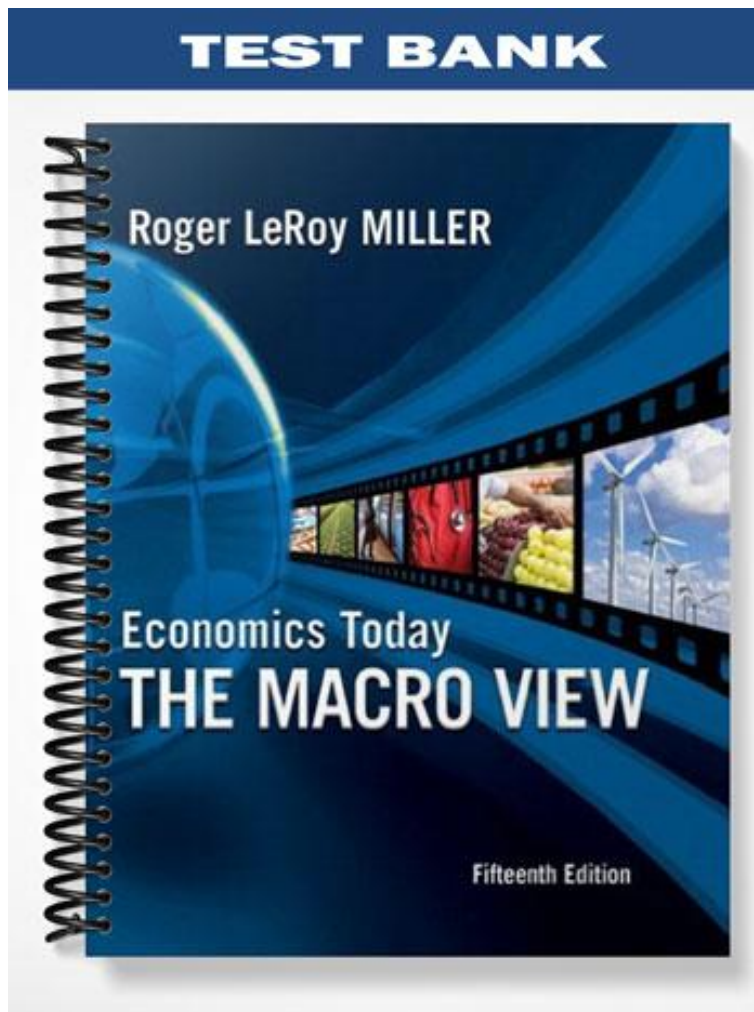


**TEST BANK**

Roger LeRoy MILLER

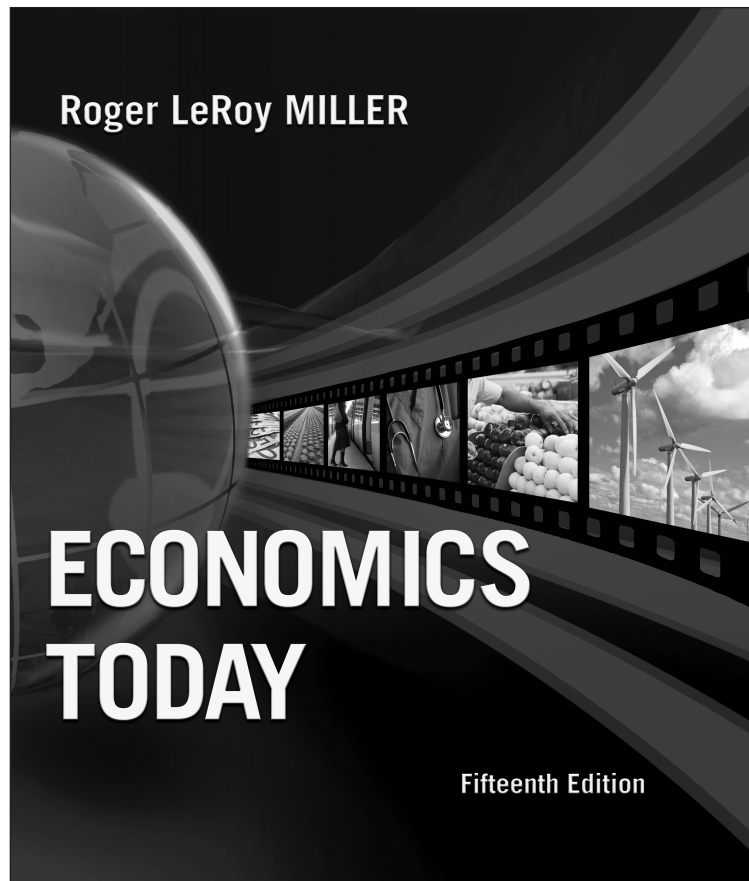
Economics Today  
**THE MACRO VIEW**

Fifteenth Edition



# Test Bank 1

Chapters 1-6 and 33-34  
to accompany



**David Findlay**  
Colby College

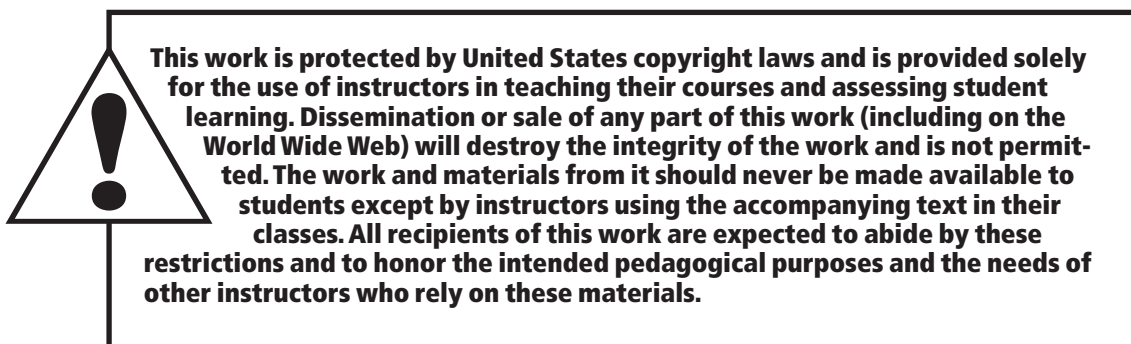
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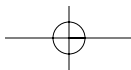
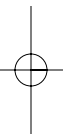
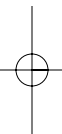
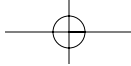
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# Chapter 1

## The Nature of Economics

### 1.1 The Power of Economic Analysis

- 1) What is the purpose of knowing "the economic way of thinking"?

Answer: The economic way of thinking provides a framework for analyzing solutions to economic problems. Since economic problems confront all of us much of the time, knowledge of economics will enable one to arrive at better decisions, and enable one to evaluate many public policy questions in a systematic manner.

*Diff: 1*

*Topic: 1.1 The Power of Economic Analysis*

*Question Status: Previous Edition*

- 2) What does scarcity have to do with the fact that people must make choices?

Answer: Scarcity implies that people cannot have everything they want. This implies that ways must be found to determine which of the many goods that people want will actually be produced. Further, since any person cannot have everything he or she wants, the person must decide which specific things to acquire. That is, the person must make choices.

*Diff: 2*

*Topic: 1.1 The Power of Economic Analysis*

*Question Status: Previous Edition*

- 3) The economic way of thinking will help you

- A) make decisions in financing your home.
- B) decide whether the U.S. government should encourage or discourage immigration.
- C) make better decisions concerning your education.
- D) all of the above

Answer: D

*Diff: 1*

*Topic: 1.1 The Power of Economic Analysis*

*Question Status: Previous Edition*

- 4) What is economics and what does it try to explain?

Answer: Economics is the study of how people allocate their limited resources in an attempt to satisfy their unlimited wants. Therefore, it is the study of how people make choices. Economics tries to explain real-world behavior, especially as it relates to interactions of people confronting scarcity.

*Diff: 1*

*Topic: 1.1 The Power of Economic Analysis*

*Question Status: Previous Edition*

- 5) Economic analysis is used
- A) only in economics classrooms.
  - B) only by business people.
  - C) only by policy makers.
  - D) in all decision making.

Answer: D

Diff: 1

Topic: 1.1 The Power of Economic Analysis

Question Status: Previous Edition

- 6) Economic analysis is
- A) a tool that can aid all decision making.
  - B) a tool that can be used in only macroeconomics.
  - C) a tool that can be used in only microeconomics.
  - D) an unnecessary complication to decision making.

Answer: A

Diff: 1

Topic: 1.1 The Power of Economic Analysis

Question Status: Previous Edition

## 1.2 Defining Economics

- 1) Economics is best defined as the
- A) study of how people make choices to satisfy their wants.
  - B) study of individual self-interests.
  - C) study of how government can most efficiently raise funds by taxation.
  - D) process by which goods are sold in free markets.

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 2) Economics can be described as the study of how people use \_\_\_\_\_ resources to satisfy \_\_\_\_\_ wants.
- A) unlimited; unlimited
  - B) unlimited; limited
  - C) limited; unlimited
  - D) limited; limited

Answer: C

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 3) Which statement most accurately defines economics?
- A) Economics is the study of how people make money.
  - B) Economics is the study of how people make choices to satisfy their wants.
  - C) Economics is the study of values a society should choose.
  - D) Economics is the study of how to eliminate scarcity.

Answer: B

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 4) In economic analysis, people's resources are
- A) limited and their wants are unlimited.
  - B) unlimited and their wants are also unlimited.
  - C) limited and their wants are also limited.
  - D) unlimited and their wants are limited.

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 5) In economics, items that are used to produce goods and services are known as
- A) wants.
  - B) aggregates.
  - C) factors of need.
  - D) resources.

Answer: D

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 6) In economics, all the items that people would consume if they had unlimited income are known as
- A) wants.
  - B) aggregates.
  - C) outputs.
  - D) needs.

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 7) Economics is the study of how
- A) people make money.
  - B) preferences are determined.
  - C) psychology influences preferences..
  - D) people make choices.

Answer: D

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Revised



- 8) A fundamental aspect of economics is to
- A) ensure that every firm makes a profit.
  - B) analyze how choices are made.
  - C) satisfy all our wants.
  - D) make sure that our resources will always be unlimited.

Answer: B

*Diff: 1*

*Topic: 1.2 Defining Economics*

*Question Status: Previous Edition*

- 9) Economics is the study of
- A) how to get rich.
  - B) how people allocate their limited resources to satisfy their unlimited wants.
  - C) how people spend their income.
  - D) why people want certain goods and services rather than other goods and services.

Answer: B

*Diff: 1*

*Topic: 1.2 Defining Economics*

*Question Status: Previous Edition*

- 10) Economics is the study of
- A) nonhuman phenomena.
  - B) the determinants of preferences.
  - C) scarce resources and unlimited wants.
  - D) the physical sciences.

Answer: C

*Diff: 1*

*Topic: 1.2 Defining Economics*

*Question Status: Revised*

- 11) Economics is the study of
- A) how to profit from the stock market.
  - B) how to satisfy limited human wants.
  - C) how society allocates unlimited resources.
  - D) how individuals allocate scarce resources to satisfy unlimited human wants.

Answer: D

*Diff: 1*

*Topic: 1.2 Defining Economics*

*Question Status: Revised*

- 12) Economics is the study of
- A) how to own as many resources as possible.
  - B) *ceteris paribus*.
  - C) the way people think rather than the way they act.
  - D) how people allocate their limited resources to satisfy their unlimited wants.

Answer: D

*Diff: 1*

*Topic: 1.2 Defining Economics*

*Question Status: Previous Edition*

- 13) Economic resources are
- A) all the items that people would purchase if they had limited wants.
  - B) all the unlimited items that people would purchase with limited income.
  - C) items of value that are used to make other things that satisfy people's wants.
  - D) the total planned expenditures throughout the nation.

Answer: C

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Revised

- 14) Economics is concerned with choices
- A) that involve the wants of individuals.
  - B) that involve the political goals of professional associations.
  - C) made by individuals only when they are consuming goods or services.
  - D) that involve making money.

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 15) Economics is a social science that involves the study of how individuals
- A) develop their tastes and preferences.
  - B) maximize their wealth.
  - C) define happiness.
  - D) choose among alternatives to satisfy their unlimited wants.

Answer: D

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 16) Economics is a part of the
- A) social sciences.
  - B) natural sciences.
  - C) biological sciences.
  - D) organizational sciences.

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 17) Wants are
- A) another term for needs.
  - B) the things people would consume if they had unlimited incomes.
  - C) the things people consume with their income.
  - D) all the things people really need in order to live comfortably.

Answer: B

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 18) The primary purpose of economics is to understand how people make
- A) money.
  - B) goods and services.
  - C) choices.
  - D) a comfortable living.

Answer: C

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 19) The basic economic problem is
- A) a situation of limited resources and unlimited wants.
  - B) inflation.
  - C) unemployment.
  - D) both B and C.

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Revised

- 20) Economics is the study of how people make
- A) judgments.
  - B) investments.
  - C) money.
  - D) choices.

Answer: D

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 21) Economics is a
- A) cognitive science.
  - B) physical science.
  - C) natural science.
  - D) social science.

Answer: D

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 22) Economics is a study of
- A) how to make money in the stock market.
  - B) how to run a business successfully.
  - C) the allocation of scarce resources.
  - D) personal finance.

Answer: C

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 23) Scarcity exists in the world because
- A) income is unevenly distributed between countries.
  - B) human wants are unlimited.
  - C) individuals have different innate abilities.
  - D) educational attainment varies by country.

Answer: B

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 24) Scarcity
- A) requires individuals to make choices.
  - B) exists only in less developed countries.
  - C) affects only people whose income is below the poverty line.
  - D) affects only single-parent households.

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 25) Economics is the study of
- A) the allocation of scarce resources to satisfy unlimited wants.
  - B) inflation and unemployment in society.
  - C) making money.
  - D) maximization of profits for a firm.

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 26) Resources are
- A) unlimited.
  - B) able to be replicated in large quantities.
  - C) what people would buy if their income was unlimited.
  - D) used to produce goods and services to satisfy people's wants.

Answer: D

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 27) \_\_\_\_\_ are the things that are used to produce items that satisfy people's wants.
- A) Concepts
  - B) Production possibilities curves
  - C) Resources
  - D) Costs

Answer: C

Diff: 2

Topic: 1.2 Defining Economics

Question Status: Revised

- 28) Economics is most precisely defined as
- A) a study of the mechanics of buying and selling on the stock exchange.
  - B) a study of how culture evolves in different geographic areas.
  - C) the same as the study of finance and management.
  - D) the study of how people make choices.

Answer: D

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 29) Economics
- A) is a social science.
  - B) is concerned with limited resources.
  - C) is concerned with unlimited wants.
  - D) All of the above are correct.

Answer: D

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 30) Which of the following is NOT a focus of the study of economics?
- A) how individual preferences are formed
  - B) unemployment
  - C) inflation
  - D) prices in particular markets

Answer: A

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Revised

- 31) Because resources are scarce relative to wants, the study of economics concerns
- A) how money is important to people.
  - B) how individuals, businesses, and governments make choices.
  - C) how money is used to buy what people want.
  - D) None of the above are correct.

Answer: B

Diff: 2

Topic: 1.2 Defining Economics

Question Status: Previous Edition

- 32) In the definition of economics
- A) both resources and wants are limited.
  - B) both resources and wants are unlimited.
  - C) resources are limited and wants are unlimited.
  - D) resources are unlimited and wants are limited.

Answer: C

Diff: 1

Topic: 1.2 Defining Economics

Question Status: Previous Edition

### 1.3 Microeconomics versus Macroeconomics

- 1) A friend wants to learn how the unemployment rate is calculated and how inflation is measured. He asks you which economics course to take and you advise him to enroll in
- A) macroeconomics.
  - B) microeconomics.
  - C) either micro- or macroeconomics. They both concentrate equally on those issues.
  - D) financial accounting because economics doesn't address those topics in its courses.

Answer: A

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 2) Which of the following would likely be studied in a macroeconomics course?
- A) the unemployment rate
  - B) total output for an economy
  - C) the inflation rate
  - D) all of the above

Answer: D

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 3) Microeconomics is defined as that part of economic analysis that
- A) studies the behavior of the economy as a whole.
  - B) includes the problems of inflation and unemployment.
  - C) studies individual decision making by households and firms.
  - D) concerns aggregate production and consumption.

Answer: C

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 4) Which of the following would most likely NOT be taught in a microeconomics course?
- A) changes in prices of automobiles
  - B) the effects of a gas tax on gas purchases
  - C) the effects of an increase in wheat prices on farmers' behavior
  - D) the unemployment rate

Answer: D

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 5) A macroeconomist would study
- A) the price changes at K-Mart.
  - B) the cost problems at several airlines.
  - C) the economy's unemployment level.
  - D) none of the above.

Answer: C

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 6) A microeconomist would study all of the following issues EXCEPT
- A) the impact of a change in consumer income on the sales of corn.
  - B) the impact of a snowstorm on the sales of snow shovels.
  - C) the most efficient means for General Motors to produce an automobile.
  - D) the effect of a change in income taxes on the nation's rate of unemployment.

Answer: D

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 7) The macroeconomist would most likely study
- A) the effects of changing apple prices on the market for oranges.
  - B) the effects of an increase in wage rates on a woman's decision to enter the labor force.
  - C) the effects of a lower income tax rates on the nation's total production of goods and services.
  - D) the effect of increased union wages on the cost of producing automobiles.

Answer: C

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 8) The impact of higher taxes would be examined by
- A) a microeconomist.
  - B) a macroeconomist.
  - C) both a macroeconomist and a microeconomist.
  - D) neither a macroeconomist nor a microeconomist.

Answer: C

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 9) Macroeconomics is the study of
- A) aggregate economic variables.
  - B) output in particular industries.
  - C) prices in particular industries.
  - D) all of the above.

Answer: A

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: New

- 10) Microeconomics is the study of
- A) the behavior of the economy as a whole.
  - B) how rising prices affect the level of employment in the economy.
  - C) how individuals and firms make decisions.
  - D) the effect that money has in the economic system.

Answer: C

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 11) Macroeconomics is best defined by which of the following statements?
- A) Macroeconomics is the study of how firms strive to maximize their profits.
  - B) Macroeconomics is the study of the behavior of the economy as a whole.
  - C) Macroeconomics is the study of individual economic units.
  - D) Macroeconomics is the study of how the prices of individual goods are determined.

Answer: B

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 12) Macroeconomics deals with
- A) aggregates within the economy.
  - B) specific sectors within the economy.
  - C) the retail industry only.
  - D) decisions made by firms.

Answer: A

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 13) One topic of study for a microeconomist would be the
- A) causes of inflation.
  - B) causes of aggregate unemployment.
  - C) effects of a gasoline price increase on consumer behavior.
  - D) effects of an increase in government spending on overall economic activity.

Answer: C

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 14) Macroeconomics is concerned with
- A) individual consumers.
  - B) government decision making concerning farm price supports.
  - C) aggregates.
  - D) the effects on a corporation of a strike by the United Auto Workers.

Answer: C

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 15) Macroeconomics often relies on microeconomic analysis because
- A) microeconomics is older than macroeconomics.
  - B) microeconomic theory can be tested and macroeconomic theory cannot be tested.
  - C) all aggregates are made up of individuals and firms.
  - D) the effects of macroeconomic subjects such as inflation and unemployment are independent of individual consumers and firms.

Answer: C

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition



16) Is inflation a macroeconomic or a microeconomic question? Why?

Answer: Inflation is a macroeconomic question because it deals with an economy-wide phenomenon. The price increase of a specific product, such as gasoline, would be a microeconomic matter. Since inflation deals with prices in the economy as a whole, it is a macroeconomic concern.

*Diff: 2*

*Topic: 1.3 Microeconomics versus Macroeconomics*

*Question Status: Previous Edition*

17) Microeconomics is concerned with studying which of the following?

- A) the determinants of national unemployment
- B) the effects of monetary policy
- C) the study of individual markets
- D) all of the above

Answer: C

*Diff: 1*

*Topic: 1.3 Microeconomics versus Macroeconomics*

*Question Status: Revised*

18) Microeconomics is concerned with the study of

- A) the effects of inflation.
- B) the effects of government spending.
- C) the effects on individual producers of higher wages paid to workers.
- D) aggregates.

Answer: C

*Diff: 2*

*Topic: 1.3 Microeconomics versus Macroeconomics*

*Question Status: Revised*

19) Microeconomics focuses on

- A) individual decision makers within the economy.
- B) the large parts of the economy.
- C) changes in national income.
- D) satisfying the needs of the economy.

Answer: A

*Diff: 1*

*Topic: 1.3 Microeconomics versus Macroeconomics*

*Question Status: Revised*

20) Macroeconomics is concerned with

- A) individual business firms.
- B) specific industries.
- C) individual consumers.
- D) a nation's entire economy.

Answer: D

*Diff: 1*

*Topic: 1.3 Microeconomics versus Macroeconomics*

*Question Status: Revised*

- 21) Microeconomics examines the
- A) total household expenditures.
  - B) behavior of the economy as a whole.
  - C) aggregate business spending.
  - D) decision making undertaken by individual households.

Answer: D

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 22) Macroeconomics is concerned with studying the
- A) behavior of individual decision makers.
  - B) behavior of the economy as a whole.
  - C) prices of specific companies' stocks.
  - D) wants of individuals.

Answer: B

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 23) Macroeconomics would be concerned with
- A) implications of changes in unemployment and inflation.
  - B) the effects on individual consumers of changes in the price of gasoline for a business.
  - C) the effects of a tax on beer.
  - D) the effects of wage increases on steel manufacturers.

Answer: A

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 24) The study of an individual's choice about what type of computer to buy is a subject of
- A) macroeconomics.
  - B) microeconomics.
  - C) an aggregate concept.
  - D) not a concern for economic analysis.

Answer: B

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 25) The study of the aggregate economic variables is
- A) macroeconomics.
  - B) microeconomics.
  - C) positive economics.
  - D) normative economics.

Answer: A

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

26) Another word for "aggregate" is

- A) government.
- B) partial.
- C) public.
- D) total.

Answer: D

Diff: 1

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: *Previous Edition*

27) The distinction between microeconomics and macroeconomics is

- A) clearly drawn, and there is no overlap between them.
- B) determined by economists in a clear and concise manner.
- C) narrowly drawn, and microeconomic analysis often relies on macroeconomic tools.
- D) often blurred because aggregates are made up of individuals and firms.

Answer: D

Diff: 2

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: *Previous Edition*

28) Modern economists are increasingly using microeconomic analysis in macroeconomics because

- A) microeconomic theory is more scientific.
- B) aggregate outcomes stem from decisions made by individuals, business firms and government.
- C) macroeconomic subjects such as inflation affect all individuals.
- D) macroeconomics is older and more outdated.

Answer: B

Diff: 2

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: *Previous Edition*

29) Distinguish between macroeconomics and microeconomics.

Answer: Macroeconomics is concerned with the behavior of the economy as a whole, while microeconomics is concerned with the choices of individual decision-makers, such as households and firms. Macroeconomics deals with aggregates, such as the total output of the economy or unemployment, while microeconomics deals with how many hours a person chooses to work or how many people a firm decides to hire.

Diff: 1

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: *Revised*

30) Which of the following is NOT studied in microeconomics?

- A) the effect of an increase in gasoline taxes on the purchase of gasoline
- B) the impact of an increase in the unemployment rate on economic production
- C) the impact of firms' collective hiring choices on the aggregate unemployment rate
- D) the impact of higher fuel prices on the cost of airline tickets

Answer: B

Diff: 2

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: *Revised*

- 31) All of the following are examples of macroeconomic problems EXCEPT
- A) inflationary pressures caused by an increase in the cost of petroleum.
  - B) unemployment caused by a fall off in the level of residential construction.
  - C) a decline in the rate of overall economic growth.
  - D) consumers deciding to buy more fish and less beef because of concerns about a healthier diet.

Answer: D

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 32) Macroeconomics is concerned primarily with
- A) positive economics.
  - B) production and prices in particular markets.
  - C) aggregate economic variables.
  - D) normative issues.

Answer: C

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 33) Microeconomics studies
- A) decisions made by individual consumers and firms.
  - B) the changes in economic theory brought about by real-world events.
  - C) how small changes in the unemployment rate can have far-reaching effects.
  - D) how small changes in the money supply can have far-reaching effects.

Answer: A

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 34) Which of the following terms identifies something that macroeconomists would study but that microeconomists would NOT?
- A) incentives
  - B) resources
  - C) rationality
  - D) aggregates

Answer: D

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 35) Which of the following is a characteristic or focus of economics?
- A) allocation of limited resources in an effort to satisfy potentially unlimited wants
  - B) positive economic analysis
  - C) empirical analysis
  - D) all of the above

Answer: D

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: New

- 36) Which of the following would likely be considered as falling into the domain of microeconomics?
- A) the U.S. unemployment rate
  - B) the Gross Domestic Product
  - C) the price of apples
  - D) the effects of fiscal policy on the U.S. economy

Answer: C

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 37) Macroeconomics might study which of the following?
- A) the causes of domestic unemployment
  - B) decision making undertaken by firms
  - C) decision making undertaken by households
  - D) determinants of the prices of rare goods (e.g., diamonds)

Answer: A

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 38) Which of the following is NOT a characteristic or focus of microeconomics?
- A) normative analysis.
  - B) analysis of aggregate economic variables.
  - C) empirical analysis.
  - D) empirical analysis

Answer: B

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Revised

- 39) Which of the following is a microeconomic concern?
- A) the rate of economic growth in the United States
  - B) the current unemployment rate in the United States
  - C) consumer behavior
  - D) national output of the United States

Answer: C

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

- 40) Which of the following is a macroeconomic concern?
- A) the unemployment rate in a specific industry
  - B) the national output of the United States
  - C) wage levels in specific industries
  - D) the operation of an individual firm

Answer: B

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

41) The study of how a particular firm might choose to maximize its profits would fall into what type of analysis?

- A) macroeconomics
- B) microeconomics
- C) labor economics
- D) aggregate economics

Answer: B

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

42) What type of economics would most typically deal with *aggregates*?

- A) macroeconomics
- B) microeconomics
- C) labor economics
- D) environmental economics

Answer: A

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

43) Which of the following is a microeconomic topic?

- A) the unemployment rate of the United States economy as a whole
- B) the rate at which prices increase in Brazil
- C) the advertising strategy of a particular company
- D) the increase in the national income of the United States over the past three months

Answer: C

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

44) Which of the following article topics is a macroeconomic subject?

- A) a proposed merger between two companies
- B) the level of Christmas sales at a particular department store
- C) the unemployment rate of the United States economy as a whole
- D) the advertising strategy of a particular automobile firm

Answer: C

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

45) Which of the following is an aggregate?

- A) the number of shoes in one man's closet
- B) the bushels of apples one farmer sells
- C) the price of a particular textbook
- D) the total production of all goods and services

Answer: D

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

46) All of the following are aspects of microeconomics EXCEPT

- A) monopolies.
- B) a firm maximizing profit.
- C) a worker choosing one job over another.
- D) the average level of prices of all goods and services produced in a country in a year.

Answer: D

Diff: 2

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: Revised

47) The impact of an increase in the gasoline tax on SUV sales is

- A) a macroeconomics topic because it deals with taxes.
- B) a microeconomics topic because it deals with one industry.
- C) not an economic issue, but rather a political issue.
- D) insignificant.

Answer: B

Diff: 2

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: Previous Edition

48) Which of the following would most likely be part of the study of microeconomics?

- A) how General Motors makes decisions regarding its production goals
- B) national income
- C) the total economic output of our domestic economy
- D) overall price stability in the United States

Answer: A

Diff: 1

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: Revised

49) All of the following are aspects of macroeconomics EXCEPT

- A) the U.S. unemployment rate.
- B) the production decisions of a pharmaceutical firm.
- C) the budget deficit of the United States.
- D) foreign trade.

Answer: B

Diff: 1

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: Previous Edition

50) Individual decision making by consumers and producers is the focus of

- A) macroeconomics.
- B) microeconomics.
- C) aggregate measures.
- D) any economic model.

Answer: B

Diff: 1

Topic: 1.3 *Microeconomics versus Macroeconomics*

Question Status: Previous Edition

51) Aggregate measures are

- A) anything to do with economics.
- B) a total measure of a variable across the economy.
- C) used only in microeconomics.
- D) determined by the Bureau of Labor Statistics.

Answer: B

Diff: 2

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

52) Microeconomics is the study of

- A) aggregate measures of the economy.
- B) foreign policy economic issues.
- C) federal budget details.
- D) individual decision making.

Answer: D

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

53) An example of a microeconomic decision is a situation in which

- A) the Federal Reserve considers how much to increase the money supply during the coming month in an effort to constrain the rate of inflation.
- B) Congress and the president seek to reach a compromise on how much to increase government spending in an effort to influence national expenditures.
- C) a firm evaluates how much to reduce the price of its product in an effort to influence sales and boost its profits.
- D) the U.S. Treasury contemplates buying foreign currencies in an effort to influence exchange rates with an aim to boosting demand for U.S. goods and services.

Answer: C

Diff: 1

Topic: 1.3 Microeconomics versus Macroeconomics

Question Status: Previous Edition

## 1.4 The Economic Person: Rational Self-Interest

1) In his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, economist Adam Smith argued that individuals

- A) always tend to act in an altruistic manner.
- B) always consider the impact of their actions on the welfare of others.
- C) are motivated by self-interest.
- D) are generally not concerned with economic questions.

Answer: C

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition



- 2) Economists assume that people are motivated by
- A) benevolence.
  - B) altruism.
  - C) greed.
  - D) rational self-interest.

Answer: D

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 3) When studying individuals' economic behavior, economists assume that
- A) individuals understand the rationale for all their actions.
  - B) individuals act as if they were rational.
  - C) only educated people act as if they were rational.
  - D) self-interest is of limited relevance in predicting an individual's actions.

Answer: B

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 4) The assumption that people do not intentionally make decisions that would leave them worse off is known as
- A) the rationality assumption.
  - B) the microeconomic assumption.
  - C) the ceteris paribus assumption.
  - D) the normative assumption.

Answer: A

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 5) When the text refers to rational self-interest, it means
- A) looking out for what is best for you as an individual.
  - B) the focus on your contributions to society.
  - C) behavior that makes society better off.
  - D) behavior that helps your employer earn higher profits.

Answer: A

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 6) In economics, the concept that individuals are motivated by self-interest and respond predictably to opportunities for gain is known as
- A) rational self-interest.
  - B) altruism.
  - C) sufficiency.
  - D) empiricism.

Answer: A

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 7) Economists assume people behave rationally, which means that people
- A) never make a mistake.
  - B) do not intentionally make decisions that make themselves worse off.
  - C) have the necessary information to always make correct decisions.
  - D) always understand the consequences of their decisions.

Answer: B

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 8) Sara looks into her closet and discovers a pair of like-new shoes she no longer wears because they give her blisters. From the economist's perspective, was Sara behaving rationally when she bought those shoes?
- A) No. If any of a person's decisions have poor results, that person is irrational.
  - B) Yes, as long as Sara didn't intentionally purchase blister-causing shoes.
  - C) No. The rationality assumption states that rational people never make mistakes.
  - D) It's not clear because psychology, not economics, deals with the rationality assumption.

Answer: B

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 9) Do economists analyze people's thought processes or do they look at what people actually do?
- A) Economists focus only on people's thought processes.
  - B) Economists focus on what people do, not their thought processes.
  - C) An economist's focus is about half-and-half between actions and thought processes.
  - D) Macroeconomists focus on thought processes while microeconomists focus on actions.

Answer: B

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 10) The potential rewards that are available to an individual if a particular activity is undertaken are known as
- A) premiums.
  - B) gifts.
  - C) incentives.
  - D) intrinsic values.

Answer: C

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 11) Father says, "Earn a B-average on your next report card and I'll help you buy a car." An economist would say that this parent is providing his child a(n)
- A) study disincentive.
  - B) reason to slack off and not worry about her grades.
  - C) bribe.
  - D) incentive.

Answer: D

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 12) Some pet owners are using an "invisible fence" to keep their animals from straying. Every time the animal steps over the edge of the property, it gets a mild shock. A social scientist would call the shock
- A) a bribe.
  - B) a reward.
  - C) a disincentive.
  - D) a normative incentive.

Answer: C

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 13) What is true of incentives?
- A) Each of us is motivated by different incentives, and they can change over time.
  - B) Money is the only effective incentive.
  - C) All of the people in any particular nation are motivated by the same incentives.
  - D) An individual's incentives do not change over time.

Answer: A

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 14) Explain what economists mean when they apply the rationality assumption.

Answer: The rationality assumption means that people do not intentionally make themselves worse off. It does not deal with the interior reasoning of a person or the psychology of a person. Instead, rationality applies to the way people actually behave in a world of scarcity.

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 15) "Economists assume people are selfish." Do you agree with this statement or not? Explain.

Answer: Economists do not assume people are selfish, although clearly some people are. Self-interest does not necessarily mean selfishness. People have many goals, some of which may be self-centered and some of which may be more altruistic. Charity is consistent with self-interested behavior.

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 16) "Rational, self-interested people would never end up worse off by any decision they make. Obviously, people often make mistakes or have regrets. Therefore, people do not act rationally or out of self-interest." Do you agree with these statements? Why or why not?

Answer: No. People may make mistakes because they often do not have enough information to make the best decision or because they are wrong about the effect of their actions. When they make a decision, given their circumstances and the information they have, they make the best choice for themselves.

*Diff: 3*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Previous Edition*

- 17) Economists assume people are motivated by
- A) unlimited resources.
  - B) pride.
  - C) self-interest.
  - D) social justice.

Answer: C

*Diff: 1*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Previous Edition*

- 18) Self-interest relates to
- A) only monetary objectives.
  - B) both monetary and nonmonetary objectives.
  - C) the *ceteris paribus* assumption.
  - D) normative economic analysis and not positive economic analysis.

Answer: B

*Diff: 2*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Previous Edition*

- 19) Economists assume people behave
- A) instinctively.
  - B) rationally.
  - C) irrationally.
  - D) greedily.

Answer: B

*Diff: 1*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Previous Edition*

- 20) Which of the following is always true of rational behavior?
- A) It always entails pursuing own's own best interest.
  - B) It always yields the best possible outcome for all individuals.
  - C) It never involves the pursuit of greedy self-interest.
  - D) It never involves taking into account the interests of others.

Answer: A

*Diff: 1*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Revised*

- 21) John has an economics test tomorrow. He must study and has planned the rest of his day so that he can fit some study time in. He has decided to go to the gym and then study for several hours. Which of the following statements is true?
- A) John did not use the economic way of thinking because his decision on how to allocate his time did not involve money.
  - B) John's decision on how to allocate his time is inconsistent with the rationality assumption since he has decided to go to the gym.
  - C) John's decision on how to allocate his time is consistent with the rationality assumption since the decision is intended to make him better off.
  - D) John's decision does not involve his pursuit of self-interest.

Answer: C

Diff: 3

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 22) People behave rationally when they
- A) follow the advice of government leaders.
  - B) never have regrets about their decisions.
  - C) make decisions they think will make themselves better off.
  - D) make decisions solely based on financial outcomes.

Answer: C

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 23) Which of the following is a true statement about the economic assumption of rationality?
- A) Individuals who are rational necessarily ignore the interests of others.
  - B) Individuals generally act as though they are rational.
  - C) Individual behavior may be irrational but group behavior is always rational.
  - D) People make decisions as if they are omniscient.

Answer: B

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

- 24) A decision made by a rational person
- A) is intended to make the person worse off.
  - B) would always make the person wealthier.
  - C) is identical to a decision that would be made by any other person facing the same choices.
  - D) is intended to make the person better off.

Answer: D

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

25) The assumption that individuals will not intentionally make decisions that will leave them worse off is known as

- A) microeconomic analysis.
- B) macroeconomic analysis.
- C) a model or theory.
- D) the rationality assumption.

Answer: D

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

26) The rationality assumption says that

- A) people do not intentionally make decisions that would leave them worse off.
- B) people never make decisions that would leave them worse off.
- C) people do not respond to incentives since incentives require scarce resources.
- D) all economic analysis must be normative.

Answer: A

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

27) A possible rational reason why older people, on average, show less interest in learning how to use new technologies is because

- A) older people are not as smart as (today's) young people.
- B) they are acting irrationally.
- C) they have fewer years to gain a return from learning how to use new technologies.
- D) the financial cost for older people is greater than the cost to younger people.

Answer: C

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

28) Incentives are

- A) potential rewards available if a particular activity is undertaken.
- B) ineffective as a device to get people to behave in a certain fashion.
- C) inappropriate ways to obtain a certain kind of behavior.
- D) useless when people behave rationally.

Answer: A

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 29) Which of the following would NOT provide an incentive to reduce the amount of beef consumed?
- A) An increase in the price of beef
  - B) A subsidy to buyers of beef
  - C) A decrease in the price of chicken
  - D) A ban on beef sales by the Food and Drug Administration

Answer: A

Diff: 3

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

- 30) People respond to incentives
- A) by ignoring negative incentives and responding to positive incentives only.
  - B) only when they are irrational.
  - C) by calculating their individual costs and benefits and determining which is greater.
  - D) when they have low incomes.

Answer: C

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

- 31) The threat of a large fine for failure to pay income taxes is an example of
- A) the excessive power of the Internal Revenue Service.
  - B) the ineffectiveness of incentives to get people to pay their taxes.
  - C) a negative incentive to get all people to pay taxes.
  - D) people failing to consider all the benefits the government provides them.

Answer: C

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 32) A politician says that the government should tax behavior they want less of and subsidize behavior they want more of. This is an example of
- A) cynical behavior in modern democracies.
  - B) failing to consider the alternatives available to the government.
  - C) a concern that people are not rational when they make decisions.
  - D) using incentives to alter behavior.

Answer: D

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 33) Which of the following ways to recruit soldiers utilizes incentives?
- A) a draft
  - B) universal service
  - C) higher salaries
  - D) longer lengths of service

Answer: C

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

34) Self-interest

- A) implies that a person must try to increase wealth at all times.
- B) implies that people will not give away wealth.
- C) is consistent with many goals that people pursue, including betterment of others.
- D) applies only to people in market settings.

Answer: C

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

35) Self-interest

- A) relates strictly to material well-being, such as a person's stock of wealth at a point in time.
- B) is measured entirely based on an individual's income, whether earned from labor or inherited.
- C) is inconsistent with economic analysis, which suggests that self-interest is irrational.
- D) can involve any action that makes a person feel better off, such as charitable contributions.

Answer: D

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

36) Shelley's grandmother gave her a sweater for her birthday, but Shelley wanted a DVD. This implies that

- A) Shelley's grandmother is not acting out of self-interest because she knows that Shelley really wanted a DVD.
- B) Shelley's grandmother is acting out of self-interest because she wanted to give Shelley something useful.
- C) it is in Shelley's self-interest to refuse to wear the sweater.
- D) Shelley should exchange the sweater for a DVD.

Answer: B

Diff: 3

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

37) The way economists understand, explain and predict economic phenomena is to

- A) form a theory.
- B) consider real-world data only in rare cases.
- C) utilize normative economics.
- D) aggregate data and examine only the big picture.

Answer: A

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

38) What assumption about human motivation is made in economics? Explain.

Answer: Economists assume that people act as if motivated by self-interest. People respond predictably to opportunities for gain. That is, people look out for their own self-interest and do so in a rational manner.

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition



39) What is meant by the term "incentives," and why are they important?

Answer: Incentives are rewards for engaging in particular activities. Much of human behavior can be explained in terms of incentives. For example, grades in school are an incentive, as are paychecks for work. Incentives are important because rational human beings seeking to promote their own welfare will respond to incentives in predictable ways.

*Diff: 1*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Previous Edition*

40) During the Middle Ages, heretics were often burned at the stake. Were the heretics violating the assumption of rational self-interest? Explain.

Answer: For someone today, or even many people living at that time, it would seem the heretics' behavior was irrational and not in their own self interest. But, in their own eyes, they may have been acting rationally and with self-interest. Given their goals, dying rather than recanting their views was in their self-interest, especially if they believed such a death guaranteed them eternal life. They believed they would have been worse off had they recanted their views. The benefit of dying for their cause was greater to them than the cost of dying.

*Diff: 3*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Previous Edition*

41) Charitable donations to the Red Cross

- A) can be explained by the rational ignorance theory.
- B) can be explained by the rational self-interest theory.
- C) cannot be explained by the rational self-interest theory.
- D) prove that there is no scarcity in the United States.

Answer: B

*Diff: 2*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Previous Edition*

42) A five-cent deposit on beer bottles

- A) provides a positive incentive because it rewards people for recycling.
- B) provides a negative incentive because it punishes people who do not recycle.
- C) is an irrational policy, because it fails to take into account incentives.
- D) is an irrational policy, because it fails to take into account self-interest.

Answer: A

*Diff: 3*

*Topic: 1.4 The Economic Person: Rational Self-Interest*

*Question Status: Previous Edition*

- 43) If a teacher tells a student that those who attend the study session typically score higher on the final exam,
- A) the student has a positive incentive to attend the study session because she may get a higher grade.
  - B) the student has a negative incentive to attend the study session because she will be punished if she does not go.
  - C) the student has no greater incentive to attend because there is no guarantee she will get a higher grade on the exam.
  - D) a "C" student will be making an irrational decision if she decides to skip the study session since she has plenty of time to go.

Answer: A

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 44) Consider the case of a teacher who tells students that those who miss more than three classes for any reason will automatically receive a lower grade.
- A) This is an example of a positive incentive for students to attend class.
  - B) This is an example of a negative incentive for students to attend class.
  - C) The teacher is assuming that students are irrational, and she must force them to attend class.
  - D) Students who miss more than three classes are irrational.

Answer: B

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 45) If the government offers to reduce your property taxes by 10 percent if you install solar heating for your home, this would be an example of
- A) police power.
  - B) incentives.
  - C) disincentives.
  - D) *ceteris paribus*.

Answer: B

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 46) Economists assume that people are motivated by
- A) a desire to please others.
  - B) the interests of the community at large.
  - C) self-interest.
  - D) morally correct behavior.

Answer: C

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 47) When we say that an individual behaves according to "rational self-interest," we mean that this individual
- A) is motivated by greed.
  - B) will always buy the most fashionable items available.
  - C) will always buy the cheapest products available on the market.
  - D) is making choices that he or she believes will leave him or her better off.

Answer: D

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

- 48) Rational behavior for an economist means that individuals
- A) are motivated by self-interest.
  - B) never change their minds.
  - C) always make positive choices.
  - D) are self-sacrificing.

Answer: A

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 49) According to economists, when two people make exactly the opposite decision,
- A) one of them is acting irrationally.
  - B) each person evaluates the situation according to his/her individual self-interest.
  - C) one of them is acting out of spite.
  - D) one of them should compromise.

Answer: B

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 50) It is assumed in economics that people make decisions based upon
- A) altruism.
  - B) rational self-interest.
  - C) tradition.
  - D) governmental persuasion.

Answer: B

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 51) An incentive is a
- A) need.
  - B) want.
  - C) reward for desired behavior.
  - D) resource.

Answer: C

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

52) The assumption that individuals do NOT intentionally make decisions that would leave them worse off is referred to as

- A) the premium assumption.
- B) the law of comparative advantage.
- C) the rationality assumption.
- D) the law of demand.

Answer: C

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

53) The author of the book *An Inquiry into the Nature and Causes of the Wealth of Nations* is

- A) Thorstein Veblen.
- B) Adam Smith.
- C) Milton Friedman.
- D) Alan Greenspan.

Answer: B

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

54) Rational self-interest means

- A) always increasing your wealth.
- B) pursuing what makes you better off.
- C) pursuing activities that maximize income.
- D) always pursuing activities that are consistent with your faith.

Answer: B

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

55) The rationality assumption states that

- A) all actions taken by consumers are based on what is good for society.
- B) people make decisions regardless of how the outcome will affect them.
- C) people make decisions to buy only those goods that they need rather than goods that they want.
- D) people do not intentionally make decisions that would leave them worse off.

Answer: D

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

56) Economic theory predicts that people make choices in a manner that

- A) makes them well liked by others.
- B) makes them better off.
- C) reflects the fact that resources are unlimited.
- D) shows that they do not respond to monetary incentives.

Answer: B

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 57) How could Adam Smith's comment about the butcher, the brewer, and the baker be accurately rephrased in modern terms?
- A) The butcher, the brewer, and the baker give us our dinner because they want to be well liked in the community.
  - B) The butcher, the brewer, and the baker give us our dinner because they will be sued if they don't do so.
  - C) The butcher, the brewer, and the baker give us our dinner because they each earn a living by doing so.
  - D) The butcher, the brewer, and the baker give us our dinner because they view doing so as a public service.

Answer: C

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 58) According to economic theory, how do people make decisions?
- A) They make decisions in the same manner as their parents did.
  - B) They make decisions by looking at what others have done in the same situation and then doing the opposite.
  - C) They make decisions by looking at what others have done in the same situation and then doing the same.
  - D) They make decisions based on their own self-interest.

Answer: D

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 59) Underlying economic theory is the idea that
- A) people respond only to negative incentives, not to positive ones.
  - B) choices are affected by both positive and negative incentives.
  - C) value judgments do not play a role in the economic decisions people make.
  - D) money is the only incentive that matters.

Answer: B

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

- 60) High gasoline prices give people all of the following incentives EXCEPT
- A) to drive less.
  - B) to car pool.
  - C) to buy a hybrid car.
  - D) to take vacations that require driving more miles.

Answer: D

Diff: 2

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Revised

- 61) The idea that people will not consciously make decisions that make them worse off is known as
- A) rationality assumption.
  - B) the decision duality.
  - C) Adam Smith's doctrine.
  - D) incentive assumption.

Answer: A

Diff: 1

Topic: 1.4 The Economic Person: Rational Self-Interest

Question Status: Previous Edition

## 1.5 Economics as a Science

- 1) Another term for "economic models" is
- A) economic designs.
  - B) economic theories.
  - C) economic science.
  - D) economic maps.

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 2) A simplified representation of the real world that is used to explain economic phenomena is a(n)
- A) map.
  - B) model.
  - C) assumption.
  - D) implication.

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 3) Economics is an empirical science, which means that economists
- A) must use laboratory experiments to test their theories.
  - B) evaluate a model or theory by whether its assumptions are consistent with the real world.
  - C) try to prove their models are true by referring to logic.
  - D) look for evidence to determine whether the model is useful or not.

Answer: D

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 4) Both the social sciences and the natural sciences employ \_\_\_\_\_ to help them understand the world around them.
- A) models
  - B) designs
  - C) traditional thinking
  - D) implications

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

5) Which is NOT true about the use of economic models?

- A) Economic models are simplified representations of the real world.
- B) Economists sometimes use laboratory experiments to test their theories.
- C) Economists use what has already happened in the real world to test their theories.
- D) Economists are employed to explain economic phenomena but are never used to predict what might happen next.

Answer: D

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

6) Which of the following statements is FALSE?

- A) Economists empirically test their models.
- B) Economic models are not used to forecast.
- C) An economic model should capture only the essential relationships that are sufficient to analyze the particular problem being studied.
- D) Economic models relate to behavior rather than to individual thought processes.

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

7) Which of the following statements concerning economic models is FALSE?

- A) Economic models must provide usable predictions.
- B) Economic models are based on pure fact and no assumptions.
- C) Economic models are tested empirically.
- D) Economic models relate to how people behave.

Answer: B

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

8) Which of the following statements about economic models is true?

- A) Economic models are not empirically testable.
- B) The predictive power of models is not important.
- C) Economic models are designed so that every detail of the real world can be analyzed.
- D) Every economic model is based on a set of assumptions.

Answer: D

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

9) Economic models

- A) are used to explain how people think.
- B) are used to explain how people behave.
- C) are essential representations of the real world.
- D) are never used for making economic projections or predictions.

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 10) One reason why economists often use models in their analysis is that
- A) a model helps us to understand, explain, and predict economic phenomena in the real world.
  - B) a model accurately pictures every detail of the real world economy.
  - C) a model relates to individual thought processes rather than behavior.
  - D) it is relatively easy to perfectly specify a model.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 11) An economic model should capture
- A) the essential relationships that help to analyze the problem.
  - B) all possible variables that apply to the problem.
  - C) only social value related variables.
  - D) all of the above.

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 12) One problem with constructing a perfectly complete realistic economic model is that
- A) it would be too simplistic to have any value.
  - B) it would be far too complicated to analyze.
  - C) politicians see little value in such a model.
  - D) None of the above is true.

Answer: B

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 13) Which of the following statements is TRUE?
- A) No economic model captures every detail that affects a problem.
  - B) Economic models always make accurate predictions about behaviors.
  - C) Economic models must fully reflect reality.
  - D) Economic models use economists' opinions with no use of data.

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 14) A map is an example of a model because a map
- A) realistically describes an area.
  - B) is always as complex as space will permit.
  - C) is two-dimensional.
  - D) is a simplified representation of reality.

Answer: D

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition



- 15) Holding all variables constant but one and assessing the impact of the one variable that has changed is an example of using
- A) the *ceteris paribus* assumption.
  - B) an economic model based on unrealistic assumptions.
  - C) a flawed economic model.
  - D) an untestable proposition.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 16) The term *ceteris paribus* means
- A) the greatest good for all.
  - B) the study of scarcity and choice.
  - C) all other things remaining constant or equal.
  - D) value-free and testable.

Answer: C

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 17) In order to study how changing price affects consumer decisions, we must assume all other factors, such as income and the prices of other goods are constant. This assumption is best known as
- A) rationality.
  - B) *ceteris paribus*.
  - C) normative economics.
  - D) behavioral economics.

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 18) Which of the following is an example of an application of the *ceteris paribus* assumption?
- A) An analysis of how price changes affect how much of a good people will purchase when all other factors are held constant
  - B) An analysis of how people purchase more goods when prices decline and income increases
  - C) After reading an article on the dangers of high-fat diets, an individual buys less red meat when prices increase
  - D) An analysis of how worker productivity increases when a firm invests in new machines and training programs

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

19) *Ceteris paribus* means

- A) making all the necessary changes.
- B) other things constant.
- C) for certain parameters.
- D) let the buyer beware.

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

20) The *ceteris paribus* assumption is important in economics since

- A) all empirical data are equal.
- B) it would be impossible to relate the effects of changes in one variable on another without holding some variables constant.
- C) data is rarely used for predictions.
- D) models are always complex and require as many variables as possible.

Answer: B

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

21) The assumption that "other things are constant" is also known as the

- A) *ceteris paribus* assumption.
- B) rational self-interest assumption.
- C) distinguishing characteristic of economics as a science.
- D) relationships assumption.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

22) Mary says she plans to return to college next semester assuming her car keeps running, tuition fees don't go up, and her daycare provider continues to be dependable. An economist would say that Mary plans to return to college next semester, \_\_\_\_\_.

- A) *caveat emptor*
- B) *ceteris paribus*
- C) *laissez faire*
- D) *ipso facto*

Answer: B

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 23) Professor's economics students are constructing models for how gasoline prices change. Maria's model has very realistic assumptions and is quite complex. Anna's model is less complicated and less realistic. Maria's model correctly predicts gas price increases 5% of the time. Anna's model predicts correctly 15% of the time. On the basis of usefulness or "goodness," Professor will give which student's model the higher grade and why?
- A) Maria's model gets the higher grade because it is more complex.
  - B) Anna's model gets the higher grade because it is simpler.
  - C) Maria's model gets the higher grade because it is more realistic.
  - D) Anna's model gets the higher grade because it predicts accurately more often.

Answer: D

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 24) Why is economics called an **empirical** science?
- A) because economics has been used to both create and destroy empires
  - B) because economics uses impressions to evaluate the usefulness of its models
  - C) because economics relies on real-world data to determine the usefulness of a model
  - D) because economics utilizes intuition rather than data to evaluate a model's worth

Answer: C

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 25) An appropriate test of the effectiveness of an economic model is
- A) the number of variables contained within the model.
  - B) the model's ability to predict future economic activity.
  - C) the number of economists who have worked on the model.
  - D) the number of assumptions which the economist has made.

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 26) A good economic model
- A) utilizes only the two most important factors to analyze the problem under consideration.
  - B) generates statements that are incapable of refutation.
  - C) represents every detail of the real world.
  - D) yields usable predictions and implications for the real world.

Answer: D

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 27) The usefulness of a model is determined by
- A) whether it helps to explain or predict real world phenomena.
  - B) whether it possesses realistic assumptions.
  - C) how well it uses the *ceteris paribus* assumption.
  - D) how many of the possible relationships that exist are included in the model.
- Answer: A  
Diff: 1  
Topic: 1.5 Economics as a Science  
Question Status: Previous Edition
- 28) The use of data in economic models is important because
- A) the model's predictive value rests on supportive evidence from real-world data.
  - B) the models are always complex in nature.
  - C) models must analyze every possible angle of the problem.
  - D) social problems analyzed by economists require long streams of data.
- Answer: A  
Diff: 2  
Topic: 1.5 Economics as a Science  
Question Status: Previous Edition
- 29) If two competing models are offered to explain a certain economic phenomenon, the better model is the one
- A) that is the newest since newer models are better than old models.
  - B) with the fewest unrealistic assumptions.
  - C) that more often predicts with most accuracy.
  - D) that is not subject to empirical verification.
- Answer: C  
Diff: 2  
Topic: 1.5 Economics as a Science  
Question Status: Previous Edition
- 30) To be useful, a model must
- A) predict accurately all of the time.
  - B) predict more accurately than other models that have been developed.
  - C) have assumptions that have been verified by empirical testing.
  - D) explain and predict the behavior of every individual.
- Answer: B  
Diff: 2  
Topic: 1.5 Economics as a Science  
Question Status: Previous Edition
- 31) Economics is called an empirical science because
- A) economists study real-world evidence to test their models.
  - B) economists use assumptions in their models.
  - C) economic models have no predictive power.
  - D) economic analysis is only useful in a capitalistic society.
- Answer: A  
Diff: 1  
Topic: 1.5 Economics as a Science  
Question Status: Previous Edition

32) Which of these social sciences deals most with models of behavior rather than with thought processes?

- A) Psychology
- B) Sociology
- C) Psychiatry
- D) Economics

Answer: D

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

33) Which of the following best describes how economists test the empirical predictions of economic models?

- A) Economists survey individuals to learn about how people think through decisions about how much to purchase or to produce.
- B) Economists collect and analyze real-world observations of people's actions to discern if those actions accord with theories' predictions.
- C) Based on theories about thought processes, economists seek to determine which thought processes predominate in determining how a person decides what actions to take.
- D) Recognizing that people always do what they say they will do, economists rely exclusively on information gleaned from polls and surveys conducted by poll takers and market researchers.

Answer: B

Diff: 2

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

34) When constructing economic models, economists are more concerned with

- A) what people say than what they do.
- B) what people think than what they say.
- C) what people do than what they say.
- D) what people say than what they do or think.

Answer: C

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

35) Behavioral economics is an approach to the study of consumer behavior

- A) that emphasizes psychological limitations and complications that potentially interfere with rational decision making.
- B) that emphasizes the capabilities of individuals to succeed in attaining all their unlimited wants utilizing limited resources.
- C) that, in contrast to standard approaches in economics, utilizes the *ceteris paribus* assumption.
- D) that, in contrast to standard approaches in economics, relies on real-world data to evaluate the usefulness of economic models.

Answer: A

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

- 36) The hypothesis that people are nearly, but not fully rational, cannot possibly fully examine every available choice, and utilize simple rules of thumb to sort among the alternatives that happen to occur to them is known as the
- A) irrationality hypothesis.
  - B) *ceteris paribus* hypothesis.
  - C) individual aggregation hypothesis.
  - D) bounded rationality hypothesis.

Answer: D

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Revised

- 37) According to the bounded rationality hypothesis, an individual confronting a large number of complicated choices is most likely to respond by
- A) using a simple rule of thumb to choose among a subset of easiest-to-evaluate options.
  - B) using the *ceteris paribus* assumption to assist in simplifying and examining each of the possible options.
  - C) utilizing readily available empirical evidence to assist in evaluating every option.
  - D) assessing every available choice by developing sophisticated theories regarding each option.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 38) What does it mean to say economics is an empirical science, and how is this related to the question of deciding on the usefulness of a model?

Answer: Economists examine evidence to test whether a model is useful or not. That is, real-world data are studied to see if they conform to the predictions of the model. A model is useful if it generates testable predictions and implications for the real world. A model that predicts better is generally considered a better model.

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 39) An economic theory is also known as an economic
- A) model or principle
  - B) design.
  - C) miracle.
  - D) assumption.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

40) A simplified representation of the real world that is used to explain an economic phenomena is a(n)

- A) paradox.
- B) assumption.
- C) inference.
- D) model.

Answer: D

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

41) Economic models are

- A) always based on laboratory methods similar to natural sciences.
- B) a simplified representations of the real world.
- C) used only in microeconomic analysis by households.
- D) used only in macroeconomic analysis by business firms.

Answer: B

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Revised*

42) Economic models are NOT used to

- A) explain economic phenomena.
- B) predict economic phenomena.
- C) understand economic phenomena.
- D) describe all economic phenomena in minute detail.

Answer: D

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

43) To test their theories, economists usually have to

- A) set up careful laboratory experiments with all variables controlled.
- B) first examine theory and what has happened in the past in the real world.
- C) use only models that have a proven record of success.
- D) anticipate every factor with 100 percent accuracy.

Answer: B

Diff: 3

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

44) A difference between biology and economics is that

- A) economists use models and biologists use theories.
- B) biologists often use laboratory methods and economists do less often.
- C) economics explains events while biology predict events.
- D) biologists use the scientific method while economists do not.

Answer: B

Diff: 2

Topic: 1.5 *Economics as a Science*

Question Status: *Revised*

45) Models must

- A) be able to yield useable predictions.
- B) be totally realistic in every detail.
- C) be a complete reproduction of the real world.
- D) include every relationship that exists.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

46) A good economic model

- A) cannot be refuted.
- B) describes the real world completely and in detail.
- C) captures the essential relationships of the problem under consideration.
- D) captures all relationships about the problem under consideration.

Answer: C

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

47) Which of the following statements is NOT true?

- A) Economics is a social science.
- B) Economics is an empirical science.
- C) Economics does not use theories.
- D) Economics is the study of how people allocate their limited resources to satisfy their unlimited wants.

Answer: C

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

48) A characteristic of a good model is that

- A) its predictions can be tested using real-world data.
- B) it is useful for making irrefutable predictions.
- C) it applies to all situations.
- D) it predicts perfectly.

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Revised

49) In an economic model, assumptions

- A) must be applicable to all real-world situations.
- B) must be eliminated before being used to make sure the model is realistic.
- C) are not important in determining the usefulness of the model.
- D) define the set of circumstances in which the model is most likely to be applicable in the real world.

Answer: D

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition



- 50) A model is used to explain economic behavior. Therefore,
- A) the assumptions must be complex while the model itself is simple.
  - B) the model must be complex.
  - C) the model must be simple.
  - D) the model can be either simple or complex so long as it explains economic behavior.

Answer: D

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 51) "Ceteris paribus" assumption means
- A) the role of rational self-interest in the economy.
  - B) that nothing else changes except the variables under consideration.
  - C) relying on real-world data in evaluating the usefulness of a model.
  - D) analysis that is strictly limited to making either purely descriptive statements or scientific predictions.

Answer: B

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 52) If economists are making the assumption that business people try to maximize profits, the best way to determine whether this assumption is useful or not is to
- A) see whether it generates accurate predictions about the choices of business people.
  - B) ask business people whether it is true or not.
  - C) find out whether U.S. businesses are more profitable than European businesses.
  - D) take a survey of people and see if they agree with this assumption.

Answer: A

Diff: 3

Topic: 1.5 Economics as a Science

Question Status: Revised

- 53) The assumption that nothing changes except the factor being studied is
- A) the *ceteris paribus* assumption.
  - B) the rationality assumption.
  - C) positive economic analysis.
  - D) normative economic analysis.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 54) "Ceteris paribus" means
- A) "invisible hand."
  - B) "other things constant."
  - C) "making all the necessary changes."
  - D) "individual."

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 55) A scientist who is studying earthquakes includes the impact of wind when performing some tests of damages to structures. This is an example of
- A) failing to understand how to do scientific methodology.
  - B) irrational behavior in noneconomic situations.
  - C) accounting for every possible phenomena that may effect the problem under examination.
  - D) failing to hold all other things constant.

Answer: D

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 56) Economics is an empirical science, which means that economists
- A) look at evidence to see whether or not the model is applicable.
  - B) test their models by utilizing unknown variables.
  - C) do only laboratory experiments.
  - D) refuse to test their models since the usefulness of a model is determined by whether it is logical or not.

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Revised

- 57) Which expression below matches most closely the way economists go about testing their models?
- A) "Consistency is the hobgoblin of small minds."
  - B) "Seeing the results is the only way to know if you are right."
  - C) "A bird in the hand is worth two in the bush."
  - D) "In the long run we are all dead."

Answer: B

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 58) Economic models relate to
- A) people's choices.
  - B) how people think about something.
  - C) group opinions.
  - D) the reasons people give for donating to charity.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 59) A poll conducted by a national firm finds that most Americans say they care more about safety when buying a car than about fuel efficiency. As a result, a car maker produces a car with many safety features, but it doesn't sell well. This behavior
- A) contradicts economic theory because the people didn't do what they said they would do.
  - B) contradicts economic theory because it is irrational not to purchase safer cars.
  - C) does not contradict economic theory because economists focus on what people do rather than on what they say.
  - D) does not contradict economic theory because economic theory only relates to prices and not to features such as safety.

Answer: C

Diff: 3

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 60) "To be useful, a model must be completely realistic." Evaluate.

Answer: This statement is incorrect. To be useful, a model must capture key real-world elements but cannot account for every detail of the real world. The model should capture the essential relationships that enable us to analyze the problem with which we are concerned. A model is useful so long as it sheds light on the central forces at work.

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Revised

- 61) Suppose a survey is taken concerning car safety. According to the survey, people strongly desire safer cars and indicate they are willing to pay substantially more for safer cars. Using this information, one auto firm adds numerous safety features to its car, raising the price by several thousand dollars. Sales drop sharply, and the firm loses profits. What went wrong?

Answer: The automaker was relying on what people say rather than on what they do. An economic model would have tried to predict whether the expected gains from driving safer cars would have been great enough for consumers to pay the higher price. Economic models are models of behavior and not models about how people think or whether people's views directly affect their actions. Also, they did not account for other factors

Diff: 3

Topic: 1.5 Economics as a Science

Question Status: Revised

- 62) According to proponents of behavioral economics, because every possible choice cannot be considered, an individual will tend to fall back on methods of making decisions that are simpler than trying to sort through every single possibility, known as
- A) rules of thumb.
  - B) rational options.
  - C) irrational choices.
  - D) normative decisions.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

63) Which of the following is NOT an alleged "unrealistic" assumption that proponents of behavioral economics suggest are commonly utilized in traditional economic models based on the rationality assumption?

- A) unbounded selfishness
- B) unbounded rationality
- C) unbounded will power
- D) unbounded resources

Answer: D

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

64) If psychological limitations and other complications cause people to be unable to examine and think through every possible choice available to them and rely instead on rules of thumb, then these individuals exhibit

- A) unbounded rationality.
- B) normative thinking.
- C) bounded rationality.
- D) positive thinking.

Answer: C

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

65) A theory or a model

- A) is a simplified, abstract view of reality.
- B) is based on each economist's value judgments.
- C) is a detailed analysis of what ought to be.
- D) captures all aspects of the real world.

Answer: A

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

66) *Ceteris paribus* means

- A) "all variables are independent."
- B) "other things being equal."
- C) "some assumptions must be accepted without proof."
- D) "some theories are not rational."

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 67) The *ceteris paribus* assumption means
- A) favors are returned in kind.
  - B) this is the proof of the matter.
  - C) from many, one.
  - D) other things are equal.

Answer: D

Diff: 2

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

- 68) In building a model the assumption that allows economists to study only the factors being analyzed is the
- A) rationality assumption.
  - B) *ceteris paribus* assumption.
  - C) the self-interest assumption.
  - D) the scarcity assumption.

Answer: B

Diff: 2

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

- 69) *Ceteris paribus* means
- A) other variables are held constant.
  - B) almost certainly.
  - C) only if everything works just right.
  - D) perhaps.

Answer: A

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

- 70) In constructing models, economists
- A) include all independent variables.
  - B) include all available information.
  - C) attempt to duplicate the real world.
  - D) make simplifying assumptions.

Answer: D

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Previous Edition*

- 71) In building a model to analyze economic situations, one of the important assumptions is
- A) *ceteris paribus*.
  - B) scarcity.
  - C) conversion abstraction.
  - D) cognitive dissonance.

Answer: A

Diff: 1

Topic: 1.5 *Economics as a Science*

Question Status: *Revised*

- 72) Assumptions are necessary to
- A) make economics a social science.
  - B) define a set of circumstances where a model is most likely to apply.
  - C) define the relationship between wants and resources under all circumstances.
  - D) define the specific cause and effect relationship that is being explained by social sciences.

Answer: B

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 73) *Ceteris paribus* means
- A) all men are created equal.
  - B) wage parity between men and women is a worthy goal.
  - C) there are an infinite number of factors affecting each human decision and they change all the time.
  - D) economists isolate one or two factors that change when analyzing human decisions.

Answer: D

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 74) Economic models are used to
- A) simplify reality to predict outcomes.
  - B) exactly replicate reality.
  - C) predict all possible outcomes of a study.
  - D) determine the thoughts of individuals.

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 75) Economic models
- A) should be designed so as to capture every detail or interrelationship that exists.
  - B) are simplified representations of the real world.
  - C) must employ the use of laboratory methods.
  - D) All of the above are correct.

Answer: B

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 76) Economics may be referred to as a(n) \_\_\_\_\_ science, meaning that data is looked at to see whether assertions are correct.
- A) empirical
  - B) exact
  - C) assumptive
  - D) soft

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 77) The term *ceteris paribus* is an economic assumption that means
- A) let the buyer beware.
  - B) common sense is reality.
  - C) the detail is in the interrelationship.
  - D) other things being equal.

Answer: D

Diff: 1

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 78) The value of a model is determined by
- A) the usefulness of its predictions in the real world.
  - B) the extent of the profit earned by applying it.
  - C) the realism of its assumptions.
  - D) the model's attention to real world details.

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 79) Assumptions in models tend to make
- A) the model predict what the scientist wants the results to be.
  - B) the model more complex.
  - C) the model more applicable to specific circumstances.
  - D) the model always predict the future accurately.

Answer: C

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 80) What would lead an economist to conclude that Theory A is superior to Theory B?
- A) Theory A predicts real-world events better than does Theory B.
  - B) The assumptions underlying Theory A are more realistic than are the assumptions underlying Theory B.
  - C) Theory A explains how people think, whereas Theory B only explains what they do.
  - D) Theory A is based on the assumption that an individual typically cannot determine what is in his or her own best interest, whereas Theory B assumes that each person knows what is in his or her own best interest and acts accordingly.

Answer: A

Diff: 3

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 81) Why do economists test their hypotheses?
- A) to see whether people are motivated by self-interest
  - B) to see whether their models predict the choices people will make
  - C) to determine whether government policies have effectively achieved their goals
  - D) to learn what people are thinking when they make the choices they do

Answer: B

Diff: 3

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 82) Which of the expressions below best describes the aim of economic theory?
- A) to predict how people think about money
  - B) to understand why money motivates some people more than others
  - C) to predict the choices people will make
  - D) to learn what we can do to prevent people from having unrealistic wants

Answer: C

Diff: 3

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 83) Based on your understanding of your roommate's preferences, you predict that he will select the spaghetti for his lunch at the cafeteria, but instead he chooses the gyros. How do you describe this event in terms of economic theory?
- A) Your roommate is irrational.
  - B) Your roommate does not know what is in his own best interests.
  - C) You roommate does not know his own preferences as well as you do.
  - D) You constructed a model that made a prediction, and the prediction was refuted.

Answer: D

Diff: 3

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 84) Which of the following statements about economic models is true?
- A) A good economic model is complex.
  - B) A good model does not rely on any assumptions.
  - C) Every model is based on a set of assumptions.
  - D) Economic models are designed to explain what people need.

Answer: C

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 85) By using the *ceteris paribus* assumption in conjunction with a model, economists can
- A) suspend the rationality assumption.
  - B) avoid having their model depend on any additional assumptions.
  - C) hold certain factors constant.
  - D) be sure that the model will predict correctly.

Answer: C

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition



- 86) What is meant by saying that economics is an empirical science?
- A) Economic theories do not need to be tested because they are based on true assumptions.
  - B) Economic theories cannot be tested because there is no means of measuring economic variables with adequate precision.
  - C) Economic theories cannot be tested because economic variables change too quickly.
  - D) Economic theories will be tested by seeing how well they correspond to real-world phenomena.

Answer: D

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 87) The combination of psychology and economics to determine individual decision making is known as
- A) behavioral economics.
  - B) psychomics.
  - C) the rule of thumb.
  - D) positive analysis.

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

- 88) The idea of bounded rationality is used to address all of the following characteristics EXCEPT
- A) unbounded selfishness.
  - B) unbounded knowledge.
  - C) unbounded willpower.
  - D) unbounded rationality.

Answer: A

Diff: 2

Topic: 1.5 Economics as a Science

Question Status: Previous Edition

## 1.6 Positive versus Normative Economics

- 1) Normative economic statements
- A) violate the law of *ceteris paribus*.
  - B) contain value judgments.
  - C) are usually irrational.
  - D) are easily testable.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 2) Normative economics involves
- A) a statement of fact.
  - B) a statement of "what should be."
  - C) a statement of "what is."
  - D) a statement that is purely descriptive.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 3) "If A occurs then B will follow" is a
- A) positive statement.
  - B) normative statement.
  - C) non-testable statement.
  - D) statement lacking in logic.

Answer: A

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 4) "If the United States enters a war in the Middle East, the economy will go into a recession" is an example of
- A) a positive statement.
  - B) an easy to prove statement.
  - C) a normative statement.
  - D) a factual statement.

Answer: A

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 5) Which of the following is an example of a positive economic statement?
- A) In order to reduce the budget deficit, tax rates should be increased.
  - B) In order to increase employment, the minimum wage should be decreased.
  - C) If payroll taxes are raised, then the Social Security crisis will be resolved.
  - D) If gas prices fall, consumers should purchase more gas.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 6) "No individual should have less than \$20,000 income in the United States in 2010" is an example of
- A) a normative statement.
  - B) a positive statement.
  - C) an illogical and refutable statement.
  - D) a truism.

Answer: A

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

7) Which of the following is a normative statement?

- A) An increase in consumer income will lead to increased sales of beef.
- B) A decrease in the rate of unemployment will lead to upward pressure on consumer prices.
- C) An increase in the income tax will cause a greater reduction in savings than an increase in the sales tax.
- D) An economy with high unemployment can be worse off than an economy with high inflation.

Answer: D

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

8) Which of the following is a positive economic statement?

- A) No individual should live in poverty.
- B) The rate of unemployment of young African-Americans exceeds that of white Americans.
- C) Unemployment is a more serious problem than inflation.
- D) Economic considerations are less relevant than ethical issues in deciding national policy.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

9) "All Americans should have access to health care" is an example of

- A) a positive statement.
- B) a microeconomic argument.
- C) a factual statement.
- D) a normative statement.

Answer: D

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

10) When a U.S. Senator tells a campaign crowd that "High inflation rates are a much more serious economic problem than high unemployment rates," it is an example of

- A) a normative statement.
- B) an empirically proven fact.
- C) a positive statement.
- D) a microeconomic argument.

Answer: A

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 11) Which of the following statements is a positive economic statement?
- A) The number of families living in poverty in the United States is too high.
  - B) One in every five children in the United States is living in poverty.
  - C) Government programs to help the poor are just making problems worse.
  - D) Increases in poverty rates signify a deterioration of the U.S. economy.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 12) Which of the following statements is a positive economic statement?
- A) The Congress should pass the president's tax package.
  - B) Tax rebates always give too much favor to rich people.
  - C) The President's budget included an increase in unemployment insurance payments.
  - D) none of the above

Answer: C

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 13) Which of the following statements is a normative as opposed to a positive economic statement?
- A) Consumer spending generates more jobs.
  - B) If the price of gasoline goes up, people buy less.
  - C) Labor unions should be allowed to organize in every industry.
  - D) Government intervention in markets is common in many countries.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 14) Whenever statements embodying values are made, we enter the realm of
- A) positive economics.
  - B) normative economics.
  - C) microeconomics.
  - D) macroeconomics.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 15) Positive economic analysis is said to be
- A) true.
  - B) right.
  - C) value-laden.
  - D) objective.

Answer: D

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 16) Positive statements can contain
- A) opinions and conditions.
  - B) facts and predictions.
  - C) a mixture of facts and opinions.
  - D) logical arguments mixed with statements of opinion.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 17) Normative economic analysis involves
- A) positive analysis.
  - B) value judgments.
  - C) if-then statements.
  - D) objective descriptions of the way things are.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 18) Which of the following statements is an example of positive economic analysis?
- A) The inflation rate is too high.
  - B) The government should worry less about inflation and more about unemployment.
  - C) If the government increases the rate of growth of the money supply, the inflation rate will increase, *ceteris paribus*.
  - D) The elderly live on a fixed income, so the government has an obligation to keep inflation rates low.

Answer: C

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 19) Which of the following is a normative economic statement?
- A) An increase in corporate income taxes will cause the unemployment rate to increase.
  - B) The costs of medical care are increasing faster than the incomes of U.S. citizens.
  - C) Teenage unemployment is over ten percent.
  - D) Teenage unemployment is too high.

Answer: D

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 20) Which of the following is an example of a normative economic statement?
- A) Lower income tax rates will generate greater income tax revenue to the government.
  - B) Income tax rates should be lower because that will increase government revenue.
  - C) Lower income tax rates yield a larger federal government deficit.
  - D) The federal budget deficit has increased every year for the last twenty years.

Answer: B

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 21) Which of the following statements concerning the distinction between positive and normative economics is true?
- A) Positive statements are concerned with what is, while normative statements are concerned with what someone thinks should be.
  - B) Positive statements are concerned with what people think, while normative statements are concerned with what people do.
  - C) Positive statements are true while normative statements are false.
  - D) Positive statements are concerned with what is while normative statements are concerned with what will be.

Answer: A

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 22) "A positive economic statement is always true and a normative economic statement is always false." Do you agree or disagree with this statement? Explain.

Answer: Disagree. A positive statement is one that is either descriptive or makes a prediction of the type "if A, then B." A descriptive statement can be false. For example, the statement, "It is raining today," may be either true or false. A prediction can also be false. A normative statement cannot appeal to evidence. The statement, "It shouldn't rain today," cannot be evaluated as either true or false by looking to see if it is raining or not.

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 23) Positive economic analysis is supposed to be
- A) true.
  - B) free of value judgments.
  - C) just and fair.
  - D) moral and honest.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 24) It has been noted that when the price of a good increases, people purchase less of the good. This is an example of
- A) macroeconomic analysis.
  - B) irrational behavior.
  - C) normative economic analysis.
  - D) positive economic analysis.

Answer: D

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Revised

25) Normative economics is

- A) analysis involving value judgments about economic policies; or a statement of "what ought to be."
- B) analysis that is strictly limited to making either purely descriptive statements or scientific predictions.
- C) analysis of the behavior of the economy as a whole.
- D) decision making undertaken by households and business firms.

Answer: A

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Revised

26) Normative economic analysis involves

- A) true statements of facts only.
- B) testable hypotheses by scientists.
- C) value judgments and opinions.
- D) purely descriptive statements.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

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

- A) It is too hot to go jogging.
- B) *Ceteris paribus*, a teacher should award a higher grade if you study more hours for an economics test.
- C) When the price of an item increases, people respond by reducing their consumption of the item.
- D) The government should balance the budget.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Revised

28) Which of the following is a statement with positive economic analysis?

- A) Lower wages increase employment and reduce the unemployment rate.
- B) Slower money growth reduces inflation.
- C) A reduction in the size of the budget deficit will reduce interest rates.
- D) all of the above

Answer: D

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: New

- 29) Which of the following is NOT normative economic statement?
- A) The minimum wage should be eliminated so unemployment can be reduced.
  - B) Increases in the minimum wage cause increases in unemployment.
  - C) The inflation rate should fall to increase individuals' well being.
  - D) Taxes on cigarettes should be increased to reduce smoking.

Answer: B

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Revised

- 30) Which of the following is an example of a positive economic statement?
- A) The unemployment rate last month was 5.4 percent.
  - B) The unemployment rate last month was too high.
  - C) Because of the high unemployment rate last month the government should increase government spending.
  - D) The unemployment rate should be measured differently because it doesn't include students who can't find jobs.

Answer: A

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 31) Normative economic analysis tends to
- A) generate testable hypotheses.
  - B) include the way someone thinks things should be or ought to be.
  - C) involve descriptive statements.
  - D) lead to empirical testing of data.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 32) Which of the following statements is true regarding the textbook used in this course?
- A) The textbook presents only economic theory, so no value judgments are involved in the text.
  - B) The textbook does not include normative statements.
  - C) The microeconomic section of the book includes only positive analysis while the macroeconomic section includes normative analysis.
  - D) The selection of topics included in the book involves value judgments as well as economic theory.

Answer: D

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition



- 33) Analysis that involves value judgments about economic policies is
- A) positive economics.
  - B) normative economics.
  - C) microeconomics.
  - D) macroeconomics.

Answer: B

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 34) Analysis that is limited to making either purely descriptive statements or scientific predictions is
- A) positive economics.
  - B) normative economics.
  - C) microeconomics.
  - D) macroeconomics.

Answer: A

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 35) The term or phrase most likely to indicate a normative statement is
- A) "ceteris paribus."
  - B) "factual." or "what is" statement.
  - C) "holding other things constant."
  - D) "should" or "ought to."

Answer: D

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 36) Jane is currently developing a model to explain the national unemployment rate. This is an example of
- A) a microeconomic topic.
  - B) normative analysis.
  - C) positive analysis.
  - D) how people act in an irrational manner.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 37) How does the science of economics deal with the fact that we all have different values?
- A) by assuming that values don't play a role in economic behavior
  - B) by seeking to discover the sources of different value systems
  - C) by using positive analysis
  - D) by surveying the public to see what the most common values are, and then incorporating those as assumptions into their models

Answer: C

Diff: 3

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 38) Which of the following is a positive statement?
- A) An unemployment rate of 5.8 percent is too high.
  - B) The unemployment rate is 5.8 percent.
  - C) The unemployment rate should be below 5.8 percent.
  - D) The unemployment rate should never be above 5.8 percent.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 39) Which of the following is NOT a positive statement?
- A) The unemployment rate is 5.8 percent.
  - B) The inflation rate for 2002 was 2.3 percent.
  - C) The national debt is too high.
  - D) The federal government budget for 2004 is \$2.2 trillion.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 40) The difference between positive statements and normative statements is that
- A) a positive statement involves a value judgment and a normative statement is a statement of fact.
  - B) a positive statement is a statement of fact and a normative statement involves value judgments.
  - C) value judgments are made in normative statements but assumed in positive statements.
  - D) normative statements are provable while positive statements are not.

Answer: B

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 41) Which one of the following is an example of a normative statement?
- A) A digital camera costs more than a disposable camera.
  - B) Most digital cameras sold in the United States are imported from other countries.
  - C) A camera makes a good wedding gift.
  - D) More people will buy digital cameras as their prices decline.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 42) Which one of the following is an example of a normative statement?
- A) A vacation in Colorado is better than a vacation in Hawaii.
  - B) Hotels in Colorado are more expensive than are hotels in Hawaii.
  - C) The hotel vacancy rate in Hawaii will increase as airfares to Hawaii increase.
  - D) The busiest tourist month in Colorado is July.

Answer: A

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 43) Which one of the following is an example of a positive statement?
- A) Farmers need some type of government aid.
  - B) State governments should provide economic assistance to farmers.
  - C) The federal government should provide economic assistance to farmers.
  - D) The amount of financial assistance given to farmers is higher this year than it was 10 years ago.

Answer: D

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 44) Which one of the following is an example of a normative statement?
- A) Public school teachers are not paid enough.
  - B) The average public school teacher earns less than the average truck driver.
  - C) The average public school teacher earns more than the average truck driver.
  - D) Students in smaller classes perform better on standardized tests.

Answer: A

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 45) Normative economics
- A) is never studied at the undergraduate level.
  - B) involves value judgments.
  - C) is always objective.
  - D) cannot be applied to all economic problems.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 46) The President's statement that "to encourage economic growth, taxes should be cut,"
- A) would be an example of a normative statement.
  - B) would be an example of a positive statement.
  - C) would be an example of a microeconomic statement.
  - D) would be a statement of mercantilist economic philosophy.

Answer: A

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 47) The headline in the local paper today is "College tuition next fall will be raised by 3 percent." This statement is an example of
- A) a normative statement.
  - B) a positive statement.
  - C) a macroeconomic statement.
  - D) *ceteris paribus*.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

48) Positive economics

- A) always gives an optimistic spin to economic news.
- B) is concerned with the economic policies that should be implemented.
- C) is objective.
- D) was not used by nineteenth century economists.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

49) Which of the following is a normative economic statement?

- A) Few auto mechanics are women.
- B) Men and women should earn the same salary if they perform the same job.
- C) Auto mechanics typically earned more than waitresses in the United States in 2004.
- D) Most wait staff are women.

Answer: B

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

50) Economics seeks to use only positive analysis to

- A) provide a value-free analysis.
- B) seek the best answer.
- C) predict how people should act.
- D) provide normative values.

Answer: A

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

51) Which of the following is a positive economic statement?

- A) We should strive to achieve full employment in the United States.
- B) The President of the United States should promote stable prices in the United States.
- C) If the price of eggs increases, the quantity demanded of bacon will fall.
- D) We should try to eliminate poverty in the United States.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

52) Normative economic statements

- A) are statements of "what ought to be."
- B) are statements of "what is."
- C) are statements that may be tested by referring to facts and data.
- D) do not involve value judgments.

Answer: A

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

53) Which of the following is a normative economic statement?

- A) If the government increases spending, unemployment will fall.
- B) The government should increase spending during times of economic recession.
- C) If banks create more money, unemployment will decrease.
- D) If the price of gasoline rises, car pooling will increase.

Answer: B

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

54) "The U.S. government should not use my tax dollars to subsidize people on welfare"

- A) is a positive economic statement because it simply describes one person's opinion.
- B) is a normative economic statement because it involves a value judgment about an economic policy.
- C) is a positive economic statement because it predicts that my tax dollars will go to welfare.
- D) is a normative economic statement because it is a scientific fact.

Answer: B

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

55) All of the following are positive statements EXCEPT

- A) the President of the United States in 2008 was George W. Bush.
- B) California is in the United States.
- C) migratory birds fly south for the winter.
- D) a dog is man's best friend.

Answer: D

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Revised

56) Positive analysis can be described as

- A) the study of whether people respond to positive incentives.
- B) the study of whether people respond to negative incentives.
- C) a value-free approach to inquiry.
- D) a study that is not tested empirically.

Answer: C

Diff: 1

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

57) A positive economic statement is one that

- A) can be refuted.
- B) is free of the *ceteris paribus* assumption.
- C) is based on a value judgment.
- D) asserts something about the role of moral behavior in building a strong economy.

Answer: A

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 58) Which of the following is a positive statement?
- A) We need to carefully protect our borders.
  - B) Hyperinflation is the most damaging thing that can occur in an economy.
  - C) When tax revenues are less than government spending there is a budget deficit.
  - D) Foreign aid should be reduced to help our budget deficit.

Answer: C

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

- 59) Which of the following is a normative statement?
- A) The Gross Domestic Product is the dollar value of all goods and services produced in a country in a year.
  - B) Fiscal policy is determined by the Congress and the president.
  - C) Tax cuts ought to be enacted for the good of the economy.
  - D) Monetary policy is determined by the Federal Reserve System.

Answer: C

Diff: 2

Topic: 1.6 Positive versus Normative Economics

Question Status: Previous Edition

## 1.7 Appendix A: Direct and Inverse Relationships

- 1) A relationship between two variables in which one variable increases at the same time as the other decreases is called
- A) nonlinear.
  - B) constant.
  - C) inverse.
  - D) direct.

Answer: C

Diff: 1

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition

- 2) A direct relationship occurs when
- A) the two variables being compared change in opposite directions, or when one goes up the other goes down.
  - B) a change in one of the variables causes a change in the other variable in any direction.
  - C) the two variables being compared change in the same direction, or when one goes up the other also goes up.
  - D) the two variables have no identifiable relationship with each other.

Answer: C

Diff: 2

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition

- 3) If an increase in one variable causes a decrease in another variable, there is
- A) a direct relationship.
  - B) a dependent relationship.
  - C) an independent relationship.
  - D) an inverse relationship.

Answer: D

Diff: 2

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Revised

- 4) A relationship between two variables in which one variable increases at the same time that the other increases is called
- A) nonlinear.
  - B) constant.
  - C) inverse.
  - D) direct.

Answer: D

Diff: 1

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition

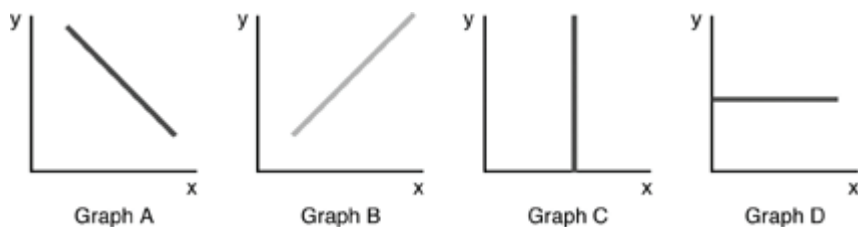
- 5) When two variables have an inverse relationship, the slope is
- A) negative.
  - B) positive.
  - C) infinity.
  - D) zero.

Answer: A

Diff: 1

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition



- 6) In the above graphs, an inverse relationship is shown by
- A) Graph A.
  - B) Graph B.
  - C) Graph C.
  - D) Graph D.

Answer: A

Diff: 2

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition

- 7) In the above graphs a direct relationship is shown by
- A) Graph A.
  - B) Graph B.
  - C) Graph C.
  - D) Graph D.

Answer: B

Diff: 2

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition

- 8) When two variables have a direct relationship, the slope is
- A) negative.
  - B) positive.
  - C) zero.
  - D) infinity.

Answer: B

Diff: 1

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition

- 9) An inverse relationship will be graphed as
- A) a line that is upward sloping.
  - B) a line that is downward sloping.
  - C) a loop.
  - D) a U-shaped curve.

Answer: B

Diff: 1

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition

- 10) In an inverse relationship,
- A) one variable rises while the other falls.
  - B) both variables rise together.
  - C) both variables fall together.
  - D) the two variables have nothing to do with each other.

Answer: A

Diff: 1

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition

- 11) Which of the following is an example of an inverse relationship?
- A) hours of study and test grade
  - B) calories eliminated from diet and weight loss
  - C) beers consumed while studying and test grade
  - D) amount of snowfall and profits of ski resorts

Answer: C

Diff: 1

Topic: 1.7 Appendix A: Direct and Inverse Relationships

Question Status: Previous Edition



## 1.8 Appendix A: Constructing a Graph

- 1) Consider the statement, "The number of beers consumed the night before a test affects the grade." In this statement
- A) beer is the dependent variable and test grade is the independent variable.
  - B) beer is the independent variable and test grade is the dependent variable.
  - C) both beer and grade are dependent variables.
  - D) both beer and grade are independent variables.

Answer: B

Diff: 2

Topic: 1.8 Appendix A: Constructing a Graph

Question Status: Previous Edition

- 2) The "paired observation" of (14, 6) means
- A)  $x = 14, y = 6$ .
  - B)  $x = 6, y = 14$ .
  - C)  $x =$  any multiple of 14,  $y =$  any multiple of 6.
  - D) the origin is at 14 and 6.

Answer: A

Diff: 2

Topic: 1.8 Appendix A: Constructing a Graph

Question Status: Previous Edition

- 3) The "paired observation" of (-14, -6) means
- A)  $x = -14, y = -6$
  - B)  $x = -6, y = -14$
  - C) that the distance between the two points will be 8.
  - D) the origin is at -14 and -6.

Answer: A

Diff: 2

Topic: 1.8 Appendix A: Constructing a Graph

Question Status: Previous Edition

- 4) The intersection of the  $x$  axis and the  $y$  axis is called the
- A) "meeting point."
  - B) origin.
  - C) "zero" point.
  - D) corresponding point.

Answer: B

Diff: 1

Topic: 1.8 Appendix A: Constructing a Graph

Question Status: Previous Edition

## 1.9 Appendix A: Graphing Numbers in a Table

- 1) The relationship between beers consumed the night before an exam and test grade will be graphed as
- A) a line sloping down from upper right to lower left.
  - B) a line sloping down from upper left to lower right.
  - C) a circle.
  - D) a u-shaped curve.

Answer: B

Diff: 2

Topic: 1.9 Appendix A: Graphing Numbers in a Table

Question Status: Previous Edition

- 2) Suppose that on average there are five more car accidents for every extra inch of snowfall in a certain region. If snowfall is graphed on the y axis and car accidents on the x axis, then if we graph this relationship, the slope of the line will be
- A) 25.
  - B) 5.
  - C) 1/5.
  - D) 1.

Answer: C

Diff: 2

Topic: 1.9 Appendix A: Graphing Numbers in a Table

Question Status: Previous Edition

- 3) If the slope of a curve is 1/5, we know that
- A) the relationship is linear, and the line moves from lower left to upper right.
  - B) the relationship is non-linear, and the line moves from lower left to upper right.
  - C) the relationship is linear, and the line moves from upper left to lower right.
  - D) the relationship is non-linear, and the line moves from upper left to lower right.

Answer: A

Diff: 3

Topic: 1.9 Appendix A: Graphing Numbers in a Table

Question Status: Previous Edition

## 1.10 Appendix A: The Slope of a Line (A Linear Curve)

- 1) A negative slope
- A) represents an inverse relationship, such as beers consumed and test score.
  - B) represents a direct relationship, such as snow fall and car accidents.
  - C) indicates that there is no relationship between two variables, such as women's wages and likelihood of sunshine.
  - D) means that the line crosses below the x-axis.

Answer: A

Diff: 2

Topic: 1.10 Appendix A: The Slope of a Line (A Linear Curve)

Question Status: Previous Edition

2) The slope of a nonlinear curve

- A) is constant.
- B) is always negative.
- C) changes along the various points of the curve.
- D) is always equal to 1.

Answer: C

Diff: 1

Topic: 1.10 Appendix A: The Slope of a Line (A Linear Curve)

Question Status: Previous Edition

3) The slope of a nonlinear curve is \_\_\_\_\_ when the curve is rising, and \_\_\_\_\_ when the curve is falling.

- A) negative, positive
- B) negative, negative
- C) positive, negative
- D) positive, positive

Answer: C

Diff: 1

Topic: 1.10 Appendix A: The Slope of a Line (A Linear Curve)

Question Status: Previous Edition

4) If a straight line crosses the Y-axis at 5 and crosses the X-axis at 10, we can conclude that the slope of the line is

- A) positive.
- B) negative.
- C) zero.
- D) infinity.

Answer: B

Diff: 2

Topic: 1.10 Appendix A: The Slope of a Line (A Linear Curve)

Question Status: Previous Edition

5) The slope of a line is the

- A) change in the values along the x-axis divided by the change in the values along the y-axis.
- B) values on the x-axis divided by the values on the y-axis.
- C) change in the values along the y-axis divided by the change in the values along the x-axis.
- D) values on the y-axis divided by the values on the x-axis.

Answer: C

Diff: 2

Topic: 1.10 Appendix A: The Slope of a Line (A Linear Curve)

Question Status: Previous Edition