# Chapter 2
# Thinking Like An Economist

**TRUE/FALSE**

1. Economists try to address their subject with a scientist's objectivity.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

2. Economists devise theories, collect data, and then analyze these data in an attempt to verify or refute their theories.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

3. The scientific method is the dispassionate development and testing of theories about how the world works.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Definitional

4. The scientific method can be applied to the study of economics.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Interpretive

5. While the scientific method is applicable to studying natural sciences, it is not applicable to studying a nation's economy.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Interpretive

6. For economists, conducting experiments is often difficult and sometimes impossible.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

7. Economists usually have to make do with whatever data the world happens to give them.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

8. It is difficult for economists to make observations and develop theories, but it is easy for economists to run experiments to generate data to test their theories.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

9. Since economists cannot use natural experiments offered by history, they must use carefully constructed laboratory experiments instead.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

10. Historical episodes are not valuable to economists.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive



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11. Historical episodes allow economists to illustrate and evaluate economic theories of the present.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

12. Good assumptions simplify a problem without substantially affecting the answer.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Interpretive

13. Assumptions can simplify the complex world and make it easier to understand.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Definitional

14. Economists often find it worthwhile to make assumptions that do not necessarily describe the real world.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

15. Economists use one standard set of assumptions to answer all economic questions.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

16. Economic models are most often composed of diagrams and equations.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Definitional

17. Economic models omit many details to allow us to see what is truly important.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Definitional

18. Economic models can help us understand reality only when they include all details of the economy.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

19. An economic model can accurately explain how the economy is organized because it is designed to include, to the extent possible, all features of the real world.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

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

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Definitional

21. The circular-flow diagram explains, in general terms, how the economy is organized and how participants in the economy interact with one another.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

22. A circular-flow diagram is a visual model of the economy.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

23. In the circular-flow diagram, households and firms are the decision makers.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

24. In the circular-flow diagram, firms produce goods and services using the factors of production.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factors of production MSC: Interpretive

25. In the circular-flow diagram, factors of production are the goods and services produced by firms.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factors of production MSC: Interpretive

26. In the circular-flow diagram, factors of production include land, labor, and capital.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factors of production MSC: Interpretive

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

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factors of production MSC: Interpretive

28. In the circular-flow diagram, firms consume all the goods and services that they produce.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

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

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

30. In the markets for goods and services in the circular-flow diagram, households are buyers and firms are sellers.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

31. In the markets for the factors of production in the circular-flow diagram, households are buyers and firms are sellers.

ANS: F DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

32. In the circular-flow diagram, one loop represents the flow of goods, services, and factors of production, and the other loop represents the corresponding flow of dollars.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

33. In the circular-flow diagram, one loop represents the flow of goods and services, and the other loop represents the flow of factors of production.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

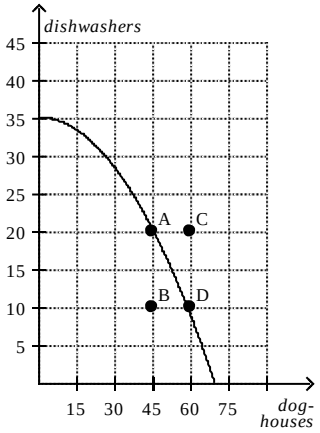
34. In the circular-flow diagram, payments for labor, land, and capital flow from firms to households through the markets for the factors of production.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

35. The production possibilities frontier is a graph that shows the various combinations of outputs that the economy can possibly produce given the available factors of production and the available production technology.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Definitional

***Figure 2-14***




36. **Refer to Figure 2-14**. If this economy uses all its resources in the dishwasher industry, it produces 35 dishwashers and no doghouses.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

37. **Refer to Figure 2-14**. It is possible for this economy to produce 75 doghouses.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

38. **Refer to Figure 2-14**. It is possible for this economy to produce 30 doghouses and 20 dishwashers.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

39. **Refer to Figure 2-14**. It is possible for this economy to produce 45 doghouses and 30 dishwashers.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

40. **Refer to Figure 2-14**. Given the technology available for manufacturing doghouses and dishwashers, this economy does not have enough of the factors of production to support the level of output represented by point C.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

41. **Refer to Figure 2-14**. Points A, B, and D represent feasible outcomes for this economy.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

42. **Refer to Figure 2-14**. Points B and C represent infeasible outcomes for this economy.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

43. **Refer to Figure 2-14**. Points A, B, and D represent efficient outcomes for this economy.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

44. **Refer to Figure 2-14**. Point B represents an inefficient outcome for this economy.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

45. **Refer to Figure 2-14**. Unemployment could cause this economy to produce at point B.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Unemployment MSC: Applicative

46. **Refer to Figure 2-14**. The opportunity cost of moving from point A to point D is 10 dishwashers.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

47. **Refer to Figure 2-14**. The opportunity cost of moving from point B to point D is 15 doghouses.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

48. **Refer to Figure 2-14**. The opportunity cost of moving from point B to point A is zero.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

49. **Refer to Figure 2-14**. The opportunity cost of an additional doghouse increases as more doghouses are produced.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

50. With the resources it has, an economy can produce at any point on or outside the production possibilities frontier, but it cannot produce at points inside the frontier.

ANS: F DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Definitional

51. Points inside the production possibilities frontier represent feasible levels of production.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

52. Points outside the production possibilities frontier represent infeasible levels of production.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

53. An outcome is said to be efficient if an economy is getting all it can from the scarce resources it has available.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Efficiency and equality TOP: Efficiency
MSC: Definitional

54. An outcome is said to be efficient if an economy is conserving the largest possible quantity of its scarce resources while still meeting the basic needs of society.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Efficiency and equality TOP: Efficiency
MSC: Interpretive

55. A production point is said to be efficient if there is no way for the economy to produce more of one good without producing less of another.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Efficiency and equality TOP: Efficiency
MSC: Interpretive

56. If an economy can produce more of one good without giving up any of another good, then the economy's current production point is inefficient.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Efficiency and equality TOP: Efficiency
MSC: Interpretive

57. Points on the production possibilities frontier represent efficient levels of production.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Definitional

58. Points inside the production possibilities frontier represent inefficient levels of production.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Interpretive

59. Unemployment causes production levels to be inefficient.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Efficiency and equality TOP: Efficiency
MSC: Interpretive

60. The opportunity cost of something is what you give up to get it.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Definitional

61. The production possibilities frontier shows the opportunity cost of one good as measured in terms of the other good.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Definitional

62. When a production possibilities frontier is bowed outward, the opportunity cost of one good in terms of the other is constant.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

63. When a production possibilities frontier is bowed outward, the opportunity cost of one good in terms of the other depends on how much of each good is being produced.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

64. When a production possibilities frontier is bowed outward, the opportunity cost of the first good in terms of the second good increases as more of the second good is produced.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

65. When a production possibilities frontier is bowed outward, the opportunity cost of the second good in terms of the first good increases as more of the second good is produced.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

66. When a production possibilities frontier is bowed outward, the opportunity cost of the second good in terms of the first good is higher when the economy is producing much of the second good and little of the first good than it is when the economy is producing little of the second good and much of the first good.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

67. When a production possibilities frontier is bowed outward, the opportunity cost of the first good in terms of the second good is higher when the economy is producing much of the second good and little of the first good than it is when the economy is producing little of the second good and much of the first good.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

68. Economists believe that production possibilities frontiers rarely have a bowed shape.

ANS: F DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Production possibilities frontier MSC: Definitional

69. A production possibilities frontier will be bowed outward if some of the economy's resources are better suited to producing one good than another.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

70. The trade-off between the production of one good and the production of another good can change over time because of technological advances.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Trade-offs MSC: Interpretive

71. A technological advance in the production of the first good increases the opportunity cost of the first good in terms of the second good.

ANS: T DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost | Technological advance
MSC: Analytical

72. While the production possibilities frontier is a useful model, it cannot be used to illustrate economic growth.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Economic growth MSC: Interpretive

73. Economic growth causes a production possibilities frontier to shift outward.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Economic growth MSC: Interpretive

74. If new government regulations designed to protect wetlands remove very productive farmland from production, then the production possibilities frontier will shift inward.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

75. Production possibilities frontiers can be used to illustrate scarcity, trade-offs, opportunity cost, efficiency, unemployment, technological advances, and economic growth.

ANS: T DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Analytical

76. Microeconomics is the study of how households and firms make decisions and how they interact in specific markets.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics MSC: Definitional

77. Macroeconomics is the study of economywide phenomena.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Macroeconomics MSC: Definitional

78. The effects of borrowing by the federal government would be studied by a microeconomist rather than a macroeconomist.

ANS: F DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics | Macroeconomics MSC: Applicative

79. The effects of foreign competition on the U.S. textile industry would be studied by a microeconomist rather than a macroeconomist.

ANS: T DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics | Macroeconomics MSC: Applicative

80. Microeconomics and macroeconomics are closely intertwined.

ANS: T DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics | Macroeconomics MSC: Definitional

81. When economists are trying to explain the world, they are scientists, and when they are trying to help improve the world, they are policy advisers.

ANS: T DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

82. Economists acting as scientists make positive statements, while economists acting as policy advisers make normative statements.

ANS: T DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Interpretive

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

ANS: F DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Interpretive

84. Positive statements are descriptive, while normative statements are prescriptive.

ANS: T DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Interpretive

85. Positive statements can be evaluated using data alone, but normative statements cannot.

ANS: T DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Interpretive

86. Evaluating normative statements involves values as well as facts.

ANS: T DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Definitional

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

ANS: T DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Applicative

88. "Other things equal, an increase in supply causes a decrease in price" is a normative statement, not a positive statement.

ANS: F DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Applicative

89. Trade-offs are involved in most policy decisions.

ANS: T DIF: 1 REF: 2-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Trade-offs | Policy decisions MSC: Definitional

90. Since 1946, the president of the United States has received guidance from the Council of Economic Advisers.

ANS: T DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Council of Economic Advisers MSC: Definitional

91. The Council of Economic Advisers consists of thirty members and a staff of several dozen economists.

ANS: F DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Council of Economic Advisers MSC: Definitional

92. The duties of the Council of Economic Advisers are to advise the president of the United States and to determine U.S. monetary policy.

ANS: F DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Council of Economic Advisers MSC: Definitional

93. The Council of Economic Advisers' *Economic Report of the President* discusses recent developments in the economy and presents the council's analysis of current policy issues.

ANS: T DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Council of Economic Advisers MSC: Definitional

94. Economists at the U.S. Department of the Treasury help design U.S. coins and paper money.

ANS: F DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

95. Economists at the U.S. Department of Justice help enforce the nation's antitrust laws.

ANS: T DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

96. Economists work both inside and outside the administrative branch of the U.S. government.

ANS: T DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

97. The Congressional Budget Office, which is staffed by economists, provides Congress with independent evaluations of policy proposals.

ANS: T DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

98. There is only one explanation for why economists give conflicting advice on policy issues, and it is that they have different values about what policy should try to accomplish.

ANS: F DIF: 2 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

99. Economists may disagree about the validity of alternative positive theories about how the world works.

ANS: T DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

100. In surveys of professional economists, fourteen propositions were endorsed by an overwhelming majority of respondents.

ANS: T DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

101. In economics, graphs serve two purposes: they offer a way to visually express ideas, and they provide a way of finding and interpreting patterns when analyzing economic data.

ANS: T DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

102. Examples of graphs of a single variable include pie charts, bar graphs, and time-series graphs.

ANS: T DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

103. In the ordered pair (10,30), 10 is the y-coordinate and 30 is the z-coordinate.

ANS: F DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

104. In the ordered pair (10,30), 10 is the horizontal location of the point and 30 is the vertical location of the point.

ANS: T DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

105. Two variables that have a positive correlation move in the same direction.

ANS: T DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

106. Two variables that have a negative correlation move in opposite directions.

ANS: T DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

107. When two variables move in opposite directions, the curve relating them is upward sloping, and we say the variables are positively related.

ANS: F DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

108. When two variables move in the same direction, the curve relating them is downward sloping, and we say the variables are negatively related.

ANS: F DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

109. When a variable that is named on an axis of a graph changes, the curve shifts.

ANS: F DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

110. When a variable that is not named on either axis of a graph changes, we read the change as a movement along the curve.

ANS: F DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

111. The concept of slope can be used to answer questions about how much one variable responds to changes in another variable.

ANS: T DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

112. The slope of a line is equal to the change in the x-variable divided by the change in the y-variable.

ANS: F DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

113. The slope of an upward-sloping line is positive, and the slope of a downward-sloping line is negative.

ANS: T DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

114. The slope of a horizontal line is infinite, and the slope of a vertical line is zero.

ANS: F DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

115. If a line passes through the points (20,5) and (10,10), then the slope of the line is 1/2.

ANS: F DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

116. If a line passes through the points (20,5) and (10,10), then the slope of the line is -2.

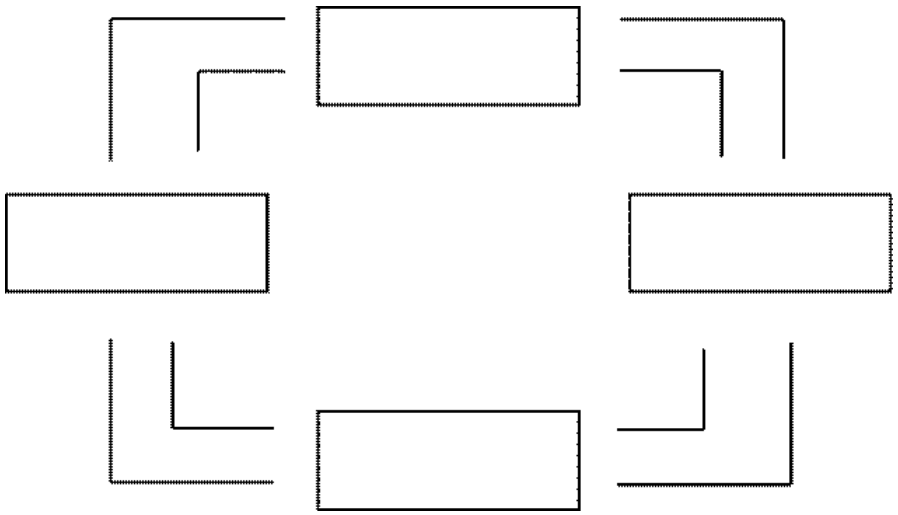
ANS: F DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

117. Changes in one variable on a graph might be caused by the other variable on the graph or by a third omitted variable.

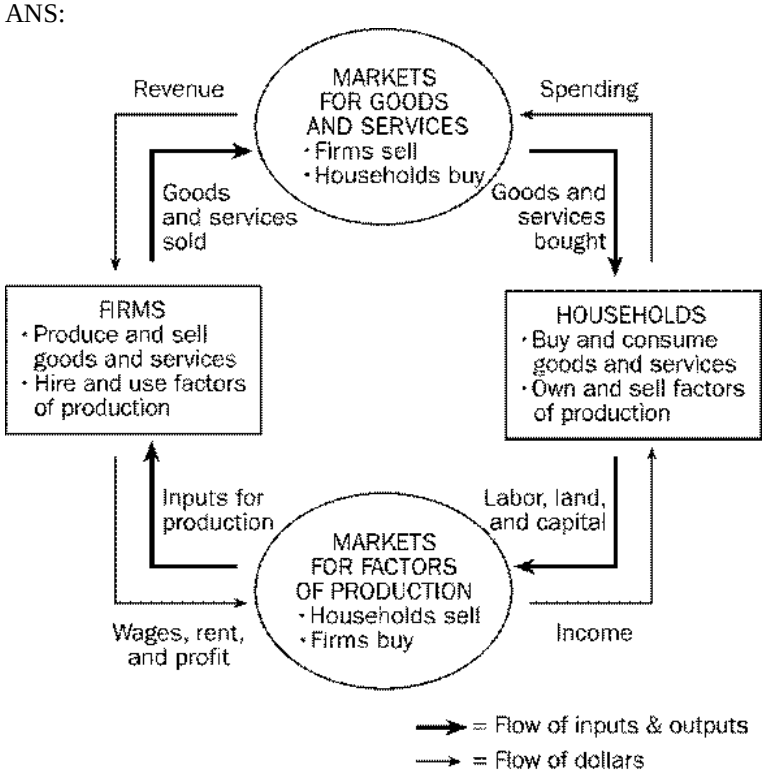
ANS: T DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

**SHORT ANSWER**

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



ANS:




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

DIF: 1 REF: 2-1 NAT: Analytic
LOC: Understanding and applying economic models TOP: Circular-flow diagram
MSC: Definitional

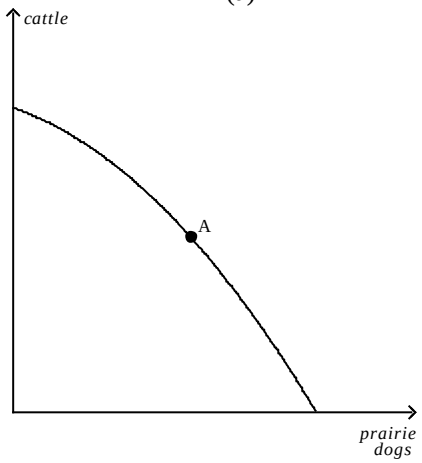
2. The prairie dog has always been considered a problem for American cattle ranchers. They dig holes that cattle and horses can step in, and they eat grass necessary for cattle. Recently, ranchers have discovered that there is a demand for prairie dogs as pets. In some areas, prairie dogs can sell for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

Draw a rancher's production possibilities frontier showing increasing opportunity cost of cattle production in terms of prairie dog production. Using a separate graph for each situation, show what would happen to the initial production possibilities frontier in each of the following situations:

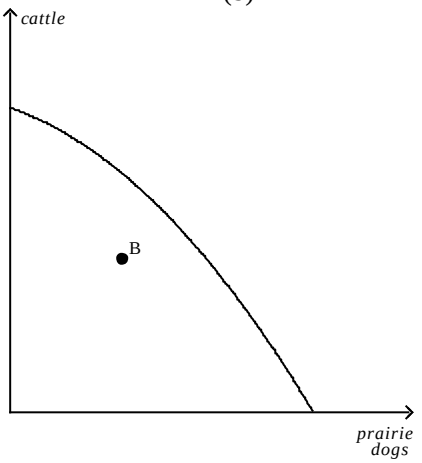
a. The outcome is efficient, with ranchers choosing to produce equal numbers of cattle and prairie dogs.
b. As a protest against the government introducing the gray wolf back into the wild in their state, ranchers decide to withhold 25 percent of the available grassland for grazing.
c. The price of prairie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

ANS:

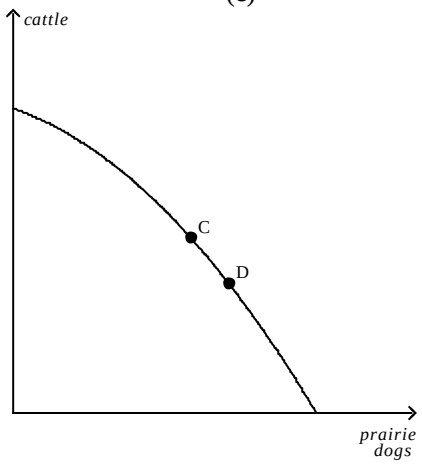
(a)



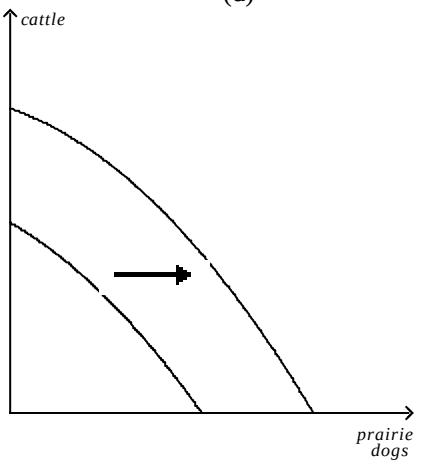

(b)



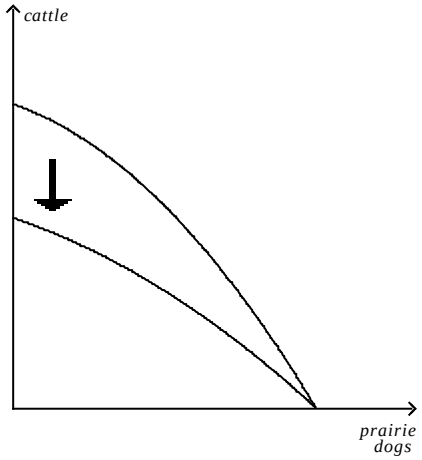

(c)




(d)




(e)

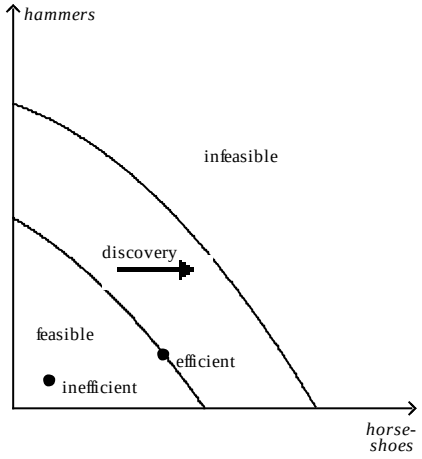



DIF: 3 REF: 2-1 NAT: Analytic
LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Analytical

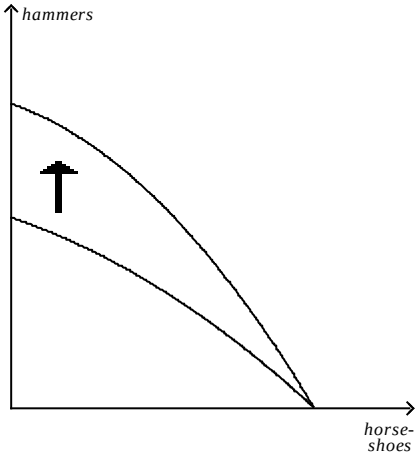
3. Draw a production possibilities frontier showing increasing opportunity cost of hammers in terms of horseshoes.
   a. On the graph, identify the area of feasible outcomes and the area of infeasible outcomes.
   b. On the graph, label a point that is efficient and a point that is inefficient.
   c. On the graph, illustrate the effect of the discovery of a new vein of iron ore, a resource needed to make both horseshoes and hammers, on this economy.
   d. On a second graph, illustrate the effect of a new computerized assembly line in the production of hammers on this economy.

ANS:

(a-c)




(d)




DIF: 2 REF: 2-1 NAT: Analytic
LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

4. Identify each of the following topics as being part of microeconomics or macroeconomics:
   a. the impact of a change in consumer income on the purchase of luxury automobiles
   b. the effect of a change in the price of Coke on the purchase of Pepsi
   c. the impact of a war in the Middle East on the rate of inflation in the United States
   d. factors influencing the rate of economic growth
   e. factors influencing the demand for tractors
   f. the impact of tax policy on national saving
   g. the effect of pollution taxes on the U.S. copper industry
   h. the degree of competition in the cable television industry
   i. the effect of a balanced-budget amendment on economic stability
   j. the impact of deregulation on the savings and loan industry

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

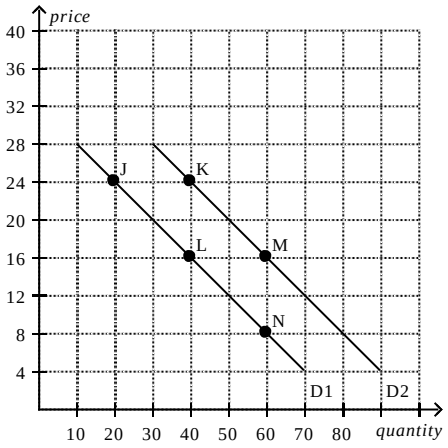
DIF: 2 REF: 2-1 NAT: Analytic
LOC: The study of economics and definitions of economics
TOP: Microeconomics | Macroeconomics MSC: Applicative

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

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

DIF: 2 REF: 2-2 NAT: Analytic
LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Applicative

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




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

DIF: 2 REF: 2-5 NAT: Analytic
LOC: The study of economics and definitions of economics TOP: Graphs
MSC: Applicative

## Sec00 - Thinking Like an Economist

**MULTIPLE CHOICE**

1. Which of the following is *not* correct?
   a. Economists use some familiar words in specialized ways.
   b. Economics has its own language and its own way of thinking, but few other fields of study do.
   c. Supply, demand, elasticity, comparative advantage, consumer surplus, and deadweight loss are all terms that are part of the economist's language.
   d. The value of the economist's language lies in its ability to provide you with a new and useful way of thinking about the world in which you live.

ANS: B DIF: 2 REF: 2-0
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economics MSC: Interpretive

## Sec01 - Thinking Like an Economist - The Economist as Scientist

**MULTIPLE CHOICE**

1. Economists, like mathematicians, physicists, and biologists,
   a. make use of the scientific method.
   b. try to address their subject with a scientist's objectivity.
   c. devise theories, collect data, and then analyze these data in an attempt to verify or refute their theories.
   d. All of the above are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

2. The essence of science is
   a. the laboratory experiment.
   b. the scientific method.
   c. the study of nature, but not the study of society.
   d. All of the above are correct.

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Definitional

3. The scientific method is
   a. the use of modern technology to understand the way the world works.
   b. the use of controlled laboratory experiments to understand the way the world works.
   c. the dispassionate development and testing of theories about how the world works.
   d. the search for evidence to support preconceived theories about how the world works.

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Definitional

4. The scientific method is applicable to studying
   a. natural sciences, but not social sciences.
   b. social sciences, but not natural sciences.
   c. both natural sciences and social sciences.
   d. None of the above is correct.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Interpretive

5. Who said, "The whole of science is nothing more than the refinement of everyday thinking"?
   a. Isaac Newton
   b. Albert Einstein
   c. Adam Smith
   d. Benjamin Franklin

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Definitional

6. Albert Einstein once made the following observation about science:
   a. "The whole of science is nothing more than the refinement of everyday thinking."
   b. "The whole of science is nothing more than an interesting intellectual exercise."
   c. "In order to understand science, one must rely solely on abstraction."
   d. "In order to understand science, one must transcend everyday thinking."

ANS: A DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Definitional

7. Sir Isaac Newton's development of the theory of gravity after observing an apple fall from a tree is an example of
   a. a controlled experiment that lead to the formulation of a scientific theory.
   b. being in the right place at the right time.
   c. an idea whose time had come.
   d. the interplay between observation and theory in science.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Scientific method MSC: Interpretive

8. The goal of an economist who formulates new theories is to
   a. provide an interesting framework of analysis, whether or not the framework turns out to be of much use in understanding how the world works.
   b. provoke stimulating debate in scientific journals.
   c. contribute to an understanding of how the world works.
   d. demonstrate that economists, like other scientists, can formulate testable theories.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

9. Which of the following statements applies to economics, as well as to other sciences such as physics?
   a. Experiments are considered valid only when they are conducted in a laboratory.
   b. Good theories do not need to be tested.
   c. Real-world observations often lead to theories.
   d. Economics, as well as other sciences, is concerned primarily with abstract concepts.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

10. With respect to how economists study the economy, which of the following statements is most accurate?
    a. Economists study the past, but they do not try to predict the future.
    b. Economists use “rules of thumb” to predict the future.
    c. Economists devise theories, collect data, and analyze the data to test the theories.
    d. Economists use controlled experiments in much the same way that biologists and physicists do.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

11. Economists face an obstacle that many other scientists do not face. What is that obstacle?
    a. It is often difficult to formulate theories in economics.
    b. It is often difficult and sometimes impossible to perform experiments in economics.
    c. Economics cannot be addressed objectively; it must be addressed subjectively.
    d. The scientific method cannot be applied to the study of economics.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

12. In conducting their research, economists face an obstacle that not all scientists face; specifically, in economics, it is often difficult and sometimes impossible to
    a. make use of theory and observation.
    b. rely upon the scientific method.
    c. conduct laboratory experiments.
    d. find articles or books that were written before 1900.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

13. The use of theory and observation is more difficult in economics than in sciences such as physics due to the difficulty in
    a. performing an experiment in an economic system.
    b. applying mathematical methods to economic analysis.
    c. analyzing available data.
    d. formulating theories about economic events.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

14. Which of the following statements is (are) correct?
    a. Relative to other scientists, economists find it more difficult to generate useful data.
    b. Theory and observation are important in economics as well as in other sciences.
    c. To obtain data, economists often rely upon the natural experiments offered by history.
    d. All of the above are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

15. Because it is difficult for economists to use experiments to generate data, they generally must
    a. do without data.
    b. substitute assumptions for data when data are unavailable.
    c. rely upon hypothetical data that were previously concocted by other economists.
    d. use whatever data the world gives them.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

16. Which of the following statements is correct?
    a. Economists almost always find it easy to conduct experiments in order to test their theories.
    b. Economics is not a true science because economists are not usually allowed to conduct experiments to test their theories.
    c. Economics is a social science rather than a true science because it cannot employ the scientific method.
    d. Economists are usually not allowed to conduct experiments, so they must rely on natural experiments offered by history.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

17. Instead of conducting laboratory experiments to generate data to test their theories, economists often
    a. ask winners of the Nobel Prize in Economics to evaluate their theories.
    b. argue that data is impossible to collect in economics.
    c. gather data from historical episodes of economic change.
    d. assume that data would support their theories.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

18. The most common data for testing economic theories come from
    a. carefully controlled and conducted laboratory experiments.
    b. computer models of economies.
    c. historical episodes of economic change.
    d. centrally planned economies.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

19. In conducting their research, economists often substitute historical events and historical episodes for
    a. theories and observations.
    b. laboratory experiments.
    c. models.
    d. assumptions.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

20. For economists, substitutes for laboratory experiments often come in the form of
    a. natural experiments offered by history.
    b. untested theories.
    c. "rules of thumb" and other such conveniences.
    d. reliance upon the wisdom of elders in the economics profession.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

21. Economists regard events from the past as
    a. irrelevant, since history is unlikely to repeat itself.
    b. of limited interest, since those events seldom provide any useful economic data.
    c. interesting but not particularly valuable, since those events cannot be used to evaluate present-day economic theories.
    d. interesting and valuable, since those events are capable of helping us to understand the past, the present, and the future.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

22. For economists, historical episodes
    a. are not worthy of study because they offer few insights into current economic events and problems.
    b. are not worthy of study because laboratory experiments provide more reliable data.
    c. are worthy of study because economists rely entirely on observation, rather than on theory.
    d. are worthy of study because they serve as valuable substitutes for laboratory experiments.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

23. Historical episodes are
    a. valuable to economists because they allow economists to see how the science of economics has evolved.
    b. valuable to economists because they allow economists to evaluate economic theories of the present.
    c. not of concern to economists because economics is about predicting the future, not dwelling on the past.
    d. not of concern to economists because the exact circumstances of historical episodes are unlikely to be observed again.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

24. One thing economists do to help them understand how the real world works is
    a. make assumptions.
    b. ignore the past.
    c. they try to capture every aspect of the real world in the models they construct.
    d. All of the above are correct.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Interpretive

25. Economists make assumptions in order to
    a. mimic the methodologies employed by other scientists.
    b. minimize the number of experiments that yield no useful data.
    c. minimize the likelihood that some aspect of the problem at hand is being overlooked.
    d. focus their thinking on the essence of the problem at hand.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Interpretive

26. Economists make use of assumptions, some of which are unrealistic, for the purpose of
    a. teaching economics to people who have never before studied economics.
    b. advancing their political agendas.
    c. developing models when the scientific method cannot be used.
    d. focusing their thinking.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Interpretive

27. For an economist, the idea of making assumptions is regarded generally as a
    a. bad idea, since doing so leads to the omission of important ideas and variables from economic models.
    b. bad idea, since doing so invariably leads to data-collection problems.
    c. good idea, since doing so helps to simplify the complex world and make it easier to understand.
    d. good idea, since economic analysis without assumptions leads to complicated results that the general public finds hard to understand.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Interpretive

28. An economic theory about international trade that is based on the assumption that there are only two countries trading two goods
    a. is useless, since the real world has many countries trading many goods.
    b. can be useful only in situations involving two countries and two goods.
    c. can be useful in the classroom, but is useless in the real world.
    d. can be useful in helping economists understand the complex world of international trade involving many countries and many goods.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Interpretive

29. The art in scientific thinking -- whether in chemistry, economics, or biology -- is
    a. the design and implementation of laboratory experiments.
    b. knowing when to stop collecting data and when to start analyzing the data.
    c. deciding which assumptions to make.
    d. being able to mathematically model natural phenomena.

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Definitional

30. The art in scientific thinking is
    a. finding the right problem to study.
    b. deciding which assumptions to make.
    c. the ability to make an abstract subject easy to understand.
    d. not something in which economists have to be skilled.

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Definitional

31. The decision of which assumptions to make is
    a. an easy decision for an economist, but a difficult decision for a physicist or a chemist.
    b. not a particularly important decision for an economist.
    c. usually regarded as an art in scientific thinking.
    d. usually regarded as the easiest part of the scientific method.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions MSC: Interpretive

32. An example of a price that changes only infrequently is the price of
    a. stocks on the New York Stock Exchange.
    b. crude oil.
    c. residential real estate.
    d. magazines sold at newsstands.

ANS: D DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Assumptions | Prices MSC: Definitional

33. When studying the effects of public policy changes, economists
    a. always refrain from making assumptions.
    b. sometimes make different assumptions about the short run and the long run.
    c. consider only the direct effects of those policy changes and not the indirect effects.
    d. consider only the short-run effects of those policy changes and not the long-run effects.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Public policy | Assumptions | Short run | Long run MSC: Interpretive

34. When studying the effects of changes in public policy, economists believe that
    a. it is important to distinguish between the short run and the long run.
    b. the assumptions used in studying those effects should be the same for the short run as for the long run.
    c. the short-run effects of those changes are always more beneficial to society than are the long-run effects.
    d. the long-run effects of those changes are always more beneficial to society than are the short-run effects.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Public policy | Short run | Long run MSC: Interpretive

35. A model can be accurately described as a
    a. theoretical abstraction with very little value.
    b. device that is useful only to the people who created it.
    c. realistic and carefully constructed theory.
    d. simplification of reality.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

36. Which of the following statements about models is correct?
    a. The more details a model includes, the better the model.
    b. Models assume away irrelevant details.
    c. Models cannot be used to explain how the economy functions.
    d. Models cannot be used to make predictions.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

37. In building economic models, economists often omit
    a. assumptions.
    b. theories.
    c. details.
    d. equations.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

38. Which of the following statements about economic models is correct?
    a. Economic models are built to mirror reality exactly.
    b. Economic models are useful, but they should not be used for the purpose of improving public policies.
    c. Because economic models omit many details, they allow us to see what is truly important.
    d. Economic models seldom incorporate equations or diagrams.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

39. Economic models
    a. cannot be useful if they are based on false assumptions.
    b. were once thought to be useful, but that is no longer true.
    c. must incorporate all aspects of the economy if they are to be useful.
    d. can be useful, even if they are not particularly realistic.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

40. Which of the following is *not* correct about most economic models?
    a. They are composed of equations and diagrams.
    b. They contribute very little to economists' understanding of the real world.
    c. They omit many features of the real-world economy.
    d. In constructing models, economists make assumptions.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

41. Economic models
    a. are constructed to mirror reality as closely as possible, and in this respect economic models are no different from other scientific models.
    b. are constructed to mirror reality as closely as possible, and in this respect economic models are very different from other scientific models.
    c. are simplifications of reality, and in this respect economic models are no different from other scientific models.
    d. are simplifications of reality, and in this respect economic models are very different from other scientific models.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

42. Just like models constructed in other areas of science, economic models
    a. incorporate assumptions that contradict reality.
    b. incorporate all details of the real world.
    c. complicate reality.
    d. avoid the use of diagrams and equations.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

43. Which types of models are built with assumptions?
    a. economic models, but not models in other disciplines such as physics and biology
    b. economic models as well as models in other disciplines such as physics and biology
    c. models that are built for teaching purposes but not for research purposes
    d. bad models

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

44. Economists build economic models by
    a. generating data.
    b. conducting controlled experiments in a lab.
    c. making assumptions.
    d. reviewing statistical forecasts.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

45. Economic models are built with
    a. recommendations concerning public policies.
    b. facts about the legal system.
    c. assumptions.
    d. statistical forecasts.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

46. In constructing models, economists
    a. leave out equations, since equations and models tend to contradict one another.
    b. ignore the long run, since models are useful only for short-run analysis.
    c. make assumptions that are contrary to features of the real world.
    d. try to include every feature of the economy.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

47. Economic models
    a. are people who act out the behavior of firms and households so that economists can study this behavior.
    b. are usually detailed replications of reality.
    c. incorporate simplifying assumptions that often contradict reality, but also help economists better understand reality.
    d. are useful to researchers but not to teachers because economic models omit many details of the real-world economy.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

48. Which of the following statements is correct?
    a. Few economic models incorporate assumptions.
    b. Different economic models employ different sets of assumptions.
    c. Good economic models attempt to mimic reality as closely as possible.
    d. Economic models, to be accepted, must be tested by conducting experiments.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

49. Which of these statements about economic models is correct?
    a. For economists, economic models provide insights about the world.
    b. Economic models are built with assumptions.
    c. Economic models are often composed of equations and diagrams.
    d. All of the above are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Economic models MSC: Interpretive

50. The circular-flow diagram is an example of
    a. a laboratory experiment.
    b. an economic model.
    c. a mathematical model.
    d. All of the above are correct.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

51. The circular-flow diagram is a
    a. visual model of the economy.
    b. visual model of the relationships among money, prices, and businesses.
    c. model that shows the effects of government on the economy.
    d. mathematical model of how the economy works.

ANS: A DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

52. A circular-flow diagram is a model that
    a. helps to explain how participants in the economy interact with one another.
    b. helps to explain how the economy is organized.
    c. incorporates all aspects of the real economy.
    d. Both (a) and (b) are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

53. The circular-flow diagram
    a. is an economic model.
    b. incorporates two types of decision makers: households and firms.
    c. represents the flows of inputs, outputs, and dollars.
    d. All of the above are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

54. Which of the following statements about the circular-flow diagram is correct?
    a. One must imagine that the economy operates without money in order to make sense of the diagram.
    b. The diagram leaves out details that are not essential for understanding the economic transactions that occur between households and firms.
    c. The government cannot be excluded as a decision maker in a circular-flow diagram.
    d. All of the above are correct.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

55. In the simple circular-flow diagram, the participants in the economy are
    a. firms and government.
    b. households and firms.
    c. households and government.
    d. households, firms, and government.

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

56. Which two groups of decision makers are included in the simple circular-flow diagram?
    a. markets and government
    b. households and government
    c. firms and government
    d. households and firms

ANS: D DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

57. In the circular-flow diagram, firms produce
    a. goods and services using factors of production.
    b. output using inputs.
    c. factors of production using goods and services.
    d. Both (a) and (b) are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

58. Factors of production are
    a. the mathematical calculations firms make in determining their optimal production levels.
    b. social and political conditions that affect production.
    c. the physical relationships between economic inputs and outputs.
    d. inputs into the production process.

ANS: D DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Factors of production MSC: Definitional

59. Factors of production are
    a. used to produce goods and services.
    b. also called output.
    c. abundant in most economies.
    d. assumed to be owned by firms in the circular-flow diagram.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Factors of production MSC: Interpretive

60. In the circular-flow diagram, which of the following is *not* a factor of production?
    a. labor
    b. land
    c. capital
    d. money

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factors of production MSC: Interpretive

61. In the circular-flow diagram,
    a. firms own the factors of production.
    b. the factors of production are labor, land, and capital.
    c. the factors of production are also called “output.”
    d. All of the above are correct.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factors of production MSC: Interpretive

62. Which of these terms are used interchangeably?
    a. "goods and services" and "inputs"
    b. "goods and services" and "factors of production"
    c. "inputs" and "factors of production"
    d. "land, labor, and capital" and "goods and services"

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Factors of production MSC: Definitional

63. Another term for factors of production is
    a. inputs.
    b. output.
    c. goods.
    d. services.

ANS: A DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Factors of production MSC: Definitional

64. In economics, capital refers to
    a. the finances necessary for firms to produce their products.
    b. buildings and machines used in the production process.
    c. the money households use to purchase firms' output.
    d. stocks and bonds.

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Capital MSC: Definitional

65. In the simple circular-flow diagram, households
    a. are the only decision makers.
    b. own the factors of production.
    c. are buyers of inputs.
    d. consume only some of the goods and services that firms produce.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

66. In the simple circular-flow diagram,
    a. households own the factors of production.
    b. households buy all the goods and services that firms produce.
    c. land, labor, and capital flow from households to firms.
    d. All of the above are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

67. In the simple circular-flow diagram, who consumes the goods and services that firms produce?
    a. households only
    b. firms only
    c. both households and firms
    d. neither households nor firms

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

68. In the circular-flow diagram, another name for goods and services produced by firms is
    a. factors of production.
    b. output.
    c. inputs.
    d. resources.

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

69. Which markets are represented in the simple circular-flow diagram?
    a. markets for goods and services and markets for financial assets
    b. markets for factors of production and markets for financial assets
    c. markets for goods and services and markets for factors of production
    d. markets for goods and services and markets for imports and exports

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

70. In the markets for goods and services in the circular-flow diagram,
    a. households and firms are both buyers.
    b. households and firms are both sellers.
    c. households are buyers and firms are sellers.
    d. households are sellers and firms are buyers.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

71. In the circular-flow diagram, in the markets for
    a. goods and services, households and firms are both sellers.
    b. goods and services, households are buyers and firms are sellers.
    c. the factors of production, households are buyers and firms are sellers.
    d. the factors of production, households and firms are both buyers.

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Definitional

72. In the markets for goods and services in the circular-flow diagram,
    a. households provide firms with savings for investment.
    b. households provide firms with labor, land, and capital.
    c. firms provide households with output.
    d. firms provide households with profit.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

73. In the markets for the factors of production in the circular-flow diagram,
    a. households are sellers and firms are buyers.
    b. households are buyers and firms are sellers.
    c. households and firms are both buyers.
    d. households and firms are both sellers.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factor markets MSC: Interpretive

74. In the circular-flow diagram, in the markets for
    a. goods and services, households and firms are both sellers.
    b. goods and services, households are sellers and firms are buyers.
    c. the factors of production, households are sellers and firms are buyers.
    d. the factors of production, households and firms are both buyers.

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factor markets MSC: Definitional

75. In the markets for factors of production in the circular-flow diagram,
    a. households provide firms with labor, land, and capital.
    b. households provide firms with savings for investment.
    c. firms provide households with goods and services.
    d. firms provide households with profit.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factor markets MSC: Interpretive

76. Which of the following transactions does *not* take place in the markets for factors of production in the circular-flow diagram?
    a. a landowner leases land to a farmer
    b. a farmer hires a teenager to help with harvest
    c. a retired farmer sells his combine to a new farmer
    d. a woman buys corn for dinner

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factor markets MSC: Applicative

77. Which of the following transactions does *not* take place in the markets for the factors of production in the circular-flow diagram?
    a. Kosuke provides plumbing services for a plumbing company and receives an hourly wage from the company for his services.
    b. Alfonso works as a marriage counselor and his clients pay him on a per-hour basis for his services.
    c. Geovany owns several shopping malls and receives rent payments from the companies that operate those malls.
    d. Carlos sells advertising for a newspaper and receives a commission from the newspaper company for each advertisement that he sells.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Factor markets MSC: Applicative

78. In the circular-flow diagram,
    a. firms are buyers in the markets for goods and services.
    b. households are sellers in the markets for the factors of production.
    c. firms are sellers in the markets for factors of production and in the markets for goods and services.
    d. dollars that are spent on goods and services flow directly from firms to households.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

79. The two loops in the circular-flow diagram represent
    a. the flow of goods and the flow of services.
    b. the flow of dollars and the flow of financial assets.
    c. the flow of inputs into production processes and the flow of outputs from production processes.
    d. the flows of inputs and outputs and the flow of dollars.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

80. In the circular-flow diagram,
    a. profit flows from households to firms.
    b. labor flows from households to firms.
    c. services flow from households to firms.
    d. All of the above are correct.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

81. In the circular-flow diagram,
    a. taxes flow from households to firms, and transfer payments flow from firms to households.
    b. income payments flow from firms to households, and sales revenue flows from households to firms.
    c. resources flow from firms to households, and goods and services flow from households to firms.
    d. inputs and outputs flow in the same direction as the flow of dollars, from firms to households.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

82. In the circular-flow diagram,
    a. factors of production flow from government to firms.
    b. goods and services flow from households to firms.
    c. income paid to the factors of production flows from firms to households.
    d. spending on goods and services flows from firms to households.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

83. In the circular-flow diagram, which of the following items does *not* flow from households to firms?
    a. revenue
    b. land, labor, and capital
    c. factors of production
    d. profit

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

84. In the circular-flow diagram, which of the following items does *not* flow from firms to households?
    a. goods
    b. services
    c. capital
    d. profit

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

85. In the circular-flow diagram, which of the following items flows from households to firms through the markets for goods and services?
    a. goods and services
    b. dollars paid to land, labor, and capital
    c. dollars spent on goods and services
    d. wages, rent, and profit

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

86. In the circular-flow diagram, which of the following items flows from firms to households through the markets for goods and services?
    a. goods and services
    b. dollars paid to land, labor, and capital
    c. dollars spent on goods and services
    d. wages, rent, and profit

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

87. In the circular-flow diagram, which of the following items flows from firms to households through the markets for the factors of production?
    a. goods and services
    b. land, labor, and capital
    c. dollars spent on goods and services
    d. wages, rent, and profit

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

88. In the circular-flow diagram, which of the following items flows from households to firms through the markets for the factors of production?
    a. goods and services
    b. land, labor, and capital
    c. dollars spent on goods and services
    d. wages, rent, and profit

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

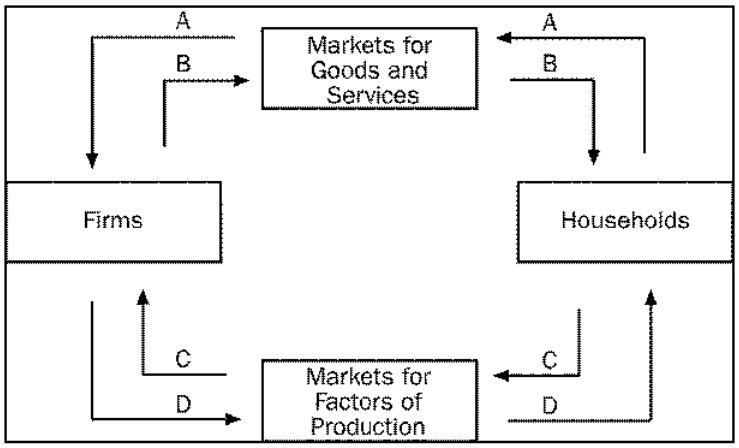
89. In the circular-flow diagram, which of the following items represents a payment for a factor of production?
    a. interest
    b. capital
    c. spending by households on goods
    d. spending by households on services

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

90. Among economic models, the circular-flow diagram is unusual in that it
    a. drastically simplifies the real world.
    b. features more than one type of market.
    c. features flows of dollars.
    d. does not involve mathematics.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram | Economic models MSC: Interpretive

***Figure 2-1***




91. **Refer to Figure 2-1**. Which arrow represents the flow of goods and services?
    a. A
    b. B
    c. C
    d. D

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

92. **Refer to Figure 2-1**. Which arrow represents the flow of spending by households?
    a. A
    b. B
    c. C
    d. D

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

93. **Refer to Figure 2-1**. Which arrow represents the flow of land, labor, and capital?
    a. A
    b. B
    c. C
    d. D

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

94. **Refer to Figure 2-1**. Which arrow represents the flow of income payments?
    a. A
    b. B
    c. C
    d. D

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

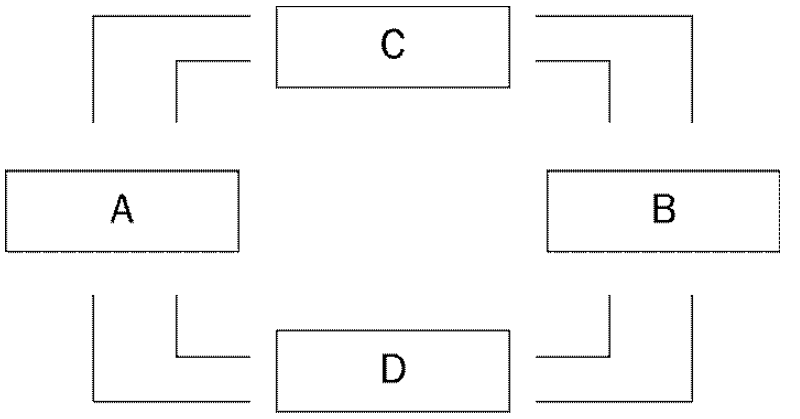
95. **Refer to Figure 2-1.** Julio buys a new pair of shoes at a shoe store. To which of the arrows does this transaction directly contribute?
    a. A only
    b. A and B
    c. C only
    d. C and D

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Applicative

96. **Refer to Figure 2-1.** Enid completes her first week of employment working as a hairdresser at a salon. On Friday of that week, she receives her first paycheck. To which of the arrows does this transaction directly contribute?
    a. B only
    b. A and B
    c. C only
    d. C and D

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Applicative

***Figure 2-2***




97. **Refer to Figure 2-2**. Boxes A and B of this circular-flow diagram represent
    a. firms and households.
    b. households and government.
    c. the markets for goods and services and the markets for financial assets.
    d. the markets for goods and the markets for services.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

98. **Refer to Figure 2-2**. Boxes C and D of this circular-flow diagram represent
    a. households and government.
    b. firms and government.
    c. the markets for goods and services and the markets for financial assets.
    d. the markets for goods and services and the markets for factors of production.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

99. **Refer to Figure 2-2.** If Box A of this circular-flow diagram represents firms, then which box represents households?
    a. Box B
    b. Box C
    c. Box D
    d. Any one of the other boxes (B, C, or D) could represent households.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

100. **Refer to Figure 2-2**. If households are sellers in the markets represented by Box D of this circular-flow diagram, then
    a. Box D must represent the markets for factors of production.
    b. Box C must represent the markets for goods and services.
    c. firms are buyers in the markets represented by Box D.
    d. All of the above are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

101. **Refer to Figure 2-2**. If households are buyers in the markets represented by Box C of this circular-flow diagram, then
    a. Box C must represent the markets for the factors of production.
    b. Box D must represent the markets for goods and services.
    c. firms are sellers in the markets represented by Box C.
    d. All of the above are correct.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

102. **Refer to Figure 2-2**. If the owners of land, labor, and capital are represented by Box B of this circular-flow diagram, then
    a. households are represented by Box A.
    b. firms are represented by Box C.
    c. firms are represented by Box A.
    d. firms are sellers in Box B.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

103. **Refer to Figure 2-2**. If the outer loop of this circular-flow diagram represents flows of dollars, then the inner loop includes
    a. flows of goods and services from households to firms.
    b. flows of inputs from households to firms.
    c. flows of rent payments paid to owners of land.
    d. flows of wages and salaries paid to workers.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

104. **Refer to Figure 2-2**. If the flow of goods and services is part of what is represented by the inner loop of this circular-flow diagram, then
    a. the flow of factors of production is also part of what is represented by the inner loop.
    b. the flow of income paid to households is also part of what is represented by the inner loop.
    c. the flow of revenue to firms is also part of what is represented by the inner loop.
    d. households must be sellers of output.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Interpretive

105. **Refer to Figure 2-2**. Malika works as an attorney for a corporation and is paid a salary in exchange for the legal services she performs. Jarel owns office buildings and rents his buildings to companies in exchange for rent payments. If Malika's income is represented by a flow of dollars from Box D to Box B of this circular-flow diagram, then Jarel's income is represented by a flow of dollars
    a. from Box A to Box C.
    b. from Box C to Box A.
    c. from Box B to Box D.
    d. from Box D to Box B.

ANS: D DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Analytical

106. **Refer to Figure 2-2**. Alisha regularly buys fruits and vegetables at a grocery store. Santo regularly pays a lawn-care company to mow his lawn. If the flow of fruits and vegetables from the grocery store to Alisha is represented by an arrow from Box C to Box B of this circular-flow diagram, then the money paid by Santo to the lawn-care company is represented by an arrow
    a. from Box A to Box D.
    b. from Box B to Box C.
    c. from Box C to Box B.
    d. from Box D to Box A.

ANS: B DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Circular-flow diagram MSC: Analytical

107. The production possibilities frontier is a graph that shows the various combinations of output that an economy can possibly produce given the available factors of production and
    a. society's preferences.
    b. the available production technology.
    c. a fair distribution of the output.
    d. the available demand for the output.

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Definitional

108. The production possibilities frontier is a graph that shows the various combinations of output that an economy
    a. should produce.
    b. wants to produce.
    c. can produce.
    d. demands.

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Definitional

109. When constructing a production possibilities frontier, which of the following assumptions is *not* made?
    a. The economy produces only two goods or two types of goods.
    b. Firms produce goods using factors of production.
    c. The technology available to firms is given.
    d. The quantities of the factors of production that are available are increasing over the relevant time period.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

110. Any point on a country's production possibilities frontier represents a combination of two goods that an economy
    a. will never be able to produce.
    b. can produce using all available resources and technology.
    c. can produce using some portion, but not all, of its resources and technology.
    d. may be able to produce in the future with more resources and/or superior technology.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

111. Which of the following is a correct statement about production possibilities frontiers?
    a. An economy can produce only on the production possibilities frontier.
    b. An economy can produce at any point inside or outside a production possibilities frontier.
    c. An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
    d. An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

112. Where can an economy *not* produce?
    a. inside its production possibilities frontier
    b. on its production possibilities frontier
    c. outside its production possibilities frontier
    d. at the endpoints of its production possibilities frontier

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

113. An economic outcome is said to be efficient if the economy is
    a. using all of the scarce resources it has available.
    b. conserving on resources, rather than using all available resources.
    c. getting all it can get from the scarce resources it has available.
    d. able to produce more than what is currently being produced without additional resources.

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: Efficiency and equality TOP: Efficiency
MSC: Definitional

114. Production is efficient if the economy is producing at a point
    a. on the production possibilities frontier.
    b. outside the production possibilities frontier.
    c. on or inside the production possibilities frontier.
    d. inside the production possibilities frontier.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Interpretive

115. If an economy is producing efficiently, then
    a. there is no way to produce more of one good without producing less of another good.
    b. it is possible to produce more of both goods without increasing the quantities of inputs that are being used.
    c. it is possible to produce more of one good without producing less of another good.
    d. it is not possible to produce more of any good at any cost.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Efficiency and equality TOP: Efficiency
MSC: Interpretive

116. An economy's production of two goods is efficient if
    a. all members of society consume equal portions of the goods.
    b. the goods are produced using only some of society's available resources.
    c. it is impossible to produce more of one good without producing less of the other.
    d. the opportunity cost of producing more of one good is zero.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Efficiency and equality TOP: Efficiency
MSC: Interpretive

117. When an economy is operating at a point on its production possibilities frontier, then
    a. consumers are content with the mix of goods and services that is being produced.
    b. there is no way to produce more of one good without producing less of the other.
    c. equal amounts of the two goods are being produced.
    d. All of the above are correct.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

118. Efficiency is illustrated by
    a. both the production possibilities frontier and the circular-flow diagram.
    b. neither the production possibilities frontier nor the circular-flow diagram.
    c. the production possibilities frontier only.
    d. the circular-flow diagram only.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Circular-flow diagram | Efficiency
MSC: Interpretive

119. Suppose a nation is currently producing at a point inside its production possibilities frontier. We know that
    a. the nation is producing beyond its capacity, so inflation will occur.
    b. the nation is not using all available resources or is using inferior technology or both.
    c. the nation is producing an efficient combination of goods.
    d. there will be a large opportunity cost if the nation tries to increase production of any good.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

120. When an economy is operating inside its production possibilities frontier, we know that
    a. there are unused resources or inefficiencies in the economy.
    b. all of the economy's resources are fully employed.
    c. economic growth would have to occur in order for the economy to move to a point on the frontier.
    d. in order to produce more of one good, the economy would have to give up some of the other good.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

121. It is possible for an economy to increase its production of both goods if the economy
    a. moves downward and to the right along its production possibilities frontier and the frontier is bowed outward.
    b. moves upward and to the left along its production possibilities frontier and the frontier is bowed outward.
    c. moves in either direction along its production possibilities frontier and the frontier is a straight line.
    d. moves from a situation of inefficient production to a situation of efficient production.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Interpretive

122. Unemployment would cause an economy to
    a. produce inside its production possibilities frontier.
    b. produce on its production possibilities frontier.
    c. produce outside its production possibilities frontier.
    d. experience an inward shift of its production possibilities frontier.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Unemployment MSC: Interpretive

123. The production possibilities frontier provides an illustration of the principle that
    a. trade can make everyone better off.
    b. governments can sometimes improve market outcomes.
    c. people face trade-offs.
    d. people respond to incentives.

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Trade-offs MSC: Definitional

124. The production possibilities frontier illustrates
    a. the trade-off between efficiency and equality.
    b. the combination of output that an economy should produce.
    c. the combination of output that each member of society should consume.
    d. None of the above is correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

125. Which of the following trade-offs does the production possibilities frontier illustrate?
    a. if an economy wants to increase efficiency in production, then it must sacrifice equality in consumption
    b. once an economy has reached the efficient points on its production possibilities frontier, the only way of getting more of one good is to get less of the other
    c. for an economy to consume more of one good, it must stop consuming the other good entirely
    d. for an economy to produce and consume goods, it must sacrifice environmental quality

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

126. Which of the following concepts *cannot* be illustrated by the production possibilities frontier?
    a. efficiency
    b. opportunity cost
    c. equality
    d. trade-offs

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

127. The opportunity cost of obtaining more of one good is shown on the production possibilities frontier as the
    a. amount of the other good that must be given up.
    b. market price of the additional amount produced.
    c. amount of resources that must be devoted to its production.
    d. number of dollars that must be spent to produce it.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

128. The bowed shape of the production possibilities frontier can be explained by the fact that
    a. all resources are scarce.
    b. economic growth is always occurring.
    c. the opportunity cost of one good in terms of the other depends on how much of each good the economy is producing.
    d. the only way to get more of one good is to get less of the other.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

129. When a production possibilities frontier is bowed outward, the opportunity cost of producing an additional unit of a good
    a. increases as more of the good is produced.
    b. decreases as more of the good is produced.
    c. does not change as more of the good is produced.
    d. may increase, decrease, or not change as more of the good is produced.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

130. If a production possibilities frontier is bowed outward, then the opportunity cost of producing more of the first good is highest when
    a. the economy is producing much of the first good and little of the second good.
    b. the economy is producing equal amounts of the first and second goods.
    c. the economy is producing little of the first good and much of the second good.
    d. None of the above is correct because the opportunity cost of producing more of the first good is constant.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Interpretive

131. Production possibilities frontiers are usually bowed outward. This is because
    a. the more resources a society uses to produce one good, the fewer resources it has available to produce another good.
    b. it reflects the fact that the opportunity cost of producing a good decreases as more and more of that good is produced.
    c. of the effects of technological change.
    d. resources are specialized; that is, some are better at producing particular goods rather than other goods.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

132. Economists believe that production possibilities frontiers
    a. never have a bowed shape.
    b. rarely have a bowed shape.
    c. often have a bowed shape.
    d. always have a bowed shape.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Economists MSC: Interpretive

133. The following table contains some production possibilities for an economy for a given month.

| Sweaters | Gloves |
|---|---|
| 4 | 300 |
| 6 | ? |
| 8 | 100 |

If the production possibilities frontier is bowed outward, then "?" could be
a. 100.
b. 150.
c. 200.
d. 250.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

134. The following table contains some production possibilities for an economy for a given year:

| Cars | Newspapers |
|---|---|
| 10 | 400 |
| 12 | 360 |
| 14 | ? |

If the production possibilities frontier is bowed outward, then "?" could be
a. 340.
b. 330.
c. 320.
d. 310.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

135. A production possibilities frontier can shift outward if
a. government increases the amount of money in the economy.
b. there is a technological improvement.
c. resources are shifted from the production of one good to the production of the other good.
d. the economy abandons inefficient production methods in favor of efficient production methods.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

136. A production possibilities frontier shifts outward when
a. the economy experiences economic growth.
b. the desires of the economy's citizens change.
c. at least one of the basic principles of economics is violated.
d. opportunity costs are lessened.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Economic growth MSC: Interpretive

137. In a certain economy, peanuts and books are produced, and the economy currently operates on its production possibilities frontier. Which of the following events would allow the economy to produce more peanuts and more books, relative to the quantities of those goods that are being produced now?
    a. Unemployed labor is put to work producing peanuts and books.
    b. The economy puts its idle capital to work producing peanuts and books.
    c. The economy experiences economic growth.
    d. All of the above are correct.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Economic growth MSC: Applicative

138. In a certain economy, brooms and radios are produced, and the economy currently operates on its production possibilities frontier. Which of the following events would allow the economy to produce more brooms and more radios, relative to the quantities of those goods that are being produced now?
    a. The economy experiences economic growth.
    b. There is a technological advance in the broom industry, but the radio industry experiences no such advance.
    c. There is a technological advance in the radio industry, but the broom industry experiences no such advance.
    d. All of the above are correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Economic growth MSC: Applicative

139. The country of Econoland produces two goods, textbooks and widgets. Last year, it produced 200 textbooks and 500 widgets. This year, it produced 250 textbooks and 600 widgets. Given no other information, which of the following events could *not* explain this change?
    a. Econoland experienced a reduction in unemployment.
    b. Econoland experienced an improvement in widget-making technology.
    c. Econoland acquired more resources.
    d. Any of these events could, in fact, explain the change.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

140. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 50 units of food and 30 machines. This year, it is producing 55 units of food and 33 machines. Which of the following events could *not* explain the increase in output?
    a. a reduction in unemployment
    b. an increase in available labor
    c. an improvement in technology
    d. Any of these events could explain the increase in output.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

141. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 50 units of food and 30 machines. This year it experienced a technological advance in its machine-making industry. As a result, this year the society wants to produce 55 units of food and 30 machines. Which of the following statements is correct?
    a. Because the technological advance occurred in the machine-making industry, it will not be possible to increase food production without reducing machine production below 30.
    b. Because the technological advance occurred in the machine-making industry, increases in output can only occur in the machine industry.
    c. In order to increase food production in these circumstances without reducing machine production, the economy must reduce inefficiencies.
    d. The technological advance reduced the amount of resources needed to produce 30 machines, so these resources could be used to produce more food.

ANS: D DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Analytical

142. A certain production possibilities frontier shows production possibilities for two goods: wheat and shirts. Which of the following concepts *cannot* be illustrated by this model?
    a. the flow of dollars between sellers of wheat and shirts and buyers of wheat and shirts
    b. the tradeoff between production of wheat and production of shirts
    c. the opportunity cost of shirts in terms of wheat
    d. the effect of economic growth on production possibilities involving wheat and shirts

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

143. The production possibilities frontier is used to illustrate some basic economic ideas, including
    a. scarcity.
    b. opportunity cost.
    c. economic growth.
    d. All of the above are correct.

ANS: D DIF: 1 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Definitional

***Table 2-1***

**Production Possibilities for Toyland**

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

144. **Refer to Table 2-1**. What is the opportunity cost to Toyland of increasing the production of dolls from 200 to 300?
    a. 100 fire trucks
    b. 150 fire trucks
    c. 200 fire trucks
    d. 350 fire trucks

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Scarcity, trade-offs, and opportunity cost
TOP: Opportunity cost MSC: Interpretive

145. **Refer to Table 2-1**. Which of the following statements is correct?
   a. The opportunity cost of an additional 100 dolls is constant at 50 fire trucks.
   b. The opportunity cost of an additional 100 dolls is constant at 100 fire trucks.
   c. Toyland's production possibilities frontier is a straight, downward-sloping line.
   d. The opportunity cost of an additional 100 dolls increases as more dolls are produced.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

***Table 2-2***

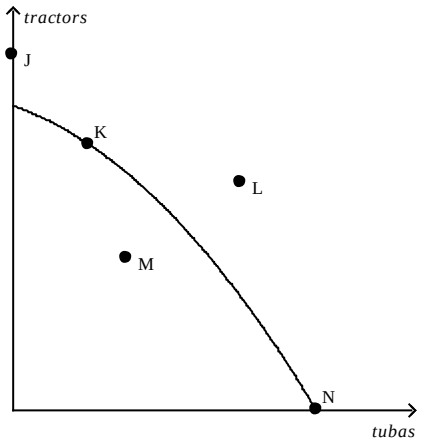
**Production Possibilities for Batterland**

| Pancakes | Waffles |
|---|---|
| 600 | 0 |
| 450 | 150 |
| 300 | 250 |
| 150 | 325 |
| 0 | 375 |

146. **Refer to Table 2-2**. What is the opportunity cost to Batterland of increasing the production of pancakes from 150 to 300?
   a. 75 waffles
   b. 150 waffles
   c. 250 waffles
   d. 325 waffles

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Scarcity, trade-offs, and opportunity cost
TOP: Opportunity cost MSC: Interpretive

***Figure 2-3***




147. **Refer to Figure 2-3**. At which point is this economy producing its maximum possible quantity of tubas?
   a. J
   b. L
   c. M
   d. N

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

148. **Refer to Figure 2-3**. This economy has the ability to produce at which point(s)?
    a. J, K, M, N
    b. K, M, N
    c. K, N
    d. M

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

149. **Refer to Figure 2-3**. This economy *cannot* produce at which point(s)?
    a. J
    b. J, L
    c. J, L, M
    d. L

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

150. **Refer to Figure 2-3**. Efficient production is represented by which point(s)?
    a. J, K, N
    b. K, M, N
    c. K, N
    d. L, M

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

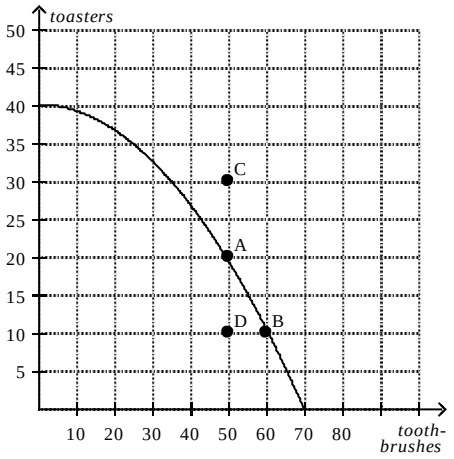
151. **Refer to Figure 2-3**. Inefficient production is represented by which point(s)?
    a. J, L
    b. J, L, M
    c. K, N
    d. M

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

152. **Refer to Figure 2-3**. Unemployment could cause this economy to produce at which point(s)?
    a. J, L
    b. J, L, M
    c. K, N
    d. M

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Unemployment MSC: Applicative

***Figure 2-4***




153. **Refer to Figure 2-4**. If this economy devotes all of its resources to the production of toothbrushes, then it will produce
    a. 0 toothbrushes and 40 toasters.
    b. 35 toothbrushes and 20 toasters.
    c. 70 toothbrushes and 0 toasters.
    d. 70 toothbrushes and 40 toasters.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

154. **Refer to Figure 2-4**. It is possible for this economy to produce
    a. 40 toothbrushes and 20 toasters.
    b. 50 toothbrushes and 30 toasters.
    c. 70 toothbrushes and 40 toasters.
    d. All of the above.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

155. **Refer to Figure 2-4**. It is *not* possible for this economy to produce at point
    a. A.
    b. B.
    c. C.
    d. D.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

156. **Refer to Figure 2-4**. This economy cannot currently produce 30 toothbrushes and 45 toasters because
    a. some of its resources are unemployed.
    b. inefficiencies exist in this economy's production process.
    c. given its current technology, it does not have the resources to produce that level of output.
    d. All of the above are correct.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

157. **Refer to Figure 2-4.** Suppose this economy is producing at point D. Which of the following statements would best explain this situation?
    a. The economy lacks the resources to produce at a more desirable point.
    b. The economy's available technology prevents it from producing at a more desirable point.
    c. There is widespread unemployment in the economy.
    d. Any of the above statements would be a legitimate explanation for this situation.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Unemployment MSC: Applicative

158. **Refer to Figure 2-4**. Efficient production is represented by which point(s)?
    a. A, B
    b. A, B, C
    c. A, B, D
    d. C

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

159. **Refer to Figure 2-4**. Inefficient production is represented by which point(s)?
    a. A, B
    b. C
    c. C, D
    d. D

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

160. **Refer to Figure 2-4**. The opportunity cost of this economy moving from point A to point B is
    a. 0 toasters.
    b. 10 toasters.
    c. 10 toothbrushes.
    d. 20 toasters.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

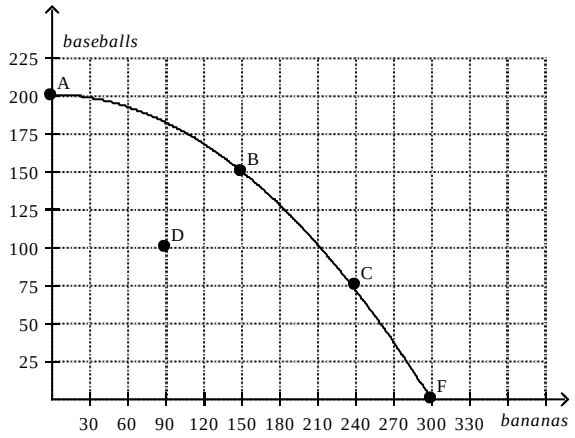
161. **Refer to Figure 2-4**. The opportunity cost of obtaining 20 additional toasters by moving from point D to point C is
    a. 0 toothbrushes.
    b. 10 toothbrushes.
    c. 50 toothbrushes.
    d. None of the above; the economy cannot move from point D to point C.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

162. **Refer to Figure 2-4**. The opportunity cost of obtaining 10 additional toasters by moving from point D to point A is
    a. 0 toothbrushes.
    b. 10 toothbrushes.
    c. 50 toothbrushes.
    d. None of the above; the economy cannot move from point D to point A.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

***Figure 2-5***




163. **Refer to Figure 2-5**. If this economy devotes all of its resources to the production of bananas, then it will produce
    a. 0 bananas and 200 baseballs.
    b. 180 bananas and 125 baseballs.
    c. 300 bananas and 0 baseballs.
    d. 300 bananas and 200 baseballs.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

164. **Refer to Figure 2-5**. If this economy devotes one-half of its available resources to the production of baseballs and the other half to the production of bananas, it could produce
    a. 150 bananas and 100 baseballs.
    b. 150 bananas and 150 baseballs.
    c. 300 bananas and 200 baseballs.
    d. We would have to know the details of this economy's technology in order to determine this.

ANS: D DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Analytical

165. **Refer to Figure 2-5**. A movement from point C to point D could be caused by
    a. unemployment.
    b. a decrease in society's preference for bananas.
    c. fewer resources available for production of bananas.
    d. All of the above are correct.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Unemployment MSC: Applicative

166. **Refer to Figure 2-5.** If this economy moves from point A to point B, then which of the following statements is correct?
    a. This economy has moved from a point of inefficient production to a point of efficient production.
    b. This economy has experienced economic growth.
    c. This economy has experienced an increase in employment.
    d. None of the above is correct.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

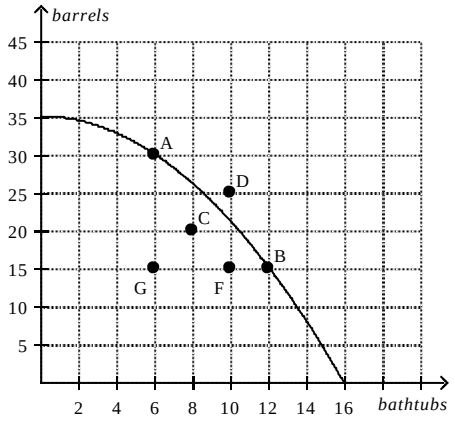
167. **Refer to Figure 2-5**. The opportunity cost of this economy moving from point A to point C is
    a. 75 baseballs.
    b. 125 baseballs.
    c. 125 baseballs and 240 bananas.
    d. 240 bananas.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

168. **Refer to Figure 2-5**. The opportunity cost of this economy moving from point D to point B is
    a. zero.
    b. 50 baseballs.
    c. 60 bananas.
    d. 50 baseballs and 60 bananas.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

***Figure 2-6***




169. **Refer to Figure 2-6.** If this economy devotes all of its resources to the production of bathtubs, then it will produce
    a. 0 bathtubs and 35 barrels.
    b. 10 bathtubs and 25 barrels.
    c. 16 bathtubs and 0 barrels.
    d. 16 bathtubs and 35 barrels.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

170. **Refer to Figure 2-6**. This economy has the ability to produce at which point(s)?
    a. A, B
    b. A, B, D
    c. A, B, C, F, G
    d. C, F, G

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

171. **Refer to Figure 2-6**. This economy *cannot* produce at which point(s)?
    a. A, B, D
    b. C, D, F, G
    c. C, F, G
    d. D

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

172. **Refer to Figure 2-6**. Efficient production is represented by which point(s)?
    a. A, B
    b. A, B, C, F, G
    c. C, F, G
    d. D

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

173. **Refer to Figure 2-6**. Inefficient production is represented by which point(s)?
    a. A, B
    b. C, D, F, G
    c. C, F, G
    d. D

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

174. **Refer to Figure 2-6**. Unemployment could cause this economy to produce at which point(s)?
    a. A, B
    b. C, D, F, G
    c. C, F, G
    d. D

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Unemployment MSC: Applicative

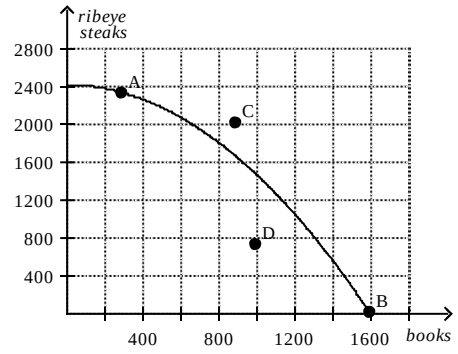
175. **Refer to Figure 2-6.** If this economy moved from point C to point F, then
    a. it still would not be producing efficiently.
    b. there would be no gain in either bathtubs or barrels.
    c. it would be producing more barrels and more bathtubs than at point C.
    d. It is not possible for this economy to move from point C to point F without additional resources.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

176. **Refer to Figure 2-6.** What is the opportunity cost of moving from point A to point B?
    a. zero
    b. 6 bathtubs
    c. 6 bathtubs and 15 barrels
    d. 15 barrels

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

**Figure 2-7**




177. **Refer to Figure 2-7.** Point B represents an outcome in which
   a. production is inefficient.
   b. some of the economy's resources are unemployed.
   c. the economy is using all of its resources to produce books.
   d. the economy is using all of its ribeye steaks to produce books.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

178. **Refer to Figure 2-7.** Which point on the graph best represents the fact that, because resources are scarce, not every conceivable outcome is feasible?
   a. point A
   b. point B
   c. point C
   d. point D

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

179. **Refer to Figure 2-7.** Efficient production is represented by which point(s)?
   a. A
   b. A, B
   c. A, B, C
   d. A, B, D

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

180. **Refer to Figure 2-7.** Inefficient production is represented by which point(s)?
   a. B, D
   b. C
   c. C, D
   d. D

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

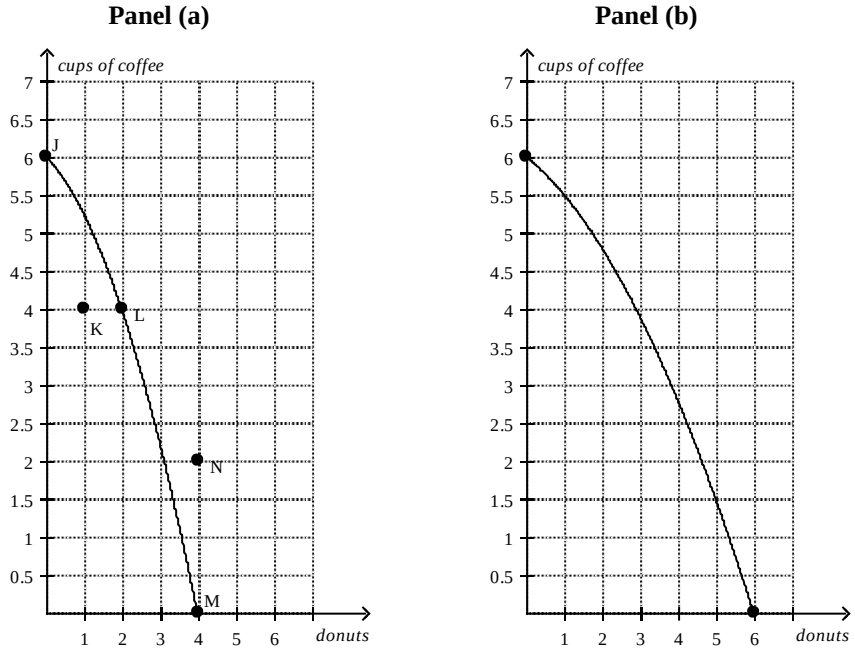
181. **Refer to Figure 2-7.** In order to reach point C, the economy would have to
   a. acquire more resources or experience a technological advance.
   b. begin using its available resources more efficiently than it is currently using them.
   c. shift resources away from the production of ribeye steaks and toward production of books.
   d. None of the above are correct; the economy will never be able to reach point C.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

182. **Refer to Figure 2-7.** For this economy, as more and more books are produced, the opportunity cost of an additional book produced, in terms of ribeye steaks,
   a. remains constant.
   b. increases.
   c. decreases.
   d. This cannot be determined from the graph.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

***Figure 2-8***




183. **Refer to Figure 2-8, Panel (a).** Production at point K is
   a. possible and efficient.
   b. possible but inefficient.
   c. impossible but efficient.
   d. impossible and inefficient.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

184. **Refer to Figure 2-8, Panel (a).** Production is
   a. possible at points J, K, L, and M, but efficient only at points J, L, and M.
   b. possible at points J, K, L, and M, but efficient only at point K.
   c. possible at points J, L, M, and N, but efficient only at points J, L, and M.
   d. possible at points J, L, M, and N, but efficient only at point N.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

185. **Refer to Figure 2-8, Panel (a).** The movement from point M to point K could be caused by
   a. an advance in production technology.
   b. an improvement in efficiency.
   c. economic growth.
   d. unemployment.

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Unemployment MSC: Applicative

186. **Refer to Figure 2-8, Panel (a).** The opportunity cost of moving from point J to point L is
   a. 2 donuts.
   b. 2 donuts and 2 cups of coffee.
   c. 2 cups of coffee.
   d. 6 cups of coffee.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

187. **Refer to Figure 2-8, Panel (a).** The opportunity cost of moving from point M to point L is
   a. 2 donuts.
   b. 2 donuts and 4 cups of coffee.
   c. 4 donuts.
   d. 4 cups of coffee.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

188. **Refer to Figure 2-8, Panel (a).** The opportunity cost of moving from point K to point L is
   a. 0 cups of coffee.
   b. 1 donut.
   c. 2 donuts.
   d. 4 cups of coffee.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Applicative

189. **Refer to Figure 2-8, Panel (a).** The opportunity cost of one cup of coffee is highest when the economy produces
   a. 0 cups of coffee.
   b. 2 cups of coffee.
   c. 4 cups of coffee.
   d. 6 cups of coffee.

ANS: D DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Analytical

190. **Refer to Figure 2-8, Panel (a).** In order to gain 2 donuts by moving from point L to point M, society must sacrifice
   a. efficiency.
   b. employment.
   c. 4 cups of coffee.
   d. More than one of the above is correct.

ANS: C DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Analytical

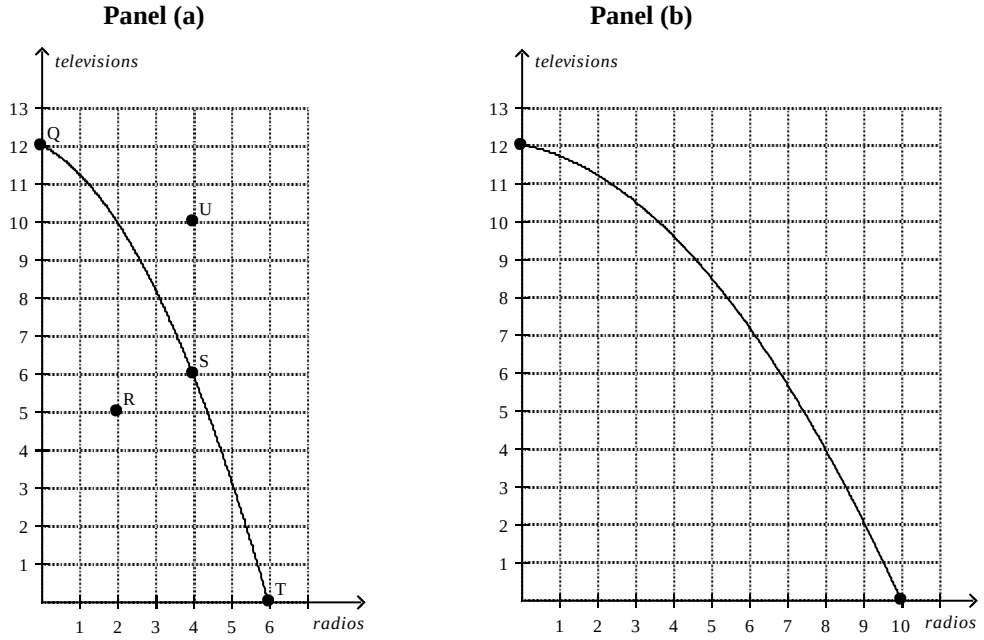
191. **Refer to Figure 2-8, Panel (a) and Panel (b).** A shift of the economy's production possibilities frontier from Panel (a) to Panel (b) could be caused by
    a. unemployment.
    b. an improvement in donut production technology.
    c. an improvement in coffee production technology.
    d. an improvement in both donut and coffee production technology.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

192. **Refer to Figure 2-8, Panel (a) and Panel (b).** Which of the following is *not* a result of the shift of the economy's production possibilities frontier from Panel (a) to Panel (b)?
    a. the tradeoff between the production of donuts and coffee changes
    b. the opportunity cost of a cup of coffee is higher at all levels of coffee production
    c. production of 4 donuts and 2 cups of coffee becomes possible
    d. production of 1 donut and 4 cups of coffee becomes efficient

ANS: D DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Analytical

***Figure 2-9***




193. **Refer to Figure 2-9, Panel (a).** Production at point R is
    a. impossible and inefficient.
    b. impossible but efficient.
    c. possible but inefficient.
    d. possible and efficient.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

194. **Refer to Figure 2-9, Panel (a).** Production is
    a. possible at points Q, R, S, and T, but efficient only at points Q, S, and T.
    b. possible at points Q, R, S, and T, but efficient only at point R.
    c. possible at points Q, S, T, and U, but efficient only at points Q, S, and T.
    d. possible at points Q, S, T, and U, but efficient only at point U.

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Efficiency MSC: Applicative

195. **Refer to Figure 2-9, Panel (a).** The movement from point S to point R could be caused by
    a. economic growth.
    b. unemployment.
    c. an improvement in efficiency.
    d. an advance in production technology.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Unemployment MSC: Applicative

196. **Refer to Figure 2-9, Panel (a).** The opportunity cost of one television is highest when the economy produces
    a. 0 televisions.
    b. 6 televisions.
    c. 10 televisions.
    d. 12 televisions.

ANS: D DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Analytical

197. **Refer to Figure 2-9, Panel (a).** In order to gain 2 radios by moving from point S to point T, society must sacrifice
    a. 6 televisions.
    b. employment.
    c. efficiency.
    d. More than one of the above is correct.

ANS: A DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Opportunity cost MSC: Analytical

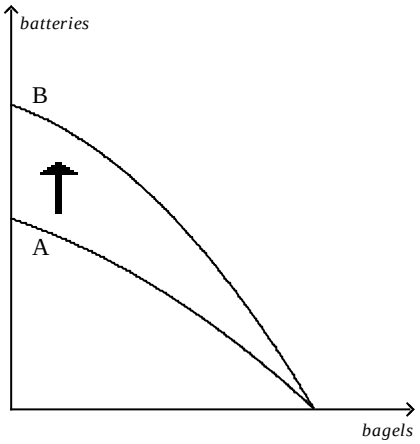
198. **Refer to Figure 2-9, Panel (a) and Panel (b).** A shift of the economy's production possibilities frontier from Panel (a) to Panel (b) could be caused by
    a. unemployment.
    b. an improvement in television production technology.
    c. an improvement in radio production technology.
    d. an improvement in both television and radio production technology.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

199. **Refer to Figure 2-9, Panel (a) and Panel (b).** Which of the following is *not* a result of the shift of the economy's production possibilities frontier from Panel (a) to Panel (b)?
    a. the tradeoff between the production of radios and televisions changes
    b. production of 2 radios and 5 televisions becomes efficient
    c. production of 6 radios and 7 televisions becomes possible
    d. the opportunity cost of a television is higher at all levels of television production

ANS: B DIF: 3 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Analytical

***Figure 2-10***



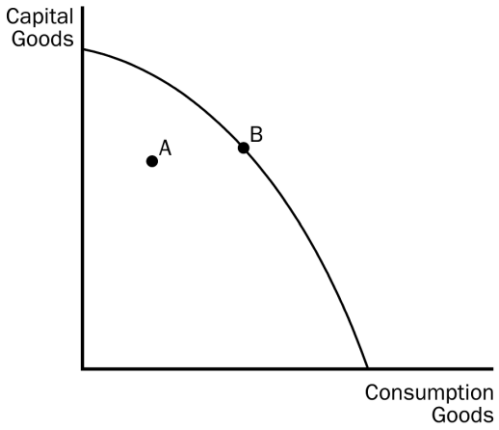

200. **Refer to Figure 2-10.** Which of the following events would explain the shift of the production possibilities frontier from A to B?
   a. The economy's citizens developed an enhanced taste for batteries.
   b. The economy experienced a technological advance in the production of batteries.
   c. More capital became available in the economy.
   d. More labor became available in the economy.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

201. **Refer to Figure 2-10.** The shift of the production possibilities frontier from A to B illustrates
   a. simultaneous technological advances in the battery and bagel industries.
   b. a reallocation of resources away from the production of bagels and toward the production of batteries.
   c. economic growth.
   d. All of the above are correct.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Economic growth MSC: Applicative

***Figure 2-11***




202. **Refer to Figure 2-11.** Which of the following would most likely have caused the production possibilities frontier to shift outward from A to B?
    a. a decrease in unemployment
    b. a technological advance in the consumer goods industries
    c. a general technological advance
    d. an increase in the availability of capital-producing resources

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

203. **Refer to Figure 2-11.** The shift of the production possibilities frontier from A to B can best be described as
    a. a downturn in the economy.
    b. economic growth.
    c. an enhancement of equality.
    d. an improvement in the allocation of resources.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Economic growth MSC: Applicative

204. The field of economics is traditionally divided into two broad subfields,
    a. national economics and international economics.
    b. consumer economics and producer economics.
    c. private sector economics and public sector economics.
    d. microeconomics and macroeconomics.

ANS: D DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics | Macroeconomics MSC: Definitional

205. Microeconomics is the study of
    a. how money affects the economy.
    b. how individual households and firms make decisions.
    c. how government affects the economy.
    d. how the economy as a whole works.

ANS: B DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics | Macroeconomics MSC: Definitional

206. Macroeconomics is the study of
    a. individual decision makers.
    b. international trade.
    c. economy-wide phenomena.
    d. markets for large products.

ANS: C DIF: 1 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics | Macroeconomics MSC: Definitional

207. A microeconomist — as opposed to a macroeconomist — might study
    a. the effect of borrowing by the federal government on the inflation rate.
    b. the effect of rising oil prices on employment in the airline industry.
    c. changes in the nation's unemployment rate over short periods of time.
    d. alternative policies to promote higher living standards throughout the nation.

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics MSC: Applicative

208. Which of the following areas of study typifies microeconomics as opposed to macroeconomics?
    a. the impact of minimum-wage laws on employment in the fast food industry
    b. the effect of changes in household saving rates on the growth rate of national income
    c. the impact of faster money growth on the rate of inflation
    d. a comparison of alternative tax policies and their respective impacts on the rate of the nation's economic growth

ANS: A DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics MSC: Applicative

209. Which of the following would likely be studied by a microeconomist rather than a macroeconomist?
    a. the effect of foreign direct investment on economic growth
    b. the effect of a sales tax on the cigarette industry
    c. the effect of an investment tax credit on the economy's capital stock
    d. the effect of a war on government spending

ANS: B DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics MSC: Applicative

210. A macroeconomist — as opposed to a microeconomist — might study
    a. the effect of agricultural price support programs on the cotton industry
    b. the effect on U.S. steel producers of an import quota imposed on foreign steel
    c. the effect of an increasing inflation rate on national living standards
    d. the effect of an increase in the price of imported coffee beans on the U.S. coffee industry

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Macroeconomics MSC: Applicative

211. Which of the following areas of study typifies macroeconomics as opposed to microeconomics?
    a. the effects of rent control on the availability of housing in New York City
    b. the economic impact of tornadoes on cities and towns in Oklahoma
    c. how tariffs on shoes affects the shoe industry
    d. the effect on the economy of changes in the nation's unemployment rate

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Macroeconomics MSC: Applicative

212. Which of the following would likely be studied by a macroeconomist rather than a microeconomist?
    a. the effect of an increase in the cigarette tax on smokers
    b. the effect of foreign competition on the domestic textile industry
    c. the effect of a war on automobile prices
    d. the effect of an increase in the minimum wage on an economy's overall rate of unemployment

ANS: D DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Macroeconomics MSC: Applicative

213. Which of the following statements best captures the relationship between microeconomics and macroeconomics?
    a. For the most part, microeconomists are unconcerned with macroeconomics, and macroeconomists are unconcerned with microeconomics.
    b. Microeconomists study markets for small products, whereas macroeconomists study markets for large products.
    c. Microeconomics and macroeconomics are distinct from one another, yet they are closely related.
    d. Microeconomics is oriented toward policy studies, whereas macroeconomics is oriented toward theoretical studies.

ANS: C DIF: 2 REF: 2-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Microeconomics | Macroeconomics MSC: Interpretive

## Sec02 - Thinking Like an Economist - The Economist as Policy Adviser

**MULTIPLE CHOICE**

1. When economists are trying to explain the world, they are
    a. scientists.
    b. policy advisers.
    c. in the realm of microeconomics rather than macroeconomics.
    d. in the realm of normative economics rather than positive economics.

ANS: A DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

2. When economists are trying to help improve the world, they are
    a. in the realm of positive economics rather than normative economics.
    b. in the realm of macroeconomics rather than microeconomics.
    c. scientists.
    d. policy advisers.

ANS: D DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

3. Which of the following statements is correct about the roles of economists?
    a. Economists are best viewed as policy advisers.
    b. Economists are best viewed as scientists.
    c. In trying to explain the world, economists are policy advisers; in trying to improve the world, they are scientists.
    d. In trying to explain the world, economists are scientists; in trying to improve the world, they are policy advisers.

ANS: D DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

4. For economists, statements about the world are of two types:
   a. assumptions and theories.
   b. true statements and false statements.
   c. specific statements and general statements.
   d. positive statements and normative statements.

ANS: D DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Positive statements | Normative statements MSC: Interpretive

5. Normative statements are
   a. prescriptive, whereas positive statements are descriptive.
   b. descriptive, whereas positive statements are prescriptive.
   c. backward-looking, whereas positive statements are forward-looking.
   d. forward-looking, whereas positive statements are backward-looking.

ANS: A DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Definitional

6. Positive statements are
   a. prescriptive.
   b. claims about how the world should be.
   c. claims about how the world is.
   d. made by economists speaking as policy advisers.

ANS: C DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements MSC: Definitional

7. Normative statements are
   a. descriptive.
   b. claims about how the world should be.
   c. claims about how the world is.
   d. made by economists speaking as scientists.

ANS: B DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Definitional

8. Positive statements are *not*
   a. descriptive.
   b. prescriptive.
   c. claims about how the world is.
   d. made by economists speaking as scientists.

ANS: B DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements MSC: Interpretive

9. Normative statements are *not*
   a. descriptive.
   b. prescriptive.
   c. claims about how the world should be.
   d. made by economists speaking as policy advisers.

ANS: A DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Interpretive

10. One way to characterize the difference between positive statements and normative statements is as follows:
    a. Positive statements tend to reflect optimism about the economy and its future, whereas normative statements tend to reflect pessimism about the economy and its future.
    b. Positive statements offer descriptions of the way things are, whereas normative statements offer opinions on how things ought to be.
    c. Positive statements involve advice on policy matters, whereas normative statements are supported by scientific theory and observation.
    d. Economists outside of government tend to make normative statements, whereas government-employed economists tend to make positive statements.

ANS: B DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Interpretive

11. Economists view positive statements as
    a. affirmative, justifying existing economic policy.
    b. optimistic, putting the best possible interpretation on things.
    c. descriptive, making a claim about how the world is.
    d. prescriptive, making a claim about how the world ought to be.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Positive statements MSC: Interpretive

12. Economists view normative statements as
    a. prescriptive, making a claim about how the world ought to be.
    b. descriptive, making a claim about how the world is.
    c. statements about the normal condition of the world.
    d. pessimistic, putting the worst possible interpretation on things.

ANS: A DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Normative statements MSC: Interpretive

13. Economists speaking like scientists make
    a. normative statements.
    b. prescriptive statements.
    c. claims about how the world is.
    d. claims about how the world should be.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Positive statements MSC: Interpretive

14. Economists speaking like policy advisers make
    a. positive statements.
    b. descriptive statements.
    c. claims about how the world is.
    d. claims about how the world should be.

ANS: D DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Normative statements MSC: Interpretive

15. Economists speaking like scientists make
    a. positive statements.
    b. prescriptive statements.
    c. claims about how the world should be.
    d. More than one of the above is correct.

ANS: A DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Positive statements MSC: Interpretive

16. Economists speaking like policy advisers make
    a. claims about how the world is.
    b. descriptive statements.
    c. normative statements.
    d. More than one of the above is correct.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Normative statements MSC: Interpretive

17. When economists make positive statements, they are
    a. speaking as scientists.
    b. speaking as policy advisers.
    c. making claims about how the world should be.
    d. revealing that they are very conservative in their views of how the world works.

ANS: A DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Positive statements MSC: Interpretive

18. When economists make normative statements, they are
    a. speaking as scientists.
    b. speaking as policy advisers.
    c. making claims about how the world is.
    d. revealing that they are very liberal in their views of how the world works.

ANS: B DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Normative statements MSC: Interpretive

19. When economists make
    a. positive statements, they are speaking not as policy advisers but as scientists.
    b. positive statements, they are speaking not as scientists but as forecasters.
    c. normative statements, they are speaking not as scientists but as policy advisers.
    d. normative statements, they are speaking not as policy advisers but as model-builders.

ANS: A DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Positive statements MSC: Interpretive

20. When economists make
    a. positive statements, they are speaking not as scientists but as policy advisers.
    b. positive statements, they are speaking not as scientists but as forecasters.
    c. normative statements, they are speaking not as scientists but as policy advisers.
    d. normative statements, they are speaking not as policy advisers but as model-builders.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Normative statements MSC: Interpretive

21. You know an economist has crossed the line from policy adviser to scientist when he or she
    a. claims that the problem at hand is widely misunderstood by non-economists.
    b. makes positive statements.
    c. talks about values.
    d. makes a claim about how the world should be.

ANS: B DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Positive statements MSC: Interpretive

22. You know an economist has crossed the line from scientist to policy adviser when he or she
    a. claims that the problem at hand is widely misunderstood by non-economists.
    b. talks about the evidence.
    c. makes normative statements.
    d. makes a claim about how the world is.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Normative statements MSC: Interpretive

23. A positive economic statement such as "Pollution taxes decrease the quantity of pollution generated by firms"
    a. would likely be made by an economist acting as a policy advisor.
    b. would require values and data in order to be evaluated.
    c. would require data but not values in order to be evaluated.
    d. could not be evaluated by economists acting as scientists.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements MSC: Interpretive

24. A normative economic statement such as "The minimum wage should be abolished"
    a. would likely be made by an economist acting as a scientist.
    b. would require values and data in order to be evaluated.
    c. would require data but not values in order to be evaluated.
    d. could not be evaluated by economists acting as policy advisers.

ANS: B DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Interpretive

25. In principle, we can
    a. ignore positive statements when choosing among various public policy alternatives.
    b. ignore normative statements when choosing among various public policy alternatives.
    c. confirm or refute positive statements by examining evidence.
    d. confirm or refute normative statements by examining evidence.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements MSC: Interpretive

26. Which of the following is *not* correct?
    a. Evaluating statements about how the world should be involves values as well as facts.
    b. Positive statements can, in principle, be confirmed or refuted by examining evidence.
    c. Normative statements can be judged using data alone.
    d. Deciding what is good or bad policy is not just a matter of science.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Interpretive

27. When an economist evaluates a positive statement, he or she is primarily
    a. examining evidence.
    b. evaluating values as well as facts.
    c. acting as a policy adviser.
    d. concerned with making a sound decision on how the world ought to be.

ANS: A DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists | Positive statements MSC: Interpretive

28. Normative conclusions
    a. come from positive analysis alone.
    b. are based on ignorance of positive analysis.
    c. involve value judgments.
    d. reflect the economist's role as scientist.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Interpretive

29. Which of the following is an example of a positive, as opposed to normative, statement?
    a. Inflation is more harmful to the economy than unemployment is.
    b. If welfare payments increase, the world will be a better place.
    c. Prices rise when the government prints too much money.
    d. When public policies are evaluated, the benefits to the economy of improved equality should be considered more important than the costs of reduced efficiency.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements MSC: Applicative

30. Which of the following is an example of a positive, as opposed to normative, statement?
    a. Income tax rates should not have been cut as they were a few years ago.
    b. The quantity of money has grown too slowly in recent years.
    c. When the quantity of money grows rapidly, inflation is a predictable consequence.
    d. All of the above are positive statements.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements MSC: Applicative

31. "Prices rise when the quantity of money rises rapidly" is an example of a
    a. negative economic statement.
    b. positive economic statement.
    c. normative economic statement.
    d. statement that contradicts one of the basic principles of economics.

ANS: B DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements MSC: Applicative

32. Which of the following is *not* an example of a positive, as opposed to normative, statement?
    a. Higher gasoline prices will reduce gasoline consumption.
    b. Equality is more important than efficiency.
    c. Trade restrictions lower our standard of living.
    d. If a nation wants to avoid inflation, it will restrict the growth rate of the quantity of money.

ANS: B DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Positive statements | Normative statements MSC: Applicative

33. Which of the following is an example of a normative, as opposed to positive, statement?
    a. Universal health care would be good for U.S. citizens.
    b. An increase in the cigarette tax would cause a decrease in the number of smokers.
    c. A decrease in the minimum wage would decrease unemployment.
    d. A law requiring the federal government to balance its budget would increase economic growth.

ANS: A DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Applicative

34. Which of the following is an example of a normative, as opposed to positive, statement?
    a. Gasoline prices ought to be lower than they are now.
    b. The federal government should raise taxes on wealthy people.
    c. The social security system is a good system and it deserves to be preserved as it is.
    d. All of the above are normative statements.

ANS: D DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Applicative

35. Which of the following is an example of a normative, as opposed to positive, statement?
    a. If the price of a product decreases, people's willingness to buy that product will increase.
    b. Reducing tax rates on the wealthy would benefit the nation.
    c. If the national saving rate were to increase, so would the rate of economic growth.
    d. The elimination of trade restrictions would increase an economy's standard of living.

ANS: B DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Applicative

36. Which of the following is an example of a normative, as opposed to positive, statement?
    a. The price of gasoline came down sharply during the second half of 2006.
    b. If the government were to set a maximum legal price on gasoline, then there would be a shortage of gasoline.
    c. Income taxes should be reduced.
    d. The federal government obtains much of its revenue from income taxes.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Normative statements MSC: Applicative

37. The Council of Economic Advisers
    a. was created in 1776 and consists of three members and a staff of several dozen economists.
    b. was created in 1776 and consists of thirty members and a staff of a dozen economists.
    c. was created in 1946 and consists of three members and a staff of several dozen economists.
    d. was created in 1946 and consists of thirty members and a staff of a dozen economists.

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Council of Economic Advisers MSC: Interpretive

38. The Council of Economic Advisers
    a. was created in 1946.
    b. advises the president of the United States on economic policy matters.
    c. writes the annual *Economic Report of the President*.
    d. All of the above are correct.

ANS: D DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Council of Economic Advisers MSC: Interpretive

39. Duties of the Council of Economic Advisers include
    a. advising the president and writing the annual *Economic Report of the President*.
    b. implementing the president's tax policies.
    c. tracking the behavior of the nation's money supply.
    d. All of the above are correct.

ANS: A DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Council of Economic Advisers MSC: Interpretive

40. In addition to advising the president, one duty of the Council of Economic Advisors is to
    a. prepare the federal budget.
    b. write government regulations.
    c. advise Congress on economic matters.
    d. write the annual *Economic Report of the President*.

ANS: D DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Council of Economic Advisers MSC: Definitional

41. Economists at the Department of the Treasury
    a. design U.S. currency and coins.
    b. provide Congress with the annual budget.
    c. enforce the U.S. antitrust laws.
    d. provide advice on tax policy to the President.

ANS: D DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

42. The president of the United States receives tax policy advice from economists in the
    a. Federal Reserve.
    b. Department of Justice.
    c. Department of the Treasury.
    d. Congressional Budget Office.

ANS: C DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

43. The design of tax policy is one of the responsibilities of economists who work at the
    a. Council of Economic Advisers.
    b. Federal Reserve.
    c. Department of the Treasury.
    d. Congressional Budget Office.

ANS: C DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

44. A duty of economists at the Department of Labor is to
    a. analyze data on workers.
    b. schedule federal holidays.
    c. enforce the nation's antitrust laws.
    d. All of the above are correct.

ANS: A DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

45. Economists at the Department of Justice
    a. track the behavior of the nation’s money supply.
    b. advise Congress on economic matters.
    c. help enforce the nation’s antitrust laws.
    d. prepare the federal budget.

ANS: C DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

46. The nation's antitrust laws are enforced by economists at the Department of
    a. Labor.
    b. Health and Human Services.
    c. Justice.
    d. Treasury.

ANS: C DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

47. Some, but not all, government economists are employed within the administrative branch of government. Which of the following government agencies employs economists *outside* of the administrative branch?
    a. the Department of Labor
    b. the Department of the Treasury
    c. the Congressional Budget Office
    d. the Council of Economic Advisers

ANS: C DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

48. Economists who are primarily responsible for advising Congress on economic matters work in which agency?
    a. the Federal Reserve
    b. the Congressional Budget Office
    c. the Department of the Treasury
    d. the Department of Commerce

ANS: B DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

49. Congress relies on economists at the Congressional Budget Office to
    a. enforce the nation's antitrust laws.
    b. set the nation’s monetary policy.
    c. provide evidence that incumbent members of Congress are performing well in their jobs.
    d. provide independent evaluations of policy proposals.

ANS: D DIF: 2 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

50. The Federal Reserve
    a. designs tax policy.
    b. enforces the nation's antitrust laws.
    c. sets the nation's monetary policy.
    d. analyzes data on workers.

ANS: C DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Federal Reserve MSC: Definitional

51. John Maynard Keynes believed the ideas of economists to be
    a. generally incorrect.
    b. powerful.
    c. academic and without practical application.
    d. rantings of madmen.

ANS: B DIF: 1 REF: 2-2
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

## Sec03 - Thinking Like an Economist - Why Economists Disagree

**MULTIPLE CHOICE**

1. "If all economists were laid end to end, they would not reach a conclusion." Who made this whimsical observation?
   a. Harry Truman
   b. George Bernard Shaw
   c. John Maynard Keynes
   d. Ronald Reagan

ANS: B DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

2. President Ronald Reagan once joked that a Trivial Pursuit game designed for economists would
   a. have no questions but hundreds of answers.
   b. have 100 questions and 3,000 answers.
   c. have 1,000 questions but no answers.
   d. never produce a winner.

ANS: B DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

3. Economists sometimes give conflicting advice because
   a. graduate students in economics are encouraged to argue with each other.
   b. economists have different values and scientific judgment.
   c. economists acting as scientists do not like to agree with economists acting as policy advisers.
   d. economics is more of a belief system than a science.

ANS: B DIF: 2 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

4. The two basic reasons why economists often appear to give conflicting advice to policymakers are differences in
   a. opinions and education.
   b. opinions and values.
   c. scientific judgments and education.
   d. scientific judgments and values.

ANS: D DIF: 2 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

5. Sometimes economists disagree because their scientific judgments differ. Which of the following instances best reflects this source of disagreement?
   a. One economist believes income tax cuts are unfair to those with low incomes; another economist believes income tax cuts are not unfair to those with low incomes.
   b. One economist believes unemployment causes more human suffering than does inflation; another economist believes inflation causes more human suffering than does unemployment.
   c. One economist believes the policies of the Democratic party offer the best hope for America's future; another economist believes the policies of the Republican party offer the best hope for America's future.
   d. One economist believes increases in the minimum wage increase unemployment; another economist believes increases in the minimum wage do not increase unemployment.

ANS: D DIF: 2 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

6. Sometimes economists disagree because their values differ. Which of the following instances best reflects this source of disagreement?
   a. One economist believes the North American Free Trade Agreement (NAFTA) has led to a loss of American jobs; another economist disputes this claim.
   b. One economist believes that when income taxes are cut, people will increase their spending; another economist believes that when income taxes are cut, people will increase their saving.
   c. One economist advises against increases in sales taxes because she thinks such increases are unfair to low-income people; another economist disputes the idea that increases in sales taxes are unfair to low-income people.
   d. One economist believes that, prior to the Civil War, slavery contributed to economic growth in the South; another economist believes that slavery held back the South's economic growth.

ANS: C DIF: 2 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

7. Which of the following statements is correct about the extent of disagreement among economists?
   a. There is a great deal of agreement among economists on virtually every economic issue.
   b. There is a great deal of agreement among economists on many important economic issues.
   c. All disagreements among economists are attributable to differences in their values.
   d. All disagreements among economists are attributable to the fact that different economists have different degrees of faith in the validity of alternative economic theories.

ANS: B DIF: 2 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

8. A survey which sought the opinion of professional economists on fourteen propositions about economic policy found that
   a. the respondents were almost equally divided on the propositions.
   b. the respondents favored the propositions by a slight margin.
   c. the respondents disagreed with the propositions by a slight margin.
   d. there was overwhelming endorsement of the propositions among the respondents.

ANS: D DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

9. A survey of professional economists revealed that more than three-fourths of them agreed with a number of statements, including which of the following?
   a. Tariffs and import quotas usually reduce general economic welfare.
   b. A large federal budget deficit has an adverse effect on the economy.
   c. A minimum wage increases unemployment among young and unskilled workers.
   d. All of the above are correct.

ANS: D DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

10. A survey of professional economists revealed that more than three-fourths of them agreed with fourteen economic propositions. Which of the following is *not* one of those propositions?
   a. The United States should not restrict employers from outsourcing work to foreign countries.
   b. The United States should withdraw from the North American Free Trade Agreement (NAFTA).
   c. The United States should eliminate agricultural subsidies.
   d. Local and state governments should eliminate subsidies to professional sports franchises.

ANS: B DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

11. A survey of professional economists revealed that more than three-fourths of them agreed with fourteen economic propositions. Which of the following is *not* one of those propositions?
    a. A ceiling on rents reduces the quantity and quality of housing available.
    b. Fiscal policy has a significant stimulative impact on a less than fully employed economy.
    c. The gap between Social Security funds and expenditures will become unsustainably large within the next fifty years if current policies remain unchanged.
    d. The United States should implement universal health care for its citizens.

ANS: D DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

12. Almost all economists agree that rent control
    a. has no effect on the rental income of landlords.
    b. allows the market for housing to work more efficiently.
    c. adversely affects the availability and quality of housing.
    d. is a very inexpensive way to help the most needy members of society.

ANS: C DIF: 1 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

13. Policies such as rent control and trade barriers persist in spite of the fact that economists are virtually united in their opposition to such policies, probably because
    a. economists have not yet convinced the general public that the policies are undesirable.
    b. economists engage in positive analysis, not normative analysis.
    c. economists have values that are different from the values of most non-economists.
    d. economists' theories are not easily confirmed or refuted in laboratory analysis.

ANS: A DIF: 2 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

14. Policies such as rent control and trade barriers persist
    a. because economists are about evenly divided as to the merits of those policies.
    b. because almost all economists agree that those policies have no discernible economic effects.
    c. because almost all economists agree that those policies are desirable.
    d. despite the fact that almost all economists agree that those policies are undesirable.

ANS: D DIF: 2 REF: 2-3
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

## Sec04 - Thinking Like an Economist - Let's Get Going

**MULTIPLE CHOICE**

1. John Maynard Keynes referred to economics as an easy subject,
    a. at which very few excel.
    b. but not as easy as philosophy or the pure sciences.
    c. which very few can enjoy.
    d. which deals primarily with common sense.

ANS: A DIF: 1 REF: 2-4
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Definitional

2. How did the influential economist John Maynard Keynes explain his remark that although economics is an easy subject compared with the higher branches of philosophy or pure science, it is a subject at which few excel?
   a. Most people who study economics are not very bright.
   b. Good economists must possess a rare combination of gifts.
   c. Economics is quite boring; hence, people tend to lose interest in it before mastering it.
   d. Good thinkers become frustrated with economics because it does not make use of the scientific method.

ANS: B DIF: 2 REF: 2-4
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Economists MSC: Interpretive

## Sec05 - Thinking Like an Economist - Graphing: A Brief Review

**MULTIPLE CHOICE**

1. Which of the following is *not* correct?
   a. When developing economic theories, graphs offer a way to visually express ideas that might be less clear if described with equations or words.
   b. Graphs are one way of expressing the relationships among variables.
   c. When studying the relationship between two economic variables, graphs allow economists to draw indisputable conclusions about causes and effects.
   d. When analyzing economic data, graphs provide a powerful way of finding and interpreting patterns.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

2. Which of the following is *not* an example of a graph of a single variable?
   a. a pie chart
   b. a bar graph
   c. a time-series graph
   d. a scatterplot

ANS: D DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

3. Graphs such as bar graphs and pie charts are limited in that they
   a. can only show variables that are positively related.
   b. can only show variables that have a negative correlation.
   c. provide information on only one variable.
   d. provide information on no more than two variables.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

4. The use of the coordinate system allows
   a. for the display of the flows of dollars, goods and services, and factors of production in an economic system.
   b. for the display of how labor and other resources are organized in the production process.
   c. for the display of two variables on a single graph.
   d. for the creation of pie charts and bar graphs.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

5. In order to display information on two variables, an economist must use
   a. a bar graph.
   b. a pie chart.
   c. the coordinate system.
   d. a time-series graph.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

6. An ordered pair is
   a. the process of checking calculations twice before placing them on a graph.
   b. two numbers that can be represented by a single point on a graph.
   c. two numbers that are represented by two points on a graph.
   d. two points on a graph that are of equal distance from the origin.

ANS: B DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

7. The x-coordinate is the
   a. first number of an ordered pair and represents the point's horizontal location.
   b. second number of an ordered pair and represents the point's horizontal location.
   c. first number of an ordered pair and represents the point's vertical location.
   d. second number of an ordered pair and represents the point's vertical location.

ANS: A DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

8. The x-coordinate of an ordered pair specifies the
   a. diagonal location of the point.
   b. vertical location of the point.
   c. horizontal location of the point.
   d. quadrant location in which the point is located.

ANS: C DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

9. The first number in any ordered pair is
   a. the x-coordinate.
   b. the y-coordinate.
   c. the vertical location of the point.
   d. the slope.

ANS: A DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

10. The y-coordinate is the
   a. first number of an ordered pair and represents the point's horizontal location.
   b. second number of an ordered pair and represents the point's horizontal location.
   c. first number of an ordered pair and represents the point's vertical location.
   d. second number of an ordered pair and represents the point's vertical location.

ANS: D DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

11. The y-coordinate of an ordered pair specifies the
    a. diagonal location of the point.
    b. vertical location of the point.
    c. horizontal location of the point.
    d. quadrant location in which the point is located.

ANS: B DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

12. The second number in any ordered pair is
    a. the x-coordinate.
    b. the y-coordinate.
    c. the horizontal location of the point.
    d. the slope.

ANS: B DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

13. In the ordered pair (17, 75), 17 is the
    a. vertical location of the point.
    b. the slope.
    c. the x-coordinate.
    d. the y-coordinate.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

14. In the ordered pair (17, 75), 75 is the
    a. horizontal location of the point.
    b. the slope.
    c. the x-coordinate.
    d. the y-coordinate.

ANS: D DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

15. The point where both x and y are zero is known as the
    a. origin.
    b. null.
    c. zero coordinate.
    d. center.

ANS: A DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

16. The ordered pair that represents the origin on a graph is
    a. (1, 1).
    b. (0, 0).
    c. (-1, -1).
    d. ($\infty$, $\infty$).

ANS: B DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

17. When two variables have a positive correlation,
    a. they tend to move in opposite directions.
    b. they tend to move in the same direction.
    c. one variable will move while the other remains constant.
    d. the variables' values are never negative.

ANS: B DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

18. When two variables have a positive correlation,
    a. when the x-variable increases, the y-variable decreases.
    b. when the x-variable decreases, the y-variable increases.
    c. when the x-variable increases, the y-variable increases.
    d. More than one of the above is correct.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

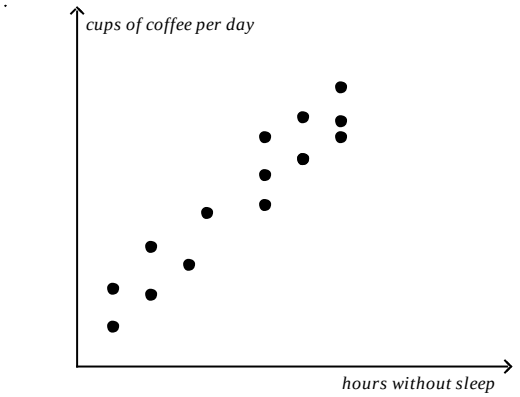
19. When two variables have a negative correlation,
    a. they tend to move in opposite directions.
    b. they tend to move in the same direction.
    c. one variable will move while the other remains constant.
    d. the variables' values are never positive.

ANS: A DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

20. When two variables have a negative correlation,
    a. when the x-variable decreases, the y-variable decreases.
    b. when the x-variable decreases, the y-variable increases.
    c. when the x-variable increases, the y-variable increases.
    d. More than one of the above is correct.

ANS: B DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

***Figure 2-12***




21. **Refer to Figure 2-12**. The graph shown is known as a
    a. time-series graph.
    b. bar graph.
    c. scatterplot.
    d. pie chart.

ANS: C DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Definitional

22. **Refer to Figure 2-12**. Cups of coffee per day and the hours that someone can go without sleep appear to have
    a. a positive correlation.
    b. a negative correlation.
    c. a random correlation.
    d. no correlation.

ANS: A DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

23. **Refer to Figure 2-12**. Taking cause and effect into account, which of the following interpretations would be most reasonable regarding the relationship between coffee and hours without sleep?
    a. The less coffee a person drinks per day, the more time he can go without sleep.
    b. There is no relationship between how much coffee per day a person drinks and how long he can go without sleep.
    c. The more coffee a person drinks per day, the more time he can go without sleep.
    d. The more coffee a person drinks per day, the less time he can go without sleep.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

24. When two variables move in opposite directions, the curve relating them is
    a. upward sloping, and we say the variables are positively related.
    b. upward sloping, and we say the variables are negatively related.
    c. downward sloping, and we say the variables are positively related.
    d. downward sloping, and we say the variables are negatively related.

ANS: D DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

25. When two variables move in the same direction, the curve relating them is
    a. upward sloping, and we say the variables are positively related.
    b. upward sloping, and we say the variables are negatively related.
    c. downward sloping, and we say the variables are positively related.
    d. downward sloping, and we say the variables are negatively related.

ANS: A DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

26. When a relevant variable that is not named on either axis changes,
    a. there will be a movement along the curve.
    b. the curve will rotate clockwise.
    c. the curve will be unaffected since only the variables on the axis affect the curve.
    d. the curve will shift.

ANS: D DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Interpretive

27. Suppose price is measured along the vertical axis on a graph. When price changes, there will be a
    a. rotation of the curve.
    b. shift of the curve.
    c. movement along the curve.
    d. change in the slope of the curve.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

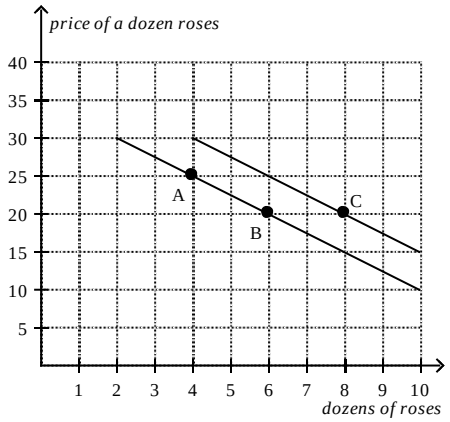
28. A demand curve shows the relationship
    a. between income and quantity demanded.
    b. between price and income.
    c. between price and quantity demanded.
    d. among income, price, and quantity demanded.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: Supply and demand TOP: Demand
MSC: Interpretive

29. If Steven's income decreases and, as a result, he chooses to buy fewer bagels per month at each price, then his demand curve will
    a. shift to the right.
    b. shift to the left.
    c. not shift; instead, Steven will move along his demand curve downward and to the right.
    d. not shift; instead, Steven will move along his demand curve upward and to the left.

ANS: B DIF: 2 REF: 2-5
NAT: Analytic LOC: Supply and demand TOP: Demand
MSC: Applicative

***Figure 2-13***




30. **Refer to Figure 2-13**. The curves shown are
    a. supply curves.
    b. demand curves.
    c. preference curves.
    d. income-consumption curves.

ANS: B DIF: 1 REF: 2-5
NAT: Analytic LOC: Supply and demand TOP: Demand
MSC: Definitional

31. **Refer to Figure 2-13**. The movement from point A to point B is a(n)
    a. shift of the demand curve.
    b. indication of a change in preferences for roses.
    c. movement along the demand curve.
    d. indication of an increase in income.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

32. **Refer to Figure 2-13**. The movement from point B to point C is a(n)
    a. shift of the demand curve.
    b. movement along the demand curve.
    c. indication that the price of roses has changed.
    d. indication that the costs incurred by firms that produce roses have changed.

ANS: A DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs MSC: Applicative

33. **Refer to Figure 2-13**. The movement from point B to point C could have been caused by
    a. inflation.
    b. a change in income.
    c. a change in the price of roses.
    d. a change in the cost of producing roses.

ANS: B DIF: 2 REF: 2-5
NAT: Analytic LOC: Supply and demand TOP: Demand
MSC: Applicative

34. **Refer to Figure 2-10**. The slope of the curve between points A and B is
    a. -5/2
    b. -2/5
    c. 2/5
    d. 5/2

ANS: A DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Applicative

35. The slope of a line is equal to
    a. the change in the value of x divided by the change in the value of y.
    b. the change in the value of y divided by the change in the value of x.
    c. the horizontal distance divided by the vertical distance.
    d. the value of y divided by the value of x.

ANS: B DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Definitional

36. The slope of a line is equal to
    a. rise divided by run.
    b. run divided by rise.
    c. rise minus run.
    d. rise plus run.

ANS: A DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Definitional

37. Which of the following is *not* correct?
    a. The slope of a line will be a small positive number for a fairly flat upward-sloping line.
    b. The slope of a line will be a large positive number for a steep upward-sloping line.
    c. The slope of a line will be a negative number for a downward-sloping line.
    d. The slope of a line will be infinite for a horizontal line.

ANS: D DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Interpretive

38. Which of the following is correct?
    a. A horizontal line has an infinite slope, and a vertical line has a zero slope.
    b. A horizontal line has a slope of 1, and a vertical line has a slope of -1.
    c. A horizontal line has a zero slope, and a vertical line has an infinite slope.
    d. A horizontal line has a slope of -1, and a vertical line has a slope of 1.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Interpretive

39. The slope of a fairly flat upward-sloping line will be a
    a. small positive number.
    b. large positive number.
    c. small negative number.
    d. large negative number.

ANS: A DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Definitional

40. The slope of a steep upward-sloping line will be a
    a. small positive number.
    b. large positive number.
    c. small negative number.
    d. large negative number.

ANS: B DIF: 1 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Definitional

41. The slope of a line that passes through the points (10, 15) and (20, 7) is
    a. -5/4.
    b. -4/5.
    c. 4/5.
    d. 5/4.

ANS: B DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Applicative

42. The slope of a line that passes through the points (15, 10) and (7, 30) is
    a. -5/2.
    b. -2/5.
    c. 2/5.
    d. 5/2.

ANS: A DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Applicative

43. A relatively steep demand curve indicates that
    a. quantity demanded will adjust only slightly to a price change.
    b. quantity demanded will adjust significantly to a price change.
    c. quantity demanded will not adjust to a price change.
    d. the change in quantity demanded will exactly equal a change in price.

ANS: A DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Applicative

44. A relatively flat demand curve indicates that
    a. quantity demanded will adjust only slightly to a price change.
    b. quantity demanded will adjust significantly to a price change.
    c. quantity demanded will not adjust to a price change.
    d. the change in quantity demanded will exactly equal a change in price.

ANS: B DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Graphs | Slope MSC: Applicative

45. Suppose that someone makes the argument that because empty alcohol containers are found at many accidents, the containers cause accidents. This would be an example of
    a. sound logic.
    b. reverse causality.
    c. omitted variables.
    d. bias.

ANS: C DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Omitted variable MSC: Applicative

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46. Bill has noticed that increases in unemployment insurance claims are associated with recessions, and therefore he advocates limits on unemployment insurance so as to prevent recessions. Martha has noticed that most drug addicts once attended schools, and therefore she advocates getting rid of schools so as to prevent drug addiction.
    a. The reasoning of both Bill and Martha suffers from the omitted variable problem.
    b. The reasoning of both Bill and Martha suffers from the reverse causality problem.
    c. Bill's reasoning suffers from the reverse causality problem, and Martha's reasoning suffers from the omitted variable problem.
    d. Martha's reasoning suffers from the reverse causality problem, and Bill's reasoning suffers from the omitted variable problem.

ANS: A DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Omitted variable MSC: Applicative

47. In the early 19th century, the Russian government sent doctors to southern Russian villages to provide assistance during a cholera epidemic. The villagers noticed that wherever doctors appeared, people died. Therefore, many doctors were chased away from villages, and some were even killed. This reaction to the correlation between doctors and deaths is most likely a problem of
    a. omitted variables.
    b. reverse causality.
    c. government propaganda.
    d. medical incompetence.

ANS: B DIF: 2 REF: 2-5
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Reverse causality MSC: Applicative

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