- D. A penny saved is a penny earned.
- E. There is no such thing as a free lunch.

47. The expression "There's no such thing as a free lunch" means

- A. that even if the lunch is free, we pay for it in extra calories
- B. that resources used up in producing the lunch are not available to satisfy other wants
- C. the same thing as "The best things in life are free"
- D. you can eat only if you work first
- E. neither sea water nor air is free

48. A good or service is considered scarce if

- A. any quantity of it can be consumed at a zero price
- B. the amount people desire exceeds the amount available at a zero price
- C. the amount people desire exceeds the amount available at any price
- D. the amount people desire is less than the amount available at any price
- E. the amount people desire is less than the amount available at a zero price

49. Unlike a "service," a "good"

- A. is desirable
- B. uses resources to satisfy wants
- C. is physical and tangible
- D. is abundant and free
- E. is a resource

50. A product that is physical and tangible is referred to as a(n)

- A. service
- B. good
- C. resource
- D. commodity
- E. asset

51. Goods and services are exchanged in

- A. product markets
- B. resource markets
- C. inventory markets
- D. classified markets
- E. government markets

52. Considering both product markets and resource markets, most economic decision makers participate in the economy as both buyers and sellers.

- A. True
- B. False

53. Which of the four types of decision makers in the U.S. economy plays the largest role?
- A. U.S. firms and government because they produce the products that households consume
  - B. U.S. households because they supply goods to the product markets and are demanders in resource markets
  - C. foreign households, firms, and governments because they greatly outnumber those of the United States
  - D. U.S. firms and government because they create employment for domestic households and produce goods and services
  - E. U.S. households, as buyers in product markets and sellers in resource markets

54. A market
- A. is often a physical place
  - B. facilitates exchanges between buyers and sellers
  - C. typically involves monetary transactions
  - D. might not have well-defined geographical limits
  - E. all of the above

55. Choices made by economic decision makers
- A. are government decisions only
  - B. are the primary focus of economics
  - C. are not important in economic analysis
  - D. occur infrequently
  - E. do not involve ordinary citizens

56. Households
- A. own and sell resources
  - B. play a very minor role in the economy
  - C. supply goods and services
  - D. are the largest purchasers of resources
  - E. none of the above

57. The labor market is an example of a
- A. government market
  - B. classified market
  - C. communication market
  - D. resource market
  - E. product market

58. Which of the following would be an example of a resource market?

- A. the market for tires
- B. the market for baseball games
- C. the market for compact discs
- D. the market for economists
- E. the market for downloadable music

59. A rational individual would make charitable contributions only if such contributions receive favorable tax treatment.

- A. True
- B. False

60. The assumption of rational self-interest does not rule out the possibility of concern for other individuals.

- A. True
- B. False

61. The assumption that individuals act rationally implies that

- A. people think only of themselves and disregard the well-being of others
- B. people undertake all those activities that yield benefits to themselves
- C. people only consider the costs of an activity to decide whether it is worthwhile
- D. the greater the cost of a charitable deed to a benefactor, the more likely he or she is to perform that deed
- E. people implicitly calculate the costs and benefits of an activity to decide if it is worthwhile

62. When people are assumed to implicitly calculate the costs and benefits of an activity to decide if it is worthwhile, they are behaving

- A. rationally
- B. self-interestedly
- C. greedily
- D. marginally
- E. expectantly

63. Rational choice by an individual implies

- A. the use of some mathematical model when solving a problem
- B. making decisions aimed at achieving some predetermined goal
- C. that only monetary costs and benefits are weighed
- D. that an individual will never regret any action taken
- E. that scarcity can be eliminated for that individual

64. Economists believe that

- A. people who choose to promote the interests of others cannot be acting rationally in their own self-interest
- B. people show concern only for those whom they know personally
- C. charitable donations would disappear if tax deductions for charitable giving were eliminated
- D. the notion of self-interest rules out concern for others
- E. concern for the welfare of others is consistent with the concept of self-interest

65. It is always rational to acquire more information before making a decision.

- A. True
- B. False

66. Consumers need information to make good choices. Which of the following is correct regarding this information?

- A. Advertising is always harmful to consumers.
- B. Information is scarce and therefore valuable.
- C. Brand names offer no informational content.
- D. Acquiring more information is always rational.
- E. Marginal analysis does not apply to the acquisition of information.

67. Economists generally believe that

- A. buyers and sellers have all the information they can use
- B. additional information is costly to acquire
- C. decision makers have complete knowledge of all the alternatives available
- D. economic decisions result from random behavior
- E. decision makers never make mistakes

68. Rational economic decision makers will make a change only if

- A. the change is free of risk
- B. there are no costs involved
- C. their expectations are correct
- D. there is no uncertainty about the results of the change
- E. the expected marginal benefit exceeds expected marginal cost

69. Economic information

- A. is usually scarce and costly to acquire
- B. is usually available free to any decision maker
- C. is usually not required for rational decision making
- D. must be complete before any decision is made
- E. is usually useful only to governments

70. In economics, the term "marginal" usually refers to

- A. a small change in an economic variable
- B. a low-quality product or resource
- C. an unimportant and irrelevant economic variable
- D. an all-or-nothing economic decision
- E. a footnote or minor point

71. A marginal adjustment only refers to a minor change.

- A. True
- B. False

72. A rational decision maker compares the expected marginal cost to the expected marginal benefit of any activity.

- A. True
- B. False

73. Most real economic choices involve small (or marginal) changes, rather than all-or-nothing decisions.

- A. True
- B. False

74. Economic decision makers will continue to acquire information only as long as the expected additional benefit exceeds the expected additional cost of the information.

- A. True
- B. False

75. When economic choice involves an adjustment to an existing situation, marginal analysis

- A. has no practical applications or real-world uses
- B. eliminates incorrect decisions and bad choices
- C. involves comparing the additional costs and additional benefits of an activity before deciding
- D. involves examining only the total costs and total benefits of an activity before deciding
- E. none of the above

76. Economists believe that people respond in a predictable way to changes in costs and benefits. The term that best describes this phenomenon is
- A. opportunity cost
  - B. scarcity
  - C. innovation
  - D. marginal analysis
  - E. other things equal (or *ceteris paribus*)
77. When economists say that people act as rational decision makers, that means
- A. they gather all relevant information before making their purchases
  - B. once a pattern of behavior has been established, people tend to become set in their ways
  - C. people respond in predictable ways to changes in costs and benefits
  - D. people rarely make errors when they are permitted to make transactions
  - E. once made, decisions are never reversed
78. In economics, marginal means
- A. incremental or decremental
  - B. unimportant
  - C. level or size
  - D. a border-line situation
  - E. a bad alternative
79. To say that people make marginal decisions means that
- A. they usually wait until the last minute before making a decision to buy
  - B. they weigh the additional costs and additional benefits of various activities before they make a decision
  - C. most people just barely get by on the incomes they earn and live from day to day on the very edge of subsistence
  - D. given a choice, most people would prefer to make their own decisions concerning the things that affect their lives
  - E. they consider the total cost and benefit of various activities before they make a purchase
80. A rational decision maker will take only those actions for which the expected marginal benefit
- A. is positive
  - B. is at its maximum level
  - C. is greater than or equal to the expected marginal cost
  - D. is less than the expected marginal cost
  - E. exactly equals the expected marginal cost

81. A rational decision maker will engage in more of an activity only if the marginal benefit of the additional activity

- A. is positive
- B. is at its maximum level
- C. is greater than or equal to the expected marginal cost
- D. is less than the expected marginal cost
- E. exactly equals the expected marginal cost

82. You currently subscribe to two magazines and are trying to decide whether you should subscribe to a third. What should determine your decision, if you are rational?

- A. the total cost of the magazines compared to the total satisfaction you would receive
- B. the total amount of satisfaction you would get from the magazines
- C. the enjoyment you would get from the third magazine
- D. the cost of the third magazine, including the time it takes to read it
- E. the cost of the third magazine compared to the additional enjoyment you would get from it

83. The behavior of the entertainment industry in Detroit is a microeconomic topic.

- A. True
- B. False

84. Microeconomics is the study of

- A. marginal or inferior products
- B. the economic behavior of individual decision makers
- C. the behavior of the economy as a whole
- D. how to use the fewest natural resources to produce goods and services
- E. government's role as a producer in the economy

85. Which of the following is a microeconomic topic?

- A. the job search behavior of a college graduate
- B. the impact of policy on the unemployment rate
- C. the impact of policy on the inflation rate
- D. the national debt
- E. the balance of payments



86. Macroeconomics is the study of

- A. the behavior of large firms in the marketplace
- B. the economic behavior of individual decision makers
- C. the behavior of the economy as a whole
- D. how to use the fewest natural resources to produce goods and services
- E. government's role as a stabilizing influence on the economy

87. The economic behavior of individual decision makers and the determination of price and output in specific markets are both studied in

- A. microeconomics
- B. macroeconomics
- C. positive economics
- D. normative economics
- E. disequilibrium economics

88. In macroeconomics, we analyze

- A. all of the following
- B. the overall performance of the economy as a whole
- C. arrangements through which specific products are exchanged
- D. influences on the decision making of particular households
- E. the factors that affect the decisions of individual firms

89. An economic model will produce poor predictions if it includes unrealistic assumptions.

- A. True
- B. False

90. Most economists consider a theory a good one if it predicts well.

- A. True
- B. False

91. Theory in economics

- A. involves some simplification of reality
- B. bears no relation to reality
- C. approaches reality in all its complexity
- D. involves so much distortion of reality that it is worthless
- E. focuses on the unique aspects of each situation

92. Theory seeks to

- A. simplify a complex reality
- B. confront reality in all its complexity by focusing on the unique aspects of each phenomenon
- C. explain phenomena without predicting them
- D. predict phenomena without explaining them
- E. distort reality in order to improve forecasting ability

93. An economic model

- A. always has a mathematical foundation
- B. can never be proven wrong
- C. can be constructed for an individual economic unit but not for the economy as a whole
- D. is a simplification of the real world
- E. can be constructed for the economy as a whole but not for an individual economic unit

94. An economic model

- A. omits critical elements
- B. must be presented in mathematical terms
- C. simplifies reality in order to focus on its essential elements
- D. can never be proven wrong if its assumptions are realistic
- E. produces poor predictions if it includes an unrealistic assumption

95. Economic theories are

- A. useful because they are as exact as theories in the physical sciences
- B. useless because they are based on abstractions
- C. useful because they allow us to make predictions
- D. too complex to understand because they include all of reality
- E. useful in predicting events only if their assumptions are realistic

96. A good economic theory

- A. has realistic assumptions
- B. contains as much detail as possible
- C. cannot be proven false
- D. predicts well
- E. can only be presented in mathematical terms

97. The basic purpose of economic models is to

- A. construct simplifying assumptions about the real world
- B. explain reality in all its complexity
- C. collect empirical data to support the facts
- D. construct situations where controlled experiments can be carried out
- E. provide explanations for, and predictions of, economic events

98. When constructing an economic model, economists

- A. rely mostly on their own value judgments and ignore the far more complex world of facts
- B. always try to duplicate reality by including all available information
- C. use assumptions that are true for the individual but never true for the whole economy
- D. must rely on simplifying assumptions that abstract from the complexity of the real world
- E. are primarily concerned with making realistic assumptions

99. All economic models must involve simplifications because

- A. economists would be unable to command high salaries if their models were so simple that anyone could understand them
- B. human behavior is very erratic and unpredictable
- C. reality is too complex to understand in its entirety, so we must reduce it to a level that we can understand
- D. they always try to duplicate all possible information and cover all possible variables that might influence decision making
- E. we must rely on value judgments and ignore reality

100. Economics employs a scientific methodology. In part, this means that

- A. all economic laws have been proven true by laboratory tests
- B. there is a single economic theory accepted by all economists
- C. economic hypotheses are tested to determine their validity
- D. personal values never enter into economic policy recommendations
- E. assumptions are not necessary in economic science

101. An economic model is useful if it

- A. includes every detail of reality
- B. involves no unproven assumptions
- C. is expressed in equations
- D. makes accurate predictions
- E. is simple enough to be understood by a child

102. A model that sometimes makes incorrect predictions may be used by economic decision makers

- A. under no circumstances
- B. only if its assumptions are detailed and realistic
- C. if it is mathematical and computerized
- D. if it is simple enough for a child to understand
- E. until a better model is developed

103. Economic theory

- A. expresses normative values
- B. invents imaginative and interesting stories
- C. predicts the behavior of a specific economic decision maker after an economic change
- D. predicts the average behavior of a group of similar economic decision makers after an economic change
- E. uses only perfect and complete information

104. *Ceteris paribus* means "other things constant."

- A. True
- B. False

105. Which of the following is an accurate list, in order, of the steps of the scientific process?

- A. define variables; state assumptions; form a hypothesis; test
- B. state assumptions; define variables; form a hypothesis; test
- C. identify variables; state assumptions; test; form a hypothesis
- D. identify variables; form "other things equal" assumptions; form behavioral assumptions; test
- E. form "other things equal" assumptions; form behavioral assumptions; form hypothesis; test

106. The other-things-constant assumption

- A. allows the economist to make useful predictions
- B. is a prediction
- C. applies only to consumers' decisions, not to those of firms
- D. forces the economist to ignore reality, where things are constantly changing
- E. implies rational self-interest on the part of all economic actors

107. In an economic model of consumer behavior, rational self-interest would likely be

- A. a key variable
- B. the hypothesis of the model
- C. a behavioral assumption
- D. a prediction of the model
- E. a method of testing the model

108. Behavioral assumptions

- A. make economic models more complex than if these assumptions were removed
- B. pertain only to consumers
- C. hold all other things constant
- D. are ways to test a hypothesis
- E. describe how individuals are expected to behave

109. A hypothesis is

- A. an assumption about behavior
- B. a prediction of what will occur given certain assumptions
- C. a prediction of what will occur regardless of assumptions
- D. a forecast of future events
- E. useful only if the assumptions are realistic

110. Which of the following is *not* a part of the scientific method in economics?

- A. normative statements
- B. comparing predictions to evidence
- C. formulating a hypothesis
- D. a hypothesis
- E. behavioral assumptions

111. Which of the following statements about economic methodology is correct?

- A. An economic law is a cause-and-effect relationship that has been verified by a controlled experiment.
- B. The test of a theory's validity is its usefulness in explaining reality.
- C. An economic law is a statement about group behavior that is based on the observed behavior of a single individual.
- D. An economic law, because it is based on probabilities, can only be expected to be true about half the time.
- E. Assumptions are ignored in the development of hypotheses.

112. The assumption of rational self-interest means that economic decision makers

- A. have no concern for the welfare of others
- B. consider the welfare of others to be more important than their own happiness
- C. know with certainty which choice will have the best result
- D. make reasonable decisions based on their expectations of results
- E. do not make incorrect decisions or bad choices

113. The scientific method is useful

- A. only in fields of science such as chemistry and physics
- B. for testing the validity of theoretical predictions
- C. for testing the validity of a model's assumptions
- D. when no economic variables can be assumed to be constant
- E. only if a theory has been proven to be true

114. Economists believe that individuals respond in a predictable way to changes in costs and benefits. The term that best describes this belief is

- A. opportunity cost
- B. demand
- C. supply
- D. scarcity
- E. rational behavior

115. Normative economic statements refer to what should be.

- A. True
- B. False

116. "There should be less discrimination against women" is an example of a positive statement.

- A. True
- B. False

117. An example of a positive economic statement is, "An increase in the price of a product causes consumers to purchase more of that product."

- A. True
- B. False

118. Which of the following is an example of a positive statement?

- A. Workers with families should be paid at least the minimum wage.
- B. If crime rates were reduced, the world would be a better place in which to live.
- C. Marginal tax rates should be reduced for individuals in the highest tax brackets.
- D. An increase in the price of gasoline will cause a reduction in the amount purchased.
- E. Corrupt politicians ought to be voted out of office.

119. An increase in the price of gasoline will cause a reduction in the amount purchased is an example of

- A. a normative statement
- B. an unprovable statement
- C. a theoretical statement
- D. a positive statement
- E. an assumption

120. Which of the following is a positive statement?

- A. An unemployment rate of 7 percent or higher is a national disgrace.
- B. Unemployment is a less important problem than inflation.
- C. When the national unemployment rate is 7 percent, the unemployment rate for inner-city youth is often close to 40 percent.
- D. Unemployment and inflation are equally important problems.
- E. An inflation rate of 7 percent is too high.

121. A normative economic statement

- A. is a hypothesis used to test economic theory
- B. is a statement of fact
- C. is a statement of what ought to be, not what is
- D. indicates what will occur if certain assumptions are true
- E. enables economists to test hypotheses

122. Which of the following is a normative statement?

- A. The U.S. rate of unemployment was lower in 2004 than it was in 1994.
- B. Savings accounts earn interest, whereas checking accounts do not.
- C. Congress must recognize that the growing national debt is the most serious problem that the country faces.
- D. The unemployment rate increases when the percentage of the labor force without jobs increases.
- E. The unemployment rate among teenagers is higher than the rate among adults.

123. "Congress must recognize that the growing national debt is the most serious problem that the country faces," is an example of

- A. a positive statement
- B. a normative statement
- C. a misleading statement
- D. a negative statement
- E. a marginal statement

124. Which of the following is an example of a normative statement?

- A. The moon is made of green cheese.
- B. Women should earn the same income as men.
- C. When the price of a good rises, people will buy more of it.
- D. The more time you spend studying, the higher your economics test scores will be.
- E. The more time you spend studying for chemistry, the higher your economics test score will be.

125. Which of the following is an example of a normative statement?

- A. If the money supply falls, interest rates will rise.
- B. Teenage unemployment would be lower if there were no minimum wage.
- C. The quantity of shirts sold increases as the price of shirts decreases.
- D. The federal government's total spending should be reduced.
- E. If interest rates go up, then construction activity will fall.

126. "There should be less discrimination against the elderly." This is an example of a

- A. normative statement
- B. positive statement
- C. forecast
- D. hypothesis
- E. prediction

127. The difference between a positive economic statement and a normative statement is that

- A. a positive statement must be true; a normative statement is often not true
- B. a normative statement must be true; a positive statement is often not true
- C. a positive statement can be verified; a normative statement cannot
- D. a normative statements can be verified; a positive statement cannot
- E. a positive economic statement is a moral judgment; a normative economic statement is not a moral judgment

128. The difference between positive economic statements and normative economic statements is that

- A. both c and e are true
- B. positive statements are based on opinion while normative statements are based on fact
- C. positive statements are true and normative statements are often false
- D. positive statements are often false and normative statements are true
- E. positive statements are based on fact while normative statements are based on opinion



129. Economists tell stories -- like the vending machine story --
- A. in order to breathe life into economic theory and personalize abstract ideas
  - B. because economics is an art, not a science
  - C. as a way of rigorously testing economic theory
  - D. because doing so is a required part of the scientific method
  - E. to show how their theory can predict at least one real-world situation

130. Japan has more vending machines per capita than any other country in the world. One explanation for this phenomenon is that

- A. vending machines are expensive in Japan
- B. the Japanese sales clerks' union requires that vending machines be used wherever possible
- C. labor is scarce in Japan, and vending machines help conserve on labor
- D. labor is abundant in Japan, and vending machines help conserve on labor
- E. vending machines were invented in Japan

131. Japan has more vending machines per capita than any other country in the world. One explanation for this phenomenon is that

- A. vending machines are very expensive in Japan
- B. the customs of the Japanese marketplace encourage businesses to install vending machines
- C. vending machines were invented in Japan
- D. time is less valuable in Japan than it is elsewhere
- E. most products commonly purchased by Japanese consumers are small enough to be sold in vending machines

132. When labor is relatively expensive, as it is in Japan,

- A. manufacturers will employ lots of labor
- B. the unemployment rate will be high
- C. vending machines displace labor, causing unemployment
- D. businesses will substitute capital -- such as vending machines -- in place of labor
- E. alcohol and cigarettes must be sold through vending machines

133. The case study on Japanese vending machines is a story that teaches us

- A. how a less expensive resource (vending machines) can be substituted for a more expensive resource (labor)
- B. how a more expensive resource (vending machines) can be substituted for a less expensive resource (capital)
- C. how technological innovations (such as vending machines) can eliminate jobs
- D. that machines are starting to dominate our lives
- E. how a technological unsophisticated economy can begin to use machinery

134. Economists often focus on average behavior because it is easier to predict.

- A. True
- B. False

135. Economic theory allows us to predict the behavior of a specific person or firm.

- A. True
- B. False

136. The association-causation fallacy is the error of assuming that what is true for one member of a group must be true for the group.

- A. True
- B. False

137. The fallacy of composition is the error of believing a cause-effect relationship exists between two events that are associated in time.

- A. True
- B. False

138. One problem with rent controls is that policy makers often ignore its secondary effects.

- A. True
- B. False

139. Secondary effects are consequences of economic actions that develop slowly over time as people react to events.

- A. True
- B. False

140. Your friend notices that U.S. auto production and U.S. population growth have moved together over several decades. He reasons that one way to slow population growth is for the government to order the auto makers to cut back on production. You gently point out to him that he

- A. is correct only when the economy is in a recession
- B. has mistakenly inferred causation from observed correlation
- C. has ignored secondary effects
- D. has committed the fallacy of composition
- E. is correct only when the United States enjoys economic growth

141. You tell your friend that the stock market does well when we have Republican presidents so you are going to vote republican in the next presidential election. Because she is such a good friend she gently points out to you that you

- A. are correct only when the economy is in a recession
- B. have mistakenly inferred causation from observed correlation
- C. have ignored secondary effects
- D. have committed the fallacy of composition
- E. are correct only when the United States enjoys economic growth

142. One might commit the fallacy of composition by concluding that

- A. statements that are true during prosperity are necessarily true during depression
- B. what is good for the individual is necessarily good for the group
- C. an event that precedes another is necessarily the cause of the latter
- D. intentions need not coincide with actions
- E. the composition of a complex product is not revealed by its exterior appearance

143. Which of the following is *not* an example of the fallacy of composition?

- A. If I can get to work fastest by taking the interstate, so can everyone else.
- B. If you can only get away from it all by going to Fairbanks, everyone who needs to get away should go to Fairbanks.
- C. If the quickest way to get off a sinking ship is to run to the nearest lifeboat, all the passengers should do this.
- D. If the best TV reception can be gotten with a Couch Potato antenna, then everyone should have a Couch Potato antenna.
- E. If I can get a better view by standing up at the baseball game, everyone gets a better view by standing up.

144. A fallacy of composition is to assume that

- A. you can determine the composition of a complex product just by examining its exterior properties
- B. consumer durable goods today do not last as long as they did a generation ago
- C. any mistakes made in producing a product using an assembly line technique will lead to a compounding of errors as the product moves down the line
- D. what is true for any individual component in a group is true for the group as a whole
- E. when I was young I liked cotton candy, but now that I'm older I no longer like it

145. One of the difficulties with an economic policy such as rent control is that

- A. politicians do not consider its secondary effects
- B. economists disagree about the impacts of the policy
- C. it is difficult to enforce antidiscrimination laws in the rental housing market
- D. it makes landlords wealthy at the expense of renters
- E. pressure from landlords resulted in its repeal in many cities

146. Which of the following would be considered a secondary effect of rent control.

- A. a reduction in the number of rental units that are available to rent
- B. an increase in the number of rental units that people would like to rent
- C. a shortage of rental units in the market
- D. the deterioration in the quality of rental units
- E. an increase in the difficulty of finding a rental unit at the rent control price

147. Someone who committed the association-is-causation fallacy might conclude that

- A. event B, which follows event A, was caused by the event A
- B. event B, which follows event A, was not necessarily caused by event A
- C. the simplest model is the best predictor
- D. what is true for the individual is also true for the group
- E. what is true for the individual is not necessarily true for the group

148. Someone who commits the fallacy of composition is likely to assume that

- A. the simplest model is the best predictor
- B. event B, which follows event A, was caused by event A
- C. event B, which follows event A, was not necessarily caused by event A
- D. what is true for the individual is also true for the group
- E. what is true for the individual is not necessarily true for the group

149. As a scientist, an economist's main professional objective is to become wealthy.

- A. True
- B. False

150. As a scientist, an economist's main professional objective is to

- A. become wealthy
- B. control the government's decision-making processes
- C. understand how the economy works
- D. discover which stock prices will decrease
- E. understand the psychology of participants in markets

151. Which of the following is the fundamental resource that is the basis of labor?

- A. capital
- B. natural resources
- C. time
- D. money
- E. entrepreneurial ability

152. Which of the following is true about entrepreneurs?

- A. They have the talent required to dream up a new product or find a better way to produce an existing one.
- B. They are rewarded by profits.
- C. They sometimes suffer losses.
- D. They benefit from what's left over after paying other resource suppliers.
- E. All of the answers are correct.

153. In a circular-flow model, households supply all of the following except

- A. labor
- B. goods and services
- C. capital
- D. entrepreneurial ability
- E. natural resources

154. In a circular-flow model, firms demand all of the following except

- A. labor
- B. goods and services
- C. capital
- D. entrepreneurial ability
- E. natural resources

155. Step one in the scientific method is

- A. formulate a hypothesis
- B. reflect an opinion
- C. specify assumptions
- D. identify the question and define relevant variables
- E. test the hypothesis

156. Most of the disagreement among economists involves normative debates.

- A. True
- B. False

157. To tell a compelling story, an economist relies on

- A. case studies
- B. anecdotes
- C. irrelevant data
- D. anecdotes and irrelevant data
- E. case studies and anecdotes

158. According to a 2011 Payscale.com survey the highest paying college major is:

- A. Economics
- B. Management
- C. Finance
- D. Computer Engineering
- E. Political Science

159. According to a 2011 survey by PayScale.com, the increase in median pay for economics majors with 10-20 years of experience compared to economics majors with 0-5 years of experience is:

- A. 150%
- B. 100%
- C. 80%
- D. 60%
- E. 25%

160. According to a 2011 PayScale.com survey, the college major whose median earnings showed the biggest increase from workers with 0-5 years of experience to workers with 10-20 years of experience was:

- A. Economics
- B. Criminal Justice
- C. Mathematics
- D. Mechanical Engineering
- E. History

161. According to a 2011 PayScale.com survey, the college majors that have the highest median earnings are ones that require quantitative and analytical skills.

- A. True
- B. False

162. According to a 2011 PayScale.com survey, among college majors with 10-20 years of experience, economics ranks second only to computer engineering in terms of the median pay.

- A. True
- B. False

# Chapter 1--The Art and Science of Economic Analysis **Key**

1. Economics is best defined as the study of how individuals decide to use limited resources in an attempt to satisfy unlimited wants.

- A.** True
- B. False

2. Economics studies how decision makers use scarce resources to satisfy unlimited wants.

- A.** True
- B. False

3. In economics, money is an example of capital.

- A. True
- B.** False

4. Profit is the payment received by resource owners for the use of their capital.

- A. True
- B.** False

5. Rent is the payment received by resource owners for the use of their natural resources.

- A.** True
- B. False

6. The fact that people have unlimited wants means that

- A.** they always want more of at least one good
- B. each person has an unlimited desire for every good
- C. labor unions demand wage increases
- D. selfish people are not concerned about others
- E. people buy goods without regard to what they can afford

7. The problem of scarce resources

- A. means that in some cities there are not enough jobs
- B. could be solved if the unemployment rate fell
- C.** is that there are not enough resources to satisfy people's unlimited wants
- D. is that resources are used inefficiently
- E. can be solved by lowering taxes

8. Scarcity is best defined as

- A. unlimited resources
- B. a shortage -- when buyers cannot obtain the goods they want
- C. a surplus -- when sellers cannot sell the goods they produce
- D.** insufficient resources to satisfy unlimited wants
- E. the private ownership of society's resources

9. Scarcity

- A. exists because people have wants that are unlimited relative to the availability of resources to satisfy those wants
- B. applies when a resource is not freely available
- C. means that each society and each individual must make choices
- D. exists in all societies
- E.** all of the above are true

10. Because people's wants are unlimited but resources are scarce,

- A. only the rich get everything they want
- B.** choices must be made
- C. there will be more services produced than goods
- D. people search for spiritual fulfillment rather than material fulfillment
- E. poor people never get anything they want

11. Which of the following statements regarding the basic economic problem of scarcity is correct?

- A. The problem only exists in countries that are not highly industrialized.
- B. The problem is likely to disappear as production increases.
- C. The problem is sure to disappear as technology improves.
- D.** The problem will exist as long as resources are available in limited amounts.
- E. The problem will disappear as a person's income falls.



12. Some individuals or families can become completely saturated with a service such as television. This suggests that

A. wants are limited

**B.** desires for a single commodity can be satisfied but then the focus will switch to other goods and services

C. a highly productive economy may someday be able to satisfy all human desires

D. resources are not truly fixed in supply as we generally assume

E. scarcity does not exist

13. The existence of scarcity as defined by economists means that

A. societies are inefficiently organized

B. people are irrational

**C.** societies must make choices of how to use their resources

D. resources are non-renewable

E. people are greedy

14. Economics is best defined as the study of how

**A.** individuals decide to use scarce resources in an attempt to satisfy their unlimited wants

B. to make money

C. the government should deal with unemployment and inflation

D. to eliminate the problem of scarce resources

E. to run a business

15. Economics is the study of

A. how to get rich by playing the stock market

B. the best ways to reduce people's wants, given the scarcity of resources

C. how rational government officials determine what goods should be produced

D. money and why it is good

**E.** how people use limited resources to try to satisfy unlimited wants

16. 'Which of the following is the best definition of economics?

A. An investigation of the quantities and prices of the various goods produced by the nations of the world.

B. A study of why inflation and unemployment periodically plague the U.S. economy.

**C.** An analysis of how individuals and societies deal with the problem of scarcity.

D. An examination of the role that money plays in the economy.

E. A study of how goods and services are distributed throughout the world.

17. The study of how nations deal with the problem of scarcity is the domain of

- A.** economics
- B. political science
- C. sociology
- D. political economy
- E. anthropology

18. Economics is best described as the

- A.** study of choice when scarcity exists
- B. study of the production of goods and services
- C. theory of consumer behavior
- D. science of money
- E. art of spending money wisely

19. Michigan has an abundant supply of fresh water. However, an economist would consider it a scarce resource because

- A. water is necessary for humans' physical survival
- B. pollution will eventually destroy all life in the Great Lakes
- C.** water is limited relative to people's unlimited wants
- D. water commands a very high price
- E. nature can destroy water as well as create it

20. Economics

- A.** studies human behavior when scarcity exists and choices must be made
- B. provides the only reasonable explanation of how people make decisions
- C. can accurately explain all human behavior since it is based on the assumption of rationality
- D. is better at showing the way things ought to be than the other social sciences are
- E. is the only social science that can explain the existence and behavior of public institutions

21. An economist would classify 100 shares of Apple Computer stock as capital.

- A. True
- B.** False

22. Profit is the payment made for land resources.

- A. True
- B.** False

23. A resource is something that

- A. is used to produce goods and services
- B. is provided by nature, not made by society
- C. exists in unlimited quantities
- D. must be produced by a firm
- E. consumes goods and services

24. Natural resources are

- A. not considered scarce because no one pays for them
- B. only desired for use in producing other goods
- C. included in the category of resources called gifts of nature
- D. available in unlimited quantities
- E. not considered scarce because they are not produced by society

25. The resource identified as land would include

- A. the effort of farmers
- B. the mules that Amish farmers use to work the fields
- C. the barn that a farmer houses her dairy cattle in
- D. the world's forests
- E. the cattle that a dairy farmer owns

26. In economics, capital is defined as

- A. natural resources, such as water, oil, and iron ore
- B. the natural, unskilled abilities of people
- C. human creations used in the production process
- D. money and other financial assets
- E. the willingness of business owners to take risks

27. Which of the following would an economist classify as capital?

- A. 100 shares of Microsoft stock
- B. a \$50 bill
- C. a credit card
- D. a lawyer's personal computer
- E. a bauxite mine in Jamaica

28. Economists classify all of the following as capital, except one. Which one is *not* capital?

- A.** a \$20 bill in a firm's petty cash drawer
- B. the building where our economics class meets
- C. a plumber's wrench
- D. a railroad car
- E. a factory

29. When economists refer to capital, they might mean

- A. money
- B.** human skills used in production
- C. stocks
- D. bonds
- E. bank loans

30. Which of the following is an example of capital?

- A. pizza ovens
- B. bulldozers
- C. a college education
- D. carpentry skills
- E.** all of the above

31. The respective payments for the resources of natural resources, labor, capital, and entrepreneurial ability are

- A. interest, wages, profit, and rent
- B. profit, rent, interest, and wages
- C. rent, wages, profit, and interest
- D. interest, profit, wages, and rent
- E.** rent, wages, interest, and profit

32. An entrepreneur

- A. always makes a profit
- B. generally avoids risky situations
- C.** claims the residual (i.e., whatever is left over) after other resource suppliers are compensated
- D. is a parasite that benefits by not paying other resources for their services
- E. is the manager who runs an enterprise and keeps the customers happy

33. An entrepreneur

A. always makes a profit

**B.** starts with an idea, organizes the resources to bring the idea to life and assumes the risk of profit or loss

C. always avoids risk

D. is a parasite that benefits by not paying other resources for their services

E. is the manager who runs an enterprise and keeps the customers happy

34. If a business produces and sells only one unit of a good, its profit would be the

A. price received for the good

**B.** price of the product minus the cost of the resources used to produce the product

C. return paid to the firm's bank on its outstanding loans

D. price of the product minus the wages paid for the labor used to produce it

E. wages paid for the labor used to produce the product minus the price

35. Because resources are scarce,

A. opportunity costs are zero

**B.** people must make choices among alternatives

C. all human wants and desires can be satisfied

D. resource prices are fixed

E. commodities are free

36. Resources are divided into the following broad categories:

A. people, money, and machines

B. saving, spending, investment, and capital

C. human, technological, and government

**D.** natural resources, labor, capital, and entrepreneurial ability

E. free, scarce, abundant, and unlimited

37. "Natural resources" refers

A. bodies of water

B. trees

C. oil reserves

D. minerals

**E.** All of the answers are correct.

38. In economics, "capital" refers to

- A. money
- B. stocks, bonds, and other financial assets
- C. the seat of government
- D.** machines, buildings, tools, and knowledge
- E. net worth (assets minus liabilities)

39. An entrepreneur is a(n)

- A. individual who has much education
- B.** organizer who seeks profitable opportunities and is willing to accept risks
- C. business organization that uses inputs to produce output
- D. administrator who runs an enterprise without accepting any risk of financial loss
- E. depot or storehouse for commercial products

40. Resources are used only in the production of goods, not services.

- A. True
- B.** False

41. The difference between a good and a service is that

- A. a good helps satisfy unlimited wants; a service does not
- B. a service helps satisfy unlimited wants; a good does not
- C. a services is available in unlimited quantities; a good is not
- D. a good is available in unlimited quantities; a service is not
- E.** a good is tangible; a service is not

42. Which of the following is a service?

- A. anything that is scarce and that satisfies unlimited human wants
- B. a thing for which people pay money
- C.** an intangible activity that satisfies human wants
- D. any output produced by a service-sector industry, such as fast food
- E. something less desirable than a good

43. Which of the following is a service?

- A.** a college education
- B. an automobile
- C. computer software
- D. a compact disc
- E. a textbook

44. Goods and services are scarce because

- A. people are greedy
- B. they are produced using scarce resources**
- C. firms keep production low in order to earn higher profits
- D. they are produced by firms that seeks profits
- E. government wants to maintain its power over the economy

45. The expression "There's no such thing as a free lunch" means that

- A. services may be free, but goods are never free
- B. even if it has a price of zero, a good or service has a cost**
- C. charitable organizations should not serve free lunches to the poor
- D. poor people are really the ones who pay for their allegedly free lunches
- E. someone has to pay the market price for a good or service

46. Even if something has a price of zero, every good or service has a cost. Which of the following statements best describes this idea?

- A. Que Sera, Sera.
- B. He who laughs last laughs best.
- C. The early bird catches the worm.
- D. A penny saved is a penny earned.
- E. There is no such thing as a free lunch.**

47. The expression "There's no such thing as a free lunch" means

- A. that even if the lunch is free, we pay for it in extra calories
- B. that resources used up in producing the lunch are not available to satisfy other wants**
- C. the same thing as "The best things in life are free"
- D. you can eat only if you work first
- E. neither sea water nor air is free

48. A good or service is considered scarce if

- A. any quantity of it can be consumed at a zero price
- B. the amount people desire exceeds the amount available at a zero price**
- C. the amount people desire exceeds the amount available at any price
- D. the amount people desire is less than the amount available at any price
- E. the amount people desire is less than the amount available at a zero price

49. Unlike a "service," a "good"

- A. is desirable
- B. uses resources to satisfy wants
- C. is physical and tangible**
- D. is abundant and free
- E. is a resource

50. A product that is physical and tangible is referred to as a(n)

- A. service
- B. good**
- C. resource
- D. commodity
- E. asset

51. Goods and services are exchanged in

- A. product markets**
- B. resource markets
- C. inventory markets
- D. classified markets
- E. government markets

52. Considering both product markets and resource markets, most economic decision makers participate in the economy as both buyers and sellers.

- A. True**
- B. False

53. Which of the four types of decision makers in the U.S. economy plays the largest role?

- A. U.S. firms and government because they produce the products that households consume
- B. U.S. households because they supply goods to the product markets and are demanders in resource markets
- C. foreign households, firms, and governments because they greatly outnumber those of the United States
- D. U.S. firms and government because they create employment for domestic households and produce goods and services
- E. U.S. households, as buyers in product markets and sellers in resource markets**



54. A market

- A. is often a physical place
- B. facilitates exchanges between buyers and sellers
- C. typically involves monetary transactions
- D. might not have well-defined geographical limits
- E.** all of the above

55. Choices made by economic decision makers

- A. are government decisions only
- B.** are the primary focus of economics
- C. are not important in economic analysis
- D. occur infrequently
- E. do not involve ordinary citizens

56. Households

- A.** own and sell resources
- B. play a very minor role in the economy
- C. supply goods and services
- D. are the largest purchasers of resources
- E. none of the above

57. The labor market is an example of a

- A. government market
- B. classified market
- C. communication market
- D.** resource market
- E. product market

58. Which of the following would be an example of a resource market?

- A. the market for tires
- B. the market for baseball games
- C. the market for compact discs
- D.** the market for economists
- E. the market for downloadable music

59. A rational individual would make charitable contributions only if such contributions receive favorable tax treatment.

- A. True
- B.** False

60. The assumption of rational self-interest does not rule out the possibility of concern for other individuals.

- A.** True
- B. False

61. The assumption that individuals act rationally implies that

- A. people think only of themselves and disregard the well-being of others
- B. people undertake all those activities that yield benefits to themselves
- C. people only consider the costs of an activity to decide whether it is worthwhile
- D. the greater the cost of a charitable deed to a benefactor, the more likely he or she is to perform that deed
- E.** people implicitly calculate the costs and benefits of an activity to decide if it is worthwhile

62. When people are assumed to implicitly calculate the costs and benefits of an activity to decide if it is worthwhile, they are behaving

- A.** rationally
- B. self-interestedly
- C. greedily
- D. marginally
- E. expectantly

63. Rational choice by an individual implies

- A. the use of some mathematical model when solving a problem
- B.** making decisions aimed at achieving some predetermined goal
- C. that only monetary costs and benefits are weighed
- D. that an individual will never regret any action taken
- E. that scarcity can be eliminated for that individual

64. Economists believe that

- A. people who choose to promote the interests of others cannot be acting rationally in their own self-interest
- B. people show concern only for those whom they know personally
- C. charitable donations would disappear if tax deductions for charitable giving were eliminated
- D. the notion of self-interest rules out concern for others
- E.** concern for the welfare of others is consistent with the concept of self-interest

65. It is always rational to acquire more information before making a decision.

- A. True
- B.** False

66. Consumers need information to make good choices. Which of the following is correct regarding this information?

- A. Advertising is always harmful to consumers.
- B. Information is scarce and therefore valuable.**
- C. Brand names offer no informational content.
- D. Acquiring more information is always rational.
- E. Marginal analysis does not apply to the acquisition of information.

67. Economists generally believe that

- A. buyers and sellers have all the information they can use
- B. additional information is costly to acquire**
- C. decision makers have complete knowledge of all the alternatives available
- D. economic decisions result from random behavior
- E. decision makers never make mistakes

68. Rational economic decision makers will make a change only if

- A. the change is free of risk
- B. there are no costs involved
- C. their expectations are correct
- D. there is no uncertainty about the results of the change
- E. the expected marginal benefit exceeds expected marginal cost**

69. Economic information

- A. is usually scarce and costly to acquire**
- B. is usually available free to any decision maker
- C. is usually not required for rational decision making
- D. must be complete before any decision is made
- E. is usually useful only to governments

70. In economics, the term "marginal" usually refers to

- A. a small change in an economic variable**
- B. a low-quality product or resource
- C. an unimportant and irrelevant economic variable
- D. an all-or-nothing economic decision
- E. a footnote or minor point

71. A marginal adjustment only refers to a minor change.

- A. True
- B. False**

72. A rational decision maker compares the expected marginal cost to the expected marginal benefit of any activity.

- A.** True
- B. False

73. Most real economic choices involve small (or marginal) changes, rather than all-or-nothing decisions.

- A.** True
- B. False

74. Economic decision makers will continue to acquire information only as long as the expected additional benefit exceeds the expected additional cost of the information.

- A.** True
- B. False

75. When economic choice involves an adjustment to an existing situation, marginal analysis

- A. has no practical applications or real-world uses
- B. eliminates incorrect decisions and bad choices
- C.** involves comparing the additional costs and additional benefits of an activity before deciding
- D. involves examining only the total costs and total benefits of an activity before deciding
- E. none of the above

76. Economists believe that people respond in a predictable way to changes in costs and benefits. The term that best describes this phenomenon is

- A. opportunity cost
- B. scarcity
- C. innovation
- D.** marginal analysis
- E. other things equal (or *ceteris paribus*)

77. When economists say that people act as rational decision makers, that means

- A. they gather all relevant information before making their purchases
- B. once a pattern of behavior has been established, people tend to become set in their ways
- C.** people respond in predictable ways to changes in costs and benefits
- D. people rarely make errors when they are permitted to make transactions
- E. once made, decisions are never reversed

78. In economics, marginal means

- A.** incremental or decremental
- B. unimportant
- C. level or size
- D. a border-line situation
- E. a bad alternative

79. To say that people make marginal decisions means that

- A. they usually wait until the last minute before making a decision to buy
- B.** they weigh the additional costs and additional benefits of various activities before they make a decision
- C. most people just barely get by on the incomes they earn and live from day to day on the very edge of subsistence
- D. given a choice, most people would prefer to make their own decisions concerning the things that affect their lives
- E. they consider the total cost and benefit of various activities before they make a purchase

80. A rational decision maker will take only those actions for which the expected marginal benefit

- A. is positive
- B. is at its maximum level
- C.** is greater than or equal to the expected marginal cost
- D. is less than the expected marginal cost
- E. exactly equals the expected marginal cost

81. A rational decision maker will engage in more of an activity only if the marginal benefit of the additional activity

- A. is positive
- B. is at its maximum level
- C.** is greater than or equal to the expected marginal cost
- D. is less than the expected marginal cost
- E. exactly equals the expected marginal cost

82. You currently subscribe to two magazines and are trying to decide whether you should subscribe to a third. What should determine your decision, if you are rational?

- A. the total cost of the magazines compared to the total satisfaction you would receive
- B. the total amount of satisfaction you would get from the magazines
- C. the enjoyment you would get from the third magazine
- D. the cost of the third magazine, including the time it takes to read it
- E.** the cost of the third magazine compared to the additional enjoyment you would get from it

83. The behavior of the entertainment industry in Detroit is a microeconomic topic.

- A. True
- B. False

84. Microeconomics is the study of

- A. marginal or inferior products
- B. the economic behavior of individual decision makers
- C. the behavior of the economy as a whole
- D. how to use the fewest natural resources to produce goods and services
- E. government's role as a producer in the economy

85. Which of the following is a microeconomic topic?

- A. the job search behavior of a college graduate
- B. the impact of policy on the unemployment rate
- C. the impact of policy on the inflation rate
- D. the national debt
- E. the balance of payments

86. Macroeconomics is the study of

- A. the behavior of large firms in the marketplace
- B. the economic behavior of individual decision makers
- C. the behavior of the economy as a whole
- D. how to use the fewest natural resources to produce goods and services
- E. government's role as a stabilizing influence on the economy

87. The economic behavior of individual decision makers and the determination of price and output in specific markets are both studied in

- A. microeconomics
- B. macroeconomics
- C. positive economics
- D. normative economics
- E. disequilibrium economics

88. In macroeconomics, we analyze

- A. all of the following
- B. the overall performance of the economy as a whole
- C. arrangements through which specific products are exchanged
- D. influences on the decision making of particular households
- E. the factors that affect the decisions of individual firms

89. An economic model will produce poor predictions if it includes unrealistic assumptions.

A. True

**B.** False

90. Most economists consider a theory a good one if it predicts well.

**A.** True

B. False

91. Theory in economics

**A.** involves some simplification of reality

B. bears no relation to reality

C. approaches reality in all its complexity

D. involves so much distortion of reality that it is worthless

E. focuses on the unique aspects of each situation

92. Theory seeks to

**A.** simplify a complex reality

B. confront reality in all its complexity by focusing on the unique aspects of each phenomenon

C. explain phenomena without predicting them

D. predict phenomena without explaining them

E. distort reality in order to improve forecasting ability

93. An economic model

A. always has a mathematical foundation

B. can never be proven wrong

C. can be constructed for an individual economic unit but not for the economy as a whole

**D.** is a simplification of the real world

E. can be constructed for the economy as a whole but not for an individual economic unit

94. An economic model

A. omits critical elements

B. must be presented in mathematical terms

**C.** simplifies reality in order to focus on its essential elements

D. can never be proven wrong if its assumptions are realistic

E. produces poor predictions if it includes an unrealistic assumption

95. Economic theories are

- A. useful because they are as exact as theories in the physical sciences
- B. useless because they are based on abstractions
- C.** useful because they allow us to make predictions
- D. too complex to understand because they include all of reality
- E. useful in predicting events only if their assumptions are realistic

96. A good economic theory

- A. has realistic assumptions
- B. contains as much detail as possible
- C. cannot be proven false
- D.** predicts well
- E. can only be presented in mathematical terms

97. The basic purpose of economic models is to

- A. construct simplifying assumptions about the real world
- B. explain reality in all its complexity
- C. collect empirical data to support the facts
- D. construct situations where controlled experiments can be carried out
- E.** provide explanations for, and predictions of, economic events

98. When constructing an economic model, economists

- A. rely mostly on their own value judgments and ignore the far more complex world of facts
- B. always try to duplicate reality by including all available information
- C. use assumptions that are true for the individual but never true for the whole economy
- D.** must rely on simplifying assumptions that abstract from the complexity of the real world
- E. are primarily concerned with making realistic assumptions

99. All economic models must involve simplifications because

- A. economists would be unable to command high salaries if their models were so simple that anyone could understand them
- B. human behavior is very erratic and unpredictable
- C.** reality is too complex to understand in its entirety, so we must reduce it to a level that we can understand
- D. they always try to duplicate all possible information and cover all possible variables that might influence decision making
- E. we must rely on value judgments and ignore reality



100. Economics employs a scientific methodology. In part, this means that

- A. all economic laws have been proven true by laboratory tests
- B. there is a single economic theory accepted by all economists
- C.** economic hypotheses are tested to determine their validity
- D. personal values never enter into economic policy recommendations
- E. assumptions are not necessary in economic science

101. An economic model is useful if it

- A. includes every detail of reality
- B. involves no unproven assumptions
- C. is expressed in equations
- D.** makes accurate predictions
- E. is simple enough to be understood by a child

102. A model that sometimes makes incorrect predictions may be used by economic decision makers

- A. under no circumstances
- B. only if its assumptions are detailed and realistic
- C. if it is mathematical and computerized
- D. if it is simple enough for a child to understand
- E.** until a better model is developed

103. Economic theory

- A. expresses normative values
- B. invents imaginative and interesting stories
- C. predicts the behavior of a specific economic decision maker after an economic change
- D.** predicts the average behavior of a group of similar economic decision makers after an economic change
- E. uses only perfect and complete information

104. *Ceteris paribus* means "other things constant."

- A.** True
- B. False

105. Which of the following is an accurate list, in order, of the steps of the scientific process?

- A.** define variables; state assumptions; form a hypothesis; test
- B. state assumptions; define variables; form a hypothesis; test
- C. identify variables; state assumptions; test; form a hypothesis
- D. identify variables; form "other things equal" assumptions; form behavioral assumptions; test
- E. form "other things equal" assumptions; form behavioral assumptions; form hypothesis; test

106. The other-things-constant assumption

- A.** allows the economist to make useful predictions
- B. is a prediction
- C. applies only to consumers' decisions, not to those of firms
- D. forces the economist to ignore reality, where things are constantly changing
- E. implies rational self-interest on the part of all economic actors

107. In an economic model of consumer behavior, rational self-interest would likely be

- A. a key variable
- B. the hypothesis of the model
- C.** a behavioral assumption
- D. a prediction of the model
- E. a method of testing the model

108. Behavioral assumptions

- A. make economic models more complex than if these assumptions were removed
- B. pertain only to consumers
- C. hold all other things constant
- D. are ways to test a hypothesis
- E.** describe how individuals are expected to behave

109. A hypothesis is

- A. an assumption about behavior
- B.** a prediction of what will occur given certain assumptions
- C. a prediction of what will occur regardless of assumptions
- D. a forecast of future events
- E. useful only if the assumptions are realistic

110. Which of the following is *not* a part of the scientific method in economics?

- A.** normative statements
- B. comparing predictions to evidence
- C. formulating a hypothesis
- D. a hypothesis
- E. behavioral assumptions

111. Which of the following statements about economic methodology is correct?

- A. An economic law is a cause-and-effect relationship that has been verified by a controlled experiment.
- B.** The test of a theory's validity is its usefulness in explaining reality.
- C. An economic law is a statement about group behavior that is based on the observed behavior of a single individual.
- D. An economic law, because it is based on probabilities, can only be expected to be true about half the time.
- E. Assumptions are ignored in the development of hypotheses.

112. The assumption of rational self-interest means that economic decision makers

- A. have no concern for the welfare of others
- B. consider the welfare of others to be more important than their own happiness
- C. know with certainty which choice will have the best result
- D.** make reasonable decisions based on their expectations of results
- E. do not make incorrect decisions or bad choices

113. The scientific method is useful

- A. only in fields of science such as chemistry and physics
- B.** for testing the validity of theoretical predictions
- C. for testing the validity of a model's assumptions
- D. when no economic variables can be assumed to be constant
- E. only if a theory has been proven to be true

114. Economists believe that individuals respond in a predictable way to changes in costs and benefits. The term that best describes this belief is

- A. opportunity cost
- B. demand
- C. supply
- D. scarcity
- E.** rational behavior

115. Normative economic statements refer to what should be.

- A.** True
- B. False

116. "There should be less discrimination against women" is an example of a positive statement.

- A. True
- B.** False

117. An example of a positive economic statement is, "An increase in the price of a product causes consumers to purchase more of that product."

- A.** True
- B. False

118. Which of the following is an example of a positive statement?

- A. Workers with families should be paid at least the minimum wage.
- B. If crime rates were reduced, the world would be a better place in which to live.
- C. Marginal tax rates should be reduced for individuals in the highest tax brackets.
- D.** An increase in the price of gasoline will cause a reduction in the amount purchased.
- E. Corrupt politicians ought to be voted out of office.

119. An increase in the price of gasoline will cause a reduction in the amount purchased is an example of

- A. a normative statement
- B. an unprovable statement
- C. a theoretical statement
- D.** a positive statement
- E. an assumption

120. Which of the following is a positive statement?

- A. An unemployment rate of 7 percent or higher is a national disgrace.
- B. Unemployment is a less important problem than inflation.
- C.** When the national unemployment rate is 7 percent, the unemployment rate for inner-city youth is often close to 40 percent.
- D. Unemployment and inflation are equally important problems.
- E. An inflation rate of 7 percent is too high.

121. A normative economic statement

- A. is a hypothesis used to test economic theory
- B. is a statement of fact
- C.** is a statement of what ought to be, not what is
- D. indicates what will occur if certain assumptions are true
- E. enables economists to test hypotheses

122. Which of the following is a normative statement?

- A. The U.S. rate of unemployment was lower in 2004 than it was in 1994.
- B. Savings accounts earn interest, whereas checking accounts do not.
- C.** Congress must recognize that the growing national debt is the most serious problem that the country faces.
- D. The unemployment rate increases when the percentage of the labor force without jobs increases.
- E. The unemployment rate among teenagers is higher than the rate among adults.

123. "Congress must recognize that the growing national debt is the most serious problem that the country faces," is an example of

- A. a positive statement
- B.** a normative statement
- C. a misleading statement
- D. a negative statement
- E. a marginal statement

124. Which of the following is an example of a normative statement?

- A. The moon is made of green cheese.
- B.** Women should earn the same income as men.
- C. When the price of a good rises, people will buy more of it.
- D. The more time you spend studying, the higher your economics test scores will be.
- E. The more time you spend studying for chemistry, the higher your economics test score will be.

125. Which of the following is an example of a normative statement?

- A. If the money supply falls, interest rates will rise.
- B. Teenage unemployment would be lower if there were no minimum wage.
- C. The quantity of shirts sold increases as the price of shirts decreases.
- D.** The federal government's total spending should be reduced.
- E. If interest rates go up, then construction activity will fall.

126. "There should be less discrimination against the elderly." This is an example of a

- A.** normative statement
- B. positive statement
- C. forecast
- D. hypothesis
- E. prediction

127. The difference between a positive economic statement and a normative statement is that

- A. a positive statement must be true; a normative statement is often not true
- B. a normative statement must be true; a positive statement is often not true
- C.** a positive statement can be verified; a normative statement cannot
- D. a normative statements can be verified; a positive statement cannot
- E. a positive economic statement is a moral judgment; a normative economic statement is not a moral judgment

128. The difference between positive economic statements and normative economic statements is that

- A. both c and e are true
- B. positive statements are based on opinion while normative statements are based on fact
- C. positive statements are true and normative statements are often false
- D. positive statements are often false and normative statements are true
- E.** positive statements are based on fact while normative statements are based on opinion

129. Economists tell stories -- like the vending machine story --

- A.** in order to breathe life into economic theory and personalize abstract ideas
- B. because economics is an art, not a science
- C. as a way of rigorously testing economic theory
- D. because doing so is a required part of the scientific method
- E. to show how their theory can predict at least one real-world situation

130. Japan has more vending machines per capita than any other country in the world. One explanation for this phenomenon is that

- A. vending machines are expensive in Japan
- B. the Japanese sales clerks' union requires that vending machines be used wherever possible
- C.** labor is scarce in Japan, and vending machines help conserve on labor
- D. labor is abundant in Japan, and vending machines help conserve on labor
- E. vending machines were invented in Japan

131. Japan has more vending machines per capita than any other country in the world. One explanation for this phenomenon is that

- A. vending machines are very expensive in Japan
- B.** the customs of the Japanese marketplace encourage businesses to install vending machines
- C. vending machines were invented in Japan
- D. time is less valuable in Japan than it is elsewhere
- E. most products commonly purchased by Japanese consumers are small enough to be sold in vending machines

132. When labor is relatively expensive, as it is in Japan,

- A. manufacturers will employ lots of labor
- B. the unemployment rate will be high
- C. vending machines displace labor, causing unemployment
- D.** businesses will substitute capital -- such as vending machines -- in place of labor
- E. alcohol and cigarettes must be sold through vending machines

133. The case study on Japanese vending machines is a story that teaches us

- A.** how a less expensive resource (vending machines) can be substituted for a more expensive resource (labor)
- B. how a more expensive resource (vending machines) can be substituted for a less expensive resource (capital)
- C. how technological innovations (such as vending machines) can eliminate jobs
- D. that machines are starting to dominate our lives
- E. how a technological unsophisticated economy can begin to use machinery

134. Economists often focus on average behavior because it is easier to predict.

- A.** True
- B. False

135. Economic theory allows us to predict the behavior of a specific person or firm.

- A. True
- B.** False

136. The association-causation fallacy is the error of assuming that what is true for one member of a group must be true for the group.

- A. True
- B.** False

137. The fallacy of composition is the error of believing a cause-effect relationship exists between two events that are associated in time.

- A. True
- B.** False

138. One problem with rent controls is that policy makers often ignore its secondary effects.

- A.** True
- B. False

139. Secondary effects are consequences of economic actions that develop slowly over time as people react to events.

- A.** True
- B. False

140. Your friend notices that U.S. auto production and U.S. population growth have moved together over several decades. He reasons that one way to slow population growth is for the government to order the auto makers to cut back on production. You gently point out to him that he

- A. is correct only when the economy is in a recession
- B.** has mistakenly inferred causation from observed correlation
- C. has ignored secondary effects
- D. has committed the fallacy of composition
- E. is correct only when the United States enjoys economic growth

141. You tell your friend that the stock market does well when we have Republican presidents so you are going to vote republican in the next presidential election. Because she is such a good friend she gently points out to you that you

- A. are correct only when the economy is in a recession
- B.** have mistakenly inferred causation from observed correlation
- C. have ignored secondary effects
- D. have committed the fallacy of composition
- E. are correct only when the United States enjoys economic growth

142. One might commit the fallacy of composition by concluding that

- A. statements that are true during prosperity are necessarily true during depression
- B.** what is good for the individual is necessarily good for the group
- C. an event that precedes another is necessarily the cause of the latter
- D. intentions need not coincide with actions
- E. the composition of a complex product is not revealed by its exterior appearance

143. Which of the following is *not* an example of the fallacy of composition?

- A. If I can get to work fastest by taking the interstate, so can everyone else.
- B. If you can only get away from it all by going to Fairbanks, everyone who needs to get away should go to Fairbanks.
- C. If the quickest way to get off a sinking ship is to run to the nearest lifeboat, all the passengers should do this.
- D.** If the best TV reception can be gotten with a Couch Potato antenna, then everyone should have a Couch Potato antenna.
- E. If I can get a better view by standing up at the baseball game, everyone gets a better view by standing up.



144. A fallacy of composition is to assume that

- A. you can determine the composition of a complex product just by examining its exterior properties
- B. consumer durable goods today do not last as long as they did a generation ago
- C. any mistakes made in producing a product using an assembly line technique will lead to a compounding of errors as the product moves down the line
- D.** what is true for any individual component in a group is true for the group as a whole
- E. when I was young I liked cotton candy, but now that I'm older I no longer like it

145. One of the difficulties with an economic policy such as rent control is that

- A.** politicians do not consider its secondary effects
- B. economists disagree about the impacts of the policy
- C. it is difficult to enforce antidiscrimination laws in the rental housing market
- D. it makes landlords wealthy at the expense of renters
- E. pressure from landlords resulted in its repeal in many cities

146. Which of the following would be considered a secondary effect of rent control.

- A. a reduction in the number of rental units that are available to rent
- B. an increase in the number of rental units that people would like to rent
- C. a shortage of rental units in the market
- D.** the deterioration in the quality of rental units
- E. an increase in the difficulty of finding a rental unit at the rent control price

147. Someone who committed the association-is-causation fallacy might conclude that

- A.** event B, which follows event A, was caused by the event A
- B. event B, which follows event A, was not necessarily caused by event A
- C. the simplest model is the best predictor
- D. what is true for the individual is also true for the group
- E. what is true for the individual is not necessarily true for the group

148. Someone who commits the fallacy of composition is likely to assume that

- A. the simplest model is the best predictor
- B. event B, which follows event A, was caused by event A
- C. event B, which follows event A, was not necessarily caused by event A
- D.** what is true for the individual is also true for the group
- E. what is true for the individual is not necessarily true for the group

149. As a scientist, an economist's main professional objective is to become wealthy.

- A. True
- B.** False

150. As a scientist, an economist's main professional objective is to

- A. become wealthy
- B. control the government's decision-making processes
- C. understand how the economy works**
- D. discover which stock prices will decrease
- E. understand the psychology of participants in markets

151. Which of the following is the fundamental resource that is the basis of labor?

- A. capital
- B. natural resources
- C. time**
- D. money
- E. entrepreneurial ability

152. Which of the following is true about entrepreneurs?

- A. They have the talent required to dream up a new product or find a better way to produce an existing one.
- B. They are rewarded by profits.
- C. They sometimes suffer losses.
- D. They benefit from what's left over after paying other resource suppliers.
- E. All of the answers are correct.**

153. In a circular-flow model, households supply all of the following except

- A. labor
- B. goods and services**
- C. capital
- D. entrepreneurial ability
- E. natural resources

154. In a circular-flow model, firms demand all of the following except

- A. labor
- B. goods and services**
- C. capital
- D. entrepreneurial ability
- E. natural resources

155. Step one in the scientific method is

- A. formulate a hypothesis
- B. reflect an opinion
- C. specify assumptions
- D.** identify the question and define relevant variables
- E. test the hypothesis

156. Most of the disagreement among economists involves normative debates.

- A.** True
- B. False

157. To tell a compelling story, an economist relies on

- A. case studies
- B. anecdotes
- C. irrelevant data
- D. anecdotes and irrelevant data
- E.** case studies and anecdotes

158. According to a 2011 Payscale.com survey the highest paying college major is:

- A. Economics
- B. Management
- C. Finance
- D.** Computer Engineering
- E. Political Science

159. According to a 2011 survey by PayScale.com, the increase in median pay for economics majors with 10-20 years of experience compared to economics majors with 0-5 years of experience is:

- A. 150%
- B.** 100%
- C. 80%
- D. 60%
- E. 25%

160. According to a 2011 PayScale.com survey, the college major whose median earnings showed the biggest increase from workers with 0-5 years of experience to workers with 10-20 years of experience was:

- A. Economics
- B. Criminal Justice
- C. Mathematics
- D. Mechanical Engineering
- E. History

161. According to a 2011 PayScale.com survey, the college majors that have the highest median earnings are ones that require quantitative and analytical skills.

- A. True
- B. False

162. According to a 2011 PayScale.com survey, among college majors with 10-20 years of experience, economics ranks second only to computer engineering in terms of the median pay.

- A. True
- B. False