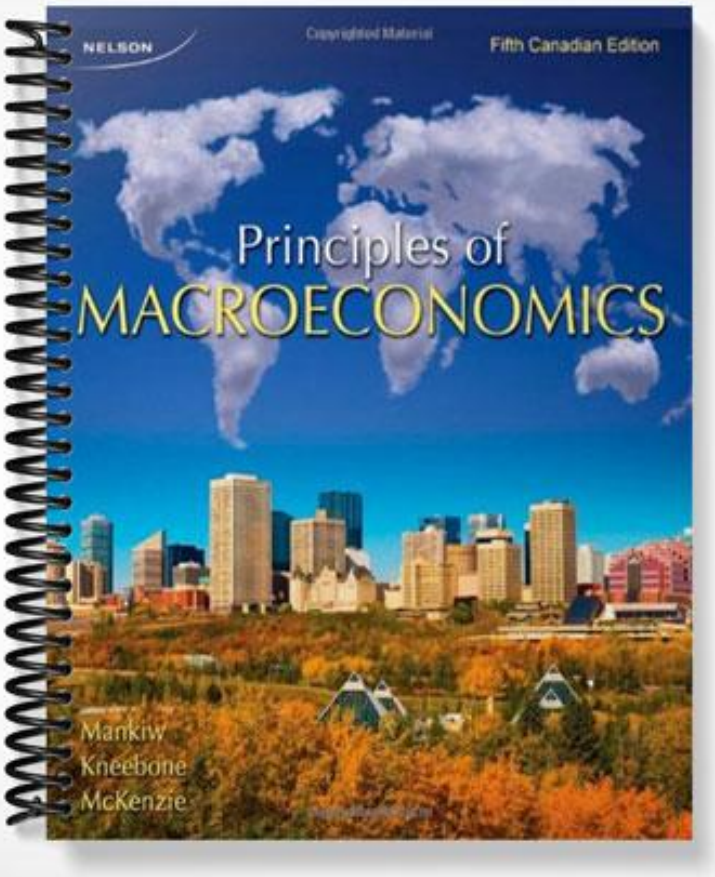
TEST BANK


NELSON
Copyrighted Material
Fifth Canadian Edition
Principles of
MACROECONOMICS
Mankiw
Kneebone
McKenzie

Chapter 2--Thinking Like an Economist

Student: _____

1. Which is the best statement about the way economists study the economy?
A. They study the past, but do not try to predict the future.
B. They use a probabilistic approach based on correlations between economic events.
C. They devise theories, collect data, and then analyze the data to test the theories.
D. They use controlled experiments much the same way a biologist or physicist does.

2. Which are terms used by an economist?
A. vector spaces and axioms
B. torts and venues
C. ego and cognitive dissonance
D. comparative advantage and elasticity

3. What is meant by scientific method?
A. the use of modern electronic testing equipment to understand the world
B. the dispassionate development and testing of theories about how the world works
C. the use of controlled experiments in understanding the way the world works
D. finding evidence to support preconceived theories about how the world works

4. Who said, "The whole of science is nothing more than the refinement of everyday thinking."?
A. Isaac Newton
B. Albert Einstein
C. Sigmund Freud
D. Stephen Hawking.

5. What observation did Albert Einstein once make about science?
A. "The whole of science is nothing more than the refinement of everyday thinking."
B. "The whole of science is nothing more than an interesting intellectual exercise."
C. "In order to understand science, one must rely solely on abstraction."
D. "In order to understand science, one must transcend everyday thinking."

6. If Sir Isaac Newton's development of the theory of gravity after observing an apple fall from a tree, what is this an example of?
A. controlled experiments used to develop scientific theories
B. being in the right place at the right time
C. an idea whose time had come
D. the interplay between observation and theory in science

7. What is a common thread between economics and other sciences such as physics?
A. Experiments are most often conducted in a lab.
B. Real-world observations often lead to theories.
C. A Ph.D. is required to truly understand any science.
D. Both deal primarily with abstract concepts.

8. Why is the use of theory and observation more difficult in economics than in sciences such as physics?
A. due to the difficulty in evaluating an economic experiment
B. due to the difficulty in devising an economic experiment
C. due to the difficulty in actually performing an experiment in an economic system
D. due to the difficulty in collecting sufficient data

9. Because it is difficult for economists to use experiments to generate data, what must they generally do?
A. do without data
B. use whatever data the world gives them
C. select a committee of economists to make up data for all economists to use
D. use hypothetical, computer-generated data

10. What happens when economists test theories?
A. They must make do with whatever data the world gives them.
B. They can manipulate economic conditions easier than other scientific fields.
C. They can enlist the government's help to manipulate economic conditions.
D. They can achieve statistically valid results with much smaller sample sizes.

11. What is one difficulty economists face that some other scientists do not?
A. Unlike other sciences, economic studies must include the largest economic player, the government.
B. Economists unfortunately receive less government funding than other scientists.
C. Corporations are reluctant to disclose necessary information for economic research.
D. Experiments are often difficult in economics.

12. Where do the most common data for testing economic theories come from?
A. carefully controlled and conducted laboratory experiments
B. traditional economies
C. historical episodes of economic change
D. centrally planned economies

13. For economists, what are often used as substitutes for laboratory experiments?
A. natural experiments offered by history
B. computer-generated experiments
C. studies conducted by other disciplines such as sociologists
D. well-constructed simulations

14. Why do economists make assumptions?
A. to diminish the chance of wrong answers
B. to make the world easier to understand
C. because all scientists make assumptions
D. to make certain that all necessary variables are included

15. What does the art of scientific thinking include?
A. knowledge of human behaviour
B. understanding every scientific field–physics, biology, and economics
C. deciding which assumptions to make
D. being able to mathematically express natural forces

16. If an economist develops a theory about international trade based on the assumption that there are only two countries and two goods, what is most likely?
A. The theory can be useful only in situations involving two countries and two goods.
B. It is a total waste of time, since the actual world has many countries trading many goods.
C. The theory can be useful in helping economists understand the complex world of international trade involving many countries and many goods.
D. The theory can be useful in the classroom, but has no use in the real world.

17. Why are historical episodes valuable to economists?
A. They allow economists to see how far the discipline has evolved.
B. Hindsight is always 20/20.
C. It is easier to evaluate a past situation than to predict a future situation.
D. They allow economists to evaluate economic theories of the present.

18. What would be the best statement about a theory based on assumptions that are NOT true?
A. If the assumptions underlying the theory are not true, the theory must be false.
B. The ideas may be good in theory, but not in practice.
C. The theory is a good one if it helps us to understand how the world works.
D. The theory is a good one if no logical mistakes were made in developing it.

19. What is the goal of theories?
A. to provide an interesting, but not useful, framework of analysis
B. to provoke stimulating debate in scientific journals
C. to demonstrate that the developer of the theory is capable of logical thinking
D. to help scientists understand how the world works

20. When economists attempt to simplify the real world and make it easier to understand, what do they do?
A. They make assumptions.
B. They make mistakes in judgment.
C. They make predictions.
D. They make evaluations.

21. What can good assumptions do?
A. cause economists to leave out important variables that make their theories worthless
B. simplify the complex world and make it easier to understand
C. further complicate an already difficult topic
D. allow economists to see the 'big picture' instead of only small segments

22. Which of the following best describes the decision by a scientist of which assumption to make?
A. the easiest part of the scientific method.
B. the flip of a coin.
C. almost impossible.
D. part art.

23. Which is true about the art of scientific thinking?
A. it iseasier with a solid mathematical background.
B. it is the ability to make an abstract subject easy to understand.
C. it involves deciding which assumptions to make.
D. it is not necessary to be an economist.

24. What happens when scientists make good assumptions?
A. They greatly simplify the problem without substantially affecting the answer.
B. They further complicate an already complicated subject.
C. They can leave out necessary variables that may result in incorrect answers.
D. They may not be able to reach an appropriate conclusion.

25. What is an example of a product that experiences infrequent price changes?
A. stocks on the Toronto Stock Exchange
B. gasoline prices
C. the newsstand price of magazines
D. electricity

26. When studying the effects of public policy changes, what have economists often observed?
A. There is a difference between the long run and short run.
B. Unemployment and inflation are directly related in the short run.
C. With stock prices, what goes up must come down.
D. If the policy is well-designed, it will always be effective.

27. When studying the effects of public policy changes, what do economists do?
A. They often falsify results if the desired effect is not reached.
B. They may make different assumptions for the long run and the short run.
C. They attempt to consider only the direct effects and not indirect effects.
D. They can immediately change policies if they are ineffective.

28. What do good economic models do?
A. They often leave out important variables, causing serious errors.
B. They omit many details to allow us to see what is truly important.
C. They are designed to give a complete picture of a given relationship.
D. They leave economics to be interpreted in many ways by governments

29. Why do economists use models?
A. to learn how the economy works
B. to make their profession appear more precise
C. to make economics accessible to the public
D. to make sure that all of the details of the economy are included in their analysis

30. Which is true about models used by economists?
A. they cannot be useful to economists if they are based on false assumptions
B. they make the economics profession more difficult than necessary
C. they allow economists to learn how the economy works
D. they must include every possible variable in the economy to be useful to economists

31. How do economists begin building an economic model?
A. by writing grants for government funding
B. by conducting controlled experiments in a lab
C. by making assumptions
D. by reviewing statistical forecasts

32. What is a model?
A. a theoretical abstraction with very little value
B. a useful tool to only the ones who constructed it
C. a realistic and carefully constructed theory
D. a simplification of real life

33. Which of the following is NOT true concerning models?
A. Models simplify reality.
B. Models can explain how the economy is organized.
C. Models assume away irrelevant details.
D. Models cannot be used to make predictions.

34. Which of the following is NOT true about most economic models?
A. They are built using the tools of mathematics.
B. They are useful to economists, but not to policymakers.
C. They do not include every feature of the economy.
D. They are built using assumptions.

35. Which of the following is the most accurate statement about economic models?
A. Economic models attempt to mirror reality exactly.
B. Economic models are useful, but should not be used for policymaking.
C. Economic models omit many details to allow us to see what is truly important.
D. Economic models cannot be used in the real world because they omit details.

36. What are the foundation stones from which economic models are built?
A. economic policies
B. the legal system
C. assumptions
D. statistical forecasts

37. What is a circular-flow diagram?
A. a visual model of how the economy is organized
B. a mathematical model of how the economy works
C. a model that shows the effects of government on the economy
D. a visual model of the relationship among money, prices, and businesses

38. What does a circular-flow diagram do?
A. It illustrates cost-benefit analysis.
B. It explains how the economy is organized.
C. It shows the flow of traffic in an economic region.
D. It explains how banks circulate money in the economy.

39. What are factors of production?
A. the mathematical calculations firms make to determine production
B. weather and social and political conditions that affect production
C. the physical relationships between economic inputs and outputs
D. inputs into the production process

40. In the simple circular-flow diagram, who are the decision makers?
A. firms and government
B. households and firms
C. households and government
D. households, firms, and government

41. What do the two loops in the circular-flow diagram represent?
A. the flow of goods and the flow of services
B. the flow of dollars and the flow of financial assets
C. the flow of inputs and outputs and the flow of dollars
D. the flow of capital goods and the flow of consumer goods

42. In a circular-flow diagram, which flows are involved?
A. Taxes flow from households to firms, and transfer payments flow from firms to households.
B. Income payments flow from firms to households, and sales revenue flows from households to firms.
C. Resources flow from firms to households, and goods and services flow from households to firms.
D. Inputs and outputs flow in the same direction as the flow of dollars, from firms to households.

43. Which is true in the circular-flow diagram?
A. firms are sellers in the resource market and the product market.
B. firms are buyers in the product market.
C. households are sellers in the resource market.
D. spending on goods and services flows from firms to households.

44. In the circular-flow diagram, which flows are involved?
A. Income from factors of production flows from firms to households.
B. Goods and services flow from households to firms.
C. Factors of production flow from firms to households.
D. Spending on goods and services flow from firms to households.

45. Which of the following would NOT be considered a factor of production?
A. labour
B. land
C. capital
D. money

46. What is another name for goods and services produced by firms?
A. factors of production
B. output
C. inputs
D. resources

47. What are factors of production?
A. They are used to produce goods and services.
B. They are owned by firms.
C. They are abundant in most economies.
D. They are used by both firms and households.

48. What is another term for factors of production?
A. inputs
B. output
C. goods
D. services

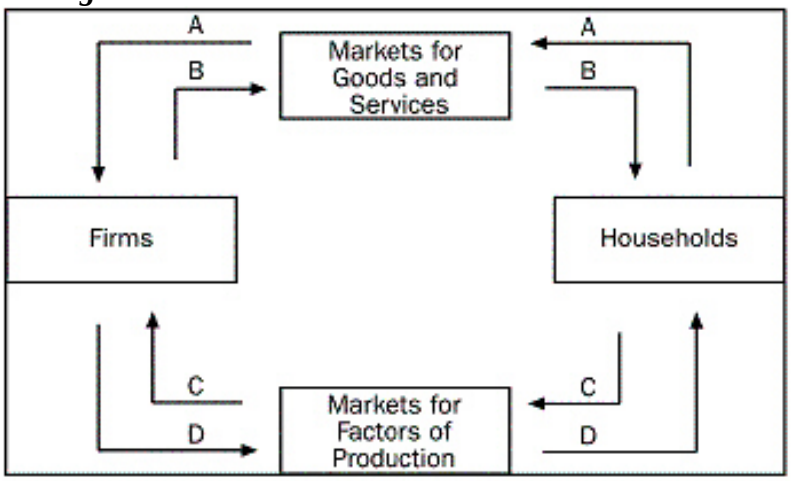
49. According to a simple circular-flow diagram, in how many markets do households and firms interact?
A. one type of market
B. two types of markets
C. three types of markets
D. Households and firms do not interact

50. In the simple circular-flow diagram, what do markets consist of?
A. the market for goods and services, the financial market, and the market for the factors of production
B. factors of production and the financial market
C. the market for goods and services and the financial market
D. the market for goods and services and the market for factors of production

51. In the goods and services market, how do households and firms interact?
A. Households and firms are both buyers.
B. Households are sellers and firms are buyers.
C. Households are buyers and firms are sellers.
D. Households and firms are both sellers.

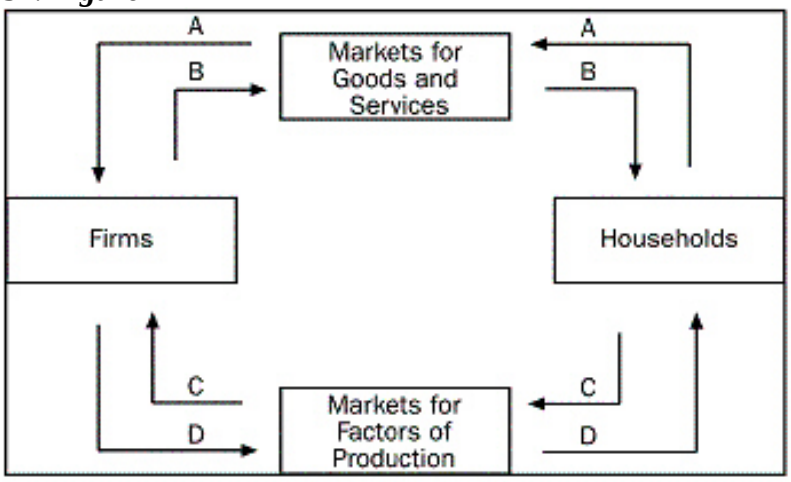
52. In the factors of production market, how do households and firms interact?
A. Households are sellers and firms are buyers.
B. Households are buyers and firms are sellers.
C. Households and firms are both buyers.
D. Households and firms are both sellers.

53. ***Figure 2-1***



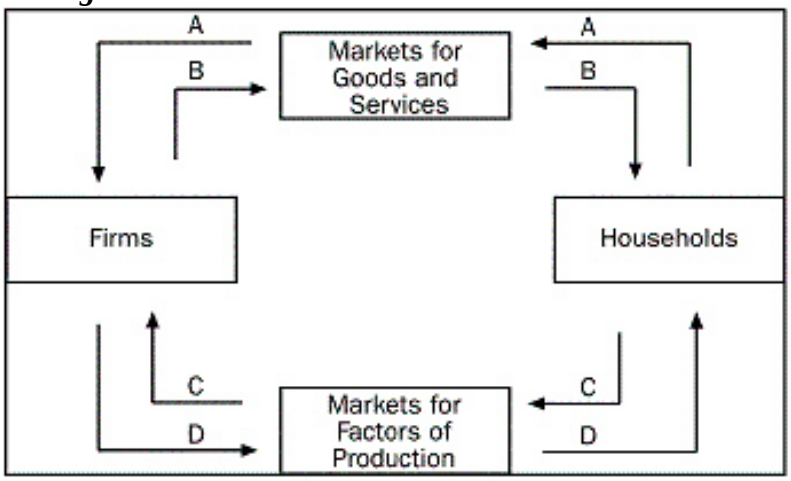
Refer to Figure 2-1. Which arrow shows the flow of goods and services?
A. arrow A
B. arrow B
C. arrow C
D. arrow D

54. ***Figure 2-1***



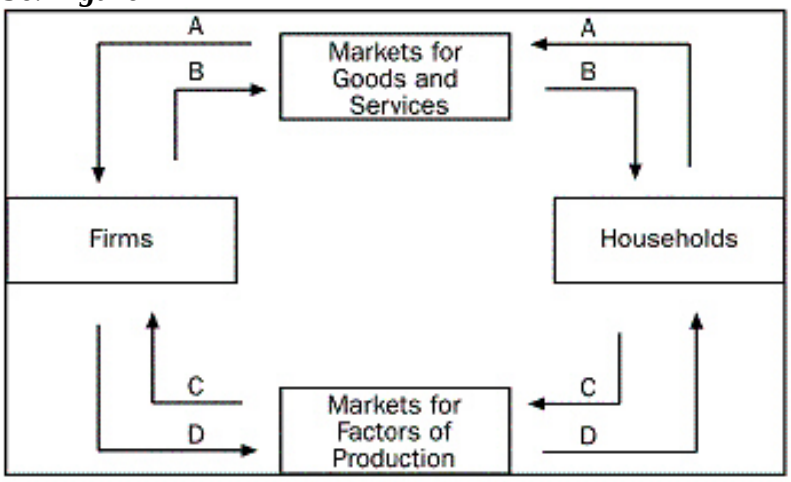
Refer to Figure 2-1. Which arrow shows the flow of spending by households?
A. arrow A
B. arrow B
C. arrow C
D. arrow D

55. ***Figure 2-1***



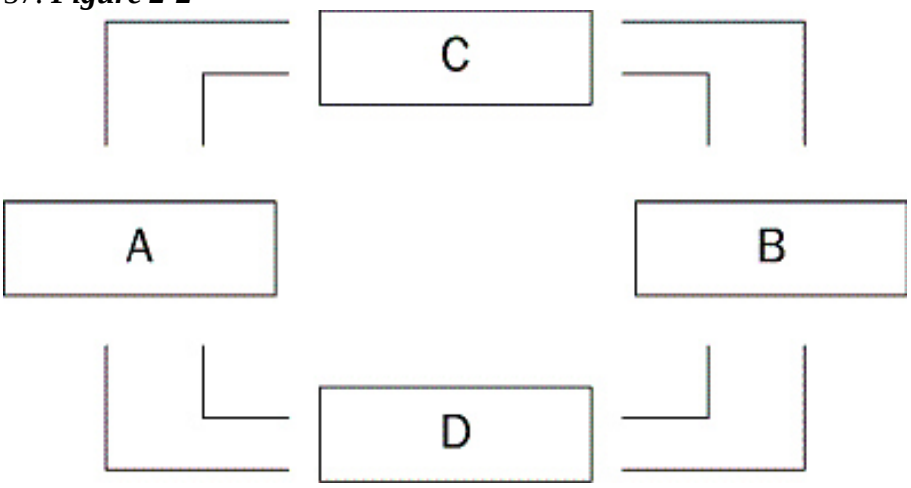
Refer to Figure 2-1. Which arrow shows the flow of the factors of production?
A. arrow A
B. arrow B
C. arrow C
D. arrow D

56. ***Figure 2-1***



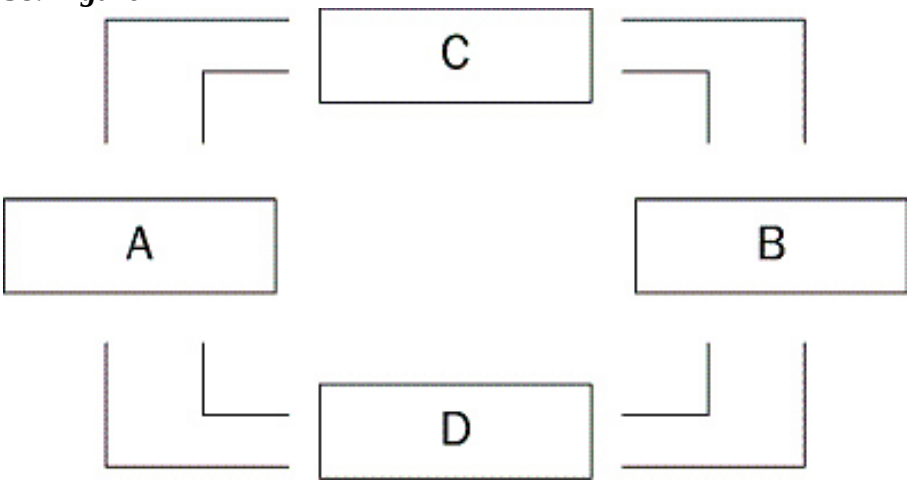
Refer to Figure 2-1. Which arrow shows the flow of income payments?
A. arrow A
B. arrow B
C. arrow C
D. arrow D

57. ***Figure 2-2***



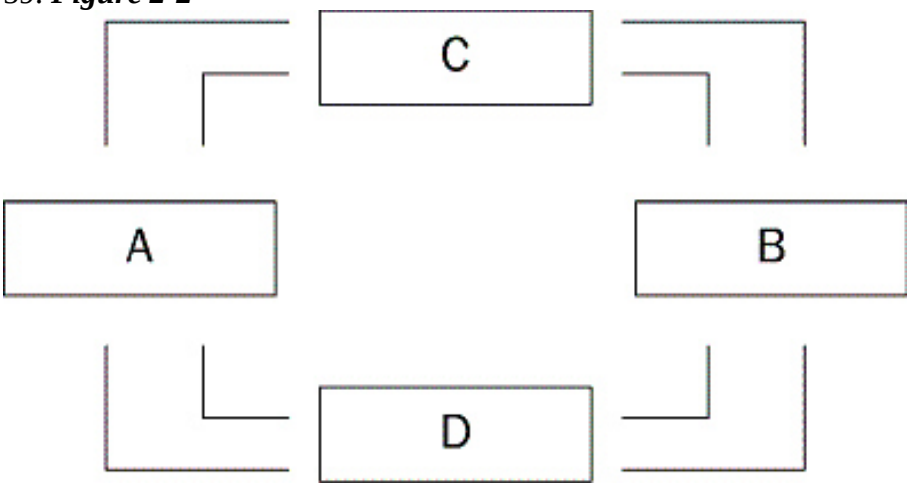
Refer to Figure 2-2. What do boxes A and B represent?
A. firms and households
B. government and the foreign sector
C. the goods and services market and the factors of production market
D. households and government

58. ***Figure 2-2***



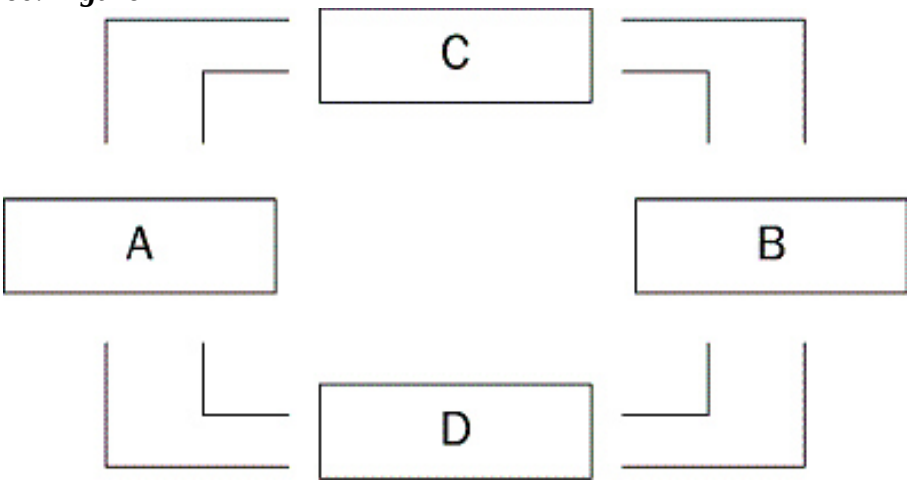
Refer to Figure 2-2. What do boxes C and D represent?
A. households and firms
B. the goods and services market and the factors of production market
C. the goods and services market and the financial market
D. households and government

59. ***Figure 2-2***



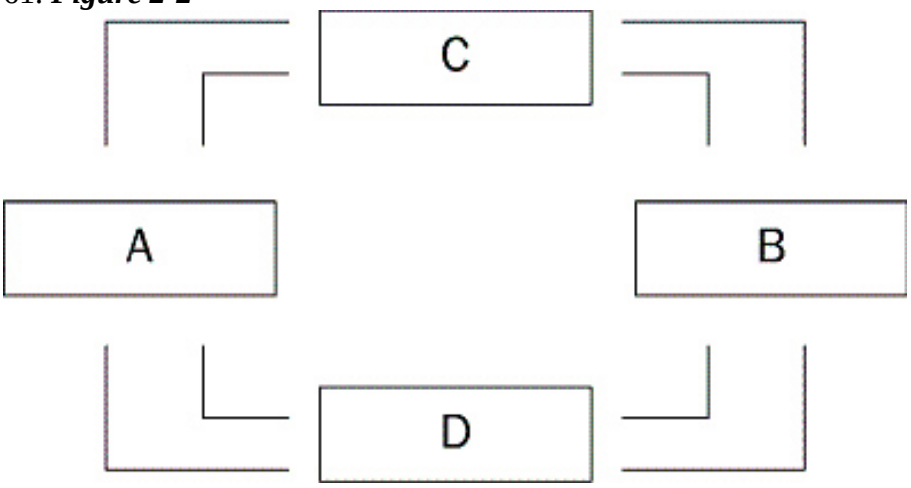
Refer to Figure 2-2. In which market are households sellers?
A. the factors of production market
B. the goods and services market
C. both of the above markets
D. neither of the above markets

60. ***Figure 2-2***



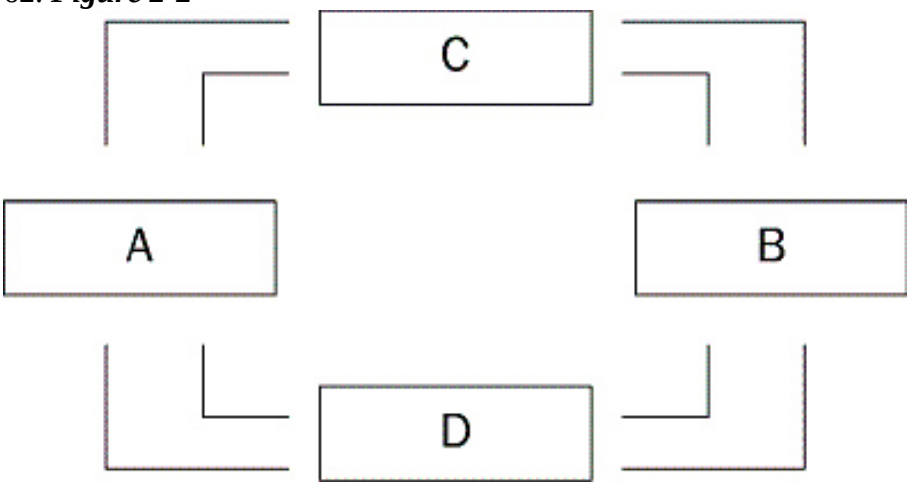
Refer to Figure 2-2. In which market are firms sellers?
A. the goods and services market
B. the factors of production market
C. both of the above markets
D. neither of the above markets

61. ***Figure 2-2***



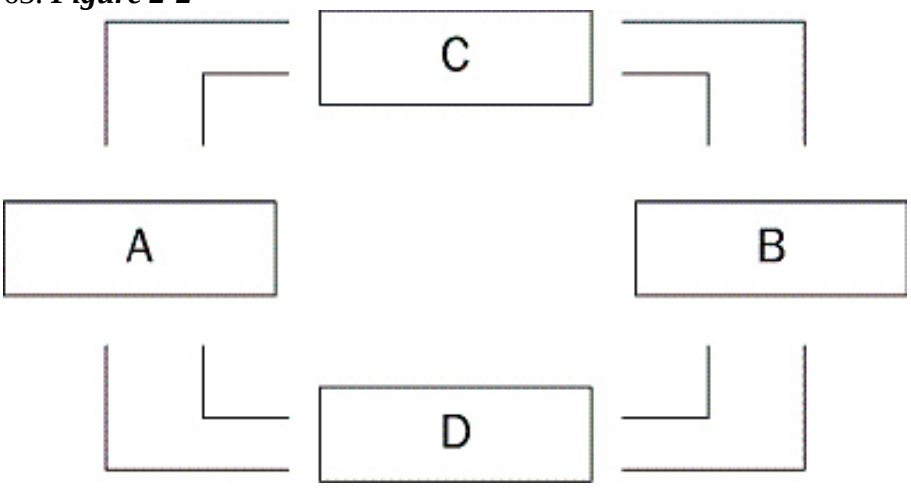
Refer to Figure 2-2. Who owns the factors of production?
A. the government
B. firms
C. households
D. corporations

62. ***Figure 2-2***



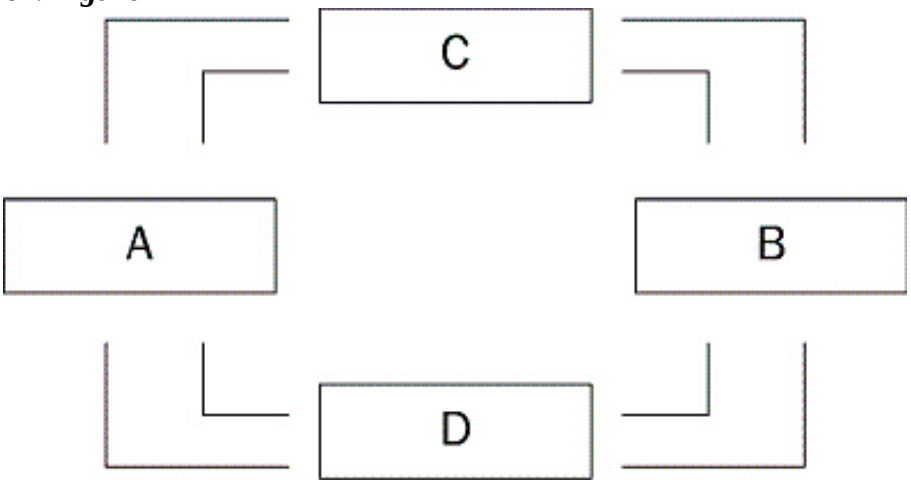
Refer to Figure 2-2. What does the inner loop represent?
A. the flow of inputs to firms and output to households
B. the flow of output to firms and inputs to households
C. the flow of spending to firms and factor payments to households
D. the flow of spending to households and factor payments to firms

63. ***Figure 2-2***



Refer to Figure 2-2. What does the outer loop represent?
A. the flow of goods
B. the flow of spending
C. the flow of factors of production
D. the flow of services

64. ***Figure 2-2***



Refer to Figure 2-2. Which is true about money spent by households?
A. it is earned from the sale of factors of production.
B. it becomes profit to firms.
C. it cannot be tracked in the diagram.
D. it is used to purchase factors of production.

65. What happens in the markets for factors of production?
A. Households provide firms with labour, land, and capital.
B. Households provide firms with savings for investment.
C. Firms provide households with goods and services.
D. The government provides firms with inputs for the production process.

66. What happens in the markets for goods and services?
A. Households provide firms with savings for investment.
B. Households provide firms with labour, land, and capital.
C. Firms provide households with the output they produced.
D. The government provides firms with inputs for the production process.

67. What are the four sectors in a more complex circular-flow diagram?
A. households, government, financial markets, and international trade
B. households, firms, government, and financial markets
C. households, firms, financial markets, and international trade
D. households, firms, government, and international trade

68. In economics, what does capital refer to?
A. the finances necessary for firms to produce their products
B. buildings and machines used in the production process
C. the money households use to purchase firms' output
D. the value of stock market shares to investors

69. What is revenue received by firms from sales that is not used to pay for factors of production?
A. rent
B. wages
C. profit
D. interest

70. What does a point on a country's production possibilities frontier represent?
A. a combination of two goods that an economy will never be able to produce.
B. a combination of two goods that an economy can produce using all available resources and technology.
C. a combination of two goods that an economy can produce using some of its resources and technology.
D. a combination of two goods that an economy may be able to produce sometime in the future with additional resources and technology.

71. For what reason are production possibilities frontiers usually bowed outward?
A. The more resources a society uses to produce one good, the fewer resources it has available to produce another good.
B. It reflects the fact that the opportunity cost of producing a good falls as one produces more and more of it.
C. It is because of the effects of technological change.
D. Resources are specialized, that is, some are better at producing particular goods rather than other goods.

72. For what reason are production possibilities frontiers usually bowed outward?
A. constant opportunity cost
B. increasing opportunity cost
C. decreasing opportunity cost
D. increasing productivity

73. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 50 units of food and 30 machines. This year, it is producing 55 units of food and 33 machines. Which of the following would *NOT* explain the increase in output?
A. a reduction in unemployment
B. an increase in the labour force
C. an improvement in technology
D. an increase in worker productivity

74. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 72 units of food and 28 machines. This year, it is producing 75 units of food and 30 machines. Which of the following would *NOT* explain the increase in output?
A. a reduction in unemployment
B. an increase in the labour force
C. an improvement in technology
D. an increase in worker productivity

75. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 91 units of food and 48 machines. This year, it is producing 92 units of food and 53 machines. Which of the following would *NOT* explain the increase in output?
A. a reduction in unemployment
B. an increase in the labour force
C. an improvement in technology
D. an increase in worker productivity

76. The country of Econoland produces two goods, textbooks and widgets. Last year it produced 200 textbooks and 500 widgets. This year it produced 250 textbooks and 600 widgets. Given no other information, which of the following could NOT explain the change?
A. Econoland experienced a reduction in unemployment.
B. Econoland experienced an improvement in widget-making technology.
C. Econoland acquired more resources.
D. Econoland experienced a high level of emigration out of the country.

77. The country of Econoland produces two goods, textbooks and widgets. Last year it produced 300 textbooks and 600 widgets. This year it produced 350 textbooks and 700 widgets. Given no other information, which of the following could NOT explain the change?
A. Econoland experienced a reduction in unemployment.
B. Econoland experienced an improvement in widget-making technology.
C. Econoland acquired more resources.
D. Econoland experienced a high level of emigration out of the country.

78. Suppose there are two countries, Freedonia and Sylvania, that have identical amounts of resources, identical technologies, and identical populations. Both produce two types of goods, consumer goods and capital goods, and they both always operate on their production possibilities frontiers. The only difference is that this year Freedonia chooses to produce relatively more consumer goods than Sylvania. What will happen as a result?
A. Freedonia will have a higher living standard this year but will grow slower than Sylvania.
B. Freedonia will have a higher living standard this year and will grow faster than Sylvania.
C. Sylvania will have a higher living standard this year but will grow slower than Freedonia.
D. Sylvania will have a higher living standard this year and will grow faster than Freedonia.

79. Suppose there are two countries, Freedonia and Sylvania, that have identical amounts of resources, identical technologies, and identical populations. Both produce two types of goods, consumer goods and capital goods, and they both always operate on their production possibilities frontiers. The only difference is that this year Sylvania chooses to produce relatively more consumer goods than Freedonia. What will happen as a result?
A. Freedonia will have a higher living standard this year but will grow slower than Sylvania.
B. Freedonia will have a higher living standard this year and will grow faster than Sylvania.
C. Sylvania will have a higher living standard this year but will grow slower than Freedonia.
D. Sylvania will have a higher living standard this year and will grow faster than Freedonia.

80. What is the production possibilities frontier?
A. a map that shows the frontier beyond which agriculture is unprofitable
B. a map that shows areas of the world in which capitalist production is now possible
C. a graph that shows the various combinations of resources that can be used to produce a given level of output
D. a graph that shows the various combinations of output the economy can possibly produce given the available resources and technology

81. Which of the following is the most accurate statement about production possibilities?
A. An economy can produce only on the production possibilities frontier.
B. An economy can produce at any point inside or outside a production possibilities frontier.
C. An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
D. An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.

82. When is an economic outcome said to be efficient?
A. if the economy is using all of the resources it has available
B. if the economy is conserving on resources and not using all it has
C. if the economy is getting all it can from the scarce resources it has available
D. if the economy is able to produce more than its current production without additional resources

83. When constructing a production possibilities frontier, which of the following is NOT an assumption?
A. The economy produces only 2 goods.
B. All the economy's factors of production are being used.
C. The economy has a fixed level of technology.
D. The economy may increase its available factors of production.

84. On a production possibilities frontier, when is production efficient?
A. if the production point is on the frontier
B. if the production point is outside the frontier
C. if the production point is on or inside the frontier
D. if the production point is inside the frontier

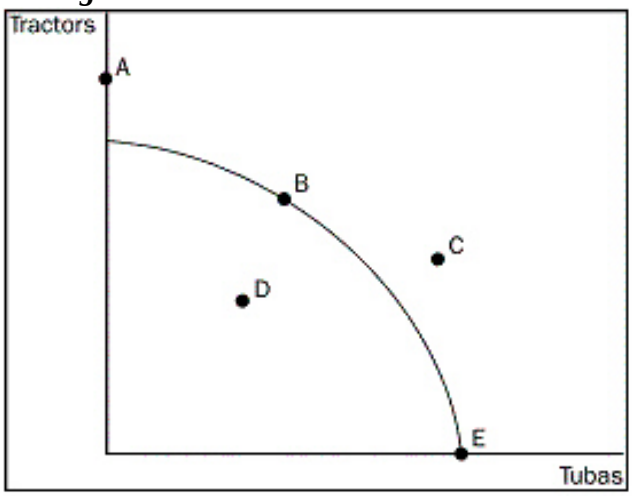
85. What does it mean if an economy is producing efficiently?
A. there is no way to produce more of one good without producing less of the other.
B. it is possible to produce more of both goods.
C. it is possible to produce more of one good without producing less of the other.
D. it is not possible to produce more of one good at any cost.

86. Which of the following concepts is NOT illustrated by the production possibilities frontier?
A. efficiency
B. opportunity cost
C. equity
D. tradeoffs

87. When a production possibilities frontier is linear, what does it show?
A. a truer picture of real life than a bowed out production possibilities frontier
B. that resources are perfectly shiftable from the production of one good to another
C. an example of increasing opportunity cost
D. An example of decreasing opportunity cost

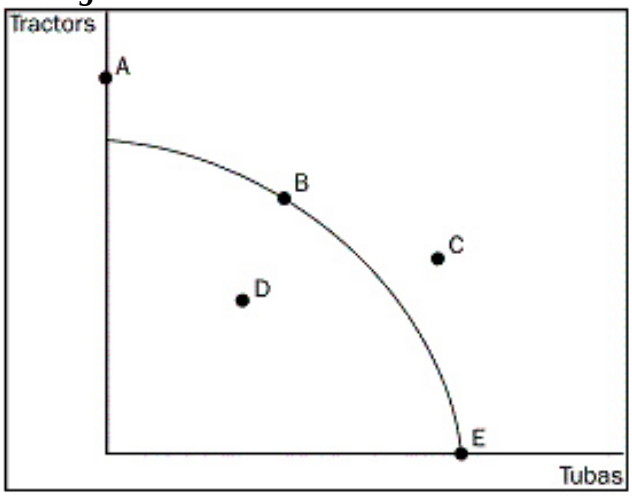
88. Suppose a nation is currently producing at a point inside its production possibilities frontier. What do we know?
A. The nation is producing beyond its capacity, and inflation will occur.
B. The nation is not using all available resources or has inefficiencies.
C. The nation is producing an efficient combination of goods.
D. There will be a large opportunity cost if the nation tries to increase production.

89. ***Figure 2-3***



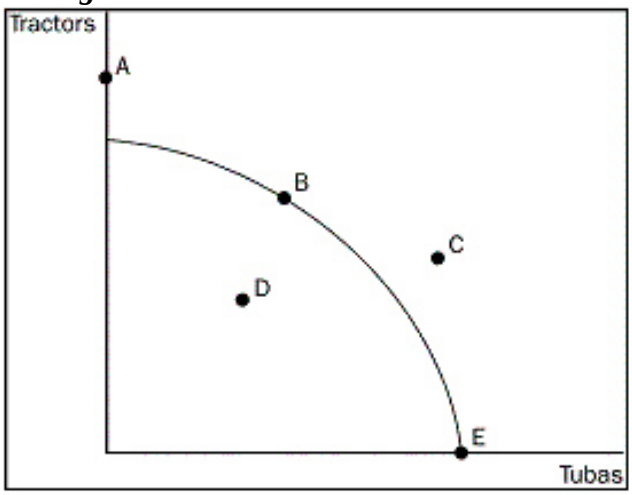
Refer to Figure 2-3. At which point or points can the economy produce?
A. point B, D, E
B. point A, B, D, E
C. point D, C
D. point D

90. ***Figure 2-3***



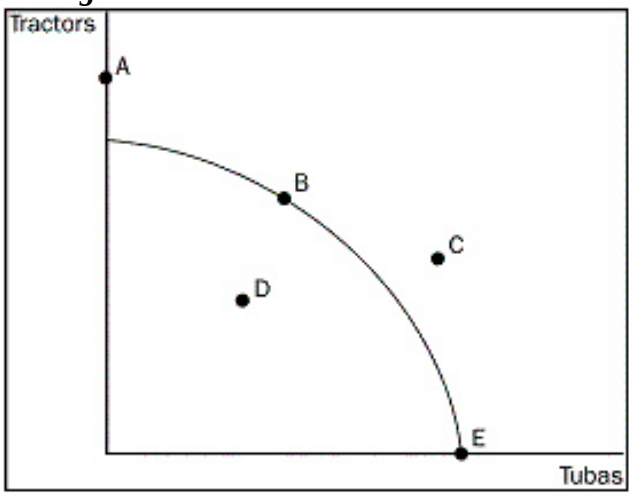
Refer to Figure 2-3. Which point represents the maximum possible production of tubas?
A. point A
B. point B
C. point C
D. point E

91. ***Figure 2-3***



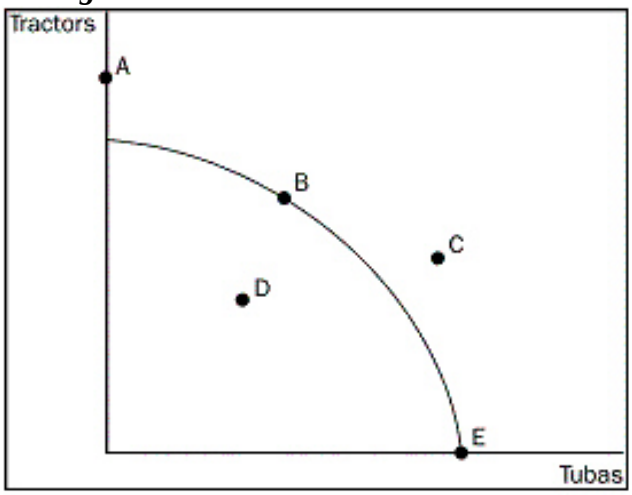
Refer to Figure 2-3. At which point or points can the economy NOT produce?
A. point A
B. point C
C. point A, C
D. point A, C, D

92. ***Figure 2-3***



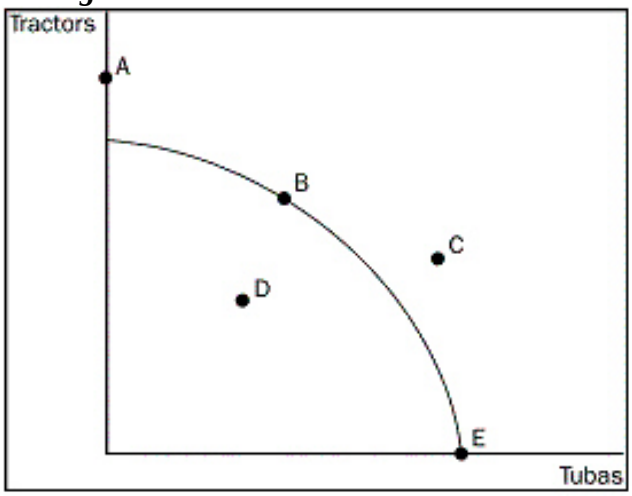
Refer to Figure 2-3. Which point or points are efficient?
A. point B, E
B. point A, B, E
C. point D
D. point C

93. ***Figure 2-3***



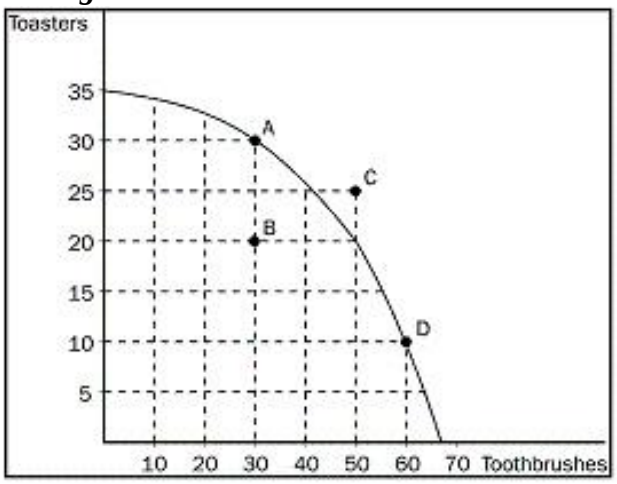
Refer to Figure 2-3. Which point or points are inefficient?
A. point A, C
B. point D, C
C. point C
D. point D

94. ***Figure 2-3***



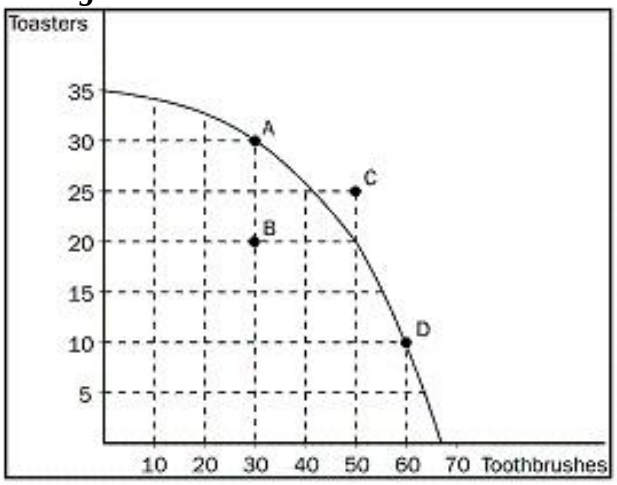
What is the opportunity cost of obtaining more of one good as shown on the production possibilities frontier?
A. the amount of the other good that must be given up.
B. the market price of the additional amount produced.
C. the amount of resources that must be devoted to its production.
D. the number of dollars that must be spent to produce it.

95. ***Figure 2-4***



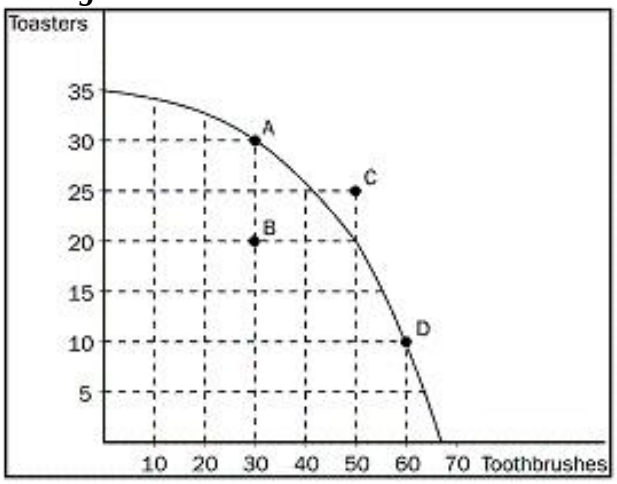
Refer to Figure 2-4. What is the opportunity cost to the economy of getting 30 additional toothbrushes by moving from point A to point D?
A. 10 toasters
B. 15 toasters
C. 20 toasters
D. 25 toasters

96. ***Figure 2-4***



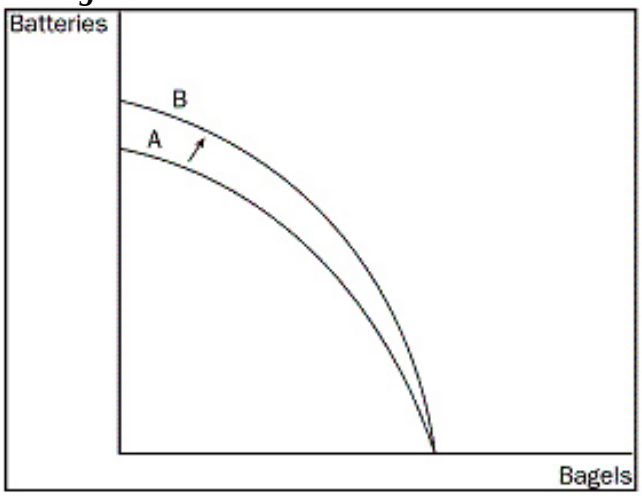
Refer to Figure 2-4. What is the opportunity cost of getting 15 additional toasters by moving from point D to point C?
A. 10 toothbrushes
B. 20 toothbrushes
C. 30 toothbrushes
D. It is impossible for the economy to move from point D to point C.

97. ***Figure 2-4***



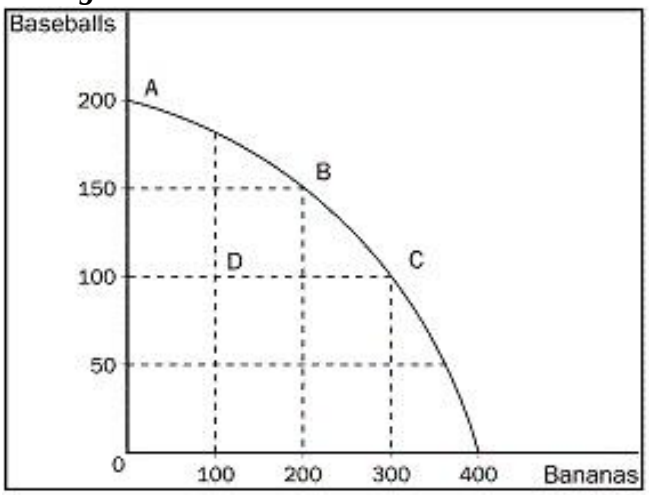
Refer to Figure 2-4. What is the opportunity cost in terms of toothbrushes of getting 10 additional toasters by moving from point B to point A?
A. 20 toothbrushes
B. 10 toothbrushes
C. 5 toothbrushes
D. zero, since the economy has the additional resources to produce 10 additional toasters

98. ***Figure 2-5***



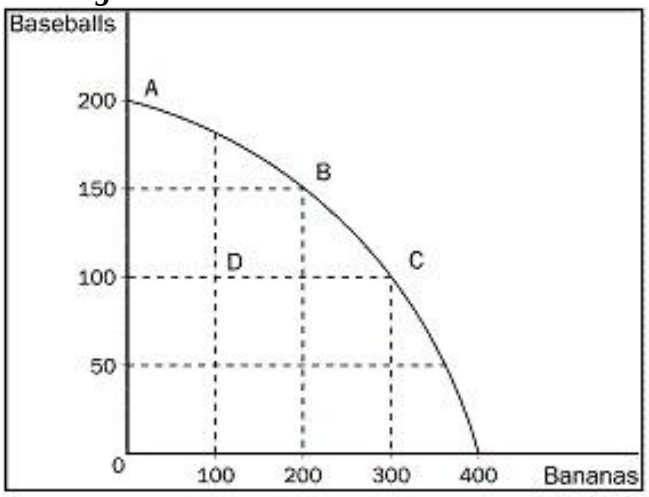
Refer to Figure 2-5. The shift of the frontier from A to B was most likely caused by which of the following?
A. technological improvement in the production of batteries
B. more labour available in the economy
C. a general technological breakthrough
D. more capital available in the economy

99. ***Figure 2-6***



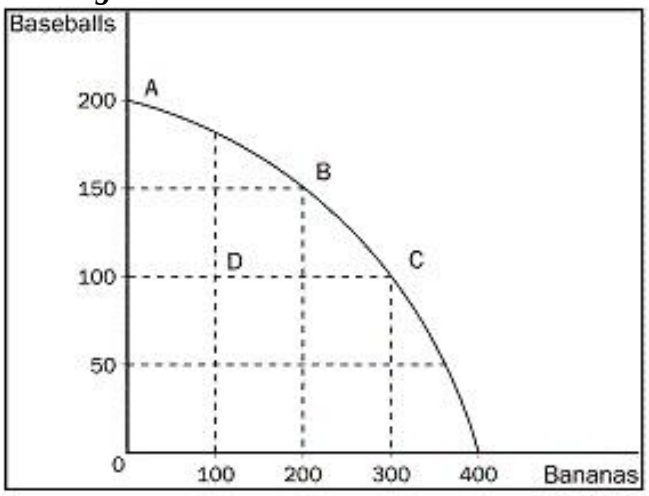
Refer to Figure 2-6. What is the opportunity cost to society of the movement from point A to point C?
A. 50 baseballs
B. 100 baseballs
C. 100 bananas
D. 300 bananas

100. ***Figure 2-6***



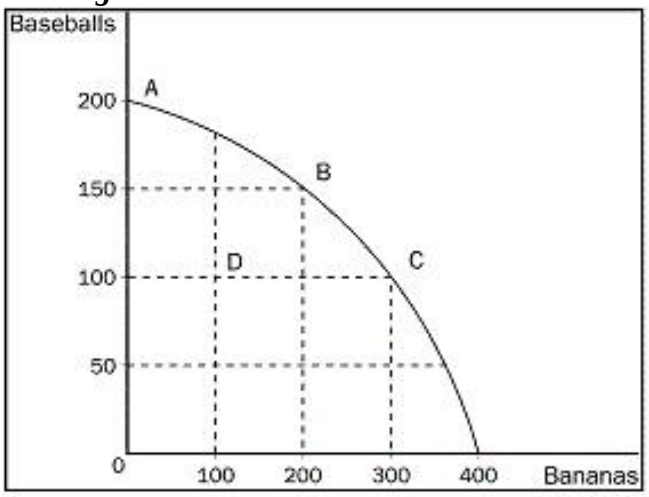
Refer to Figure 2-6. What is the opportunity cost to society of moving from point B to point D?
A. 100 bananas
B. 50 baseballs
C. both 100 bananas and 50 baseballs
D. nothing, since this economy would have unused resources

101. ***Figure 2-6***



Refer to Figure 2-6. What was the most likely cause of the movement from point C to point D?
A. unemployment
B. a decrease in society's preference for bananas
C. a decrease in society’s preference for playing baseball
D. a shift to a longer working day

102. ***Figure 2-6***



Refer to Figure 2-6. If this economy put all available resources into the production of bananas, how many could it produce?
A. 200 bananas and also 150 baseballs
B. 300 bananas and also 100 baseballs
C. 400 bananas and no baseballs
D. It is impossible to know unless we know the quantity of resources available.

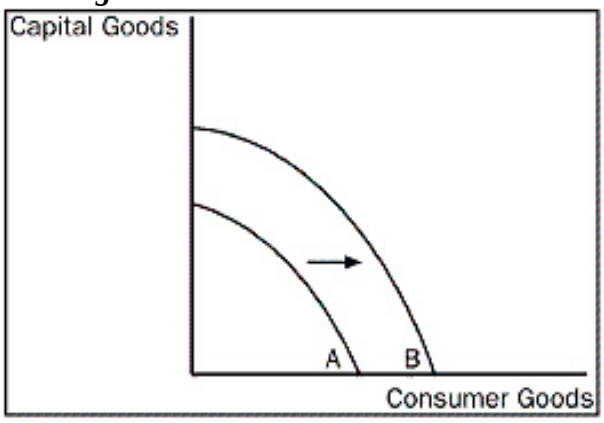
103. How can the production possibilities frontiers shift outward?
A. if government increases the amount of money in the economy
B. if there is an increase in technology
C. if resources can be moved from the production of one good to another
D. if opportunity costs are reduced

104. When is the production possibilities frontier bowed outward?
A. if resources are not perfectly shiftable
B. if the amount of resources increases
C. if the level of technology increases
D. if opportunity costs are constant

105. When a production possibilities frontier shifts outward, what concept is being demonstrated?
A. tradeoffs
B. efficiency
C. economic growth
D. opportunity cost

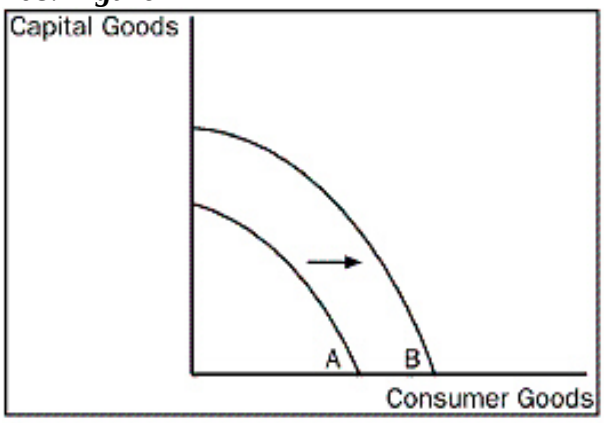
106. When an economy is operating inside its production possibilities frontier, what do we know?
A. There are unused resources or inefficiencies in the economy.
B. The economy is operating with efficiency.
C. Moving to a point on its production possibilities frontier would be economic growth.
D. To produce more of one good, the economy would have to give up some of the other good.

107. ***Figure 2-7***



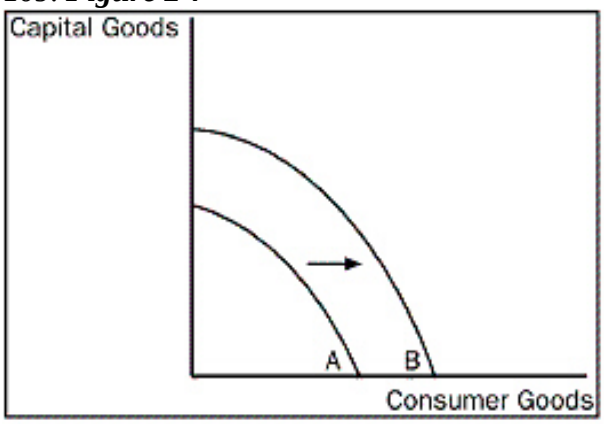
Refer to Figure 2-7. Which of the following would most likely have caused the production possibilities frontier to shift outward from A to B?
A. an increase in resources necessary to produce capital goods
B. an improvement in the technology of producing consumer goods
C. an increase in the overall level of technology in the economy
D. an increase in unemployment

108. ***Figure 2-7***



Refer to Figure 2-7. What would best describe the movement from frontier A to B?
A. a downturn in the economy
B. economic growth
C. a more equitable distribution of income
D. an improvement in the allocation of resources

109. ***Figure 2-7***



What would unemployment cause an economy to do?
A. produce inside its production possibilities frontier
B. produce on its production possibilities frontier
C. produce outside its production possibilities frontier
D. unemployment could actually cause a, b, or c, depending on how severe it is

110. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of dolls from 200 to 300?
A. 200 fire trucks
B. 150 fire trucks
C. 100 fire trucks
D. It is impossible to tell what the opportunity cost is since in this example costs are not constant.

111. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of dolls from 300 to 400?
A. 200 fire trucks
B. 150 fire trucks
C. 100 fire trucks
D. It is impossible to tell what the opportunity cost is since in this example costs are not constant.

112. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of dolls from 100 to 200?
A. 200 fire trucks
B. 150 fire trucks
C. 100 fire trucks
D. It is impossible to tell what the opportunity cost is since in this example costs are not constant.

113. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of dolls from 0 to 100?
A. 200 fire trucks
B. 150 fire trucks
C. 100 fire trucks
D. 50 fire trucks

114. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of fire trucks from 0 to 200?
A. 200 dolls
B. 150 dolls
C. 100 dolls
D. 50 dolls

115. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

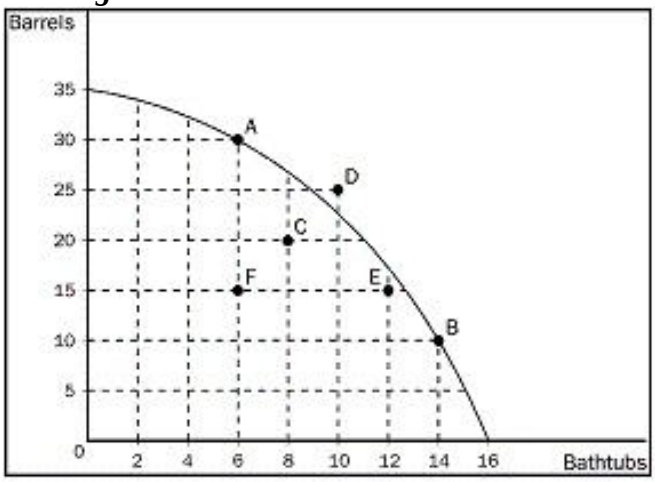
Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of fire trucks from 450 to 500?
A. 200 dolls
B. 150 dolls
C. 100 dolls
D. 50 dolls

116. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

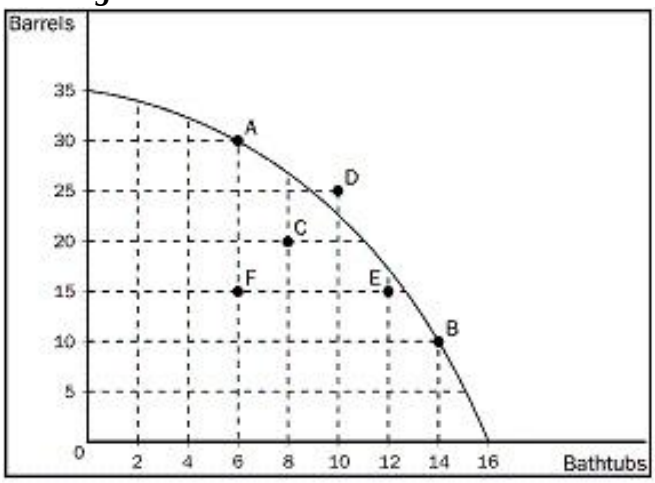
Refer to Table 2-1. Which of the following statements accurately describes the production possibilities for Toyland?
A. The opportunity cost of an additional 100 dolls is 50 fire trucks.
B. The opportunity cost of an additional 100 dolls is 100 fire trucks.
C. Without additional information, it is impossible to determine the opportunity cost of an additional doll.
D. The opportunity cost of an additional 100 dolls increases as more dolls are produced.

117. ***Figure 2-8***



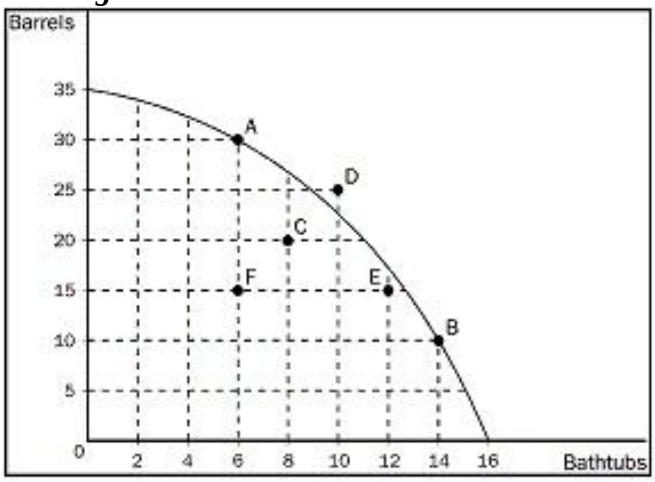
Refer to Figure 2-8. What would be an efficient combination of bathtubs and barrels?
A. 30 barrels and 6 bathtubs
B. 20 barrels and 8 bathtubs
C. 25 barrels and 10 bathtubs
D. 15 barrels and 12 bathtubs

118. ***Figure 2-8***



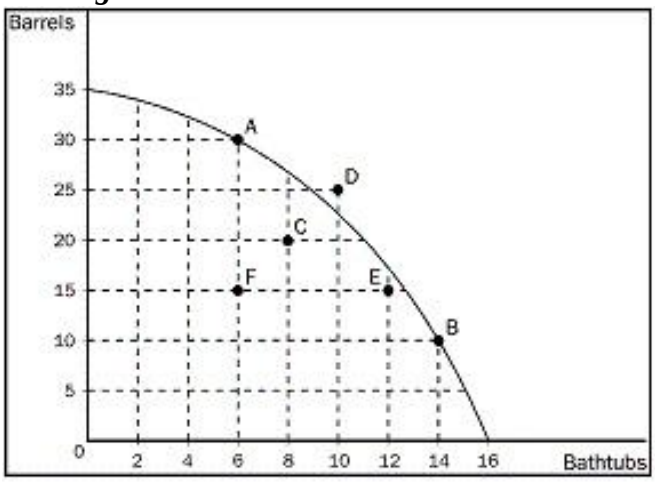
Refer to Figure 2-8. What is the opportunity cost of moving from point A to point B?
A. 8 bathtubs
B. 20 barrels
C. the difference between the 8 bathtubs you get and the 20 barrels you give up
D. the difference between the 20 barrels you get and the 8 bathtubs you give up

119. ***Figure 2-8***



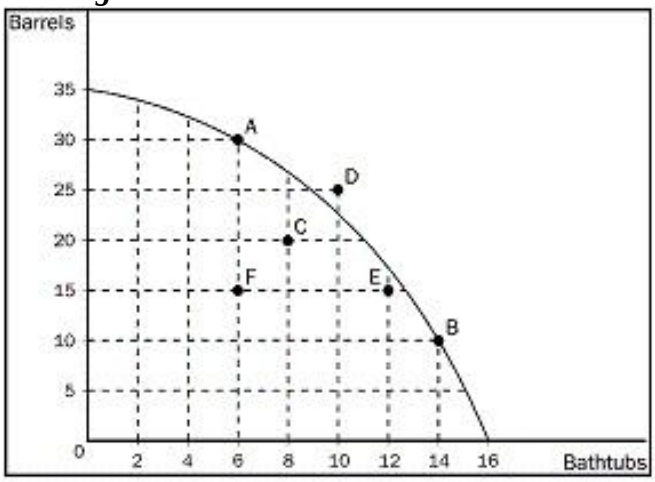
Refer to Figure 2-8. If this economy puts all of its resources into the production of bathtubs, how many could it produce?
A. 20 barrels and 12 bathtubs
B. 35 barrels and no bathtubs
C. no barrels and 16 bathtubs
D. This economy would not choose to put all of its resources into the production of one good.

120. ***Figure 2-8***



Refer to Figure 2-8. Which of the following combinations is impossible for this economy to produce?
A. 30 barrels and 6 bathtubs
B. 25 barrels and 10 bathtubs
C. 20 barrels and 8 bathtubs
D. 10 barrels and 14 bathtubs

121. ***Figure 2-8***



Refer to Figure 2-8. What would happen if this economy moved from point C to point E?
A. It still would not be producing efficiently.
B. There would be no gain in either bathtubs or barrels.
C. it would be producing more barrels and more bathtubs than at point C.
D. It is not possible for this economy to move from point C to point E without additional resources.

122. Into which two broad subfields is the field of economics traditionally divided?
A. national economics and international economics
B. consumer economics and producer economics
C. private sector economics and public sector economics
D. microeconomics and macroeconomics

123. What does microeconomics study?
A. the behaviour of consumers
B. how individual households and firms make decisions
C. how government affects the economy
D. how the economy as a whole works

124. What does macroeconomics study?
A. individual decision makers
B. economic history
C. economy-wide phenomena
D. how firms maximize profit

125. Which of the following would be considered a topic of study in macroeconomics?
A. the impact of agricultural price support programs in the cotton industry
B. the effect on U.S. steel producers of an import quota imposed on foreign steel
C. the effect of an increase in the price of imported oil on the U.S. inflation rate
D. the effect of an increase in the price of imported coffee beans on the U.S. coffee industry

126. Which of the following might a microeconomist NOT study?
A. the effects of rent control on housing in Toronto
B. how a college student makes financial decisions
C. how tariffs on shoes affects the shoe industry
D. the effect on the economy when unemployment rates change

127. Which of the following would a macroeconomist NOT study?
A. impact of minimum-wage laws on employment in the fast food industry
B. effect of changes in saving rates on GDP
C. impact of monetary policy on the rate of inflation
D. effect of tax policy on the rate of economic growth

128. Complete the following statement: When economists are trying to explain the world they are
A. scientists.
B. policy advisors.
C. in the realm of normative economics.
D. in over their heads.

129. Complete the following statement: When economists are trying to help improve the world they are
A. concerned with positive economics.
B. policy advisors.
C. scientists.
D. politicians.

130. Which is the best statement about the roles of economists?
A. Economists are best viewed as policymakers.
B. Economists are best viewed as scientists.
C. In trying to explain the world, economists are policymakers; in trying to improve the world, they are scientists.
D. In trying to explain the world, economists are scientists; in trying to improve the world, they are policymakers.

131. For economists, what are the two types of statements about the world?
A. assumptions and theories
B. true statements and false statements
C. specific statements and general statements
D. positive statements and normative statements

132. How do economists view positive statements?
A. affirmative, justifying existing economic policy
B. optimistic, putting the best possible interpretation on things
C. descriptive, making a claim about how the world is
D. prescriptive, making a claim about how the world ought to be

133. How do economists consider normative statements?
A. descriptive, making a claim about how the world is
B. statements about the normal condition of the world
C. prescriptive, making a claim about how the world ought to be
D. statements that establish production goals for the economy

134. Which of the following is an example of a positive statement?
A. Prices rise when the government prints too much money.
B. If welfare payments increase, the world will be a better place.
C. Inflation is more harmful to the economy than unemployment.
D. The benefits to the economy of improved equity are greater than the costs of reduced efficiency.

135. What does a normative statement describe?
A. how the world was in the past
B. how the world is
C. how the world will be in the future
D. how the world ought to be

136. Which of the following is an example of a normative statement?
A. If the price of a product decreases, quantity demanded increases.
B. Reducing tax rates on the wealthy would be good for the country.
C. If the national saving rate were to increase, so would the rate of economic growth.
D. An increase in minimum wages will increase unemployment.

137. What type of statement is "Prices rise when the government prints too much money"?
A. positive economic statement
B. statement made by the Harper administration
C. normative economic statement
D. welfare statement

138. What do economists from the Department of Finance provide?
A. the annual Economic Report of the Prime Minister
B. the Senate with the annual budget
C. enforcement of the competition laws
D. advice on tax policy to the Prime Minister

139. When economists are speaking as policy advisors, which statements are they more likely to use?
A. normative statements
B. positive statements
C. objective statements
D. descriptive statements

140. What does evaluating a positive statement involve?
A. evaluating values as well as facts
B. examining evidence
C. our views on ethics and religion
D. consideration of the government’s policy goals

141. Which of the following is NOT a positive statement?
A. Higher gasoline prices will reduce gasoline consumption.
B. Equity is more important than efficiency.
C. Trade restrictions lower our standard of living.
D. If a nation wants to avoid inflation, it should not print too much money.

142. Two economists, Adam and Joan, are discussing the possibility of substantially reforming the current federal tax system. Adam thinks the current system is fine but Joan is in favour of reform. Which of the following is the LEAST likely explanation for the disagreement?
A. Adam is a positive economist and Joan is a normative economist.
B. Adam and Joan have different positive views about the effect of changing the tax system.
C. Adam and Joan have different values, and so have different normative views about policy.
D. Adam is better off under the current system and Joan would be better off if the reforms were implemented.

143. When do you know an economist has crossed the line from scientist to policy adviser?
A. when he explains just the facts
B. when he makes positive statements
C. when he makes normative statements
D. when he cannot reach a conclusion

144. What do economists at Industry Canada do?
A. prepare the federal budget
B. write government regulations
C. help design and enforce Canada's antimonopoly laws
D. write the annual Economic Report

145. What do economists at the Canadian International Development Agency do?
A. give advice on overseas development projects
B. collect data to help other economists
C. help formulate labour market policies
D. set monetary policy

146. What do economists at the Bank of Canada do?
A. analyze data on labour markets
B. help negotiate trade agreements
C. analyze macroeconomic developments
D. enforce antimonopoly laws

147. Economists in which department help enforce antitrust laws?
A. Environment Canada
B. Industry Canada
C. Ministry of Finance
D. Canadian International Development Agency

148. Economists outside the government also offer policy advice. Which institution below does NOT publish reports by economists?
A. C.D. Howe Institute
B. Fraser Institute
C. Institute for Research on Public Policy
D. H.M Holmes Institute

149. What do economists at Foreign Affairs Canada and International Trade Canada do?
A. help negotiate trade agreements with other countries
B. offer advice on overseas economic development projects
C. do not usually work together
D. are concerned usually with the workings of labour markets

150. What do the duties of the economists employed by Human Resources Canada include?
A. advising Parliament
B. designing tax policy
C. writing the annual Economic Report
D. studying the relationship between average wages and gender

151. Who designs tax policy?
A. Ministry of Finance
B. Bank of Canada
C. Human Resources
D. Department of Justice

152. What is a duty of Human Resources Canada?
A. to analyze data on workers
B. to design tax policy
C. to enforce the country's antitrust laws
D. to advise the Prime Minister

153. What does The Bank of Canada do?
A. designs tax policy
B. enforces the country's antitrust laws
C. sets the country's monetary policy
D. analyzes the data on workers

154. What does Human Resources Canada do?
A. enforce the country's antitrust laws
B. analyze economic developments in Canada
C. set the country's monetary policy
D. help formulate labour market policies

155. What famous economist said: “The ideas of economists and political philosophers are more powerful than commonly understood”?
A. Gregory Mankiw
B. John Maynard Keynes
C. Paul Krugman
D. David Ricardo

156. What are the 2 basic reasons why economists often appear to give conflicting advice to policymakers?
A. differences in opinions and education
B. differences in scientific judgments and values
C. differences in scientific judgments and education
D. differences in opinions and values

157. Why did George Bernard Shaw, among others, criticize economists?
A. because they have too much influence over government decisions
B. because many ideas are too theoretical and therefore do not work in "real life"
C. because they tend to speak a different language, causing most people to not understand them
D. because they seem to give conflicting advice to policymakers

158. What are tariffs and quotas?
A. policies that restrict trade
B. instruments implemented to increase trade efficiency
C. measures endorsed by almost all economists
D. policies meant to improve the well-being of consumers

159. What did a survey that asked the opinion of academic, business, and government economists on ten propositions about economic policy find?
A. The respondents were almost equally divided on the propositions.
B. The respondents favoured the propositions by a slight margin.
C. The respondents disagreed with the propositions by a slight margin.
D. There was overwhelming endorsement of the propositions among the respondents.

160. What do almost all economists agree about rent control?
A. improves the availability and quality of housing
B. allows the market for housing to work more efficiently
C. adversely affects the availability and quality of housing
D. is a very inexpensive way to help the most needy members of society

161. Which of the following is the best explanation for why policies such as rent control and import quotas persist in spite of the fact that experts are united in their opposition to such policies?
A. Economists have not yet convinced the general public that the policies are undesirable.
B. Economists are simply wrong about the economic impact of these policies.
C. Economists have different values than do most people.
D. Economists are usually of a different political party than are lawmakers.

162. What are the 3 propositions about which most economists agree most often (in order from first to third)?
A. rent control, tariffs and quotas, and floating exchange rates
B. tariffs and quotas, floating exchange rates, and fiscal policy
C. rent control, fiscal policy, and tariffs and quotas
D. fiscal policy, rent control, and floating exchange rates

163. What is the single most important purpose of your textbook?
A. to teach you about the effects of the government's economic policies
B. to teach you the language of economics
C. to teach you the economist's way of thinking
D. to teach you how to make money

164. How would any economist who says all policy decisions are easy be best decribed?
A. they must understand the relationship between a market economy and the government.
B. they must be running for office.
C. they has a Ph.D. in economics.
D. they cannot be trusted.

165. What did John Maynard Keynes believe the ideas of economists to be?
A. generally incorrect
B. powerful
C. pie-in-the-sky ideals
D. not taken seriously

166. How did John Maynard Keynes referred to economics?
A. as an easy subject at which very few excel.
B. as an easy subject but not as easy as philosophy or the pure sciences.
C. as an easy subject which very few can enjoy.
D. as an easy subject which deals primarily with common sense.

167. How did the great economist John Maynard Keynes explain his comment that although economics is an easy subject compared with the higher branches of philosophy or pure science, it is a subject at which few excel?
A. Most people who study economics are not very bright.
B. Good economists must possess a rare combination of gifts.
C. Economics is actually quite boring; hence, people tend to lose interest in it.
D. Good thinkers become frustrated with economics because it is not logical or relevant.

168. Why do economists use graphs?
A. to find how variables are related in the real world
B. to negate economic ideas that cannot be proved with equations or words
C. to visually express ideas more clearly than might be the case if they are expressed with equations or words
D. to make economic theory more relevant

169. In a pie chart, what does each "slice" of the pie represent?
A. a specific percentage of the total pie
B. an equal share of the total pie
C. the amount of the pie each of the two variables represents
D. one-half of the total pie

170. Why are graphs such as bar graphs limited?
A. They can only show variables that are positively related.
B. They are extremely difficult to understand.
C. They provide information for only a single variable.
D. They provide information on no more than 2 variables.

171. In order to provide information on two variables, what must an economist use?
A. a bar graph
B. pie chart
C. the coordinate system
D. a time-series graph

172. What is a type of graph that can be used to display the relationship between two variables?
A. a pie chart
B. a bar graph
C. a time-series graph
D. the coordinate system

173. Of what use is a coordinate system?
A. to show the flow of income and products in an economic system
B. to organize labour and other resources in the production process
C. to allow economists to show two variables on a single graph
D. to teach economists how to draw graphs consistently

174. What is an ordered pair?
A. the process of checking calculations twice before placing them on a graph
B. two numbers that can be represented by a single point on a graph
C. two numbers that are represented by side-by-side points on a graph
D. two points on a graph that are equal distances from the origin

175. What is the first number in an ordered pair?
A. the y-coordinate
B. the x-coordinate
C. either x or y, depending on the quadrant
D. not useful to know, since most graphs in economics use p and q, not x and y

176. What is the ordered pair that represents the origin on a graph?
A. (1, 1)
B. (0, 0)
C. (0, 1)
D. (1, 0)

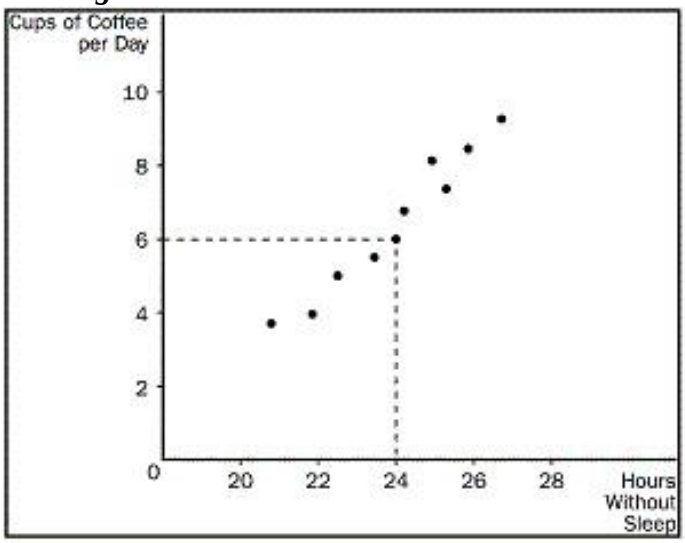
177. What is the x-coordinate?
A. the first number of an ordered pair and represents the point's horizontal location
B. the second number of an ordered pair and represents the point's horizontal location
C. the first number of an ordered pair and represents the point's vertical location
D. the second number of an ordered pair and represents the point's vertical location

178. What is the y-coordinate?
A. the first number of an ordered pair and represents the point's horizontal location
B. the second number of an ordered pair and represents the point's horizontal location
C. the first number of an ordered pair and represents the point's vertical location
D. the second number of an ordered pair and represents the point's vertical location

179. What does the x-coordinate give?
A. the diagonal location of the point
B. the vertical location of the point
C. the horizontal location of the point
D. the quadrant location of the point

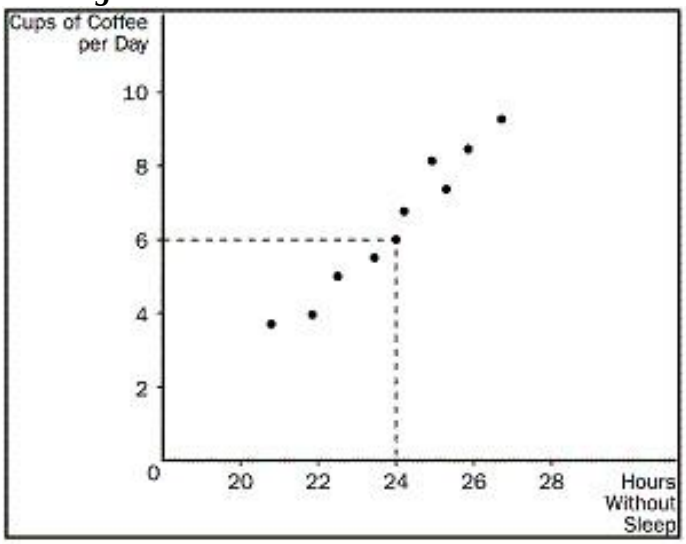
180. What is the point where both x and y are zero?
A. the origin
B. the null
C. the zero coordinate
D. the center

181. ***Figure 2-9***



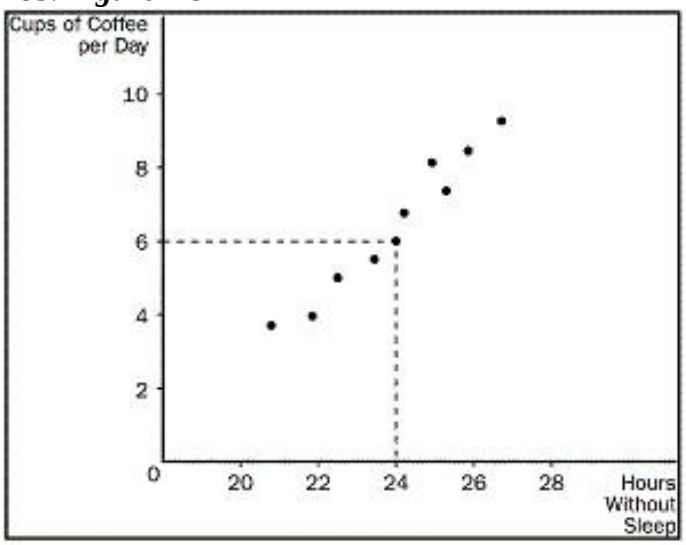
Refer to Figure 2-9. What is the graph shown known as?
A. a time series
B. a bar graph
C. a scatterplot
D. a pie chart

182. ***Figure 2-9***



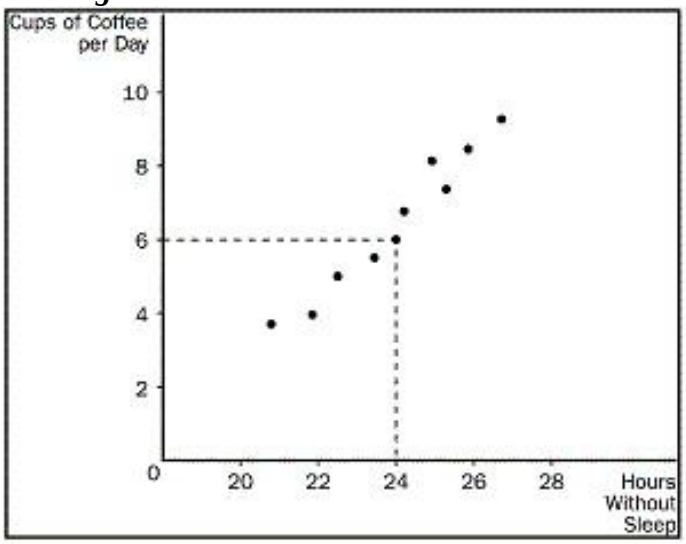
Refer to Figure 2-9. What is the correct designation of point A?
A. (6, 0)
B. (0, 24)
C. (6, 24)
D. (24, 6)

183. ***Figure 2-9***



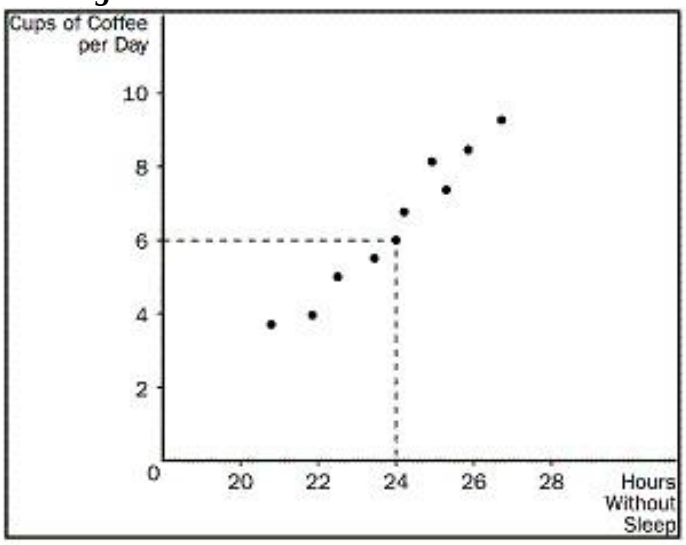
Refer to Figure 2-9. What do cups of coffee per day and the hours that someone can go without sleep have?
A. a positive correlation
B. a negative correlation
C. a random correlation
D. no correlation

184. ***Figure 2-9***



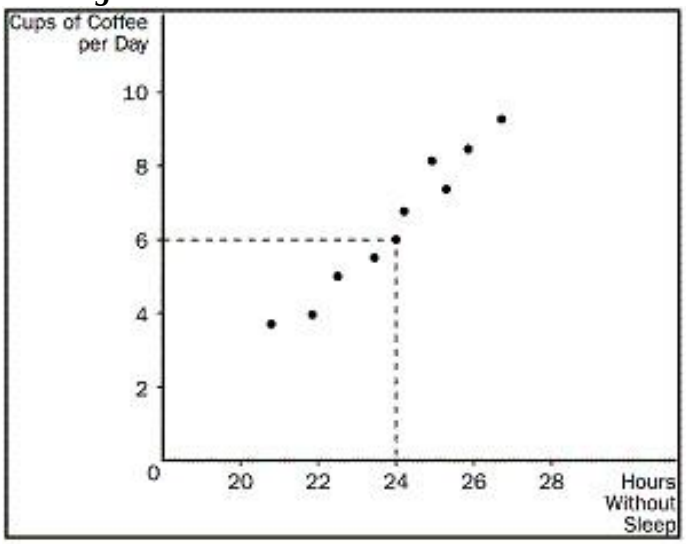
Refer to Figure 2-9. What would you say about the relationship between coffee and hours without sleep?
A. The less coffee a person drinks per day, the more time he can go without sleep.
B. There is no relationship between how much coffee per day a person drinks and how long they can go without sleep.
C. The more coffee a person drinks per day, the longer he can go without sleep.
D. The relationship between cups of coffee per day and time without sleep is too unpredictable to consider.

185. ***Figure 2-9***



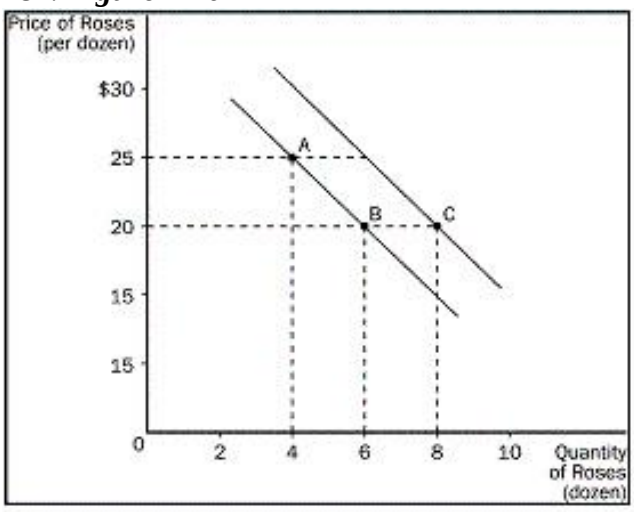
Refer to Figure 2-9. What are the curves shown?
A. supply curves
B. demand curves
C. preference curves
D. income-consumption curves

186. ***Figure 2-9***



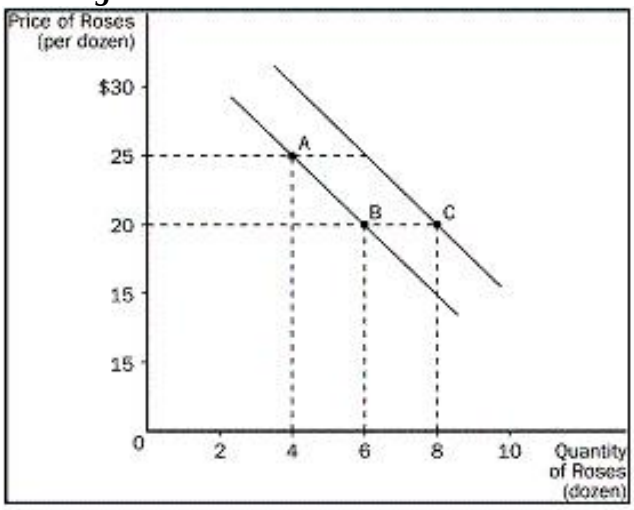
What happens when 2 variables have a negative correlation?
A. They tend to move in opposite directions.
B. They tend to move in the same direction.
C. One variable will move while the other remains constant.
D. The movement of the two variables is unpredictable.

187. ***Figure 2-10***



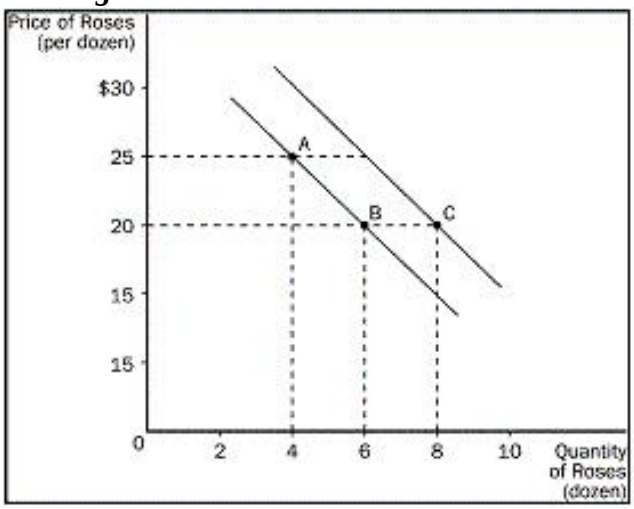
Refer to Figure 2-10. What is the movement from point A to point B?
A. a shift of the curve
B. a change in preferences
C. a movement along the curve
D. a change in consumer income.

188. ***Figure 2-10***



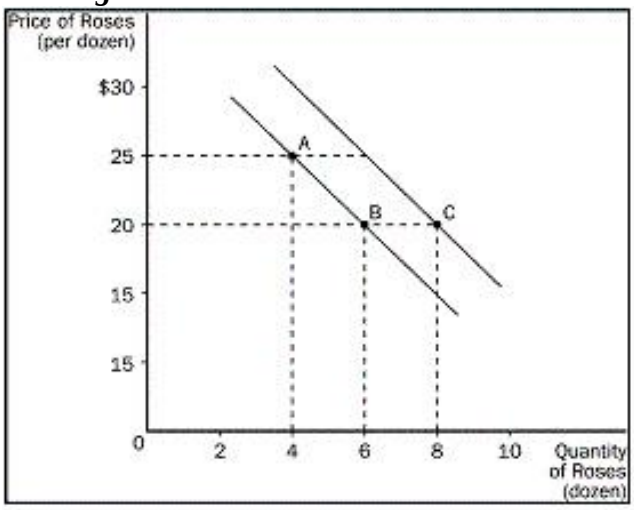
Refer to Figure 2-10. What is the movement from point B to point C?
A. a shift of the curve
B. a change in price
C. a movement along the curve
D. a change in costs to the firm

189. ***Figure 2-10***



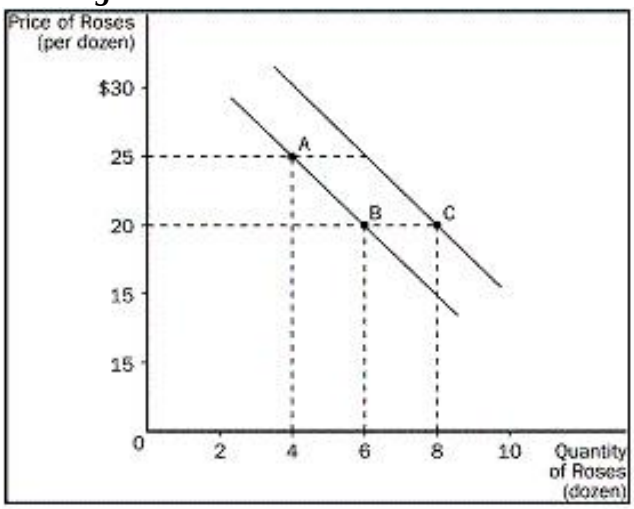
Refer to Figure 2-10. What is the slope of the curve between points A and B?
A. 5/2
B. 2/5
C. -2/5
D. -5/2

190. ***Figure 2-10***



Refer to Figure 2-10. What could have caused the movement from point B to point C?
A. inflation
B. a change in income
C. a change in the price of roses
D. a change in the cost of producing roses

191. ***Figure 2-10***



Refer to Figure 2-10. How are the price of roses and the quantity of roses related?
A. directly related and therefore move in the same direction
B. directly related and therefore move in opposite directions
C. inversely related and therefore move in opposite directions
D. independent of each other

192. What does a demand curve show?
A. the relationship between income and quantity demanded
B. the relationship between price and income
C. the relationship between price and quantity demanded
D. the relationship among income, price, and quantity demanded

193. What does a relatively steep demand curve mean?
A. quantity demand will adjust slightly to a price change
B. quantity demand will adjust greatly to a price change
C. quantity demand will not adjust to a price change
D. the change in quantity demand will exactly equal a change in price

194. If Steven chooses to buy more bagels per month at each price, what will happen to his demand curve?
A. shift inward
B. shift outward
C. not shift, but he will move along his demand curve from left to right
D. not shift, but he will move along his demand curve from right to left

195. What happens when a relevant variable that is not named on either axis changes?
A. There will be a movement along the curve.
B. The curve may or may not change. It depends on how the variables are related.
C. The curve will be unaffected since only the variables on the axis affect the curve.
D. The curve will shift.

196. What happens when a variable on an axis of a graph changes?
A. The curve will not shift.
B. The curve will shift.
C. The curve may or may not change. It depends on how the variables are related.
D. The curve will shift if the variable is on the vertical axis, but not on the horizontal axis.

197. How is the slope of a straight line calculated?
A. rise divided by run
B. run divided by rise
C. the average of rise and run.
D. rise plus run

198. How is the slope of a line calculated?
A. change in x/change in y
B. change in y/change in x
C. x/y
D. x + y

199. What will the slope of a fairly flat upward-sloping line be?
A. a small positive number
B. a large positive number
C. a small negative number
D. a large negative number

200. Which of the following statements about slope is NOT correct?
A. Slope explains how much one variable responds to changes in another variable.
B. Slope can be computed by delta x/delta y.
C. Slope is positive if the 2 variables are moving in the same direction.
D. Slope does not change if the line is linear.

201. Which of the following is NOT a problem associated with graphing in economics?
A. omitted variables
B. holding everything else constant
C. reverse causality
D. the ability to show a relationship between 2 variables

202. Bill has noticed that increases in unemployment insurance claims are associated with recessions, and therefore advocates limits on unemployment insurance so as to prevent recessions. Martha has noticed that most drug addicts once attended schools, and therefore advocates getting rid of schools so as to prevent drug addiction. What do we know about the reasoning of Bill and Martha?
A. The reasoning of both Bill and Martha suffers from the omitted variable problem.
B. The reasoning of both Bill and Martha suffers from the reverse causality problem.
C. Bill's reasoning suffers from the reverse causality problem and Martha's reasoning suffers from the omitted variable problem.
D. Martha's reasoning suffers from the reverse causality problem and Bill's reasoning suffers from the omitted variable problem.

203. While the scientific method is applicable to studying natural sciences, it is not useful in studying an economic system.
True False

204. Since natural experiments offered by history cannot be used in economics, carefully constructed laboratory experiments must be used.
True False

205. An economic model can accurately explain how the economy is organized because it is designed to include every feature of the real world.
True False

206. All scientific models, including economic models, simplify reality in order to improve our understanding of it.
True False

207. A circular-flow diagram is a visual model of how an economy is organized.
True False

208. In a simple circular-flow diagram, firms own the factors of production and use them to produce goods and services.
True False

209. In a simple circular-flow diagram, the two types of markets in which households and firms interact are the markets for goods and services and the markets for factors of production.
True False

210. In the markets for goods and services, as in the markets for the factors of production, households are buyers and firms are sellers.
True False

211. In a circular-flow diagram, one loop shows the flow of real goods, services, and factors of production, and the other loop shows the corresponding flow of dollars.
True False

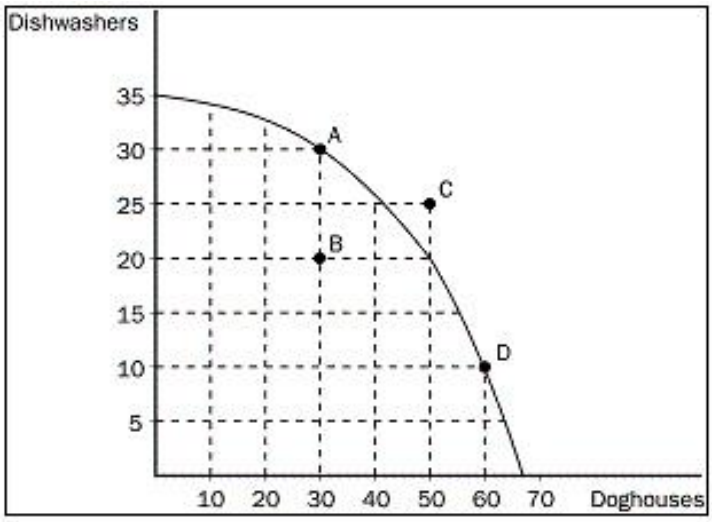
212. A production possibilities frontier is a graph that shows the various combinations of outputs the economy can possibly produce given its factors of production and technology.
True False

213. An economy can produce at any point on or outside the production possibilities frontier, but it cannot produce at points inside the frontier.
True False

214. An efficient outcome in economics is one in which the economy is conserving the largest possible amount of resources, while still meeting the needs of society.
True False

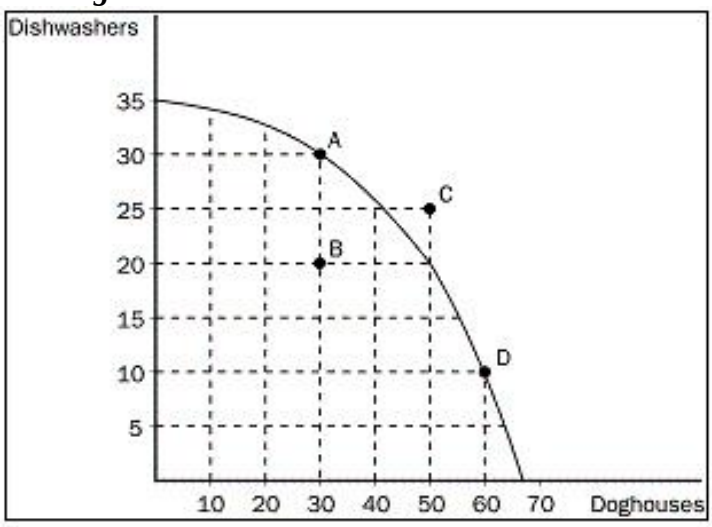
215. An economy is being efficient if it is impossible to produce more of one good without producing less of another.
True False

216. ***Figure 2-11***



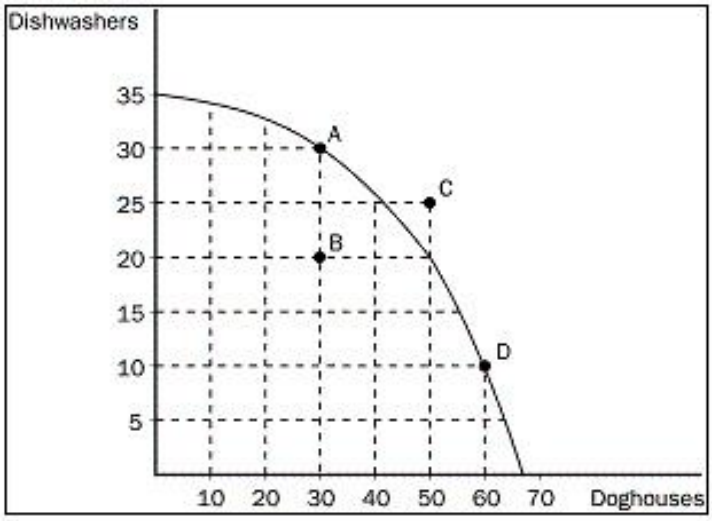
Refer to Figure 2-11. Points A, B, and D represent feasible or attainable outcomes for society.
True False

217. ***Figure 2-11***



Refer to Figure 2-11. The opportunity cost to the economy of moving from point A to point B is 10 dishwashers.
True False

218. ***Figure 2-11***



Refer to Figure 2-11. The opportunity cost of more doghouses increases as more doghouses are produced.
True False

219. The tradeoff between the production of different goods can change because of technological improvement over time.
True False

220. Economic growth causes a production possibilities frontier to shift outward.
True False

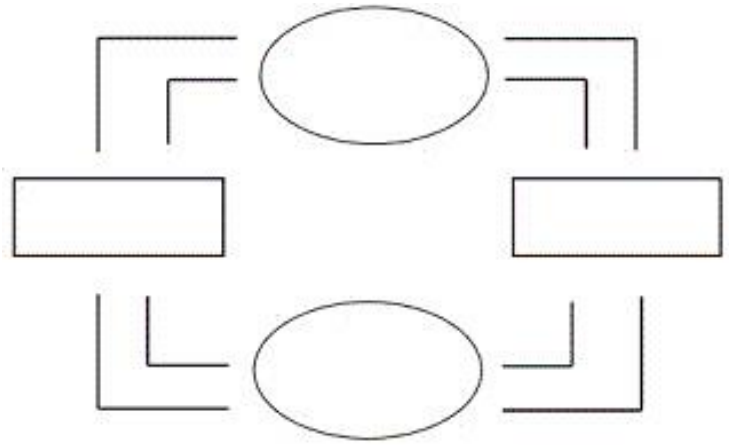
221. The field of economics is divided into two subfields: microeconomics and macroeconomics.
True False

222. Normative statements describe how the world is, while positive statements prescribe how the world should be.
True False

223. "Society would be better if the welfare system were abolished" is a normative statement, not a positive statement.
True False

224. When economists are trying to explain the world they are acting as scientists, and when they are trying to improve it, they are policymakers.
True False

225. Using this outline, draw a circular-flow diagram representing the interactions between households and firms in a simple economy. Explain briefly the various parts of the diagram.



226. Draw a production possibilities frontier showing increasing opportunity cost for hammers and horseshoes.

a. On a graph, identify the area of feasible outcomes and the area of unfeasible outcomes.
b. On the graph, label a point that is efficient as point "E" and a point that is inefficient as point "I".
c. On a graph, illustrate the effect of the discovery of a new vein of iron ore, a resource needed to make both horseshoes and hammers, on this economy.
d. On a graph for hammers and horseshoes, illustrate the effect a new computerized assembly line in the production of hammers would have.

227. The prairie dog has always been considered a problem for Canadian cattle ranchers. They dig holes that cattle and horses can step in and they eat grass necessary for cattle. Recently, ranchers have discovered that there is a demand for prairie dogs as pets. In some areas, prairie dogs can sell for as high as $150. Cattlemen are now fencing off prairie dog towns on their land so these towns will not be disturbed by their cattle.

Draw a production possibilities frontier showing a rancher's production option between cattle production and prairie dog production showing increasing opportunity cost and show what would happen in each of the following situations. (Use a separate graph for each situation.)

a. The outcome is efficient, with ranchers choosing to produce equal numbers of cattle and prairie dogs.
b. As a protest against the government introducing the gray wolf back into the wild in their province, ranchers decide not to use 25% of the available grassland for grazing.
c. The price of prairie dogs increases to $200 each, so ranchers decide to allot additional land for prairie dogs.
d. The government grants new leases to ranchers, giving them 10,000 new acres of grassland each for grazing.
e. A drought destroys most of the available grass for grazing of cattle, but not prairie dogs since they also eat plant roots.

228. Identify each of the following topics as being part of microeconomics or macroeconomics:

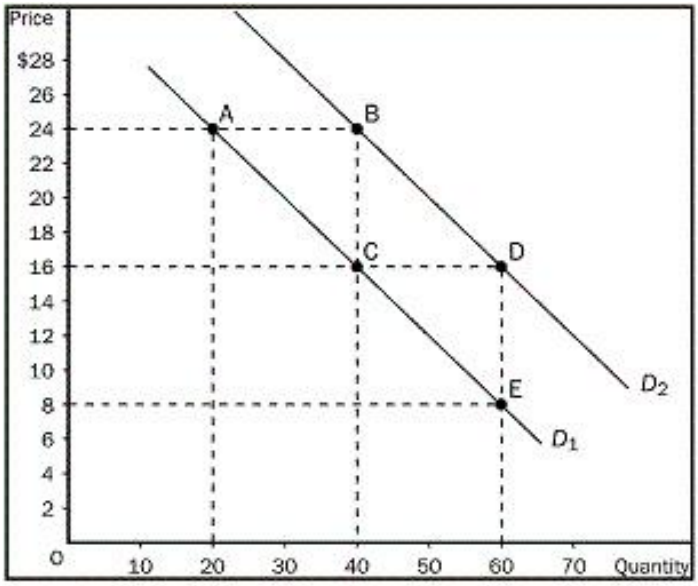
a. the impact of a change in consumer income on the purchase of luxury automobiles
b. the effect of a change in the price of Coke on the purchase of Pepsi
c. the impact of a war in the Middle East on the rate of inflation in Canada
d. factors influencing the rate of economic growth
e. factors influencing the demand for tractors
f. the impact of tax policy on national saving
g. the effect of pollution taxes on the Canadian copper industry
h. the degree of competition in the cable television industry
i. the effect of a balanced-budget amendment on economic stability
j. the impact of deregulation on the savings and loan industry

229. Which of the following statements are positive, and which are normative?

a. The minimum wage creates unemployment among young and unskilled workers.
b. The minimum wage ought to be abolished.
c. If the price of a product in a market decreases, other things equal, quantity demanded will increase.
d. A little bit of inflation is worse for society than a little bit of unemployment.
e. There is a tradeoff between inflation and unemployment in the short run.
f. If consumer income increases, other things equal, the demand for automobiles will increase.
g. The Canadian income distribution is not equitable.
h. Canadian workers deserve more liberal unemployment benefits.
i. If interest rates increase, investment will decrease.
j. If welfare benefits were reduced, the country would be better off.

230. Use the following demand curve to answer the following questions.

a. How would point A be represented as an ordered pair?
b. What type of curve is this?
c. Does this curve show a positive or negative correlation between price and quantity?
d. Compute the slope of D_1 between points A and C.
e. What is the slope of D_1 between points C and E? Why would you not have to calculate this answer?
f. What is it called if we move from D_1 to D_2?
g. How do you know that the slope of D_2 is the same as the slope of D_1?


Price
$28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
10
20
30
40
50
60
70
Quantity
A
B
C
D
E
D_2
D_1

Chapter 2--Thinking Like an Economist Key

1. Which is the best statement about the way economists study the economy?
A. They study the past, but do not try to predict the future.
B. They use a probabilistic approach based on correlations between economic events.
C. They devise theories, collect data, and then analyze the data to test the theories.
D. They use controlled experiments much the same way a biologist or physicist does.

2. Which are terms used by an economist?
A. vector spaces and axioms
B. torts and venues
C. ego and cognitive dissonance
D. comparative advantage and elasticity

3. What is meant by scientific method?
A. the use of modern electronic testing equipment to understand the world
B. the dispassionate development and testing of theories about how the world works
C. the use of controlled experiments in understanding the way the world works
D. finding evidence to support preconceived theories about how the world works

4. Who said, "The whole of science is nothing more than the refinement of everyday thinking."?
A. Isaac Newton
B. Albert Einstein
C. Sigmund Freud
D. Stephen Hawking.

5. What observation did Albert Einstein once make about science?
A. "The whole of science is nothing more than the refinement of everyday thinking."
B. "The whole of science is nothing more than an interesting intellectual exercise."
C. "In order to understand science, one must rely solely on abstraction."
D. "In order to understand science, one must transcend everyday thinking."

6. If Sir Isaac Newton's development of the theory of gravity after observing an apple fall from a tree, what is this an example of?
A. controlled experiments used to develop scientific theories
B. being in the right place at the right time
C. an idea whose time had come
D. the interplay between observation and theory in science

7. What is a common thread between economics and other sciences such as physics?
A. Experiments are most often conducted in a lab.
B. Real-world observations often lead to theories.
C. A Ph.D. is required to truly understand any science.
D. Both deal primarily with abstract concepts.

8. Why is the use of theory and observation more difficult in economics than in sciences such as physics?
A. due to the difficulty in evaluating an economic experiment
B. due to the difficulty in devising an economic experiment
C. due to the difficulty in actually performing an experiment in an economic system
D. due to the difficulty in collecting sufficient data

9. Because it is difficult for economists to use experiments to generate data, what must they generally do?
A. do without data
B. use whatever data the world gives them
C. select a committee of economists to make up data for all economists to use
D. use hypothetical, computer-generated data

10. What happens when economists test theories?
A. They must make do with whatever data the world gives them.
B. They can manipulate economic conditions easier than other scientific fields.
C. They can enlist the government's help to manipulate economic conditions.
D. They can achieve statistically valid results with much smaller sample sizes.

11. What is one difficulty economists face that some other scientists do not?
A. Unlike other sciences, economic studies must include the largest economic player, the government.
B. Economists unfortunately receive less government funding than other scientists.
C. Corporations are reluctant to disclose necessary information for economic research.
D. Experiments are often difficult in economics.

12. Where do the most common data for testing economic theories come from?
A. carefully controlled and conducted laboratory experiments
B. traditional economies
C. historical episodes of economic change
D. centrally planned economies

13. For economists, what are often used as substitutes for laboratory experiments?
A. natural experiments offered by history
B. computer-generated experiments
C. studies conducted by other disciplines such as sociologists
D. well-constructed simulations

14. Why do economists make assumptions?
A. to diminish the chance of wrong answers
B. to make the world easier to understand
C. because all scientists make assumptions
D. to make certain that all necessary variables are included

15. What does the art of scientific thinking include?
A. knowledge of human behaviour
B. understanding every scientific field–physics, biology, and economics
C. deciding which assumptions to make
D. being able to mathematically express natural forces

16. If an economist develops a theory about international trade based on the assumption that there are only two countries and two goods, what is most likely?
A. The theory can be useful only in situations involving two countries and two goods.
B. It is a total waste of time, since the actual world has many countries trading many goods.
C. The theory can be useful in helping economists understand the complex world of international trade involving many countries and many goods.
D. The theory can be useful in the classroom, but has no use in the real world.

17. Why are historical episodes valuable to economists?
A. They allow economists to see how far the discipline has evolved.
B. Hindsight is always 20/20.
C. It is easier to evaluate a past situation than to predict a future situation.
D. They allow economists to evaluate economic theories of the present.

18. What would be the best statement about a theory based on assumptions that are NOT true?
A. If the assumptions underlying the theory are not true, the theory must be false.
B. The ideas may be good in theory, but not in practice.
C. The theory is a good one if it helps us to understand how the world works.
D. The theory is a good one if no logical mistakes were made in developing it.

19. What is the goal of theories?
A. to provide an interesting, but not useful, framework of analysis
B. to provoke stimulating debate in scientific journals
C. to demonstrate that the developer of the theory is capable of logical thinking
D. to help scientists understand how the world works

20. When economists attempt to simplify the real world and make it easier to understand, what do they do?
A. They make assumptions.
B. They make mistakes in judgment.
C. They make predictions.
D. They make evaluations.

21. What can good assumptions do?
A. cause economists to leave out important variables that make their theories worthless
B. simplify the complex world and make it easier to understand
C. further complicate an already difficult topic
D. allow economists to see the 'big picture' instead of only small segments

22. Which of the following best describes the decision by a scientist of which assumption to make?
A. the easiest part of the scientific method.
B. the flip of a coin.
C. almost impossible.
D. part art.

23. Which is true about the art of scientific thinking?
A. it iseasier with a solid mathematical background.
B. it is the ability to make an abstract subject easy to understand.
C. it involves deciding which assumptions to make.
D. it is not necessary to be an economist.

24. What happens when scientists make good assumptions?
A. They greatly simplify the problem without substantially affecting the answer.
B. They further complicate an already complicated subject.
C. They can leave out necessary variables that may result in incorrect answers.
D. They may not be able to reach an appropriate conclusion.

25. What is an example of a product that experiences infrequent price changes?
A. stocks on the Toronto Stock Exchange
B. gasoline prices
C. the newsstand price of magazines
D. electricity

26. When studying the effects of public policy changes, what have economists often observed?
A. There is a difference between the long run and short run.
B. Unemployment and inflation are directly related in the short run.
C. With stock prices, what goes up must come down.
D. If the policy is well-designed, it will always be effective.

27. When studying the effects of public policy changes, what do economists do?
A. They often falsify results if the desired effect is not reached.
B. They may make different assumptions for the long run and the short run.
C. They attempt to consider only the direct effects and not indirect effects.
D. They can immediately change policies if they are ineffective.

28. What do good economic models do?
A. They often leave out important variables, causing serious errors.
B. They omit many details to allow us to see what is truly important.
C. They are designed to give a complete picture of a given relationship.
D. They leave economics to be interpreted in many ways by governments

29. Why do economists use models?
A. to learn how the economy works
B. to make their profession appear more precise
C. to make economics accessible to the public
D. to make sure that all of the details of the economy are included in their analysis

30. Which is true about models used by economists?
A. they cannot be useful to economists if they are based on false assumptions
B. they make the economics profession more difficult than necessary
C. they allow economists to learn how the economy works
D. they must include every possible variable in the economy to be useful to economists

31. How do economists begin building an economic model?
A. by writing grants for government funding
B. by conducting controlled experiments in a lab
C. by making assumptions
D. by reviewing statistical forecasts

32. What is a model?
A. a theoretical abstraction with very little value
B. a useful tool to only the ones who constructed it
C. a realistic and carefully constructed theory
D. a simplification of real life

33. Which of the following is NOT true concerning models?
A. Models simplify reality.
B. Models can explain how the economy is organized.
C. Models assume away irrelevant details.
D. Models cannot be used to make predictions.

34. Which of the following is NOT true about most economic models?
A. They are built using the tools of mathematics.
B. They are useful to economists, but not to policymakers.
C. They do not include every feature of the economy.
D. They are built using assumptions.

35. Which of the following is the most accurate statement about economic models?
A. Economic models attempt to mirror reality exactly.
B. Economic models are useful, but should not be used for policymaking.
C. Economic models omit many details to allow us to see what is truly important.
D. Economic models cannot be used in the real world because they omit details.

36. What are the foundation stones from which economic models are built?
A. economic policies
B. the legal system
C. assumptions
D. statistical forecasts

37. What is a circular-flow diagram?
A. a visual model of how the economy is organized
B. a mathematical model of how the economy works
C. a model that shows the effects of government on the economy
D. a visual model of the relationship among money, prices, and businesses

38. What does a circular-flow diagram do?
A. It illustrates cost-benefit analysis.
B. It explains how the economy is organized.
C. It shows the flow of traffic in an economic region.
D. It explains how banks circulate money in the economy.

39. What are factors of production?
A. the mathematical calculations firms make to determine production
B. weather and social and political conditions that affect production
C. the physical relationships between economic inputs and outputs
D. inputs into the production process

40. In the simple circular-flow diagram, who are the decision makers?
A. firms and government
B. households and firms
C. households and government
D. households, firms, and government

41. What do the two loops in the circular-flow diagram represent?
A. the flow of goods and the flow of services
B. the flow of dollars and the flow of financial assets
C. the flow of inputs and outputs and the flow of dollars
D. the flow of capital goods and the flow of consumer goods

42. In a circular-flow diagram, which flows are involved?
A. Taxes flow from households to firms, and transfer payments flow from firms to households.
B. Income payments flow from firms to households, and sales revenue flows from households to firms.
C. Resources flow from firms to households, and goods and services flow from households to firms.
D. Inputs and outputs flow in the same direction as the flow of dollars, from firms to households.

43. Which is true in the circular-flow diagram?
A. firms are sellers in the resource market and the product market.
B. firms are buyers in the product market.
C. households are sellers in the resource market.
D. spending on goods and services flows from firms to households.

44. In the circular-flow diagram, which flows are involved?
A. Income from factors of production flows from firms to households.
B. Goods and services flow from households to firms.
C. Factors of production flow from firms to households.
D. Spending on goods and services flow from firms to households.

45. Which of the following would NOT be considered a factor of production?
A. labour
B. land
C. capital
D. money

46. What is another name for goods and services produced by firms?
A. factors of production
B. output
C. inputs
D. resources

47. What are factors of production?
A. They are used to produce goods and services.
B. They are owned by firms.
C. They are abundant in most economies.
D. They are used by both firms and households.

48. What is another term for factors of production?
A. inputs
B. output
C. goods
D. services

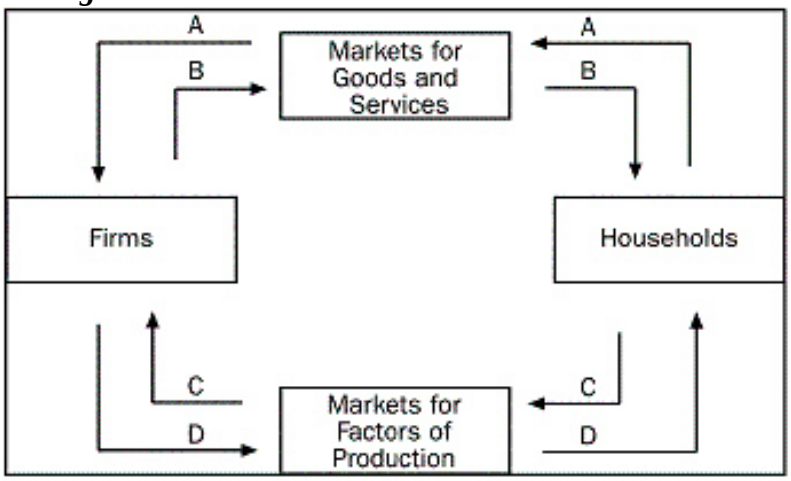
49. According to a simple circular-flow diagram, in how many markets do households and firms interact?
A. one type of market
B. two types of markets
C. three types of markets
D. Households and firms do not interact

50. In the simple circular-flow diagram, what do markets consist of?
A. the market for goods and services, the financial market, and the market for the factors of production
B. factors of production and the financial market
C. the market for goods and services and the financial market
D. the market for goods and services and the market for factors of production

51. In the goods and services market, how do households and firms interact?
A. Households and firms are both buyers.
B. Households are sellers and firms are buyers.
C. Households are buyers and firms are sellers.
D. Households and firms are both sellers.

52. In the factors of production market, how do households and firms interact?
A. Households are sellers and firms are buyers.
B. Households are buyers and firms are sellers.
C. Households and firms are both buyers.
D. Households and firms are both sellers.

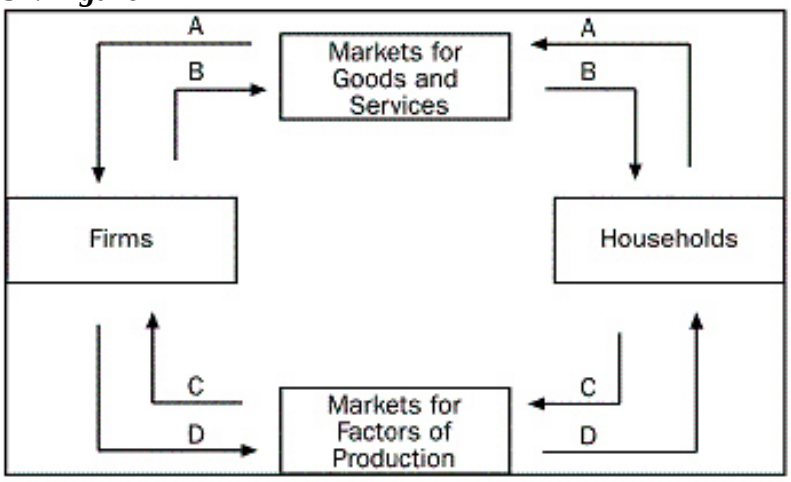
53. ***Figure 2-1***



Refer to Figure 2-1. Which arrow shows the flow of goods and services?

A. arrow A
B. arrow B
C. arrow C
D. arrow D

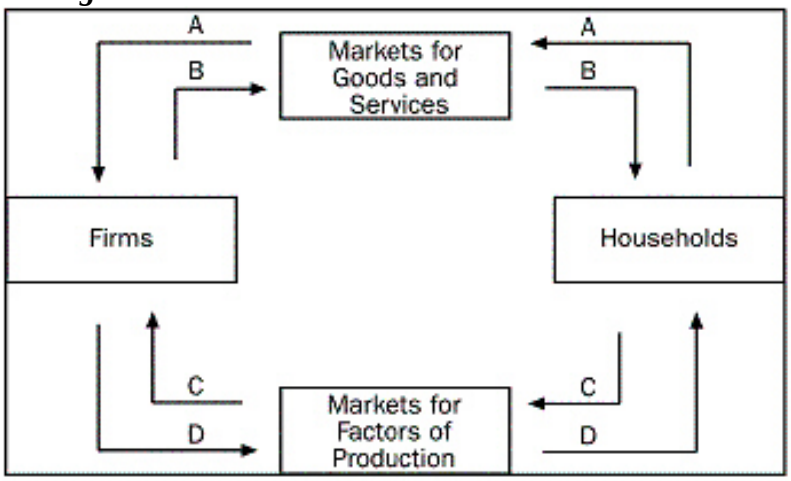
54. ***Figure 2-1***



Refer to Figure 2-1. Which arrow shows the flow of spending by households?

A. arrow A
B. arrow B
C. arrow C
D. arrow D

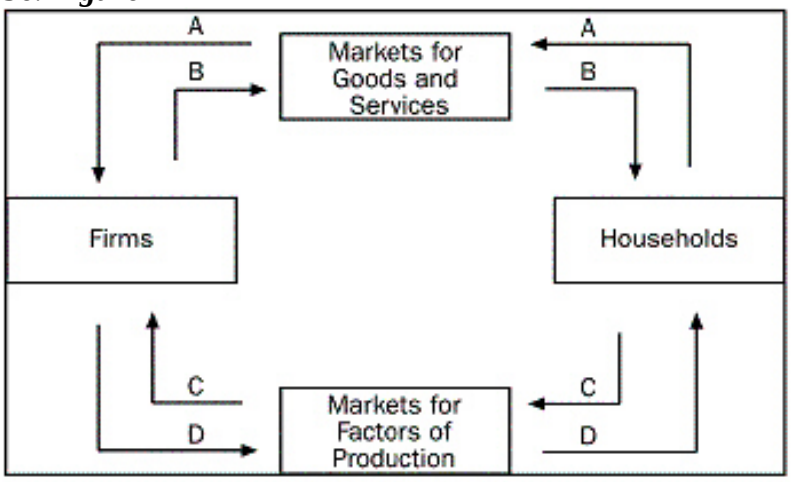
55. ***Figure 2-1***



Refer to Figure 2-1. Which arrow shows the flow of the factors of production?

A. arrow A
B. arrow B
C. arrow C
D. arrow D

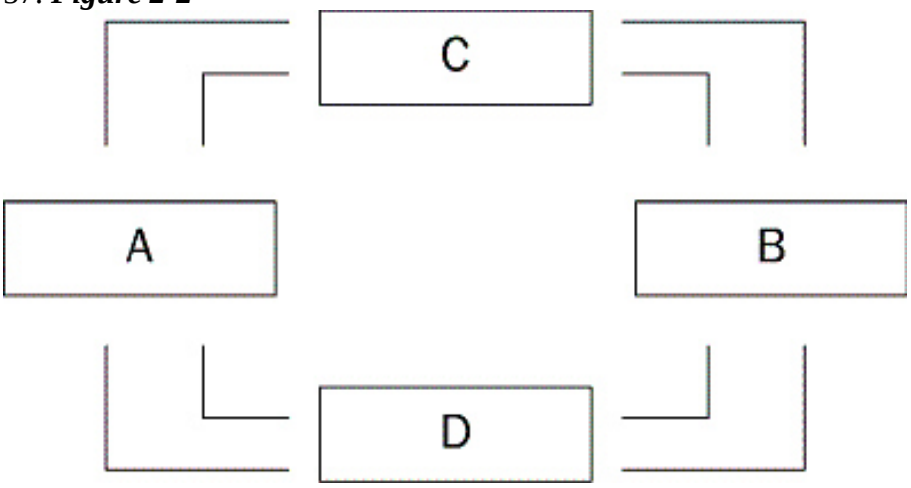
56. ***Figure 2-1***



Refer to Figure 2-1. Which arrow shows the flow of income payments?

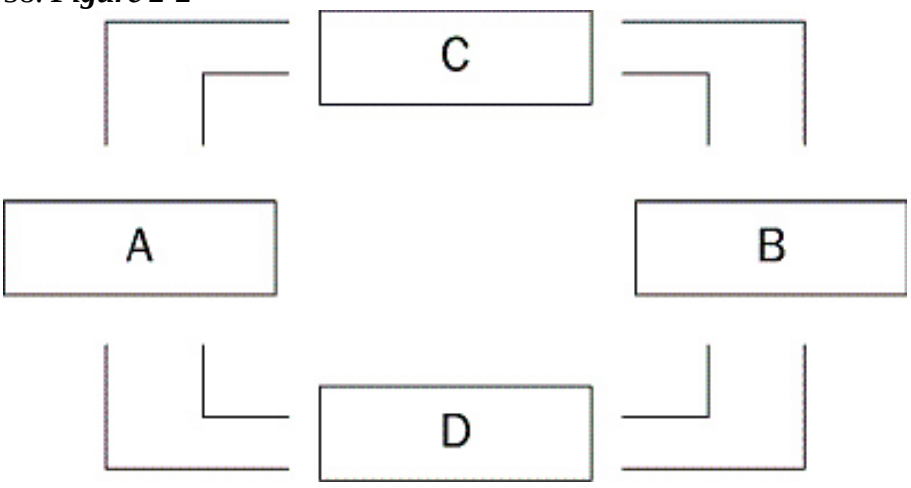
A. arrow A
B. arrow B
C. arrow C
D. arrow D

57. ***Figure 2-2***



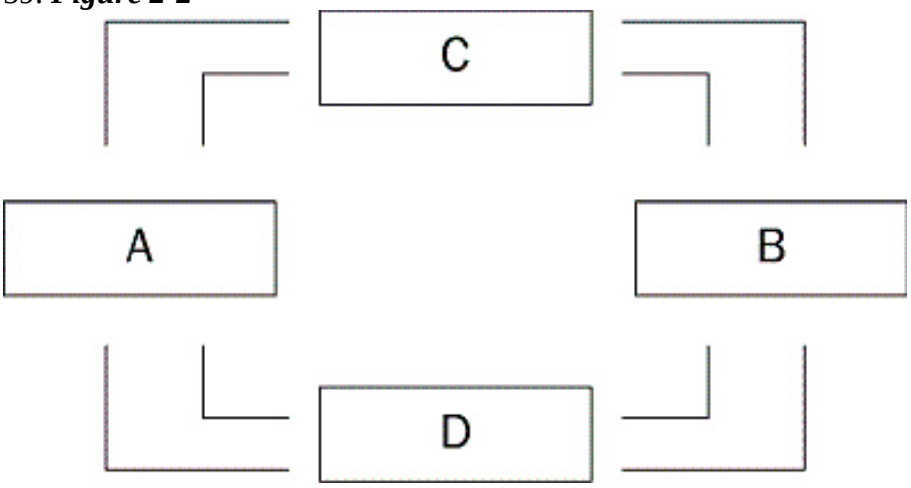
Refer to Figure 2-2. What do boxes A and B represent?
A. firms and households
B. government and the foreign sector
C. the goods and services market and the factors of production market
D. households and government

58. ***Figure 2-2***



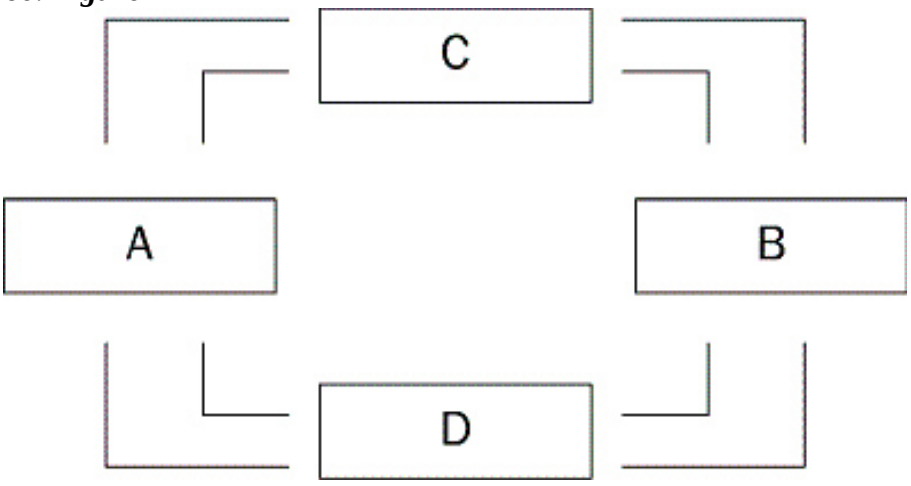
Refer to Figure 2-2. What do boxes C and D represent?
A. households and firms
B. the goods and services market and the factors of production market
C. the goods and services market and the financial market
D. households and government

59. ***Figure 2-2***



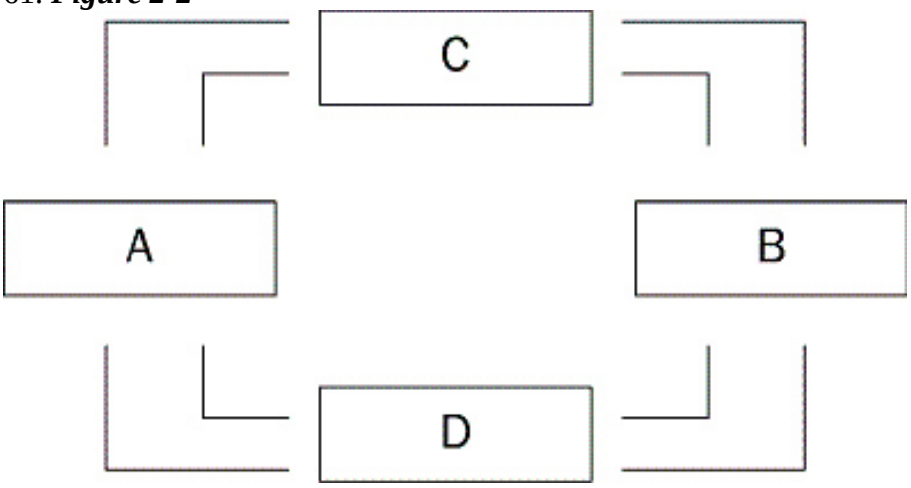
Refer to Figure 2-2. In which market are households sellers?
A. the factors of production market
B. the goods and services market
C. both of the above markets
D. neither of the above markets

60. ***Figure 2-2***



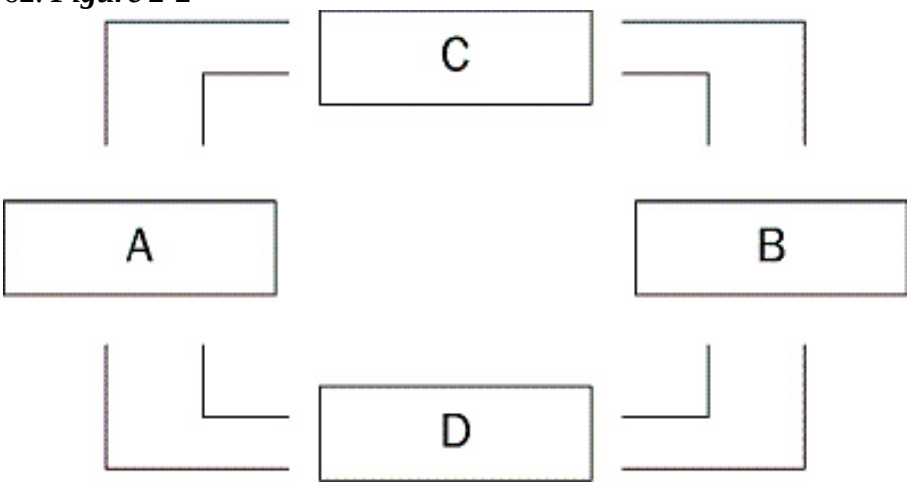
Refer to Figure 2-2. In which market are firms sellers?
A. the goods and services market
B. the factors of production market
C. both of the above markets
D. neither of the above markets

61. ***Figure 2-2***



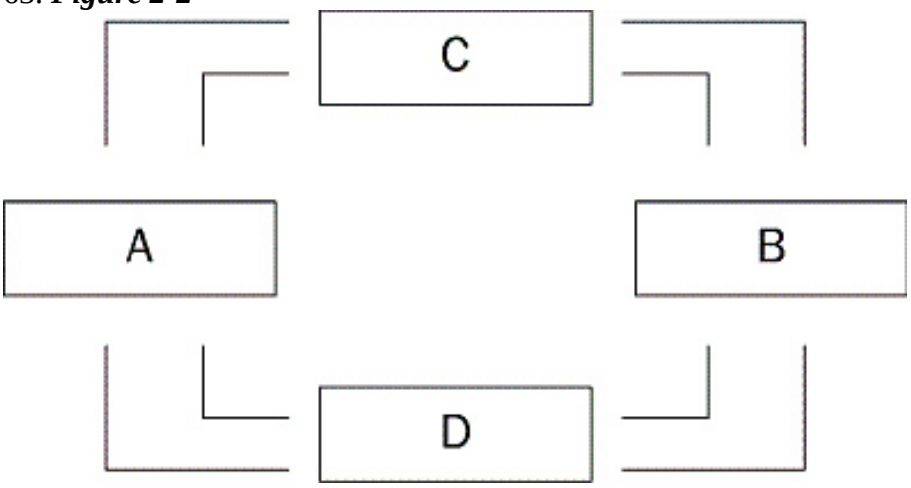
Refer to Figure 2-2. Who owns the factors of production?
A. the government
B. firms
C. households
D. corporations

62. ***Figure 2-2***



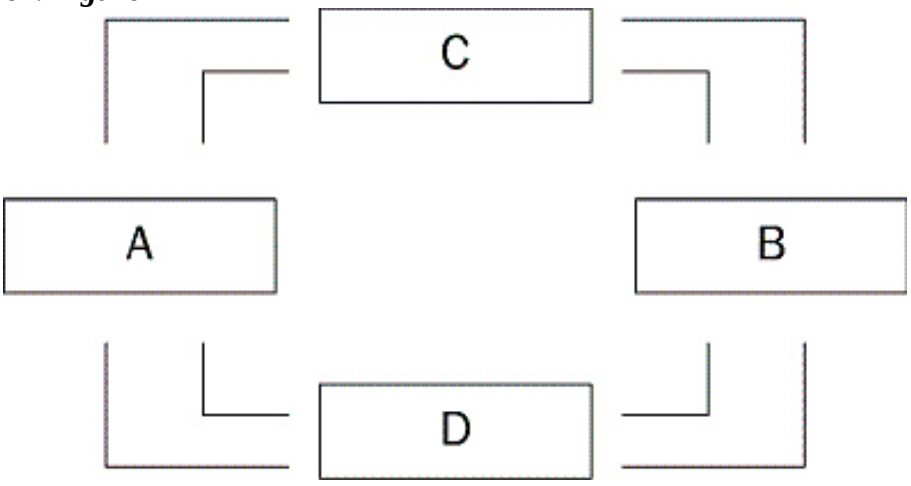
Refer to Figure 2-2. What does the inner loop represent?
A. the flow of inputs to firms and output to households
B. the flow of output to firms and inputs to households
C. the flow of spending to firms and factor payments to households
D. the flow of spending to households and factor payments to firms

63. ***Figure 2-2***



Refer to Figure 2-2. What does the outer loop represent?
A. the flow of goods
B. the flow of spending
C. the flow of factors of production
D. the flow of services

64. ***Figure 2-2***



Refer to Figure 2-2. Which is true about money spent by households?
A. it is earned from the sale of factors of production.
B. it becomes profit to firms.
C. it cannot be tracked in the diagram.
D. it is used to purchase factors of production.

65. What happens in the markets for factors of production?
A. Households provide firms with labour, land, and capital.
B. Households provide firms with savings for investment.
C. Firms provide households with goods and services.
D. The government provides firms with inputs for the production process.

66. What happens in the markets for goods and services?
A. Households provide firms with savings for investment.
B. Households provide firms with labour, land, and capital.
C. Firms provide households with the output they produced.
D. The government provides firms with inputs for the production process.

67. What are the four sectors in a more complex circular-flow diagram?
A. households, government, financial markets, and international trade
B. households, firms, government, and financial markets
C. households, firms, financial markets, and international trade
D. households, firms, government, and international trade

68. In economics, what does capital refer to?
A. the finances necessary for firms to produce their products
B. buildings and machines used in the production process
C. the money households use to purchase firms' output
D. the value of stock market shares to investors

69. What is revenue received by firms from sales that is not used to pay for factors of production?
A. rent
B. wages
C. profit
D. interest

70. What does a point on a country's production possibilities frontier represent?
A. a combination of two goods that an economy will never be able to produce.
B. a combination of two goods that an economy can produce using all available resources and technology.
C. a combination of two goods that an economy can produce using some of its resources and technology.
D. a combination of two goods that an economy may be able to produce sometime in the future with additional resources and technology.

71. For what reason are production possibilities frontiers usually bowed outward?
A. The more resources a society uses to produce one good, the fewer resources it has available to produce another good.
B. It reflects the fact that the opportunity cost of producing a good falls as one produces more and more of it.
C. It is because of the effects of technological change.
D. Resources are specialized, that is, some are better at producing particular goods rather than other goods.

72. For what reason are production possibilities frontiers usually bowed outward?
A. constant opportunity cost
B. increasing opportunity cost
C. decreasing opportunity cost
D. increasing productivity

73. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 50 units of food and 30 machines. This year, it is producing 55 units of food and 33 machines. Which of the following would *NOT* explain the increase in output?
A. a reduction in unemployment
B. an increase in the labour force
C. an improvement in technology
D. an increase in worker productivity

74. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 72 units of food and 28 machines. This year, it is producing 75 units of food and 30 machines. Which of the following would *NOT* explain the increase in output?
A. a reduction in unemployment
B. an increase in the labour force
C. an improvement in technology
D. an increase in worker productivity

75. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 91 units of food and 48 machines. This year, it is producing 92 units of food and 53 machines. Which of the following would *NOT* explain the increase in output?
A. a reduction in unemployment
B. an increase in the labour force
C. an improvement in technology
D. an increase in worker productivity

76. The country of Econoland produces two goods, textbooks and widgets. Last year it produced 200 textbooks and 500 widgets. This year it produced 250 textbooks and 600 widgets. Given no other information, which of the following could NOT explain the change?
A. Econoland experienced a reduction in unemployment.
B. Econoland experienced an improvement in widget-making technology.
C. Econoland acquired more resources.
D. Econoland experienced a high level of emigration out of the country.

77. The country of Econoland produces two goods, textbooks and widgets. Last year it produced 300 textbooks and 600 widgets. This year it produced 350 textbooks and 700 widgets. Given no other information, which of the following could NOT explain the change?
A. Econoland experienced a reduction in unemployment.
B. Econoland experienced an improvement in widget-making technology.
C. Econoland acquired more resources.
D. Econoland experienced a high level of emigration out of the country.

78. Suppose there are two countries, Freedonia and Sylvania, that have identical amounts of resources, identical technologies, and identical populations. Both produce two types of goods, consumer goods and capital goods, and they both always operate on their production possibilities frontiers. The only difference is that this year Freedonia chooses to produce relatively more consumer goods than Sylvania. What will happen as a result?
A. Freedonia will have a higher living standard this year but will grow slower than Sylvania.
B. Freedonia will have a higher living standard this year and will grow faster than Sylvania.
C. Sylvania will have a higher living standard this year but will grow slower than Freedonia.
D. Sylvania will have a higher living standard this year and will grow faster than Freedonia.

79. Suppose there are two countries, Freedonia and Sylvania, that have identical amounts of resources, identical technologies, and identical populations. Both produce two types of goods, consumer goods and capital goods, and they both always operate on their production possibilities frontiers. The only difference is that this year Sylvania chooses to produce relatively more consumer goods than Freedonia. What will happen as a result?
A. Freedonia will have a higher living standard this year but will grow slower than Sylvania.
B. Freedonia will have a higher living standard this year and will grow faster than Sylvania.
C. Sylvania will have a higher living standard this year but will grow slower than Freedonia.
D. Sylvania will have a higher living standard this year and will grow faster than Freedonia.

80. What is the production possibilities frontier?
A. a map that shows the frontier beyond which agriculture is unprofitable
B. a map that shows areas of the world in which capitalist production is now possible
C. a graph that shows the various combinations of resources that can be used to produce a given level of output
D. a graph that shows the various combinations of output the economy can possibly produce given the available resources and technology

81. Which of the following is the most accurate statement about production possibilities?
A. An economy can produce only on the production possibilities frontier.
B. An economy can produce at any point inside or outside a production possibilities frontier.
C. An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
D. An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.

82. When is an economic outcome said to be efficient?
A. if the economy is using all of the resources it has available
B. if the economy is conserving on resources and not using all it has
C. if the economy is getting all it can from the scarce resources it has available
D. if the economy is able to produce more than its current production without additional resources

83. When constructing a production possibilities frontier, which of the following is NOT an assumption?
A. The economy produces only 2 goods.
B. All the economy's factors of production are being used.
C. The economy has a fixed level of technology.
D. The economy may increase its available factors of production.

84. On a production possibilities frontier, when is production efficient?
A. if the production point is on the frontier
B. if the production point is outside the frontier
C. if the production point is on or inside the frontier
D. if the production point is inside the frontier

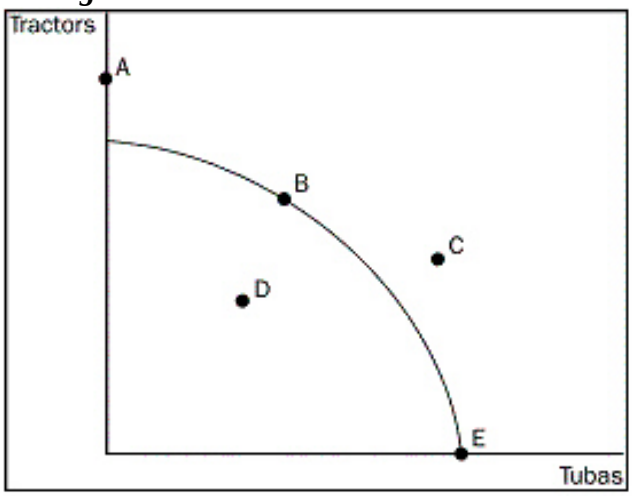
85. What does it mean if an economy is producing efficiently?
A. there is no way to produce more of one good without producing less of the other.
B. it is possible to produce more of both goods.
C. it is possible to produce more of one good without producing less of the other.
D. it is not possible to produce more of one good at any cost.

86. Which of the following concepts is NOT illustrated by the production possibilities frontier?
A. efficiency
B. opportunity cost
C. equity
D. tradeoffs

87. When a production possibilities frontier is linear, what does it show?
A. a truer picture of real life than a bowed out production possibilities frontier
B. that resources are perfectly shiftable from the production of one good to another
C. an example of increasing opportunity cost
D. An example of decreasing opportunity cost

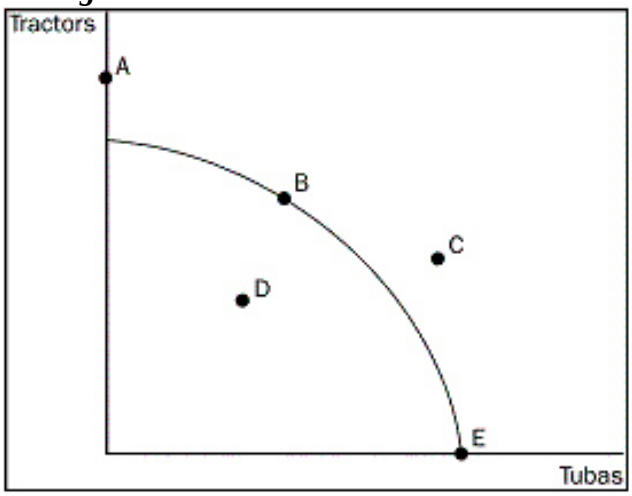
88. Suppose a nation is currently producing at a point inside its production possibilities frontier. What do we know?
A. The nation is producing beyond its capacity, and inflation will occur.
B. The nation is not using all available resources or has inefficiencies.
C. The nation is producing an efficient combination of goods.
D. There will be a large opportunity cost if the nation tries to increase production.

89. ***Figure 2-3***



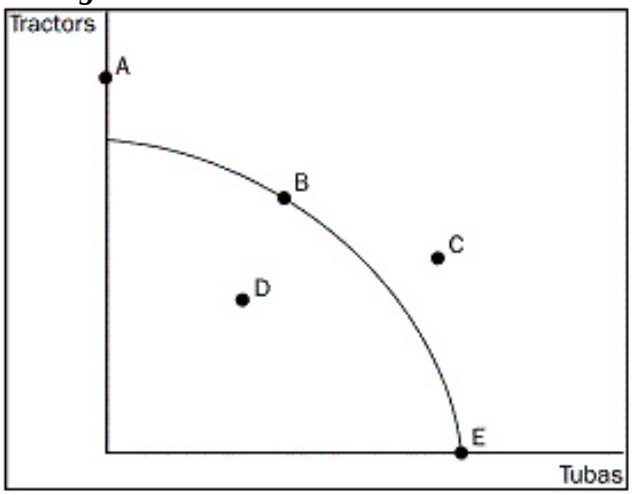
Refer to Figure 2-3. At which point or points can the economy produce?
A. point B, D, E
B. point A, B, D, E
C. point D, C
D. point D

90. ***Figure 2-3***



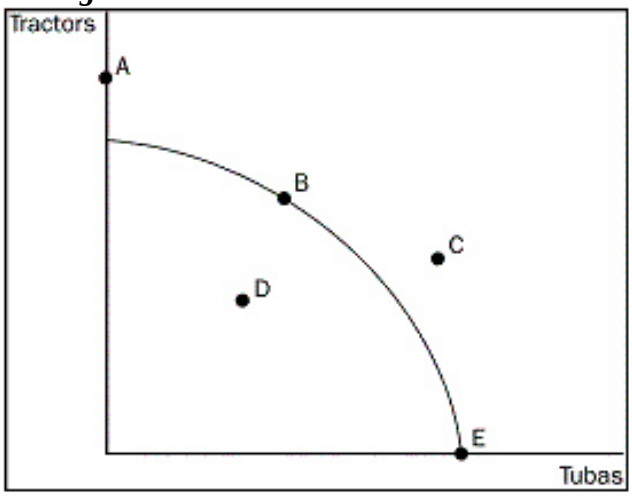
Refer to Figure 2-3. Which point represents the maximum possible production of tubas?
A. point A
B. point B
C. point C
D. point E

91. ***Figure 2-3***



Refer to Figure 2-3. At which point or points can the economy NOT produce?
A. point A
B. point C
C. point A, C
D. point A, C, D

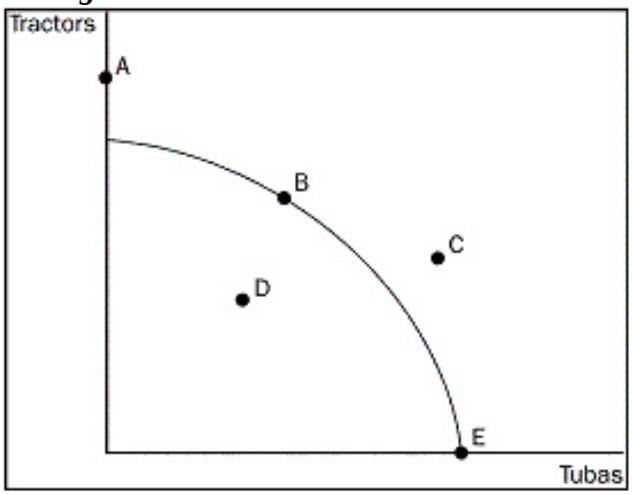
92. ***Figure 2-3***



Refer to Figure 2-3. Which point or points are efficient?

A. point B, E
B. point A, B, E
C. point D
D. point C

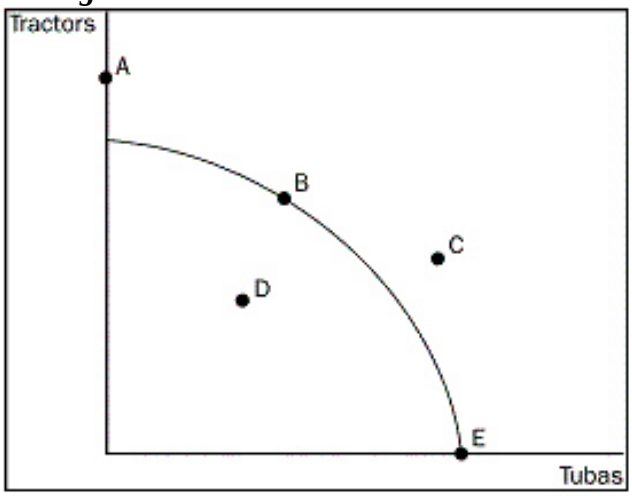
93. ***Figure 2-3***



Refer to Figure 2-3. Which point or points are inefficient?

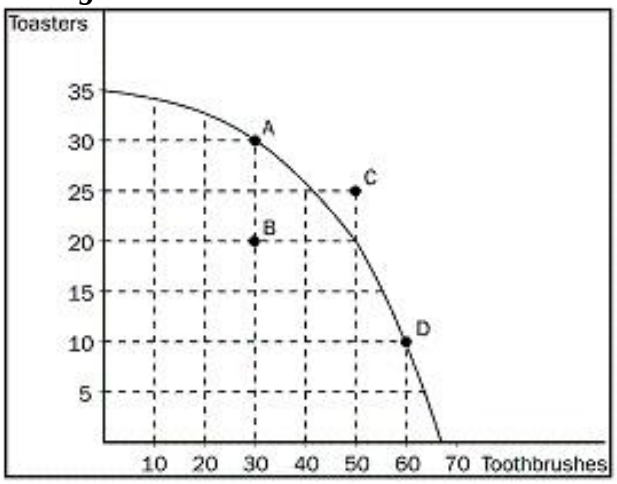
A. point A, C
B. point D, C
C. point C
D. point D

94. ***Figure 2-3***



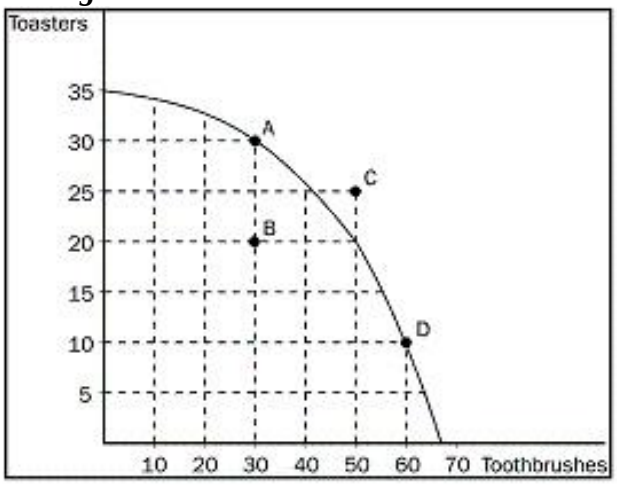
What is the opportunity cost of obtaining more of one good as shown on the production possibilities frontier?
A. the amount of the other good that must be given up.
B. the market price of the additional amount produced.
C. the amount of resources that must be devoted to its production.
D. the number of dollars that must be spent to produce it.

95. ***Figure 2-4***



Refer to Figure 2-4. What is the opportunity cost to the economy of getting 30 additional toothbrushes by moving from point A to point D?
A. 10 toasters
B. 15 toasters
C. 20 toasters
D. 25 toasters

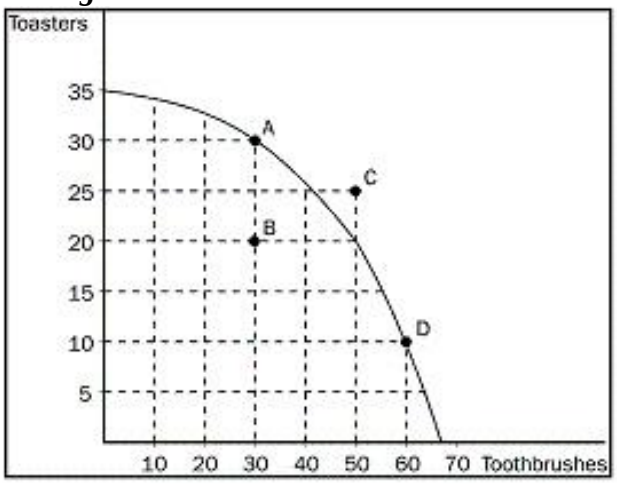
96. ***Figure 2-4***



Refer to Figure 2-4. What is the opportunity cost of getting 15 additional toasters by moving from point D to point C?

A. 10 toothbrushes
B. 20 toothbrushes
C. 30 toothbrushes
D. It is impossible for the economy to move from point D to point C.

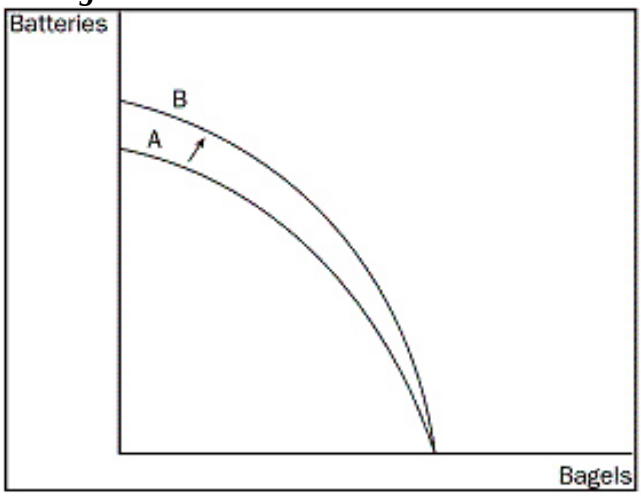
97. ***Figure 2-4***



Refer to Figure 2-4. What is the opportunity cost in terms of toothbrushes of getting 10 additional toasters by moving from point B to point A?

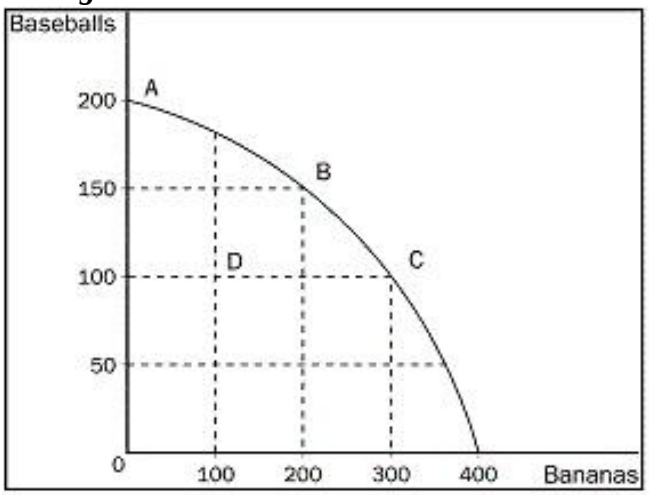
A. 20 toothbrushes
B. 10 toothbrushes
C. 5 toothbrushes
D. zero, since the economy has the additional resources to produce 10 additional toasters

98. ***Figure 2-5***



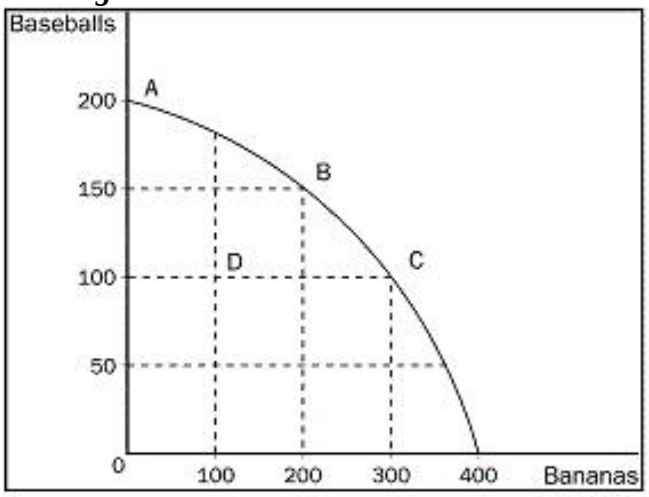
Refer to Figure 2-5. The shift of the frontier from A to B was most likely caused by which of the following?
A. technological improvement in the production of batteries
B. more labour available in the economy
C. a general technological breakthrough
D. more capital available in the economy

99. ***Figure 2-6***



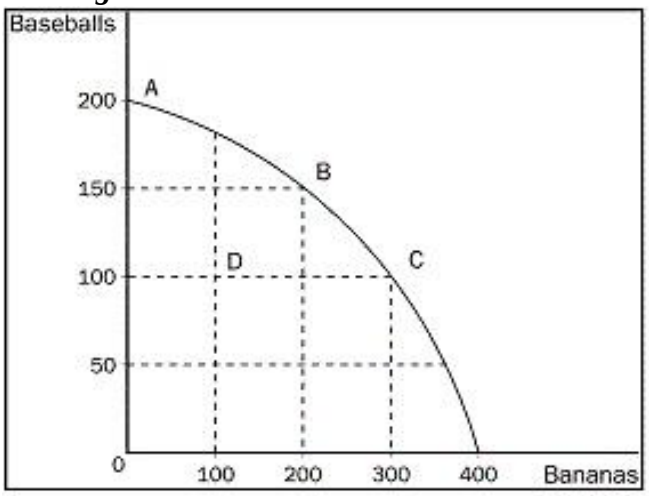
Refer to Figure 2-6. What is the opportunity cost to society of the movement from point A to point C?
A. 50 baseballs
B. 100 baseballs
C. 100 bananas
D. 300 bananas

100. ***Figure 2-6***



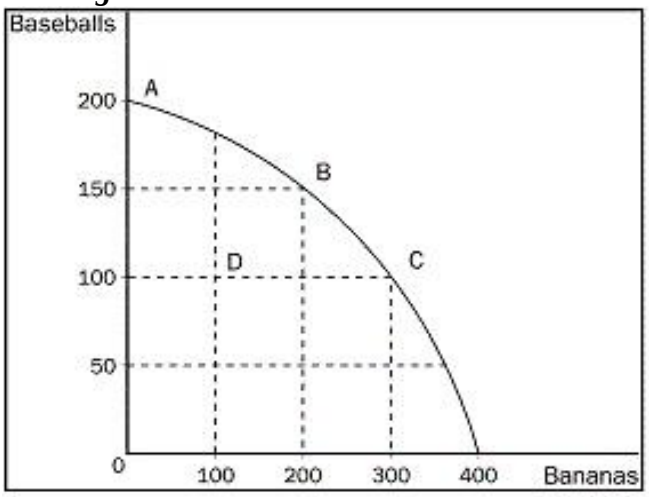
Refer to Figure 2-6. What is the opportunity cost to society of moving from point B to point D?
A. 100 bananas
B. 50 baseballs
C. both 100 bananas and 50 baseballs
D. nothing, since this economy would have unused resources

101. ***Figure 2-6***



Refer to Figure 2-6. What was the most likely cause of the movement from point C to point D?
A. unemployment
B. a decrease in society's preference for bananas
C. a decrease in society’s preference for playing baseball
D. a shift to a longer working day

102. ***Figure 2-6***



Refer to Figure 2-6. If this economy put all available resources into the production of bananas, how many could it produce?
A. 200 bananas and also 150 baseballs
B. 300 bananas and also 100 baseballs
C. 400 bananas and no baseballs
D. It is impossible to know unless we know the quantity of resources available.

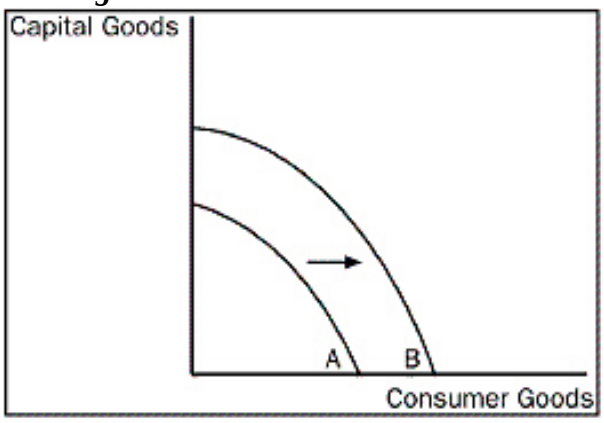
103. How can the production possibilities frontiers shift outward?
A. if government increases the amount of money in the economy
B. if there is an increase in technology
C. if resources can be moved from the production of one good to another
D. if opportunity costs are reduced

104. When is the production possibilities frontier bowed outward?
A. if resources are not perfectly shiftable
B. if the amount of resources increases
C. if the level of technology increases
D. if opportunity costs are constant

105. When a production possibilities frontier shifts outward, what concept is being demonstrated?
A. tradeoffs
B. efficiency
C. economic growth
D. opportunity cost

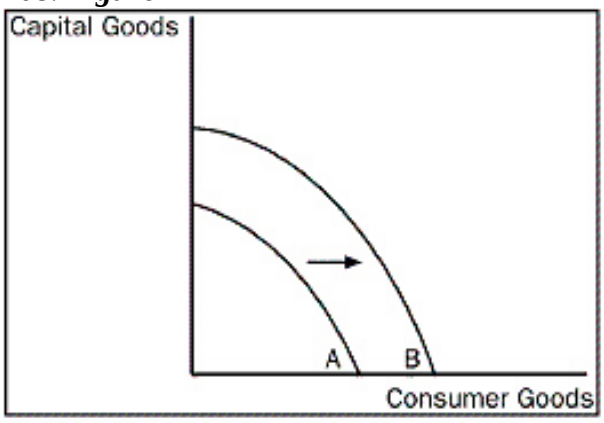
106. When an economy is operating inside its production possibilities frontier, what do we know?
A. There are unused resources or inefficiencies in the economy.
B. The economy is operating with efficiency.
C. Moving to a point on its production possibilities frontier would be economic growth.
D. To produce more of one good, the economy would have to give up some of the other good.

107. ***Figure 2-7***



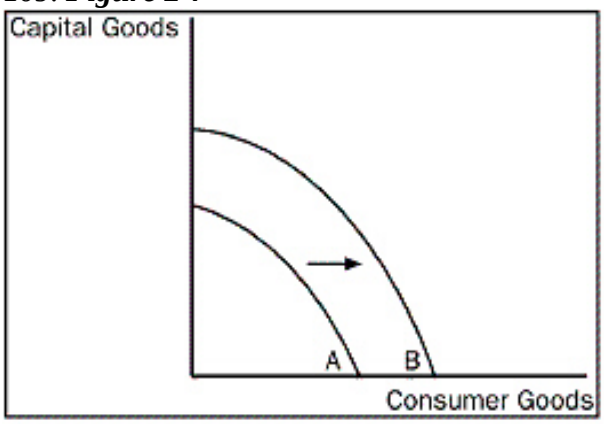
Refer to Figure 2-7. Which of the following would most likely have caused the production possibilities frontier to shift outward from A to B?
A. an increase in resources necessary to produce capital goods
B. an improvement in the technology of producing consumer goods
C. an increase in the overall level of technology in the economy
D. an increase in unemployment

108. ***Figure 2-7***



Refer to Figure 2-7. What would best describe the movement from frontier A to B?
A. a downturn in the economy
B. economic growth
C. a more equitable distribution of income
D. an improvement in the allocation of resources

109. ***Figure 2-7***



What would unemployment cause an economy to do?
A. produce inside its production possibilities frontier
B. produce on its production possibilities frontier
C. produce outside its production possibilities frontier
D. unemployment could actually cause a, b, or c, depending on how severe it is

110. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of dolls from 200 to 300?
A. 200 fire trucks
B. 150 fire trucks
C. 100 fire trucks
D. It is impossible to tell what the opportunity cost is since in this example costs are not constant.

111. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of dolls from 300 to 400?

A. 200 fire trucks
B. 150 fire trucks
C. 100 fire trucks
D. It is impossible to tell what the opportunity cost is since in this example costs are not constant.

112. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of dolls from 100 to 200?

A. 200 fire trucks
B. 150 fire trucks
C. 100 fire trucks
D. It is impossible to tell what the opportunity cost is since in this example costs are not constant.

113. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of dolls from 0 to 100?

A. 200 fire trucks
B. 150 fire trucks
C. 100 fire trucks
D. 50 fire trucks

114. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of fire trucks from 0 to 200?
A. 200 dolls
B. 150 dolls
C. 100 dolls
D. 50 dolls

115. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

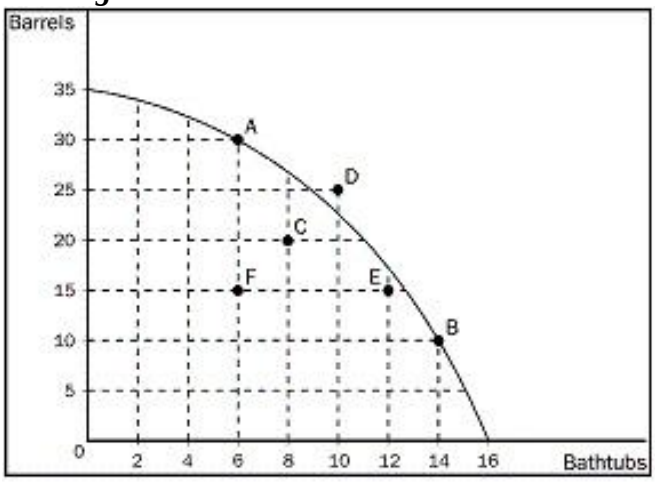
Refer to Table 2-1. What is the opportunity cost to Toyland of increasing the production of fire trucks from 450 to 500?
A. 200 dolls
B. 150 dolls
C. 100 dolls
D. 50 dolls

116. ***Table 2-1***
Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

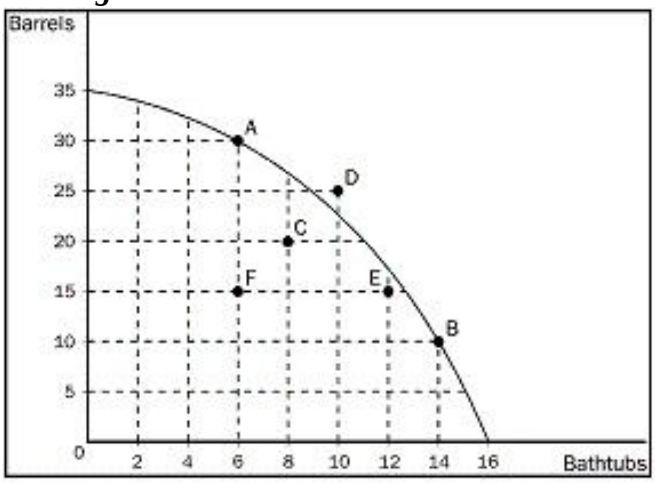
Refer to Table 2-1. Which of the following statements accurately describes the production possibilities for Toyland?
A. The opportunity cost of an additional 100 dolls is 50 fire trucks.
B. The opportunity cost of an additional 100 dolls is 100 fire trucks.
C. Without additional information, it is impossible to determine the opportunity cost of an additional doll.
D. The opportunity cost of an additional 100 dolls increases as more dolls are produced.

117. ***Figure 2-8***



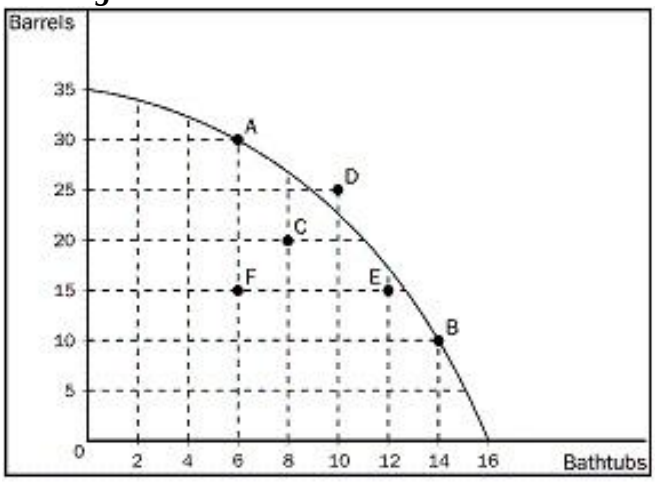
Refer to Figure 2-8. What would be an efficient combination of bathtubs and barrels?
A. 30 barrels and 6 bathtubs
B. 20 barrels and 8 bathtubs
C. 25 barrels and 10 bathtubs
D. 15 barrels and 12 bathtubs

118. ***Figure 2-8***



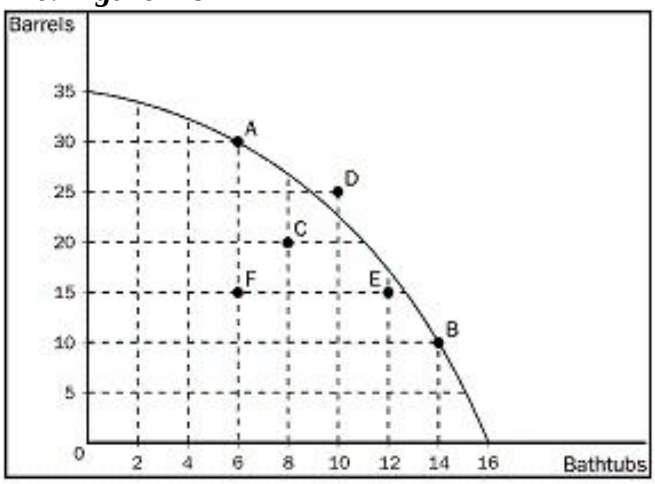
Refer to Figure 2-8. What is the opportunity cost of moving from point A to point B?
A. 8 bathtubs
B. 20 barrels
C. the difference between the 8 bathtubs you get and the 20 barrels you give up
D. the difference between the 20 barrels you get and the 8 bathtubs you give up

119. ***Figure 2-8***



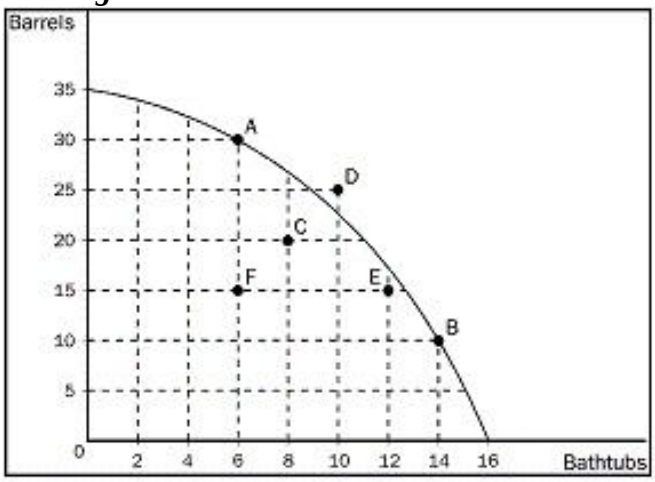
Refer to Figure 2-8. If this economy puts all of its resources into the production of bathtubs, how many could it produce?
A. 20 barrels and 12 bathtubs
B. 35 barrels and no bathtubs
C. no barrels and 16 bathtubs
D. This economy would not choose to put all of its resources into the production of one good.

120. ***Figure 2-8***



Refer to Figure 2-8. Which of the following combinations is impossible for this economy to produce?
A. 30 barrels and 6 bathtubs
B. 25 barrels and 10 bathtubs
C. 20 barrels and 8 bathtubs
D. 10 barrels and 14 bathtubs

121. ***Figure 2-8***



Refer to Figure 2-8. What would happen if this economy moved from point C to point E?
A. It still would not be producing efficiently.
B. There would be no gain in either bathtubs or barrels.
C. it would be producing more barrels and more bathtubs than at point C.
D. It is not possible for this economy to move from point C to point E without additional resources.

122. Into which two broad subfields is the field of economics traditionally divided?
A. national economics and international economics
B. consumer economics and producer economics
C. private sector economics and public sector economics
D. microeconomics and macroeconomics

123. What does microeconomics study?
A. the behaviour of consumers
B. how individual households and firms make decisions
C. how government affects the economy
D. how the economy as a whole works

124. What does macroeconomics study?
A. individual decision makers
B. economic history
C. economy-wide phenomena
D. how firms maximize profit

125. Which of the following would be considered a topic of study in macroeconomics?
A. the impact of agricultural price support programs in the cotton industry
B. the effect on U.S. steel producers of an import quota imposed on foreign steel
C. the effect of an increase in the price of imported oil on the U.S. inflation rate
D. the effect of an increase in the price of imported coffee beans on the U.S. coffee industry

126. Which of the following might a microeconomist NOT study?
A. the effects of rent control on housing in Toronto
B. how a college student makes financial decisions
C. how tariffs on shoes affects the shoe industry
D. the effect on the economy when unemployment rates change

127. Which of the following would a macroeconomist NOT study?
A. impact of minimum-wage laws on employment in the fast food industry
B. effect of changes in saving rates on GDP
C. impact of monetary policy on the rate of inflation
D. effect of tax policy on the rate of economic growth

128. Complete the following statement: When economists are trying to explain the world they are
A. scientists.
B. policy advisors.
C. in the realm of normative economics.
D. in over their heads.

129. Complete the following statement: When economists are trying to help improve the world they are
A. concerned with positive economics.
B. policy advisors.
C. scientists.
D. politicians.

130. Which is the best statement about the roles of economists?
A. Economists are best viewed as policymakers.
B. Economists are best viewed as scientists.
C. In trying to explain the world, economists are policymakers; in trying to improve the world, they are scientists.
D. In trying to explain the world, economists are scientists; in trying to improve the world, they are policymakers.

131. For economists, what are the two types of statements about the world?
A. assumptions and theories
B. true statements and false statements
C. specific statements and general statements
D. positive statements and normative statements

132. How do economists view positive statements?
A. affirmative, justifying existing economic policy
B. optimistic, putting the best possible interpretation on things
C. descriptive, making a claim about how the world is
D. prescriptive, making a claim about how the world ought to be

133. How do economists consider normative statements?
A. descriptive, making a claim about how the world is
B. statements about the normal condition of the world
C. prescriptive, making a claim about how the world ought to be
D. statements that establish production goals for the economy

134. Which of the following is an example of a positive statement?
A. Prices rise when the government prints too much money.
B. If welfare payments increase, the world will be a better place.
C. Inflation is more harmful to the economy than unemployment.
D. The benefits to the economy of improved equity are greater than the costs of reduced efficiency.

135. What does a normative statement describe?
A. how the world was in the past
B. how the world is
C. how the world will be in the future
D. how the world ought to be

136. Which of the following is an example of a normative statement?
A. If the price of a product decreases, quantity demanded increases.
B. Reducing tax rates on the wealthy would be good for the country.
C. If the national saving rate were to increase, so would the rate of economic growth.
D. An increase in minimum wages will increase unemployment.

137. What type of statement is "Prices rise when the government prints too much money"?
A. positive economic statement
B. statement made by the Harper administration
C. normative economic statement
D. welfare statement

138. What do economists from the Department of Finance provide?
A. the annual Economic Report of the Prime Minister
B. the Senate with the annual budget
C. enforcement of the competition laws
D. advice on tax policy to the Prime Minister

139. When economists are speaking as policy advisors, which statements are they more likely to use?
A. normative statements
B. positive statements
C. objective statements
D. descriptive statements

140. What does evaluating a positive statement involve?
A. evaluating values as well as facts
B. examining evidence
C. our views on ethics and religion
D. consideration of the government's policy goals

141. Which of the following is NOT a positive statement?
A. Higher gasoline prices will reduce gasoline consumption.
B. Equity is more important than efficiency.
C. Trade restrictions lower our standard of living.
D. If a nation wants to avoid inflation, it should not print too much money.

142. Two economists, Adam and Joan, are discussing the possibility of substantially reforming the current federal tax system. Adam thinks the current system is fine but Joan is in favour of reform. Which of the following is the LEAST likely explanation for the disagreement?
A. Adam is a positive economist and Joan is a normative economist.
B. Adam and Joan have different positive views about the effect of changing the tax system.
C. Adam and Joan have different values, and so have different normative views about policy.
D. Adam is better off under the current system and Joan would be better off if the reforms were implemented.

143. When do you know an economist has crossed the line from scientist to policy adviser?
A. when he explains just the facts
B. when he makes positive statements
C. when he makes normative statements
D. when he cannot reach a conclusion

144. What do economists at Industry Canada do?
A. prepare the federal budget
B. write government regulations
C. help design and enforce Canada's antimonopoly laws
D. write the annual Economic Report

145. What do economists at the Canadian International Development Agency do?
A. give advice on overseas development projects
B. collect data to help other economists
C. help formulate labour market policies
D. set monetary policy

146. What do economists at the Bank of Canada do?
A. analyze data on labour markets
B. help negotiate trade agreements
C. analyze macroeconomic developments
D. enforce antimonopoly laws

147. Economists in which department help enforce antitrust laws?
A. Environment Canada
B. Industry Canada
C. Ministry of Finance
D. Canadian International Development Agency

148. Economists outside the government also offer policy advice. Which institution below does NOT publish reports by economists?
A. C.D. Howe Institute
B. Fraser Institute
C. Institute for Research on Public Policy
D. H.M Holmes Institute

149. What do economists at Foreign Affairs Canada and International Trade Canada do?
A. help negotiate trade agreements with other countries
B. offer advice on overseas economic development projects
C. do not usually work together
D. are concerned usually with the workings of labour markets

150. What do the duties of the economists employed by Human Resources Canada include?
A. advising Parliament
B. designing tax policy
C. writing the annual Economic Report
D. studying the relationship between average wages and gender

151. Who designs tax policy?
A. Ministry of Finance
B. Bank of Canada
C. Human Resources
D. Department of Justice

152. What is a duty of Human Resources Canada?
A. to analyze data on workers
B. to design tax policy
C. to enforce the country's antitrust laws
D. to advise the Prime Minister

153. What does The Bank of Canada do?
A. designs tax policy
B. enforces the country's antitrust laws
C. sets the country's monetary policy
D. analyzes the data on workers

154. What does Human Resources Canada do?
A. enforce the country's antitrust laws
B. analyze economic developments in Canada
C. set the country's monetary policy
D. help formulate labour market policies

155. What famous economist said: “The ideas of economists and political philosophers are more powerful than commonly understood”?
A. Gregory Mankiw
B. John Maynard Keynes
C. Paul Krugman
D. David Ricardo

156. What are the 2 basic reasons why economists often appear to give conflicting advice to policymakers?
A. differences in opinions and education
B. differences in scientific judgments and values
C. differences in scientific judgments and education
D. differences in opinions and values

157. Why did George Bernard Shaw, among others, criticize economists?
A. because they have too much influence over government decisions
B. because many ideas are too theoretical and therefore do not work in "real life"
C. because they tend to speak a different language, causing most people to not understand them
D. because they seem to give conflicting advice to policymakers

158. What are tariffs and quotas?
A. policies that restrict trade
B. instruments implemented to increase trade efficiency
C. measures endorsed by almost all economists
D. policies meant to improve the well-being of consumers

159. What did a survey that asked the opinion of academic, business, and government economists on ten propositions about economic policy find?
A. The respondents were almost equally divided on the propositions.
B. The respondents favoured the propositions by a slight margin.
C. The respondents disagreed with the propositions by a slight margin.
D. There was overwhelming endorsement of the propositions among the respondents.

160. What do almost all economists agree about rent control?
A. improves the availability and quality of housing
B. allows the market for housing to work more efficiently
C. adversely affects the availability and quality of housing
D. is a very inexpensive way to help the most needy members of society

161. Which of the following is the best explanation for why policies such as rent control and import quotas persist in spite of the fact that experts are united in their opposition to such policies?
A. Economists have not yet convinced the general public that the policies are undesirable.
B. Economists are simply wrong about the economic impact of these policies.
C. Economists have different values than do most people.
D. Economists are usually of a different political party than are lawmakers.

162. What are the 3 propositions about which most economists agree most often (in order from first to third)?
A. rent control, tariffs and quotas, and floating exchange rates
B. tariffs and quotas, floating exchange rates, and fiscal policy
C. rent control, fiscal policy, and tariffs and quotas
D. fiscal policy, rent control, and floating exchange rates

163. What is the single most important purpose of your textbook?
A. to teach you about the effects of the government's economic policies
B. to teach you the language of economics
C. to teach you the economist's way of thinking
D. to teach you how to make money

164. How would any economist who says all policy decisions are easy be best decribed?
A. they must understand the relationship between a market economy and the government.
B. they must be running for office.
C. they has a Ph.D. in economics.
D. they cannot be trusted.

165. What did John Maynard Keynes believe the ideas of economists to be?
A. generally incorrect
B. powerful
C. pie-in-the-sky ideals
D. not taken seriously

166. How did John Maynard Keynes referred to economics?
A. as an easy subject at which very few excel.
B. as an easy subject but not as easy as philosophy or the pure sciences.
C. as an easy subject which very few can enjoy.
D. as an easy subject which deals primarily with common sense.

167. How did the great economist John Maynard Keynes explain his comment that although economics is an easy subject compared with the higher branches of philosophy or pure science, it is a subject at which few excel?
A. Most people who study economics are not very bright.
B. Good economists must possess a rare combination of gifts.
C. Economics is actually quite boring; hence, people tend to lose interest in it.
D. Good thinkers become frustrated with economics because it is not logical or relevant.

168. Why do economists use graphs?
A. to find how variables are related in the real world
B. to negate economic ideas that cannot be proved with equations or words
C. to visually express ideas more clearly than might be the case if they are expressed with equations or words
D. to make economic theory more relevant

169. In a pie chart, what does each "slice" of the pie represent?
A. a specific percentage of the total pie
B. an equal share of the total pie
C. the amount of the pie each of the two variables represents
D. one-half of the total pie

170. Why are graphs such as bar graphs limited?
A. They can only show variables that are positively related.
B. They are extremely difficult to understand.
C. They provide information for only a single variable.
D. They provide information on no more than 2 variables.

171. In order to provide information on two variables, what must an economist use?
A. a bar graph
B. pie chart
C. the coordinate system
D. a time-series graph

172. What is a type of graph that can be used to display the relationship between two variables?
A. a pie chart
B. a bar graph
C. a time-series graph
D. the coordinate system

173. Of what use is a coordinate system?
A. to show the flow of income and products in an economic system
B. to organize labour and other resources in the production process
C. to allow economists to show two variables on a single graph
D. to teach economists how to draw graphs consistently

174. What is an ordered pair?
A. the process of checking calculations twice before placing them on a graph
B. two numbers that can be represented by a single point on a graph
C. two numbers that are represented by side-by-side points on a graph
D. two points on a graph that are equal distances from the origin

175. What is the first number in an ordered pair?
A. the y-coordinate
B. the x-coordinate
C. either x or y, depending on the quadrant
D. not useful to know, since most graphs in economics use p and q, not x and y

176. What is the ordered pair that represents the origin on a graph?
A. (1, 1)
B. (0, 0)
C. (0, 1)
D. (1, 0)

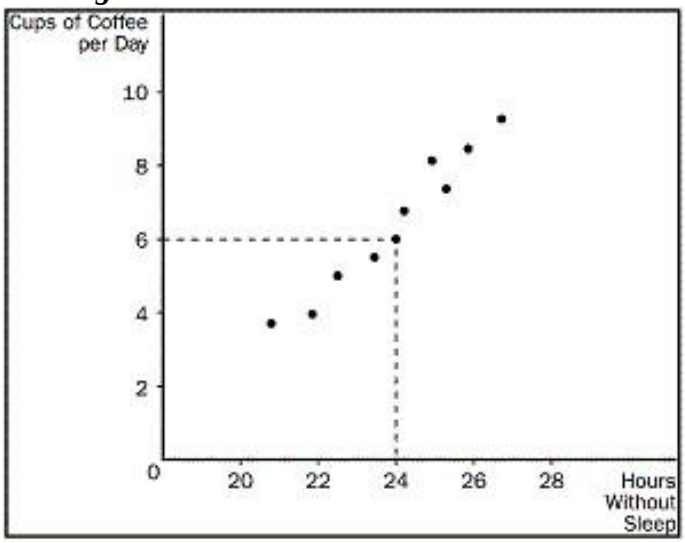
177. What is the x-coordinate?
A. the first number of an ordered pair and represents the point's horizontal location
B. the second number of an ordered pair and represents the point's horizontal location
C. the first number of an ordered pair and represents the point's vertical location
D. the second number of an ordered pair and represents the point's vertical location

178. What is the y-coordinate?
A. the first number of an ordered pair and represents the point's horizontal location
B. the second number of an ordered pair and represents the point's horizontal location
C. the first number of an ordered pair and represents the point's vertical location
D. the second number of an ordered pair and represents the point's vertical location

179. What does the x-coordinate give?
A. the diagonal location of the point
B. the vertical location of the point
C. the horizontal location of the point
D. the quadrant location of the point

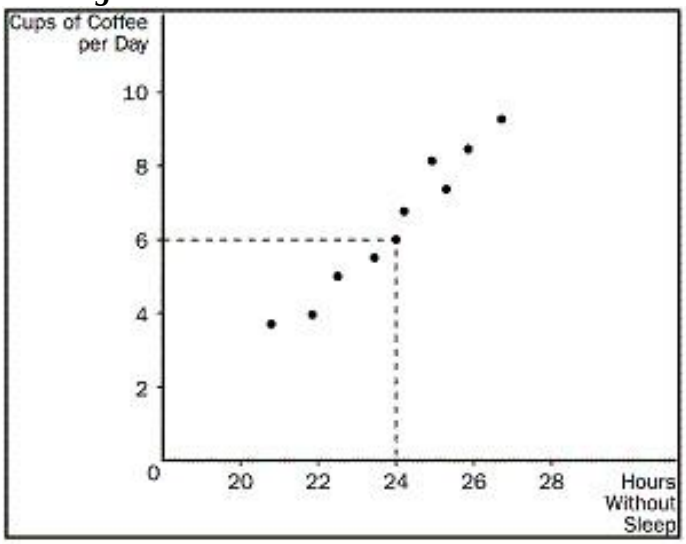
180. What is the point where both x and y are zero?
A. the origin
B. the null
C. the zero coordinate
D. the center

181. ***Figure 2-9***



Refer to Figure 2-9. What is the graph shown known as?
A. a time series
B. a bar graph
C. a scatterplot
D. a pie chart

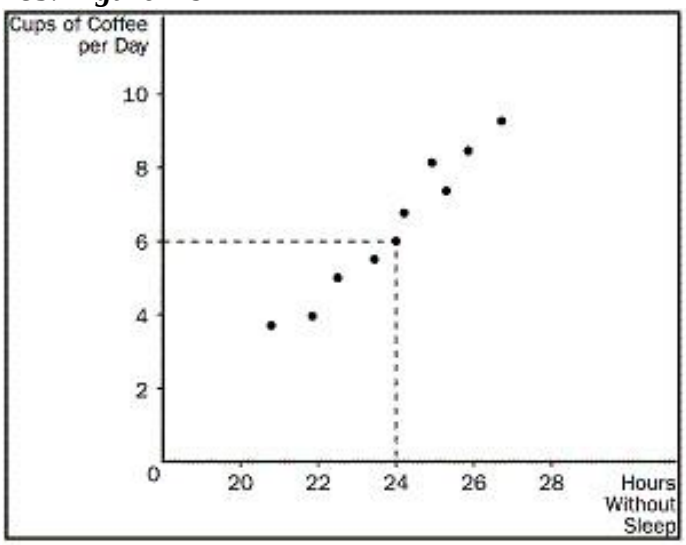
182. ***Figure 2-9***



Refer to Figure 2-9. What is the correct designation of point A?

A. (6, 0)
B. (0, 24)
C. (6, 24)
D. (24, 6)

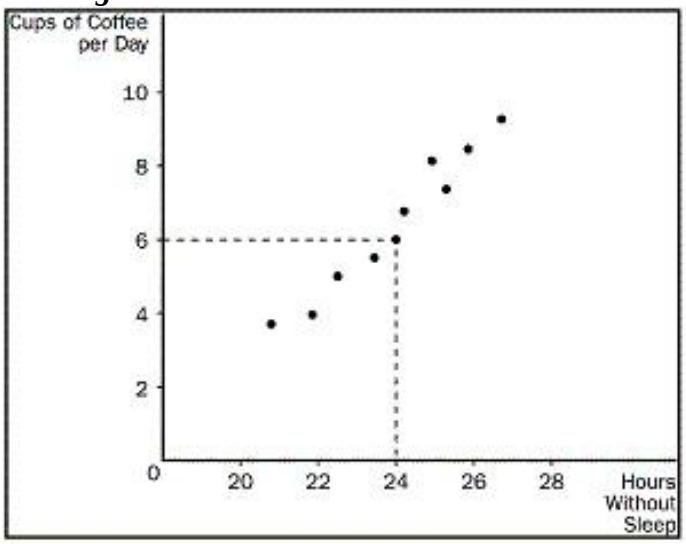
183. ***Figure 2-9***



Refer to Figure 2-9. What do cups of coffee per day and the hours that someone can go without sleep have?

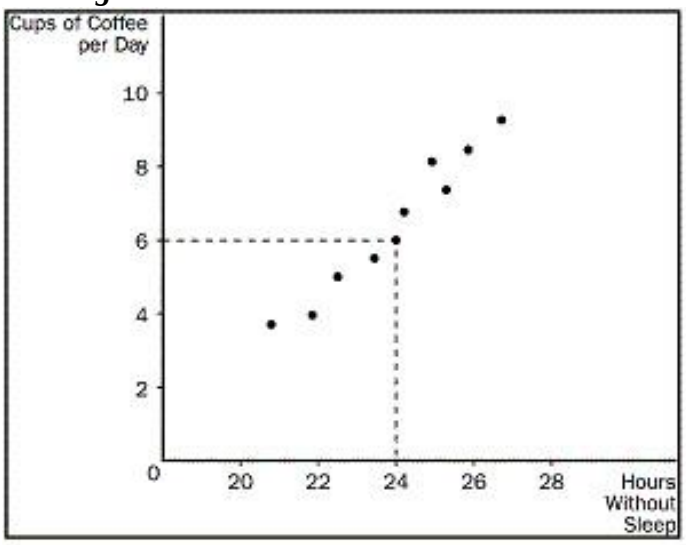
A. a positive correlation
B. a negative correlation
C. a random correlation
D. no correlation

184. ***Figure 2-9***



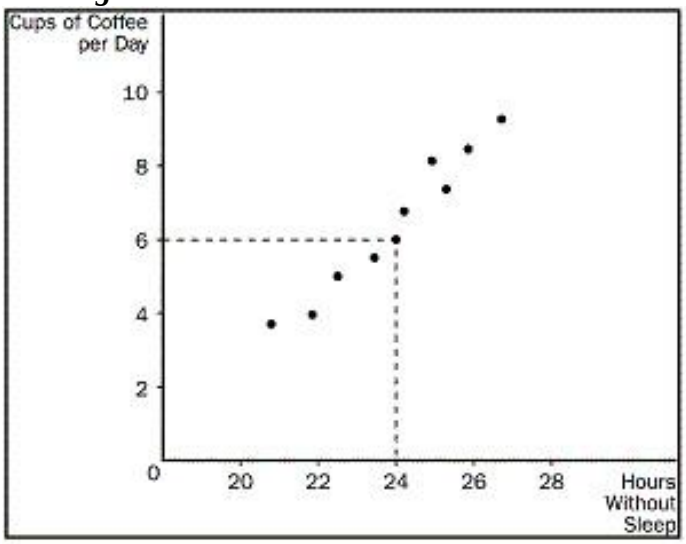
Refer to Figure 2-9. What would you say about the relationship between coffee and hours without sleep?
A. The less coffee a person drinks per day, the more time he can go without sleep.
B. There is no relationship between how much coffee per day a person drinks and how long they can go without sleep.
C. The more coffee a person drinks per day, the longer he can go without sleep.
D. The relationship between cups of coffee per day and time without sleep is too unpredictable to consider.

185. ***Figure 2-9***



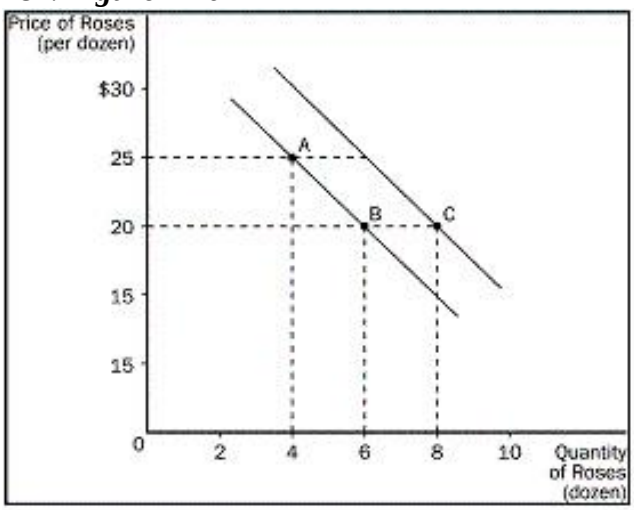
Refer to Figure 2-9. What are the curves shown?
A. supply curves
B. demand curves
C. preference curves
D. income-consumption curves

186. ***Figure 2-9***



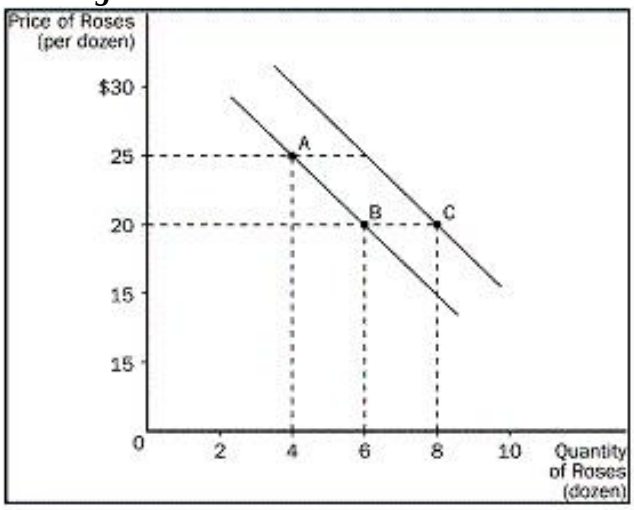
What happens when 2 variables have a negative correlation?
A. They tend to move in opposite directions.
B. They tend to move in the same direction.
C. One variable will move while the other remains constant.
D. The movement of the two variables is unpredictable.

187. ***Figure 2-10***



Refer to Figure 2-10. What is the movement from point A to point B?
A. a shift of the curve
B. a change in preferences
C. a movement along the curve
D. a change in consumer income.

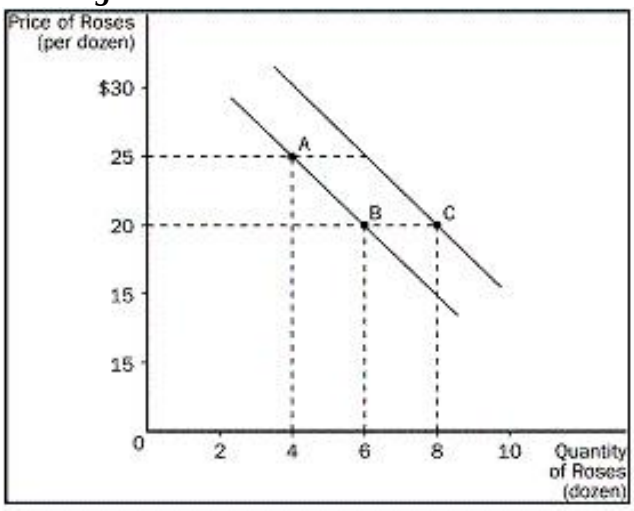
188. ***Figure 2-10***



Refer to Figure 2-10. What is the movement from point B to point C?

A. a shift of the curve
B. a change in price
C. a movement along the curve
D. a change in costs to the firm

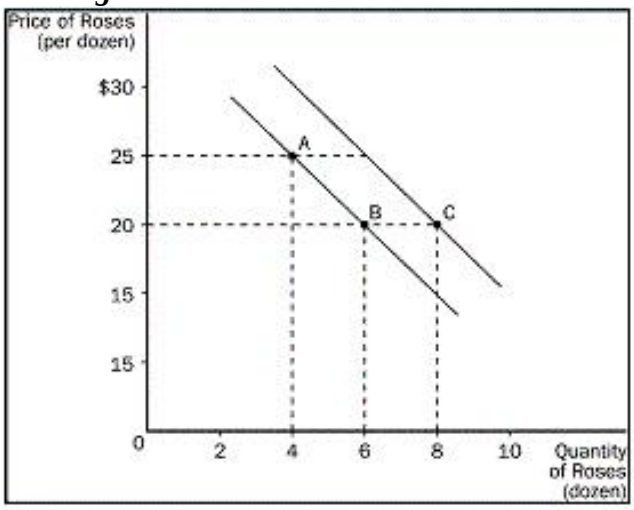
189. ***Figure 2-10***



Refer to Figure 2-10. What is the slope of the curve between points A and B?

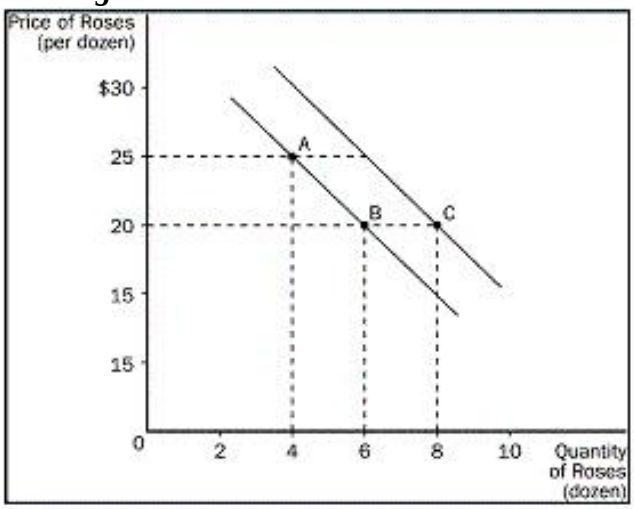
A. 5/2
B. 2/5
C. -2/5
D. -5/2

190. ***Figure 2-10***



Refer to Figure 2-10. What could have caused the movement from point B to point C?
A. inflation
B. a change in income
C. a change in the price of roses
D. a change in the cost of producing roses

191. ***Figure 2-10***



Refer to Figure 2-10. How are the price of roses and the quantity of roses related?
A. directly related and therefore move in the same direction
B. directly related and therefore move in opposite directions
C. inversely related and therefore move in opposite directions
D. independent of each other

192. What does a demand curve show?
A. the relationship between income and quantity demanded
B. the relationship between price and income
C. the relationship between price and quantity demanded
D. the relationship among income, price, and quantity demanded

193. What does a relatively steep demand curve mean?
A. quantity demand will adjust slightly to a price change
B. quantity demand will adjust greatly to a price change
C. quantity demand will not adjust to a price change
D. the change in quantity demand will exactly equal a change in price

194. If Steven chooses to buy more bagels per month at each price, what will happen to his demand curve?
A. shift inward
B. shift outward
C. not shift, but he will move along his demand curve from left to right
D. not shift, but he will move along his demand curve from right to left

195. What happens when a relevant variable that is not named on either axis changes?
A. There will be a movement along the curve.
B. The curve may or may not change. It depends on how the variables are related.
C. The curve will be unaffected since only the variables on the axis affect the curve.
D. The curve will shift.

196. What happens when a variable on an axis of a graph changes?
A. The curve will not shift.
B. The curve will shift.
C. The curve may or may not change. It depends on how the variables are related.
D. The curve will shift if the variable is on the vertical axis, but not on the horizontal axis.

197. How is the slope of a straight line calculated?
A. rise divided by run
B. run divided by rise
C. the average of rise and run.
D. rise plus run

198. How is the slope of a line calculated?
A. change in x/change in y
B. change in y/change in x
C. x/y
D. x + y

199. What will the slope of a fairly flat upward-sloping line be?
A. a small positive number
B. a large positive number
C. a small negative number
D. a large negative number

200. Which of the following statements about slope is NOT correct?
A. Slope explains how much one variable responds to changes in another variable.
B. Slope can be computed by delta x/delta y.
C. Slope is positive if the 2 variables are moving in the same direction.
D. Slope does not change if the line is linear.

201. Which of the following is NOT a problem associated with graphing in economics?
A. omitted variables
B. holding everything else constant
C. reverse causality
D. the ability to show a relationship between 2 variables

202. Bill has noticed that increases in unemployment insurance claims are associated with recessions, and therefore advocates limits on unemployment insurance so as to prevent recessions. Martha has noticed that most drug addicts once attended schools, and therefore advocates getting rid of schools so as to prevent drug addiction. What do we know about the reasoning of Bill and Martha?
A. The reasoning of both Bill and Martha suffers from the omitted variable problem.
B. The reasoning of both Bill and Martha suffers from the reverse causality problem.
C. Bill's reasoning suffers from the reverse causality problem and Martha's reasoning suffers from the omitted variable problem.
D. Martha's reasoning suffers from the reverse causality problem and Bill's reasoning suffers from the omitted variable problem.

203. While the scientific method is applicable to studying natural sciences, it is not useful in studying an economic system.
FALSE

204. Since natural experiments offered by history cannot be used in economics, carefully constructed laboratory experiments must be used.
FALSE

205. An economic model can accurately explain how the economy is organized because it is designed to include every feature of the real world.
FALSE

206. All scientific models, including economic models, simplify reality in order to improve our understanding of it.
TRUE

207. A circular-flow diagram is a visual model of how an economy is organized.
TRUE

208. In a simple circular-flow diagram, firms own the factors of production and use them to produce goods and services.
FALSE

209. In a simple circular-flow diagram, the two types of markets in which households and firms interact are the markets for goods and services and the markets for factors of production.
TRUE

210. In the markets for goods and services, as in the markets for the factors of production, households are buyers and firms are sellers.
FALSE

211. In a circular-flow diagram, one loop shows the flow of real goods, services, and factors of production, and the other loop shows the corresponding flow of dollars.
TRUE

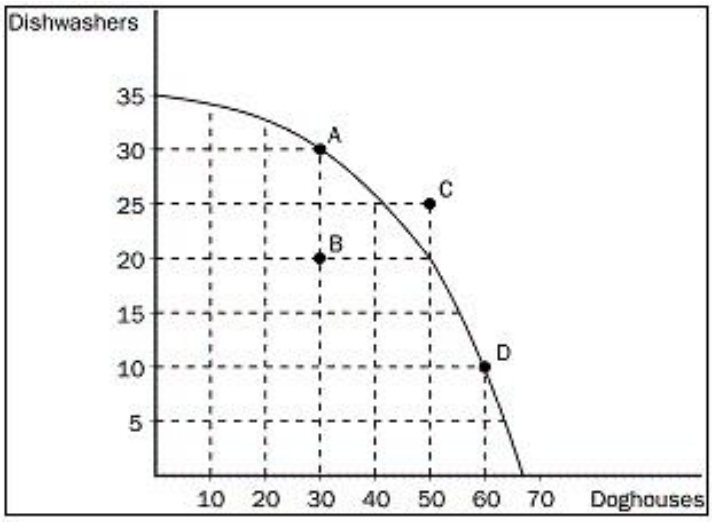
212. A production possibilities frontier is a graph that shows the various combinations of outputs the economy can possibly produce given its factors of production and technology.
TRUE

213. An economy can produce at any point on or outside the production possibilities frontier, but it cannot produce at points inside the frontier.
FALSE

214. An efficient outcome in economics is one in which the economy is conserving the largest possible amount of resources, while still meeting the needs of society.
FALSE

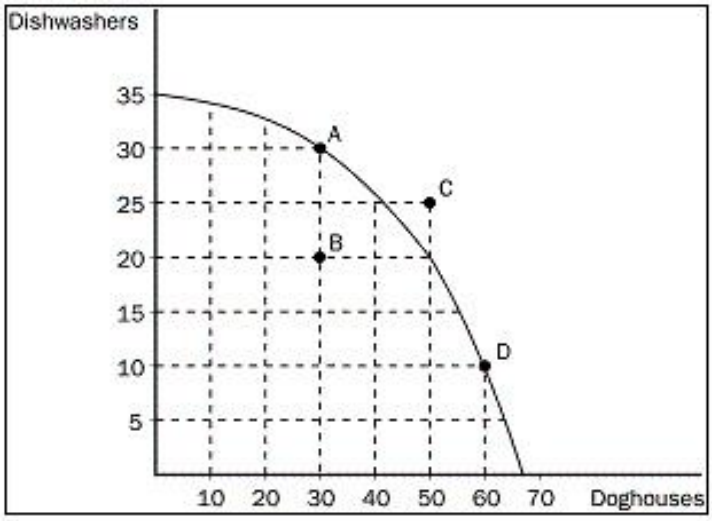
215. An economy is being efficient if it is impossible to produce more of one good without producing less of another.
TRUE

216. ***Figure 2-11***



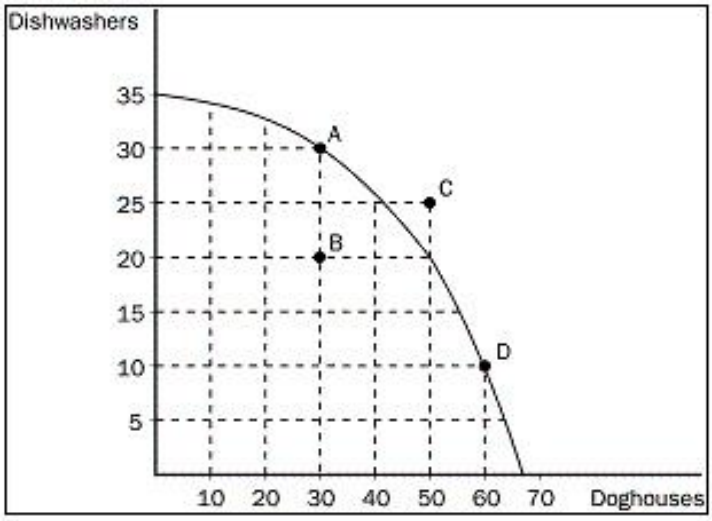
Refer to Figure 2-11. Points A, B, and D represent feasible or attainable outcomes for society.
TRUE

217. ***Figure 2-11***



Refer to Figure 2-11. The opportunity cost to the economy of moving from point A to point B is 10 dishwashers.
TRUE

218. ***Figure 2-11***



Refer to Figure 2-11. The opportunity cost of more doghouses increases as more doghouses are produced.
TRUE

219. The tradeoff between the production of different goods can change because of technological improvement over time.
TRUE

220. Economic growth causes a production possibilities frontier to shift outward.
TRUE

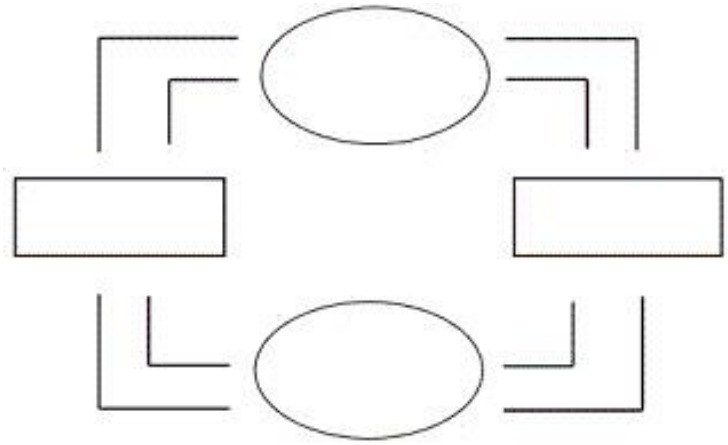
221. The field of economics is divided into two subfields: microeconomics and macroeconomics.
TRUE

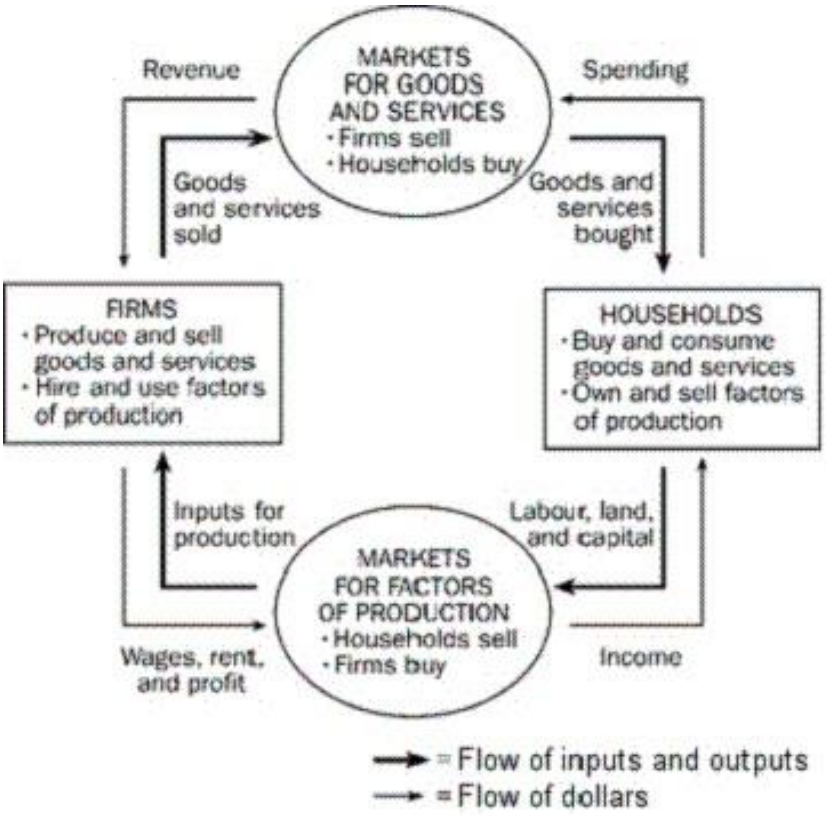
222. Normative statements describe how the world is, while positive statements prescribe how the world should be.
FALSE

223. "Society would be better if the welfare system were abolished" is a normative statement, not a positive statement.
TRUE

224. When economists are trying to explain the world they are acting as scientists, and when they are trying to improve it, they are policymakers.
TRUE

225. Using this outline, draw a circular-flow diagram representing the interactions between households and firms in a simple economy. Explain briefly the various parts of the diagram.

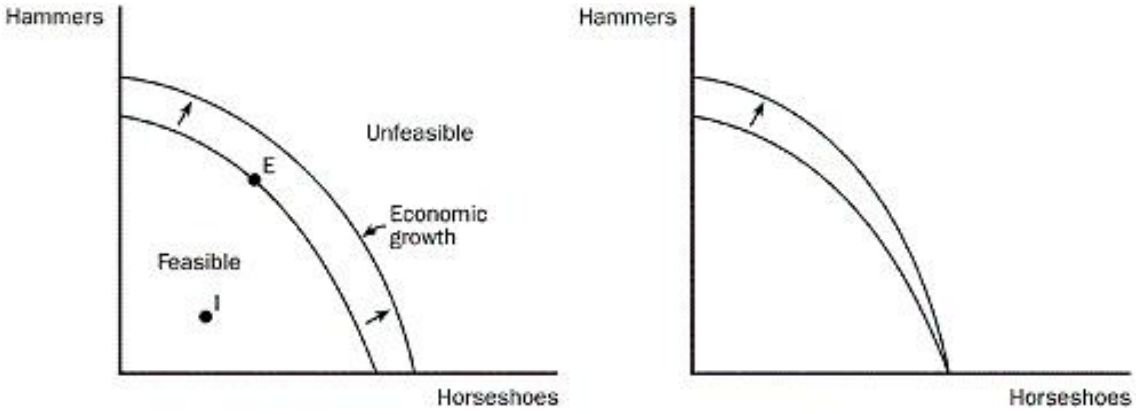




This diagram should duplicate the essential characteristics of the diagram in the text, with an explanation of the meaning of each flow and each market. It is important that the student understands that the inner loop represents the flow of real goods and services and that the outer loop represents the corresponding flow of payments.

226. Draw a production possibilities frontier showing increasing opportunity cost for hammers and horseshoes.

a. On a graph, identify the area of feasible outcomes and the area of unfeasible outcomes.
b. On the graph, label a point that is efficient as point "E" and a point that is inefficient as point "I".
c. On a graph, illustrate the effect of the discovery of a new vein of iron ore, a resource needed to make both horseshoes and hammers, on this economy.
d. On a graph for hammers and horseshoes, illustrate the effect a new computerized assembly line in the production of hammers would have.

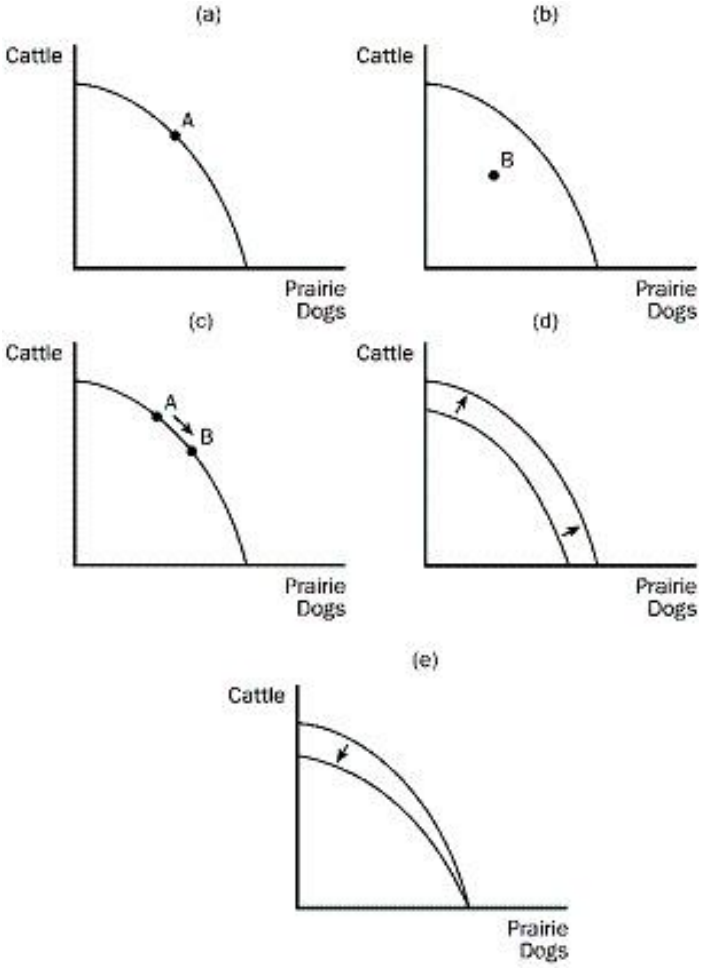


The graph on the left answers a, b and c. The graph on the right answers d.

227. The prairie dog has always been considered a problem for Canadian cattle ranchers. They dig holes that cattle and horses can step in and they eat grass necessary for cattle. Recently, ranchers have discovered that there is a demand for prairie dogs as pets. In some areas, prairie dogs can sell for as high as $150. Cattlemen are now fencing off prairie dog towns on their land so these towns will not be disturbed by their cattle.

Draw a production possibilities frontier showing a rancher's production option between cattle production and prairie dog production showing increasing opportunity cost and show what would happen in each of the following situations. (Use a separate graph for each situation.)

a. The outcome is efficient, with ranchers choosing to produce equal numbers of cattle and prairie dogs.
b. As a protest against the government introducing the gray wolf back into the wild in their province, ranchers decide not to use 25% of the available grassland for grazing.
c. The price of prairie dogs increases to $200 each, so ranchers decide to allot additional land for prairie dogs.
d. The government grants new leases to ranchers, giving them 10,000 new acres of grassland each for grazing.
e. A drought destroys most of the available grass for grazing of cattle, but not prairie dogs since they also eat plant roots.



228. Identify each of the following topics as being part of microeconomics or macroeconomics:

a. the impact of a change in consumer income on the purchase of luxury automobiles
b. the effect of a change in the price of Coke on the purchase of Pepsi
c. the impact of a war in the Middle East on the rate of inflation in Canada
d. factors influencing the rate of economic growth
e. factors influencing the demand for tractors
f. the impact of tax policy on national saving
g. the effect of pollution taxes on the Canadian copper industry
h. the degree of competition in the cable television industry
i. the effect of a balanced-budget amendment on economic stability
j. the impact of deregulation on the savings and loan industry

a, b, e, g, h, and j are microeconomic topics. c, d, f, and i are macroeconomic topics.

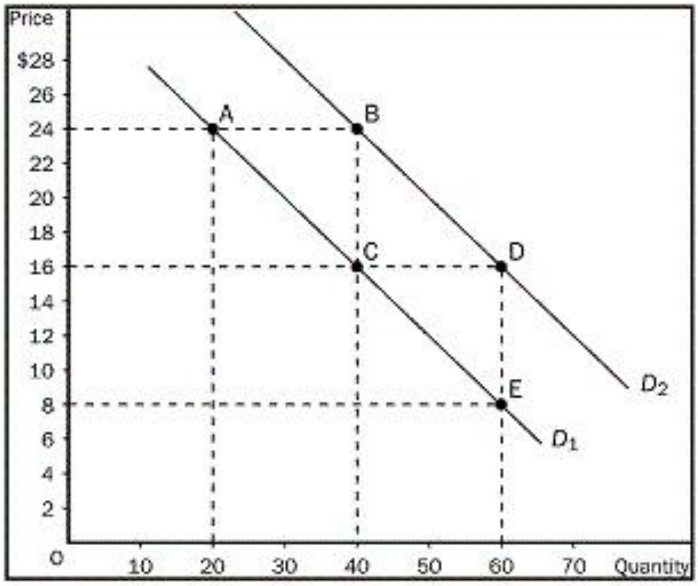
229. Which of the following statements are positive, and which are normative?

a. The minimum wage creates unemployment among young and unskilled workers.
b. The minimum wage ought to be abolished.
c. If the price of a product in a market decreases, other things equal, quantity demanded will increase.
d. A little bit of inflation is worse for society than a little bit of unemployment.
e. There is a tradeoff between inflation and unemployment in the short run.
f. If consumer income increases, other things equal, the demand for automobiles will increase.
g. The Canadian income distribution is not equitable.
h. Canadian workers deserve more liberal unemployment benefits.
i. If interest rates increase, investment will decrease.
j. If welfare benefits were reduced, the country would be better off.

a, c, e, f, and i are positive statements. b, d, g, h, and j are normative statements.

230. Use the following demand curve to answer the following questions.

a. How would point A be represented as an ordered pair?
b. What type of curve is this?
c. Does this curve show a positive or negative correlation between price and quantity?
d. Compute the slope of D_1 between points A and C.
e. What is the slope of D_1 between points C and E? Why would you not have to calculate this answer?
f. What is it called if we move from D_1 to D_2?
g. How do you know that the slope of D_2 is the same as the slope of D_1?



a. (20, 24)
b. a demand curve
c. a negative correlation between price and quantity
d. -8/20 or -2/5.
e. -2/5; because the slope of a straight line is constant.
f. an increase in demand.
g. The 2 lines are parallel.