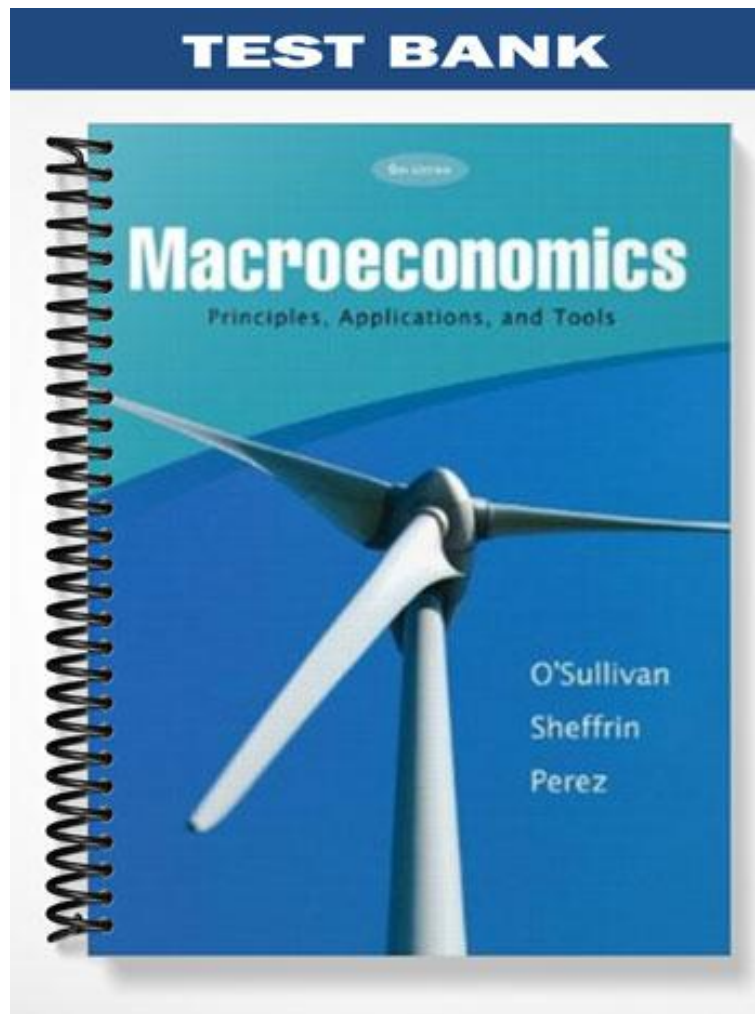


TEST BANK



Macroeconomics

Principles, Applications, and Tools

O'Sullivan
Sheffrin
Perez

Test Bank 2 to Accompany

Macroeconomics:
Principles, Applications and Tools
Sixth Edition

by

O'Sullivan / Sheffrin / Perez

Pearson Education

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Chapter 1 Introduction: What Is Economics?

1.1 What Is Economics?

- 1) Economics is best defined as the study of:
- A) financial decision-making.
 - B) how consumers make purchasing decisions.
 - C) choices made by people faced with scarcity.
 - D) inflation, unemployment, and economic growth.

Answer: C

Diff: 1

Topic: *What is Economics?*

Skill: *Definition*

AACSB: *Reflective Thinking*

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

Answer: B

Diff: 1

Topic: *What is Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 3) Scarcity can best be defined as a situation in which:
- A) there are no buyers willing to purchase what sellers have produced.
 - B) there are not enough goods to satisfy all of the buyers demands.
 - C) resources are limited in quantity and can be used in different ways.
 - D) there is more than enough money to satisfy consumers wants.

Answer: C

Diff: 1

Topic: *What is Economics?*

Skill: *Definition*

AACSB: *Reflective Thinking*

- 4) Because resources are limited:
- A) only the very wealthy can get everything they want.
 - B) firms will be forced out of business.
 - C) the availability of goods will be limited but the availability of services will not.
 - D) people must make choices.

Answer: D

Diff: 2

Topic: *What is Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

5) Which of the following is not a factor of production?

- A) money
- B) human capital
- C) physical capital
- D) labor

Answer: A

Diff: 2

Topic: What is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

6) Printing presses, forklifts and assembly plants are examples of which factor of production?

- A) physical capital
- B) human capital
- C) entrepreneurship
- D) labor

Answer: A

Diff: 1

Topic: What is Economics?

Skill: Definition

AACSB: Reflective Thinking

7) When Bob, a recent college grad, took an internship at an accounting firm, he is accumulating which factor of production?

- A) physical capital
- B) human capital
- C) entrepreneurship
- D) natural resources

Answer: B

Diff: 1

Topic: What is Economics?

Skill: Definition

AACSB: Reflective Thinking

8) The factors of production include

- A) natural resources.
- B) labor.
- C) entrepreneurship.
- D) all of the above.

Answer: D

Diff: 2

Topic: What is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

9) An economic model is

- A) a small but completely working economy.
- B) a simplified representation of an economic environment.
- C) any graph.
- D) all of the above.

Answer: B

Diff: 2

Topic: What is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 10) Which of the following is an example of scarcity?
- A) If you choose to play video games you will not have as much time for exercise.
 - B) If a city uses an acre of land to build a park there will be less land for houses.
 - C) If I decide to buy a new car I may not have enough money to go away on vacation this year.
 - D) All of the above are examples of scarcity.

Answer: D

Diff: 1

Topic: *What is Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 11) _____ is a situation in which resources are limited in quantity and can be used in different ways.
- A) choice
 - B) scarcity
 - C) economics
 - D) the Invisible Hands

Answer: B

Diff: 1

Topic: *What is Economics?*

Skill: *Definition*

AACSB: *Reflective Thinking*

- 12) Resources are all of the following except:
- A) unlimited and in abundance.
 - B) the things we use to produce goods and services.
 - C) limited in quantity and can be used in different ways.
 - D) scarce and therefore requiring choices to be made.

Answer: A

Diff: 1

Topic: *What is Economics?*

Skill: *Definition*

AACSB: *Reflective Thinking*

- 13) In which of the following markets is a person's time and effort exchanged for money?
- A) consumer market
 - B) political market
 - C) labor market
 - D) goods market

Answer: C

Diff: 2

Topic: *What is Economics?*

Skill: *Analytical*

AACSB: *Reflective Thinking*

- 14) An arrangement that allows buyers and sellers to exchange things is called:
- A) a contract.
 - B) a market.
 - C) money.
 - D) efficient.

Answer: B

Diff: 1

Topic: *What is Economics?*

Skill: *Definition*

AACSB: *Reflective Thinking*

- 15) Which of the following is not a market?
- A) a group of children trading Pokemon cards
 - B) a cattle auction
 - C) your college bookstore
 - D) All of the above are markets.

Answer: D

Diff: 2

Topic: *What is Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 16) Which of the following is not a market?
- A) an online electronic auction
 - B) a group of paving contractors bidding for a road construction contract
 - C) ticket scalpers selling tickets outside a sold-out sports event
 - D) All of the above are markets.

Answer: D

Diff: 2

Topic: *What is Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 17) Markets perform all of the following functions except:
- A) determining the prices of goods and services.
 - B) helping firms decide what to produce.
 - C) helping firms decide how to produce.
 - D) All of the above are functions that markets perform.

Answer: D

Diff: 1

Topic: *What is Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 18) In a modern market economy, most of the answers to the questions of how much to produce, how to produce it, and who should get the production are made by:
- A) governments.
 - B) individuals.
 - C) firms.
 - D) both B and C

Answer: D

Diff: 1

Topic: *What is Economics?*

Skill: *Fact*

AACSB: *Reflective Thinking*

- 19) Which of the following is not a factor in making economic decisions?
- A) What products to produce?
 - B) Who produces the products?
 - C) How to produce the products?
 - D) Who gets the produced products?

Answer: B

Diff: 1

Topic: *The Three Key Economic Questions*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

20) Which of the following is not an economic decision in a modern economy?

- A) Who consumes the products produced?
- B) What will be produced?
- C) Where will the products produced be consumed?
- D) How will we produce it?

Answer: C

Diff: 1

Topic: *The Three Key Economic Questions*

Skill: *Definition*

AACSB: *Reflective Thinking*

21) Deciding how products of a society are distributed among the citizens in an economy answers the economic question of:

- A) Who consumes the products produced?
- B) What will be produced?
- C) Where will the products produced be consumed?
- D) How will we produce it?

Answer: A

Diff: 1

Topic: *The Three Key Economic Questions*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

22) Deciding if a college uses more PhDs to teach introductory classes answers the economic question of:

- A) Who consumes the products produced?
- B) What will be produced?
- C) Where will the products produced be consumed?
- D) How will we produce it?

Answer: D

Diff: 2

Topic: *The Three Key Economic Questions*

Skill: *Analytical*

23) Deciding if a company will produce automobiles by manual labor or robotics answers the economic question of:

- A) Who consumes the products produced?
- B) What will be produced?
- C) Where will the products produced be consumed?
- D) How will we produce it?

Answer: D

Diff: 2

Topic: *The Three Key Economic Questions*

Skill: *Analytical*

AACSB: *Reflective Thinking*

24) Positive economics:

- A) is the focus of most modern economic reasoning.
- B) concerns the forces that affect economic activity.
- C) predicts the consequences of alternative actions.
- D) All of the above are correct.

Answer: D

Diff: 1

Topic: Positive Versus Normative Analysis

Skill: Definition

AACSB: Reflective Thinking

25) Which of the following is not an example of a question answered by positive economics?

- A) How will an increase in the price of gasoline affect taxi drivers?
- B) What fraction of an income-tax cut will be spent on consumer goods?
- C) How will an increase in interest rates affect investment in factories?
- D) Should the government increase the minimum wage?

Answer: D

Diff: 1

Topic: Positive Versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

26) Normative economics:

- A) is the focus of most modern economic reasoning.
- B) answers the question "What ought to be?"
- C) predicts the consequences of alternative actions.
- D) All of the above are correct.

Answer: B

Diff: 1

Topic: Positive Versus Normative Analysis

Skill: Definition

AACSB: Reflective Thinking

27) Which of the following is an example of a normative question?

- A) How will an increase in the price of gasoline affect taxi drivers?
- B) What fraction of an income-tax cut will be spent on consumer goods?
- C) Should the government provide free prescription drugs to senior citizens?
- D) How will an increase in the minimum wage affect teenaged workers?

Answer: C

Diff: 1

Topic: Positive Versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

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

- A) Should the college offer free parking for students?
- B) Should the college provide more financial aid assistance?
- C) If the college increased tuition, will class sizes decline?
- D) Should the college cut tuition to stimulate enrollments?

Answer: C

Diff: 2

Topic: *Positive Versus Normative Analysis*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

29) Which of the following is not a question answered with normative economic reasoning?

- A) Should the college offer free parking for students?
- B) Should the college offer more financial aid assistance?
- C) If the college increased tuition, will class sizes decline?
- D) Should the college cut tuition to stimulate enrollments?

Answer: C

Diff: 2

Topic: *Positive Versus Normative Analysis*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

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

- A) If the college offers free parking for students, will more students drive to campus?
- B) If the college provided more financial aid assistance, would more students benefit?
- C) If the college increases tuition, would class size decline?
- D) Should the college cut tuition to stimulate enrollments?

Answer: D

Diff: 2

Topic: *Positive Versus Normative Analysis*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

31) Talking about alternatives is the first step in a process that helps us make better choices about how we use our resources.

Answer: TRUE

Diff: 1

Topic: *What is Economics?*

Skill: *Analytical*

AACSB: *Reflective Thinking*

32) Scarcity is a situation in which resources are limited in quantity and can be used in different ways.

Answer: TRUE

Diff: 1

Topic: *What is Economics?*

Skill: *Definition*

AACSB: *Reflective Thinking*

- 33) Markets do not determine the quantity of goods sold, only the price.
Answer: FALSE
Diff: 1
Topic: *The Three Key Economic Questions*
Skill: *Fact*
AACSB: *Reflective Thinking*
- 34) Most modern economic analysis is positive in nature, but many issues also involve questions with normative economics.
Answer: TRUE
Diff: 1
Topic: *Positive Versus Normative Analysis*
Skill: *Fact*
AACSB: *Reflective Thinking*
- 35) Money is an example of a scarce factor of production.
Answer: FALSE
Diff: 1
Topic: *What is Economics?*
Skill: *Conceptual*
AACSB: *Reflective Thinking*
- 36) Positive economics question, "What *ought* to be?" Normative economics predicts the consequences of alternative actions, answering the questions, "What *is*?" or "What *will be*?"
Answer: FALSE
Diff: 1
Topic: *Positive Versus Normative Analysis*
Skill: *Definition*
AACSB: *Reflective Thinking*
- 37) Normative economics questions, "What *ought* to be?" Positive economics predicts the consequences of alternative actions, answering the questions, "What *is*?" or "What *will be*?"
Answer: TRUE
Diff: 1
Topic: *Positive Versus Normative Analysis*
Skill: *Definition*
AACSB: *Reflective Thinking*
- 38) Economists will always reach the same conclusion in their positive analyses.
Answer: FALSE
Diff: 1
Topic: *Positive Versus Normative Analysis*
Skill: *Conceptual*
AACSB: *Reflective Thinking*
- 39) Economists will never reach the same conclusions in their positive analyses.
Answer: FALSE
Diff: 1
Topic: *Positive Versus Normative Analysis*
Skill: *Conceptual*
AACSB: *Reflective Thinking*

40) Economics tells us what to choose given the tradeoffs.

Answer: FALSE

Diff: 1

Topic: *Positive Versus Normative Analysis*

Skill: *Analytical*

AACSB: *Reflective Thinking*

41) Give an example of something that is scarce in your life and explain the choices you've made because of scarcity.

Answer: Responses too numerous; varies by students.

Diff: 1

Topic: *What is Economics?*

Skill: *Analytical*

AACSB: *Reflective Thinking*

42) Would an economist consider clean air a scarce resource? Explain.

Answer: Yes, because the air has alternative uses. We can choose to use it to either breathe or to undertake activities that pollute it. The more we want to breathe clean air the more we must limit the production of pollutants. The more we pollute the air the less we can breathe clean air.

Diff: 2

Topic: *What is Economics?*

Skill: *Analytical*

43) Is money a scarce factor of production? Explain.

Answer: No. Money is not used to produce goods and services. Money only facilitates the procurement of the scarce resources used to produce the goods and the services.

Diff: 2

Topic: *What is Economics?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

44) Richard runs a pizza delivery restaurant. List the three basic types of decisions economics studies and give an example from Richard's restaurant.

Answer: How much to produce? How many pizzas will be sold each day? What to produce? What sorts of pizza do people order? Who consumes the products? Which people decided to come to the restaurant on a given day?

Diff: 2

Topic: *What is Economics?*

Skill: *Analytical*

AACSB: *Reflective Thinking*

45) Explain three ways we can use microeconomics analysis.

Answer: One reason for studying microeconomics is to better understand how markets work. Once you know how markets operate, you can use economic analysis to predict how various events affect product prices and quantities. On the personal level, we use economic analysis to decide how to spend our time, what career to pursue, and how to spend and save the money we earn. As workers, we use economic analysis to decide how to produce goods and services, how much to produce, and how much to charge for them. Although societies use markets to make most of the decisions concerning production and consumption, the government has several important roles in a market-based society. We can use economic analysis to determine how well the government performs its roles in the market economy. We can also explore the trade-offs associated with various public policies.

Diff: 1

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Additional Application

Summary of the article:

Labor Shortage in China May Lead to Trade Shift

By David Barbosa

The New York Times

April 3, 2006

A changing Chinese economy has resulted in significant labor shortages. Factories continue to expand as China's economy grows, but the number of uneducated workers is declining and the population of young people is leveling off. Add to these an increased number of people remaining inland, and this leaves coastal regions which specialize in factory production and exports with a large number of job openings.

The labor shortages are resulting in wage increases, pushing up costs on Chinese-made products. This could make China less competitive in global markets. Anticipating a continuation of rising costs for Chinese manufacturing, international manufacturers are already looking at moving factories to countries with lower costs.

The increase in wages is also fueling a growing Chinese middle class. Minimum wages in big cities have grown roughly 25% over the past three years, and infrastructure, housing and retail projects have started to develop in more rural areas. The number of people going to college has also increased significantly. In 2005, over 14 million people enrolled in Chinese colleges and universities, an increase of more than 250% since 1999.

Labor shortages and the resulting cost and wage increases may prompt even more changes in China. Labor conditions and worker benefits have already started to improve, and increased manufacturing costs could cause a shift away from the production of lower-end products. Rising wages could create an increased demand for imports, and factories have started moving inland, where labor is more readily available.

- 46) This Application reinforces the basic definition of economics, which is the:
- A) possible or feasible combinations of an economy's production options.
 - B) study of choices made by people when there is scarcity.
 - C) arrangement that allows buyers and sellers to exchange things.
 - D) forces that affect economic activity and predict the consequences of alternative actions.

Answer: B

Diff: 1

Topic: Additional Application

Skill: Definition

- 47) What factor of production is the primary focus of this Application?
- A) natural resources
 - B) physical capital
 - C) labor
 - D) entrepreneurship

Answer: C

Diff: 1

Topic: Additional Application

Skill: Conceptual

48) According to the Application, the number of people in China who are going to college has increased significantly. An increase in college enrollment leads to a more educated workforce and, in turn, higher wages. Obtaining an education in order to receive a higher wage is an example of which element of the economic way of thinking?

- A) thinking at the margin
- B) response to incentives
- C) isolation of variables
- D) using assumptions to simplify

Answer: B

Diff: 1

Topic: Additional Application

Skill: Conceptual

49) One of the macroeconomic issues addressed in this Application is:

- A) companies increasing worker benefits.
- B) the increase in college enrollment.
- C) the growth of the Chinese economy.
- D) The decisions by workers to remain inland.

Answer: C

Diff: 1

Topic: Additional Application

Skill: Conceptual

1.2 Economic Analysis and Modern Problems

1) The economic view of traffic congestion considers

- A) that drivers ignore the costs they impose on other drivers by slowing other drivers' commute time.
- B) that driving is a right.
- C) that most drivers are not good defensive drivers.
- D) that the amount of driving should be reduced.

Answer: A

Diff: 2

Topic: Economic View to Traffic Congestion

Skill: Conceptual

AACSB: Ethical Reasoning

2) If each extra driver on the road makes every other drivers commute last one minute longer and there are 600 drivers on the road, then one extra driver costs society

- A) 1 hour extra in commuting time.
- B) 10 hours extra in commuting time.
- C) 100 hours extra in commuting time.
- D) 10 extra minutes in commuting time.

Answer: B

Diff: 2

Topic: Economic View to Traffic Congestion

Skill: Fact

AACSB: Analytical Skills

- 3) One efficient solution to congestion is to:
- A) impose a congestion tax on drivers who use the road during the rush hour.
 - B) prevent cars from using the roads during the rush hour.
 - C) give subsidies to drivers who use the road during the rush hour.
 - D) lower gasoline taxes.

Answer: A

Diff: 2

Topic: Economic View to Traffic Congestion

Skill: Conceptual

AACSB: Ethical Reasoning

- 4) Economists have found that as a nation's economy grows
- A) the poorest families are left behind.
 - B) the poorest families have a decline in income.
 - C) the poorest families share in the prosperity.
 - D) the poorest families are unaffected.

Answer: C

Diff: 1

Topic: Economic Analysis and Modern Problems

Skill: Fact

AACSB: Reflective Thinking

- 5) Economists have found that economic growth occurs when
- A) the government owns all the resources.
 - B) a country expands its ability to produce goods and services.
 - C) when government redistributes income evenly.
 - D) the court system considers commercial disputes slowly.

Answer: B

Diff: 1

Topic: Decisions in a Modern Economy

Skill: Fact

AACSB: Reflective Thinking

- 6) In an effort to get Japan out of its economic problems in the 1990's, economists designed policies that
- A) increased consumer spending.
 - B) reformed Japan's financial system.
 - C) increased business spending.
 - D) all of the above are correct.

Answer: D

Diff: 1

Topic: Economic View to Japan's Economic Problems

Skill: Conceptual

AACSB: Reflective Thinking

- 7) After 1995, Japanese prices
- A) declined.
 - B) stabilized.
 - C) rose.
 - D) rose rapidly.

Answer: A

Diff: 1

Topic: Economic View to Japan's Economic Problems

Skill: Fact

AACSB: Reflective Thinking

- 8) Economic analysis includes commuting time as part of the cost of traffic congestion.
Answer: TRUE
Diff: 1
Topic: *Economic Analysis and Modern Problems*
Skill: *Conceptual*
AACSB: *Reflective Thinking*
- 9) In the final two decades of the 20th century, sub-Saharan African economies grew rapidly.
Answer: FALSE
Diff: 1
Topic: *Economic Analysis and Modern Problems*
Skill: *Fact*
AACSB: *Reflective Thinking*
- 10) The recent experience of Sub-Saharan Africa has taught economists that institutions such as the legal system and the regulatory environment play a key role in economic growth.
Answer: TRUE
Diff: 1
Topic: *Economic Analysis and Modern Problems*
Skill: *Conceptual*
AACSB: *Reflective Thinking*
- 11) It takes longer to set up a business in Canada than in Mozambique.
Answer: FALSE
Diff: 1
Topic: *Economic Analysis and Modern Problems*
Skill: *Fact*
AACSB: *Reflective Thinking*
- 12) In an economy with declining prices, consumers become reluctant to buy because they expect lower prices in the future.
Answer: TRUE
Diff: 1
Topic: *Economic Analysis and Modern Problems*
Skill: *Conceptual*
AACSB: *Reflective Thinking*
- 13) In an economy with declining prices, business managers are more eager to borrow money.
Answer: FALSE
Diff: 1
Topic: *Economic Analysis and Modern Problems*
Skill: *Conceptual*
AACSB: *Reflective Thinking*
- 14) What is an economic view of traffic congestion?
Answer: The economic view of traffic congestion attempts to incorporate all the costs of driving into the analysis including the cost of gasoline, the depreciation of vehicles used to commute, the wasted time commuting and the impact of new commuters impose on those already commuting in a particular area.
Diff: 2
Topic: *Economic View to Traffic Congestion*
Skill: *Conceptual*
AACSB: *Reflective Thinking*

15) Identify the events that must occur for an economy to experience economic growth.

Answer: Economic growth occurs when a country experiences an expansion of its production facilities (machinery and factories), improves its public infrastructure (highways and water systems), widens educational opportunities and adopts new technology.

Diff: 2

Topic: Economic Analysis and Modern Problems

Skill: Conceptual

AACSB: Reflective Thinking

16) How would a period of declining prices be detrimental to an economy?

Answer: In an economy with declining prices, consumers are reluctant to buy goods and services today in anticipation of lower prices in the future. This will cause business managers to refrain from borrowing money to invest in production facilities because the lower prices they receive for their goods and services produced may make it more difficult for them to repay those loans.

Diff: 2

Topic: Economic Analysis and Modern Problems

Skill: Conceptual

AACSB: Reflective Thinking

1.3 The Economic Way of Thinking

1) Who is associated with the following summary of the economic way of thinking: "*The theory of economics does not furnish a body of settled conclusions immediately acceptable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its processor draw correct conclusions.*"

A) John Maynard Keynes

B) Alfred Marshall

C) Adam Smith

D) President Harry Truman

Answer: A

Diff: 1

Topic: The Economic Way of Thinking

Skill: Fact

AACSB: Reflective Thinking

2) The four elements of the economic way of thinking includes all of the following except:

A) economists use assumptions to make things simpler and focus attention on what really matters.

B) economic analysis often involves variables and how they affect one another.

C) economic analysis uses the key assumption that people act irrationally and that they are not motivated by self-interest.

D) economists often consider how a small change in one variable affects another variable.

Answer: C

Diff: 1

Topic: The Economic Way of Thinking

Skill: Definition

AACSB: Reflective Thinking

- 3) Adam Smith is:
- A) considered the founder of economics.
 - B) responsible for a branch of economics bearing his name.
 - C) responsible for refining the model of supply and demand.
 - D) the author of this text.

Answer: A

Diff: 1

Topic: *The Economic Way of Thinking*

Skill: *Fact*

AACSB: *Reflective Thinking*

- 4) When economists assume that people are rational and respond to incentives, they mean:
- A) people act with kindness.
 - B) people are altruistic.
 - C) people act in their own self-interest.
 - D) none of the above

Answer: C

Diff: 1

Topic: *The Economic Way of Thinking*

Skill: *Definition*

AACSB: *Reflective Thinking*

- 5) An example of people acting in their own self-interest would include:
- A) individuals joining a car pool to work when tolls are imposed on congested highways.
 - B) an adult, returning to college to pursue a degree to qualify for a promotion at work.
 - C) a teenager earns an A grade average in school in order to use his or her parent's car.
 - D) All of the above are examples of people acting in their own self-interest.

Answer: D

Diff: 1

Topic: *The Economic Way of Thinking*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 6) *Ceteris paribus* is the Latin expression meaning:
- A) other variables are held fixed.
 - B) let buyer beware.
 - C) think at the margin.
 - D) for every action there is an equal and opposite reaction.

Answer: A

Diff: 1

Topic: *The Economic Way of Thinking*

Skill: *Definition*

AACSB: *Reflective Thinking*

- 7) To think at the margin means to consider:
- A) how nothing remains constant over time.
 - B) how a small change in one variable affects another variable.
 - C) how people behave in their own self-interest.
 - D) how people will decide what to purchase.

Answer: B

Diff: 1

Topic: *Think at the Margin*

Skill: *Definition*

AACSB: *Reflective Thinking*

8) A student has a D grade average in her accounting course and a B grade average in her economics course. She decides to study an extra hour for her accounting exam and one less hour for her economics exam hoping to improve her accounting grade while not hurting her economics grade. This is an example of:

- A) thinking at the margin.
- B) using assumptions to simplify.
- C) *ceteris paribus*.
- D) *caveat emptor*.

Answer: A

Diff: 1

Topic: *Think at the Margin*

Skill: *Conceptual*

AACSB: *Analytical Skills*

9) Economists use assumptions to:

- A) make things simpler.
- B) focus on what really matters.
- C) simplify decision-making.
- D) all of the above

Answer: D

Diff: 1

Topic: *Use Assumptions to Simplify*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

10) A variable is:

- A) something that always has the same value.
- B) something that can take on different values.
- C) is something that cannot be measured.
- D) something that varies over time.

Answer: B

Diff: 1

Topic: *Isolate Variables - Ceteris Paribus*

Skill: *Definition*

AACSB: *Reflective Thinking*

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

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

Answer: C

Diff: 1

Topic: *Isolate Variables - Ceteris Paribus*

Skill: *Definition*

AACSB: *Reflective Thinking*

12) A small change in a relevant variable is:

- A) an average change.
- B) a *ceteris paribus* change.
- C) an efficient change.
- D) a marginal change.

Answer: D

Diff: 1

Topic: *Think at the Margin*

Skill: *Definition*

AACSB: *Reflective Thinking*

- 13) Which of the following is an example of a marginal question?
- A) How much will my chances of a job improve if I raise my GPA from a C to a C+ grade average?
 - B) What is the average cost of a college education?
 - C) How many students borrow money in order to attend college?
 - D) What is the average income of a college graduate?

Answer: A

Diff: 2

Topic: *Think at the Margin*

Skill: *Analytical*

AACSB: *Reflective Thinking*

- 14) Which of the following is not an example of a marginal question?
- A) How many more years of education must I take if I want to get a Ph.D. in economics?
 - B) How many more dollars will I earn in my lifetime if I get my Master's degree?
 - C) How many students borrow money in order to attend college?
 - D) How many more points will I expect to have if I study an hour longer?

Answer: C

Diff: 2

Topic: *Think at the Margin*

Skill: *Analytical*

AACSB: *Reflective Thinking*

- 15) Using assumptions to make things simpler and focus attention on what really matters is like using a road map to plan a trip.

Answer: TRUE

Diff: 1

Topic: *The Economic Way of Thinking*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 16) An example of analysis that involves variables and how they affect one another would include the relationship of the price of CDs to the quantity of CDs purchased.

Answer: TRUE

Diff: 1

Topic: *The Economic Way of Thinking*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 17) A key assumption of most economic analysis is that people act rationally and in their own self-interest.

Answer: TRUE

Diff: 1

Topic: *The Economic Way of Thinking*

Skill: *Fact*

AACSB: *Reflective Thinking*

- 18) Economists assume that individuals make informed decisions and act in their own self-interest.
- Answer: TRUE
- Diff: 1
- Topic: Use Assumptions to Simplify
- Skill: Fact
- AACSB: Reflective Thinking
- 19) When a student is thinking at the margin, he analyzes how many more points he would get on his economics final exam if he devotes one more hour for studying.
- Answer: TRUE
- Diff: 1
- Topic: Think at the Margin
- Skill: Conceptual
- AACSB: Reflective Thinking
- 20) Unrealistic simplifying assumptions should be avoided because they cause the analysis that is based on the assumption to be incorrect.
- Answer: FALSE
- Diff: 1
- Topic: Use Assumptions to Simplify
- Skill: Conceptual
- AACSB: Reflective Thinking
- 21) *Ceteris paribus* means "Let the buyer beware."
- Answer: FALSE
- Diff: 1
- Topic: Isolate Variables – *Ceteris Paribus*
- Skill: Definition
- AACSB: Reflective Thinking
- 22) According to the book, what are the four elements of economic thinking?
- Answer: To economists, the four elements of economic thinking are: simplify with assumptions, isolate variables, think at the margin and model rational people responding to incentives.
- Diff: 2
- Topic: The Economic Way of Thinking
- Skill: Conceptual
- AACSB: Reflective Thinking
- 23) What did Adam Smith mean when he wrote that individuals rationally act in their own self-interest?
- Answer: Adam Smith meant that when individuals make decisions, their decisions are based more on self-interest than kindness or altruism. The statement was not meant to imply that people are motivated exclusively by self-interest.
- Diff: 2
- Topic: The Economic Way of Thinking
- Skill: Analytical
- AACSB: Ethical Reasoning

1.4 Example: London Addresses its Congestion Problem

- 1) What assumption was used by the authors of the book when analyzing the traffic congestion problem in London?
- A) They assumed that all cars are of the same make and model.
 - B) They assumed that traffic congestion is the same during daytime and during nighttime.
 - C) They assumed that every car has the same effect on the travel time of other cars.
 - D) They assumed that travel via public transportation is less costly than travel by car.

Answer: C

Diff: 2

Topic: Example: London Addresses Its Congestion Problem

Skill: Conceptual

AACSB: Analytical Skills

- 2) The example about London's congestion problem illustrates which of the following economic ways of thinking?
- A) Isolate Variables – Ceteris Paribus
 - B) Use of Assumptions to Simplify
 - C) Thinking at the Margin
 - D) all of the above

Answer: D

Diff: 2

Topic: Example: London Addresses Its Congestion Problem

Skill: Conceptual

AACSB: Analytical Skills

- 3) London reduced its road congestion by
- A) banning cars in the inner city during the daytime.
 - B) making city buses free.
 - C) raising the fare for the London subway system, the Underground.
 - D) imposing a daytime driving tax.

Answer: D

Diff: 2

Topic: Example: London Addresses Its Congestion Problem

Skill: Conceptual

AACSB: Ethical Reasoning

Recall Application 1, "Pedaling for Television Time," to answer the following questions:

- 4) According to the application, the researchers at the New York City hospital found that when overweight children had to pedal to watch tv the children on average:
- A) decreased their television watching a little.
 - B) increased their television watching a little.
 - C) ignored the incentive.
 - D) did not change their television watching.

Answer: A

Diff: 2

Topic: Application 1, Pedaling for Television Time

Skill: Conceptual

AACSB: Multicultural and Diversity

5) According to the application, which variable was not held constant?

- A) the type of the TV (requires pedaling or not)
- B) whether children were obese or not
- C) the age of the children
- D) All of the above were variables that were held constant.

Answer: D

Diff: 2

Topic: Application 1, Pedaling for Television Time

Skill: Conceptual

AACSB: Multicultural and Diversity

6) According to the application, the research on overweight children at the New York City hospital illustrated

- A) marginal thinking.
- B) people responding to incentives.
- C) use of assumptions.
- D) isolated variables.

Answer: B

Diff: 2

Topic: Application 1, Pedaling for Television Time

Skill: Conceptual

AACSB: Multicultural and Diversity

7) According to the application, which of the following results might lead researchers to conclude that the children did not respond to incentives?

- A) The number of children who were obese was the same before and after pedaling to watch TV.
- B) The number of hours children watched TV was the same when the TV was powered by pedaling and when it was not.
- C) The number of children who lost weight was higher in the group where the TV required pedaling.
- D) The children who watched more TV had higher math test scores.

Answer: B

Diff: 2

Topic: Application 1, Pedaling for Television Time

Skill: Analytical

AACSB: Analytical Skills

Recall Application 2 , "Economic Solution to Spam," to answer the following questions:

8) According to the application, one economic solution to spam is to:

- A) subsidize spammers.
- B) charge a \$0.01 electronic stamp for each commercial email message.
- C) outlaw the use of the internet.
- D) require internet service providers to sue spammers.

Answer: B

Diff: 1

Topic: Application 2: The Economic Solution to Spam

Skill: Conceptual

AACSB: Use of IT

- 9) The reason why spammers find it profitable to spam is because:
- A) it does not cost the spammer anything to send a million emails.
 - B) it does not cost the spammer anything to receive a million emails.
 - C) it does not benefit the spammer anything to send a million emails.
 - D) it does not cost nor benefit the spammer anything to send a million emails.

Answer: A

Diff: 2

Topic: Application 2: The Economic Solution to Spam

Skill: Analytical

AACSB: Use of IT

1.5 Preview of Coming Attractions: Macroeconomics

- 1) Macroeconomics is best described as the study of:
- A) very large issues.
 - B) the choices made by individual households, firms, and governments.
 - C) the nation's economy as a whole.
 - D) the relationship between inflation and wage inequality.

Answer: C

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Definition

AACSB: Reflective Thinking

- 2) Which of the following is a macroeconomic question?
- A) Will a constitutional amendment to balance the federal budget lead to good economic policy?
 - B) Should a firm decide to enter a particular market?
 - C) Should the government prevent the merger of two large firms?
 - D) All of the above are macroeconomic questions.

Answer: A

Diff: 2

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 3) Which of the following is not a macroeconomic question?
- A) Should we have a constitutional amendment to balance the federal budget?
 - B) Do employers discriminate against women by paying them lower wages?
 - C) How does a political candidate's economic reform package affect the inflation rate?
 - D) All of the above are macroeconomic questions.

Answer: B

Diff: 2

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 4) Which of the following is a macroeconomic question?
- A) Should a country adopt policies to encourage personal savings?
 - B) Why do some countries grow faster than others?
 - C) Why do prices tend to increase over time?
 - D) All of the above are macroeconomic questions.

Answer: D

Diff: 2

Topic: *Preview of Coming Attractions: Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 5) Which of the following is an example of how a business owner uses macroeconomics to make informed business decisions?
- A) A business owner can use macroeconomics to determine whether college graduates are better employees than non-college graduates.
 - B) A business owner can use macroeconomics to predict whether the Fed will increase or decrease the interest rates in the future in order to determine whether to borrow money now or later.
 - C) A business owner can use macroeconomics to predict whether television prices will be higher today or in the future.
 - D) A business owner can use macroeconomics to predict it should sell more red t-shirts as opposed to white t-shirts.

Answer: B

Diff: 2

Topic: *Preview of Coming Attractions: Macroeconomics*

Skill: *Analytical*

AACSB: *Analytical Skills*

- 6) Macroeconomics involves the study of the decision-making of individuals or individual firms.

Answer: FALSE

Diff: 1

Topic: *Preview of Coming Attractions: Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 7) Macroeconomics helps explain economic fluctuations, why the economy shrinks and expands and why some of the economy's resources are idle.

Answer: TRUE

Diff: 1

Topic: *Preview of Coming Attractions: Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

8) Explain three ways we can use macroeconomic analysis.

Answer: Macroeconomics explains why some resources increase over time and how an increase in these resources translates into a higher standard of living. In the fastest-growing countries, citizens save a large fraction of the money they earn. Firms can then borrow the funds saved to purchase machinery and equipment that make their workers more productive. The fastest growing countries also have well-educated workforces, allowing firms to quickly adopt new technologies that increase worker productivity. All economies, including ones that experience a general trend of growth, are subject to economic fluctuations including periods when the economy shrinks. During an economic downturn, some of the economy's resources are idle. Many workers are unemployed, and many factories and stores are closed. By contrast, sometimes the economy grows too rapidly, causing inflation. Macroeconomics helps us understand why these fluctuations occur—why the economy sometimes cools and sometimes overheats—and what we can do to moderate the fluctuations. A third reason for studying macroeconomics is to make informed business decisions. A manager who intends to borrow money for a new factory or store could use her knowledge of macroeconomics to predict the effects of current public policies on interest rates and then decide whether to borrow the money now or later.

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

1.6 Preview of Coming Attractions: Microeconomics

- 1) The study of the choices made by individual households, firms, and government is called:
- A) macroeconomics.
 - B) microeconomics.
 - C) managerial economics.
 - D) market economics.

Answer: B

Diff: 1

Topic: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

- 2) Microeconomics is best described as the study of:
- A) the choices made by individual households, firms, and governments.
 - B) inflation, unemployment, gross national product, and the nation's economy as a whole.
 - C) how markets interact in the aggregate economy.
 - D) marginal changes in the economy.

Answer: A

Diff: 1

Topic: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

- 3) Microeconomic analysis can be used to:
- A) better understand how markets work.
 - B) make personal or managerial decisions.
 - C) evaluate the merits of public policies.
 - D) All of the above are correct.

Answer: D

Diff: 2

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 4) When we study the effect of how a beer tax may decrease the number of highway deaths, we use microeconomics to:
- A) better understand how markets work.
 - B) make personal or managerial decisions.
 - C) evaluate the merits of public officials.
 - D) A and C are correct.

Answer: D

Diff: 2

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 5) We can use microeconomic analysis to:
- A) learn how to balance a checkbook.
 - B) evaluate the merits of public policies.
 - C) understand marginal changes in the macroeconomy.
 - D) All of the above are correct.

Answer: B

Diff: 2

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 6) We do not use microeconomic analysis:
- A) to make personal and managerial decisions.
 - B) to evaluate the merits of public policies.
 - C) to explain why the US is in a recession.
 - D) to understand markets and predict changes.

Answer: C

Diff: 2

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 7) Which of the following is a microeconomic question?
- A) Should we have a constitutional amendment to balance the federal budget?
 - B) Why do some countries grow faster than others?
 - C) Should the government prevent the merger of two large firms?
 - D) All of the above are microeconomic questions.

Answer: C

Diff: 2

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 8) Which of the following is a microeconomic question?
- A) Is it sensible for the government to subsidize college education?
 - B) Why do some countries grow faster than others?
 - C) Should Congress and the president take action to reduce the unemployment rate?
 - D) All of the above are microeconomic questions.

Answer: A

Diff: 2

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 9) Which of the following is not a microeconomic question?
- A) How does a particular health care reform program affect physicians' incomes?
 - B) What would happen to gasoline consumption if the gasoline tax were increased?
 - C) How should Judy decide how many hours to study for her economics exam?
 - D) All of the above are microeconomic questions.

Answer: D

Diff: 2

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 10) Microeconomics is the study of aggregate behavior in the economy.

Answer: FALSE

Diff: 1

Topic: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

- 11) Public policies such as the government subsidies for corn are topics of concern in microeconomics.

Answer: TRUE

Diff: 1

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 12) Government policies concerning the money supply and the control of inflation are topic of concern in microeconomics.

Answer: FALSE

Diff: 1

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 13) Microeconomics is the branch of economics that helps explain economic fluctuations, why the economy shrinks and expands and why some of the economy's resources are idle.

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

14) One example of a microeconomic question is, "How will prices in the satellite TV industry change if a new firm enters the market?"

Answer: TRUE

Diff: 1

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

15) One example of a microeconomic question is, "Should the inflation rate be lowered?"

Answer: FALSE

Diff: 1

Topic: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

1.7 Appendix A: Using Graphs and Percentages

1) A single variable can be illustrated as

A) a bar graph.

C) a time-series graph.

B) a pie chart.

D) all of the above.

Answer: D

Diff: 1

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

2) A straight line graph shows

A) one variable.

B) the constant relationship between two variable.

C) the relationships among any number of variables.

D) none of the above.

Answer: B

Diff: 1

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

3) Imagine that an upward sloping line is depicted in a graph with income per week on the y-axis and hours worked per week on the x-axis. From the graph, we can conclude that:

A) income and hours worked are negatively related.

B) income and hours worked per week are positively related.

C) hours worked are not related.

D) income and hours worked are equal.

Answer: B

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Conceptual

AACSB: Analytical Skills

- 4) Imagine that an upward sloping line is depicted in a graph with income per week on the y-axis and hours worked per week on the x-axis. The slope of the line in the graph depicts the:
- A) minimum wage of the worker.
 - B) hourly wage of the worker.
 - C) the total monthly income of the worker.
 - D) increase in income earned by the worker per every year of service.

Answer: B

Diff: 3

Topic: Appendix A: Using Graphs and Percentages

Skill: Analytical

AACSB: Reflective Thinking

- 5) There is a positive relationship between two variable, if the two variables
- A) have positive values.
 - B) move in opposite directions.
 - C) move in the same direction.
 - D) have negative values.

Answer: C

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

- 6) There is a negative relationship between two variable, if the two variables
- A) are positive.
 - B) move in opposite directions.
 - C) move in the same direction.
 - D) are negative.

Answer: B

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

- 7) The slope of a straight line is calculated as
- A) the variable on the vertical axis divided by the variable on the horizontal axis.
 - B) the variable on the horizontal axis divided by the variable on the vertical axis.
 - C) the run over the rise.
 - D) the rise over the run.

Answer: D

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

- 8) If a variable is 100 and then increases to 150, then using the initial value approach its percentage growth using was
- A) -50 percent.
 - B) 15 percent.
 - C) 40 percent.
 - D) 50 percent.

Answer: D

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Analytical Skills

- 9) If a variable is 100 and then increases to 150, then using the average value approach its percentage growth using was
- A) -50 percent. B) 15 percent. C) 40 percent. D) 50 percent.

Answer: C

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Analytical Skills

- 10) If a variable is 100 and then decreases to 60, then using the initial value approach its percentage decline was
- A) -40 percent. B) 160 percent. C) 40 percent. D) 50 percent.

Answer: C

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Analytical Skills

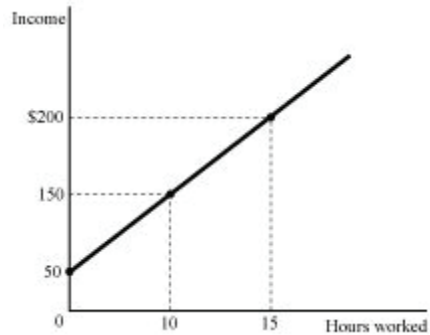


Figure 1.1

- 11) Refer to Figure 1.1. The relationship shown by the graph in Figure 1.1 is a
- A) negative one. B) positive one.
C) nonlinear one. D) normative one.

Answer: B

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Analytical Skills

- 12) Refer to Figure 1.1. Slope of the relationship or the wage rate shown in Figure 1.1 is
- A) \$5.15 per hour. B) \$10 per hour.
C) \$13.33 per hour. D) \$15 per hour.

Answer: B

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Analytical Skills

- 13) Refer to Figure 1.1. If hours worked are zero in Figure 1.1, then income is
A) zero. B) \$200. C) \$100. D) \$50.

Answer: D

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Analytical Skills

- 14) Refer to Figure 1.1. If income at zero hours worked increases in Figure 1.1, then the relationship

- A) becomes flatter. B) becomes steeper.
C) shifts upward and to the left. D) shifts down and to the right.

Answer: C

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Analytical Skills

- 15) A variable is a measure that can take on different values.

Answer: TRUE

Diff: 1

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

- 16) If one variable falls the other variable falls, the two variables are positively related.

Answer: TRUE

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

- 17) If one variable A falls the other variable B falls, then a line generated by putting variable A on the x-axis and variable B on the y-axis should be upward sloping.

Answer: TRUE

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Conceptual

AACSB: Reflective Thinking

- 18) If one variable declines the other variable declines, the two variables are negatively related.

Answer: FALSE

Diff: 2

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

- 19) The slope of a nonlinear relationship changes as the variables change.

Answer: TRUE

Diff: 1

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

20) A pie chart show the relationship between two variables.

Answer: FALSE

Diff: 1

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

21) How are percentage changes calculated?

Answer: Percentage change is $(\text{New Value} - \text{Initial Value})/(\text{Initial Value})$ using the initial value approach or Percentage change is $(\text{New Value} - \text{Initial Value})/(\text{Average Value})$ where Average Value is $(\text{New Value} + \text{Initial Value})/2$ using the average value approach.

Diff: 3

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking

22) Distinguish between movement along a curve and shifting a curve.

Answer: When depicted in a line graph with variable A in the x-axis and variable B on the Y-axis, a movement along a curve is occurs when variable A or variable B changes. A movement of a curve occurs when something else other than variable A or variable B changes.

Diff: 3

Topic: Appendix A: Using Graphs and Percentages

Skill: Definition

AACSB: Reflective Thinking