

## **Chapter 1—The Role and Method of Economics**

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### **MULTIPLE CHOICE**

1. Economics is most importantly concerned with:
- how to profit from trading in the stock market.
  - government taxation and spending.
  - studying how we allocate scarce resources to satisfy unlimited wants.
  - how to reduce inflation.
  - how to successfully launch a business.

ANS: C                      PTS: 1                      REF: 4

2. The central question in economics is how to:
- regulate the supply of money.
  - make the best use of scarce resources to satisfy our unlimited wants.
  - reduce the wants of individuals, businesses and government.
  - find more resources to satisfy everyone's wants.

ANS: B                      PTS: 1                      REF: 4

3. The problem of scarcity:
- exists because resources are limited relative to wants.
  - exists because resources are unlimited relative to wants.
  - is solved by economists using abstract models.
  - can be eliminated through appropriate government intervention into markets.
  - does not exist in communist societies.

ANS: A                      PTS: 1                      REF: 4

4. Which of the following forces us to choose among alternatives?
- Value
  - Scarcity
  - Rarity
  - Market mechanism

ANS: B                      PTS: 1                      REF: 4

5. Scarcity is the result of:
- government decision making.
  - inappropriate normative judgments.
  - positive economics.
  - wants that exceed the resources necessary to provide them.

ANS: D                      PTS: 1                      REF: 4

6. Scarcity exists because of:
- the allocation of goods by prices.
  - specialization and division of labor.
  - the market mechanism.
  - unlimited wants and limited resources.

ANS: D                      PTS: 1                      REF: 4

7. Economic choices or tradeoffs are the result of:

- a. basic human greed.
- b. scarcity.
- c. poverty.
- d. private ownership of resources.
- e. the fallacy of composition.

ANS: B                      PTS: 1                      REF: 4

8. Scarcity implies that:

- a. consumers are too poor to afford the goods and services available.
- b. at the current market price, consumers are willing to purchase more of a good than suppliers are willing to produce.
- c. it is impossible to completely fulfill the unlimited human desire for goods and services with the limited resources available.
- d. consumers would be willing to purchase the same quantity of a good at a higher price.

ANS: C                      PTS: 1                      REF: 4

9. Scarcity means that:

- a. human desires are limited.
- b. resources are insufficient to satisfy all human desires.
- c. choices are unnecessary.
- d. all but the very wealthy must face choices.
- e. market prices are too low.

ANS: B                      PTS: 1                      REF: 4

10. Economics is primarily the study of:

- a. human greed.
- b. how firms compete for profits in the marketplace.
- c. how limited resources are allocated to satisfy unlimited wants.
- d. unemployed resources.
- e. how successful investors make money in the stock market.

ANS: C                      PTS: 1                      REF: 4

11. Scarcity:

- a. exists because basic human survival needs cannot be satisfied with available resources.
- b. occurs only in centrally planned economies.
- c. will likely be eliminated by technological progress.
- d. exists only in poor nations.
- e. occurs if there are insufficient resources to provide for human wants.

ANS: E                      PTS: 1                      REF: 4

12. The fundamental economic problem is:

- a. poverty.
- b. unemployment.
- c. scarcity.
- d. government intervention into markets.
- e. inflation.

ANS: C                      PTS: 1                      REF: 4

13. Which of the following statements are true?

- a. Scarcity refers to shortages at existing market prices.
- b. As a result of scarcity, individuals must make choices and face trade-offs.
- c. It is impossible to satisfy unlimited human wants with limited resources.
- d. All of the answers are true statements.
- e. The only true statements are "As a result of scarcity, individuals must make choices and face trade-offs" and "It is impossible to satisfy unlimited human wants with limited resources."

ANS: E                      PTS: 1                      REF: 4

14. Economics is primarily the study of:
- a. how choices are made because of scarcity.
  - b. corporate balance sheets and income statements.
  - c. how to operate a business.
  - d. how to make money in the stock market.
  - e. how to allocate scarce resources to satisfy unlimited needs.

ANS: A                      PTS: 1                      REF: 4

15. Economics is concerned with:
- a. the choices people must make because resources are scarce.
  - b. human decision makers and the factors that influence their choices.
  - c. the allocation of limited resources to satisfy virtually unlimited desires.
  - d. all of the answers are correct.

ANS: D                      PTS: 1                      REF: 4

16. Scarcity is:
- a. only a problem in modern industrialized economies.
  - b. only a problem in impoverished economies.
  - c. only a problem in centrally planned economies.
  - d. a word meaning that there is a shortage of goods at the current market price.
  - e. a problem that necessitates making choices and tradeoffs.

ANS: E                      PTS: 1                      REF: 4

17. Scarcity means that:
- a. there will always be families living below the poverty line.
  - b. resources are unlimited.
  - c. human wants are limited.
  - d. limited resources cannot satisfy all of our unlimited human wants.
  - e. choices are unnecessary.

ANS: D                      PTS: 1                      REF: 4

18. Economics is the study of how people cope with:
- a. fluctuations in stock prices.
  - b. greed.
  - c. limited human wants.
  - d. limited resources.

ANS: D                      PTS: 1                      REF: 4

19. Fundamentally, economics is concerned with:
- a. how scarce resources are allocated to satisfy limited wants.
  - b. how limited resources are allocated to satisfy scarce wants.

- c. how limited resources are allocated to satisfy unlimited wants.
- d. how limited wants can be used to satisfy limited resources.
- e. how unlimited wants can be used to satisfy unlimited resources.

ANS: C                      PTS: 1                      REF: 4

20. Economics is a science that:
- a. typically uses controlled experiments to learn about consumer and firm behavior.
  - b. uses models that cannot be tested empirically due to the complex nature of the economy.
  - c. explores how choices are made between conflicting wants and desires in a world of scarcity.
  - d. relies entirely upon normative analysis.
  - e. primarily focuses on budgetary decisions made by political leaders.

ANS: C                      PTS: 1                      REF: 4

21. The real core of the economic problem is to:
- a. increase the amount of leisure time available to people.
  - b. guarantee everyone on the planet a minimum level of food, shelter and clean water.
  - c. allocate limited resources among competing uses.
  - d. eliminate scarcity.

ANS: C                      PTS: 1                      REF: 4

22. By the study of "scarcity," an economist means how we best utilize our:
- a. limited resources in order to promote full employment and price stability.
  - b. unlimited desires in order to best use our unlimited resources.
  - c. unlimited resources to best satisfy our unlimited desires.
  - d. limited resources in order to best satisfy our unlimited desires.
  - e. unlimited resources in order to best satisfy our limited desires.

ANS: D                      PTS: 1                      REF: 4

23. Economic resources are also known as:
- a. elements.
  - b. financial capital.
  - c. factors of production.
  - d. building blocks.

ANS: C                      PTS: 1                      REF: 4

24. Which of the following is not an example of a resource?
- a. a forest
  - b. a river
  - c. a John Deere tractor
  - d. the chef at the city's best café
  - e. all of the answers are resources

ANS: E                      PTS: 1                      REF: 4

25. Which of the following is not an example of a factor of production?
- a. an office building
  - b. a product's price
  - c. the land plowed by a farmer in order to grow corn
  - d. the chief executive officer of a large corporation
  - e. a worker on an assembly line producing compact disc players

ANS: B                      PTS: 1                      REF: 4

26. Land as a factor of production can include all of the following except:
- a. trees.
  - b. a flock of sheep.
  - c. a sawmill.
  - d. a water body.
  - e. a limestone deposit.

ANS: C                      PTS: 1                      REF: 4

27. Which of the following would be categorized as capital resources for a college or university?
- a. water, trees, and the acreage a campus rests on
  - b. white boards, overhead projectors, and the expertise of professors
  - c. exams, fuel oil (which heats the buildings), and electricity
  - d. the work effort of registrars, clerical assistants, and teaching assistants

ANS: B                      PTS: 1                      REF: 4

28. An example of physical capital is:
- a. a \$100 bill.
  - b. a stock certificate.
  - c. a chainsaw.
  - d. a cheeseburger.
  - e. a savings account.

ANS: C                      PTS: 1                      REF: 4

29. Human capital is:
- a. the same as labor.
  - b. a term describing the tools and equipment owned by households.
  - c. a worker's physical effort when working with machines.
  - d. the expertise or knowledge possessed by workers.
  - e. the money in checking, savings, or CD accounts at banks.

ANS: D                      PTS: 1                      REF: 4

30. Human capital is:
- a. machinery owned by firms, but not by individuals.
  - b. machinery owned by individuals, but not by firms.
  - c. machinery owned by individuals or firms, but not by the government.
  - d. the skill or knowledge of individuals.

ANS: D                      PTS: 1                      REF: 4

31. Which of the following is true?
- a. Poverty could be eliminated but scarcity could not.
  - b. Scarcity could be eliminated but poverty could not.
  - c. Both scarcity and poverty could be eliminated.
  - d. Neither scarcity nor poverty could be eliminated.

ANS: A                      PTS: 1                      REF: 4

32. Which of the following is true of resources?
- a. Their availability is unlimited.

- b. They are the inputs used to produce goods and services.
- c. Increasing the amount of resources available could eliminate scarcity.
- d. They are inputs used to produce goods and services and increasing the amount of resources available could eliminate scarcity.

ANS: B                      PTS: 1                      REF: 4

33. If scarcity was not a fact,
- a. people could have all they wanted of goods and services for free.
  - b. it would no longer be necessary to make choices.
  - c. poverty, defined as the lack of a minimum level of consumption would also be eliminated.
  - d. all of the answers would be true.

ANS: D                      PTS: 1                      REF: 4

34. Which of the following is true?
- a. As long as human wants exceed available resources, scarcity will exist.
  - b. Scarcity ultimately leads to competition for the available goods and services.
  - c. Scarcity affects everyone to the same degree.
  - d. All of the answers are true.
  - e. As long as human wants exceed available resources, scarcity will exist, and scarcity ultimately leads to competition for the available goods and services.

ANS: E                      PTS: 1                      REF: 4

35. The most essential economic problem is the existence of:
- a. both an increasing population and the depletion of natural resources.
  - b. both limited economic resources and unlimited desires.
  - c. both inflation and unemployment.
  - d. income inequality and economic freedom.

ANS: B                      PTS: 1                      REF: 4

36. In economics, which of the following is considered "land"?
- a. A hydroelectric dam.
  - b. A 500 acre forest.
  - c. bauxite deposits.
  - d. underground pools of crude oil.
  - e. All of the above except a hydroelectric dam are considered land.

ANS: E                      PTS: 1                      REF: 4

37. Which of the following would not be considered "capital" in economics?
- a. A delivery van used by Federal Express.
  - b. 1000 shares of General Electric stock.
  - c. \$500 in currency.
  - d. A microprocessor factory
  - e. both the delivery van the factory are considered capital.

ANS: E                      PTS: 1                      REF: 4

38. An example of a capital resource is:
- a. stock in a computer software company.
  - b. the funds in a CD account at a bank.
  - c. a bond issued by a company selling electric generators.
  - d. a dump truck.

e. an employee of a moving company.

ANS: D                      PTS: 1                      REF: 4

39. Which of the following is an example of a capital resource?

- a. an unskilled worker
- b. a large coal deposit
- c. a fishing boat
- d. yellow-fin tuna

ANS: C                      PTS: 1                      REF: 4

40. Which of the following is not an example of a capital resource?

- a. the expertise of a computer programmer
- b. a pitch fork
- c. a commercial sewing machine
- d. 100 acres of farmland in central California

ANS: D                      PTS: 1                      REF: 4

41. Which of the following is an example of a capital resource?

- a. redwood trees
- b. unskilled labor
- c. stocks and bonds
- d. an oil rig

ANS: D                      PTS: 1                      REF: 4

42. The function of an entrepreneur is to:

- a. bear the business risks.
- b. organize the other factors of production.
- c. innovate.
- d. do all of the tasks listed.

ANS: D                      PTS: 1                      REF: 5

43. Entrepreneurship is:

- a. human capital.
- b. another word for the financial capital that can be used to start a business.
- c. the resource that organizes the other factors of production in order to produce goods and/or services.
- d. another word for physical capital that is used to produce goods and services.

ANS: C                      PTS: 1                      REF: 5

44. The similarity between all goods and services, whether tangible or intangible, is that they:

- a. are not subject to economic analysis.
- b. require technical expertise.
- c. have no price tags.
- d. are made from scarce resources and are subject to economic analysis.

ANS: D                      PTS: 1                      REF: 5

45. Every time an individual decides to try out new equipment, or finds better ways to manage money, he or she is exhibiting traits of:

- a. money management.

- b. entrepreneurship.
- c. strategic management.
- d. capital management.

ANS: B                      PTS: 1                      REF: 5

46. An example of an intangible good is:

- a. an automobile.
- b. a new house.
- c. a snowplow.
- d. friendship.
- e. a recliner chair.

ANS: D                      PTS: 1                      REF: 5

47. All of the following are intangible except:

- a. health.
- b. love.
- c. computer programming expertise.
- d. power.
- e. All of the answers are intangible goods.

ANS: E                      PTS: 1                      REF: 5

48. All of the following are tangible goods except:

- a. a skateboard.
- b. a desk.
- c. a train locomotive.
- d. fairness.
- e. a piano.

ANS: D                      PTS: 1                      REF: 5

49. Economic goods are:

- a. only those commodities priced in monetary terms.
- b. scarce products that are created from scarce resources.
- c. the opposite of normative economic goods.
- d. not subject to scarcity.

ANS: B                      PTS: 1                      REF: 5

50. Which of the following observations regarding economic goods is incorrect?

- a. They are limited in supply.
- b. They are desirable.
- c. They are low-priced essential goods.
- d. They are scarce goods created from scarce resources

ANS: C                      PTS: 1                      REF: 5

51. Which of the following would be an example of entrepreneurship?

- a. The cross training of bank employees
- b. A bank teller
- c. A check encoding machine
- d. The building used as a bank's operations center

ANS: A                      PTS: 1                      REF: 5



52. Which of the following will not directly add to improvements in human capital?
- a. increases in take home pay
  - b. a low-level manager is sent back to college to acquire an MBA degree
  - c. improved job training programs offered to employees
  - d. an increase in the computer-proficiency requirements of all high school graduates

ANS: A                      PTS: 1                      REF: 5

53. A "scarce" good is a good:
- a. for which it is impossible to increase production any further given the available resources and technology.
  - b. for which there is a shortage at the current market price.
  - c. that is always in demand at any price.
  - d. for which available resources are insufficient to satisfy unlimited human desires for it.
  - e. that cannot be produced using mass production techniques.

ANS: D                      PTS: 1                      REF: 5

54. When economists say goods are scarce, they mean that:
- a. consumers do not have enough money to purchase the goods.
  - b. the desire for goods and services exceeds our ability to produce them with limited resources.
  - c. at the current price, consumers are willing to buy more of a good than suppliers are willing to produce.
  - d. government programs are needed to lift families out of poverty.

ANS: B                      PTS: 1                      REF: 5

55. Economics is a social science that primarily explores how:
- a. businesses market products under competitive conditions.
  - b. stock and bond prices fluctuate when there are changes in demand or supply.
  - c. the government allocates its budget among competing political interests.
  - d. goods and services are produced and distributed in a world with limited resources.
  - e. high employment and low inflation levels can be maintained.

ANS: D                      PTS: 1                      REF: 5

56. Which of the following goods would be considered scarce?
- a. iPods
  - b. crude oil
  - c. tax preparation services
  - d. all of the answers are correct

ANS: D                      PTS: 1                      REF: 5

57. Economics is primarily concerned with the study of:
- a. problems such as poverty and unemployment.
  - b. limited desires pursuing unlimited resources.
  - c. production and distribution of goods in a world of unlimited resources.
  - d. production and distribution of goods in a world of limited resources.
  - e. the evolution of firms from small startups to successful corporations.

ANS: D                      PTS: 1                      REF: 5

58. Scarcity, as defined by an economist, means:

- a. demand exceeds supply at the current market price.
- b. consumers are too poor to purchase the available goods and services.
- c. supply exceeds demand at the current market price.
- d. the desire for goods exceeds our ability to produce them with limited available resources.

ANS: D                      PTS: 1                      REF: 5

59. An economy's resources:
- a. consist of land, labor, capital, and entrepreneurial skills.
  - b. are unlimited in a country like the United States.
  - c. are always efficiently utilized in wealthy nations.
  - d. consist of land, labor, and entrepreneurial skills but not capital.

ANS: A                      PTS: 1                      REF: 5

60. Which of the following is not a factor of production?
- a. capital
  - b. entrepreneurship
  - c. legal institutions
  - d. labor

ANS: C                      PTS: 1                      REF: 5

61. Which of the following is not a factor of production?
- a. cash
  - b. entrepreneurship
  - c. land
  - d. labor

ANS: A                      PTS: 1                      REF: 5

62. Which of the following is not an example of a factor of production?
- a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  - e. None of the answers is correct

ANS: E                      PTS: 1                      REF: 5

63. Raylene works at an accounting firm. She is considered what type of resource?
- a. an entrepreneur
  - b. management
  - c. capital
  - d. labor

ANS: D                      PTS: 1                      REF: 5

64. Additions to human capital can be made through:
- a. increases in pension benefits
  - b. monthly deposits into a savings account.
  - c. improved education and on-the-job training.
  - d. the purchase of tools and equipment by workers.

ANS: C                      PTS: 1                      REF: 5

65. Which of the following is false?
- a. Even intangible goods can be subjected to economic analysis.
  - b. Wealthy individuals who decide to donate money to charity do not face the constraints of scarcity.
  - c. Increases in production would not enable us to eliminate scarcity.
  - d. If we had unlimited resources, we would not have to choose among our desires.
  - e. Scarcity implies that "there is no such thing as a free lunch."

ANS: B                      PTS: 1                      REF: 6

66. Scarcity exists for those with
- a. lower incomes.
  - b. average incomes.
  - c. higher incomes.
  - d. all of the answers are correct.
  - e. lower incomes and average incomes only

ANS: D                      PTS: 1                      REF: 6

67. Scarcity applies to:
- a. only the poor.
  - b. everyone but the very wealthy.
  - c. the value of our time.
  - d. both the rich and poor.
  - e. the value of our time and to both the rich and poor.

ANS: E                      PTS: 1                      REF: 6

68. Scarcity:
- a. is only a problem in communist countries.
  - b. is a problem in both communist and socialist countries, but not in market economies.
  - c. does not exist in wealthy countries.
  - d. will never be eradicated because humans develop new wants as productive capabilities improve.
  - e. implies that it is a problem in both communist and socialist countries, but not in market economies or wealthy countries.

ANS: D                      PTS: 1                      REF: 6

69. Which of the following is an example of an individual motivated by self-interest?
- a. a student volunteering at a soup kitchen
  - b. an attorney providing free legal service to low income families
  - c. a young person volunteering for the Peace Corps
  - d. a man buying a new Camaro
  - e. all of the answers are correct

ANS: E                      PTS: 1                      REF: 7

70. Most of economic analysis assumes that people's actions are:
- a. motivated by submerged emotional needs.
  - b. driven by magnetic forces generated by planetary movements.
  - c. motivated primarily by concern for the well-being of others.
  - d. motivated by self-interest.
  - e. motivated purely by money.

ANS: D                      PTS: 1                      REF: 7

71. Economists believe that individuals act as if they are motivated by self-interest and:
- a. respond selfishly.
  - b. respond in predictable ways to changing circumstances.
  - c. it leads to inconsistent and unpredictable behavior.
  - d. all of the above.

ANS: B                      PTS: 1                      REF: 7

72. From an economists' perspective, which of the following observations is not true?
- a. Self-interest is purely monetary in nature.
  - b. Self-interest can include benevolence.
  - c. Self-interest is a good predictor of human behavior in most situations.
  - d. Self-interest is not the same as selfishness.

ANS: A                      PTS: 1                      REF: 7

73. Which of the following would reflect self-interested behavior?
- a. A worker pursuing a higher paying job and better working conditions.
  - b. A consumer seeking a higher level of satisfaction with her current income.
  - c. Donating a cell phone to a woman's shelter.
  - d. Mother Theresa using her Nobel Prize money to care for the poor.
  - e. All of the answers would reflect self-interested behavior.

ANS: E                      PTS: 1                      REF: 7

74. If a university begins a policy of permanently expelling any student caught cheating in any way, you would expect that:
- a. no students would cheat.
  - b. fewer students would cheat.
  - c. there would be no difference in the amount of cheating.
  - d. minor cases of cheating would become a larger fraction of all cases of cheating attempted.
  - e. both fewer students would cheat and minor cases of cheating would become a larger fraction of all cases of cheating attempted.

ANS: B                      PTS: 1                      REF: 8

75. When economists refer to economic behavior, they mean that:
- a. from time to time, everyone behaves irrationally.
  - b. changes in incentives influence behavior in unpredictable ways.
  - c. the pursuit of money is the most significant factor influencing decision making.
  - d. rational people try to anticipate the likely consequences of their actions.

ANS: D                      PTS: 1                      REF: 8

76. When making decisions, economists believe that individuals act rationally if they:
- a. seek to improve their own situations and not try to anticipate future consequences of their actions.
  - b. only pursue the goals of the community.
  - c. try to anticipate future consequences and seek to improve their own situations.
  - d. always choose alternatives that offer the greatest financial reward.
  - e. do either c. or d.

ANS: C                      PTS: 1                      REF: 8

77. Economists believe that individuals act as if they are motivated:

- a. primarily by the opinions of their peers.
- b. primarily by human feelings.
- c. primarily by self-interest.
- d. only by concern for the larger community.
- e. by none of the above.

ANS: C                      PTS: 1                      REF: 8

78. What according to an economist, forms the basis of rational human behavior under current and anticipated future circumstances?
- a. Scarcity and rarity
  - b. Opportunities and pay-offs
  - c. Values and information
  - d. Legal consequences

ANS: C                      PTS: 1                      REF: 8

79. A person behaving rationally will attempt to:
- a. always avoid illegal actions.
  - b. explain or rationalize a decision.
  - c. refrain from normative analysis.
  - d. consider the future consequences of her/his behavior.
  - e. refrain from positive economic analysis.

ANS: D                      PTS: 1                      REF: 8

80. "As a rational person, you would expect individuals to always avoid actions that are illegal."
- a. This is a true statement because most people don't want to suffer the penalties associated with criminal behavior.
  - b. This is a true statement because most individuals are good citizens and prefer not to commit crimes.
  - c. This is a false statement because it is expected that individuals will consider the consequences of their actions and that some will choose to commit illegal acts anyway.
  - d. This is a false statement because only people with certain genetic predispositions are likely to commit crimes.

ANS: C                      PTS: 1                      REF: 8

81. When economists assume that people act rationally, it means they:
- a. make decisions based on complete and accurate information.
  - b. make decisions that will not be regretted later on.
  - c. make decisions based on what they believe is best for themselves using available information.
  - d. make decisions based solely on what is best for society.
  - e. commit no errors in judgment.

ANS: C                      PTS: 1                      REF: 8

82. Economists believe that people respond to incentives in predictable ways. Therefore, if the government imposed a tax on each child born, you would expect that:
- a. families would have the same number of children, but wait longer to begin having them.
  - b. more children would be born, but spaced further apart.
  - c. more children would be adopted.
  - d. fewer children would be born.

ANS: D                      PTS: 1                      REF: 8

83. Positive incentives:
- a. increase benefits or reduce costs.
  - b. decrease behaviors.
  - c. decrease benefits or increase costs.
  - d. create additional taxes on behaviors.

ANS: A                      PTS: 1                      REF: 8

84. Individuals:
- a. respond to incentives in predictable ways.
  - b. decrease the level of an activity in response to negative incentives.
  - c. respond to positive incentives by increasing the level of activity.
  - d. do all of the behaviors listed.

ANS: D                      PTS: 1                      REF: 8

85. Positive incentives do not:
- a. increase benefits.
  - b. result in an increased level of the related activity.
  - c. reduce costs.
  - d. discourage consumption.
  - e. All of the answers are related to positive incentives

ANS: D                      PTS: 1                      REF: 8

86. Negative incentives:
- a. increase benefits or reduce costs.
  - b. increase behaviors.
  - c. decrease benefits or increase costs.
  - d. include both cash subsidies and taxes.

ANS: C                      PTS: 1                      REF: 8

87. Which of the following is an example of a positive incentive?
- a. You expect to be grounded if your grades slip below a B average.
  - b. You expect to receive a scholarship if your grades remain high.
  - c. Desserts will be unavailable at the cafeteria if you arrive after 7:00 p.m.
  - d. Campus police institute a policy of impounding cars parked in delivery zone spaces.

ANS: B                      PTS: 1                      REF: 8

88. Which of the following is likely to provide teenagers with the greatest incentive not to smoke?
- a. public service television advertisement featuring Jennifer Lopez urging kids to refrain from smoking
  - b. a \$2.00 per-pack tax on cigarettes
  - c. citing moral grounds, Leonardo DiCaprio refuses to play any part in which he will be seen smoking
  - d. a law prohibits anyone from smoking in public buildings

ANS: B                      PTS: 1                      REF: 8

89. Which of the following is not true?
- a. Economics is the study of the allocation of scarce resources to satisfy unlimited wants for goods and services.
  - b. Scarcity is the problem that our wants exceed our limited resources.

- c. Economists assume that self-interest is the motivation behind economic behavior, and so respond in predictable ways to changing circumstances.
- d. Economists believe that it is rational for people to anticipate the likely future consequences of their behavior.
- e. All of the answers are true.

ANS: E                      PTS: 1                      REF: 8

90. When economists speak of markets, they primarily mean:
- a. places where production of goods and services take place.
  - b. those locations where stocks and bonds of corporations take place.
  - c. mechanisms that coordinate actions of buyers and sellers.
  - d. the trillions of dollars that change hands in the foreign exchange markets.

ANS: C                      PTS: 1                      REF: 8

91. A market economy depends on market mechanisms to:
- a. determine the most efficient way of using resources.
  - b. determine how large the government's budget deficit should be.
  - c. decide how much government regulation there should be.
  - d. provide everyone with a minimum level of income.
  - e. do all of the outcomes listed.

ANS: A                      PTS: 1                      REF: 9

92. When collective decision making is utilized to resolve economic questions regarding the allocation of resources, then:
- a. everyone will receive an equal share of the output produced.
  - b. the preferences of individuals are of no importance.
  - c. economic efficiency will be assured.
  - d. the role of markets will be replaced by political decision making.

ANS: D                      PTS: 1                      REF: 9

93. Which of the following serve as the language of the market system?
- a. Monetary and fiscal policies
  - b. Volatility
  - c. Market prices
  - d. Governments

ANS: C                      PTS: 1                      REF: 9

94. Prices communicate information about relative availability of products. For example, a decrease in the price of corn signals to consumers and producers that:
- a. consumers are buying more corn than before.
  - b. corn is relatively more abundant than before.
  - c. corn is relatively less abundant than before.
  - d. consumers are stocking up on corn because of the predictions of a cold winter.

ANS: B                      PTS: 1                      REF: 9

95. In a market system, decisions about how to allocate resources are made:
- a. by central planning boards in each industry.
  - b. by a lottery system.
  - c. by individuals and firms interacting in markets coordinated by market prices.
  - d. by large conglomerates working cooperatively with the government.

e. based upon tradition.

ANS: C

PTS: 1

REF: 9

96. In markets, information about the relative value of resources is communicated through:
- a. government agencies.
  - b. planning committees.
  - c. prices.
  - d. unions.
  - e. cartels.

ANS: C

PTS: 1

REF: 9

97. In a market economy, the amount of a good that is produced is primarily decided by the interaction of:
- a. buyers and sellers.
  - b. all consumers.
  - c. producers and input suppliers.
  - d. producers and government planning committees.
  - e. all producers.

ANS: A

PTS: 1

REF: 9

98. Which of the following is an example of market failure?
- a. Overuse of highways that leads to traffic congestion
  - b. Reduced levels of vaccinations which increase illness and disease
  - c. Substantial foreclosures caused by sub-prime lending
  - d. All of the answers are examples of market failure.

ANS: D

PTS: 1

REF: 10

99. Market failure occurs when:
- a. the stock markets tumble due to heavy selling.
  - b. the economy fails to allocate resources efficiently on its own.
  - c. demand shows signs of slowing down.
  - d. a country cannot produce a good or service at a lower opportunity cost than others.

ANS: B

PTS: 1

REF: 10

100. Scarcity:
- a. exists only in command economies.
  - b. exists only in market economies.
  - c. will likely disappear as technology advances sufficiently.
  - d. exists only in economies in which there is poverty.
  - e. None of the answers are correct.

ANS: E

PTS: 1

REF: 10

101. Which of the following is *not* a resource exchanged in the factor markets?
- a. land
  - b. capital
  - c. labor
  - d. entrepreneurship
  - e. All of the above are traded in the factor market.

ANS: E

PTS: 1

REF: 11



102. Which of the following is not a payment made to households in exchange for the use of factors of production?
- a. rent
  - b. interest
  - c. wages
  - d. taxes

ANS: D                      PTS: 1                      REF: 11

103. Which of the following would be primarily determined in factor markets?
- a. The number of computers produced.
  - b. The wage rates for high school teachers.
  - c. The price of automobiles.
  - d. Interest rates.

ANS: B                      PTS: 1                      REF: 11

104. In a simple circular flow model,
- a. households are suppliers of resources.
  - b. firms are suppliers of final products.
  - c. households are demanders of final products.
  - d. firms are demanders of resources.
  - e. all of the answers are true.

ANS: E                      PTS: 1                      REF: 12

105. The simple circular flow model shows that workers and owners of land and capital offer their services through:
- a. product markets.
  - b. factor markets.
  - c. money markets.
  - d. government.
  - e. the foreign currency market.

ANS: B                      PTS: 1                      REF: 12

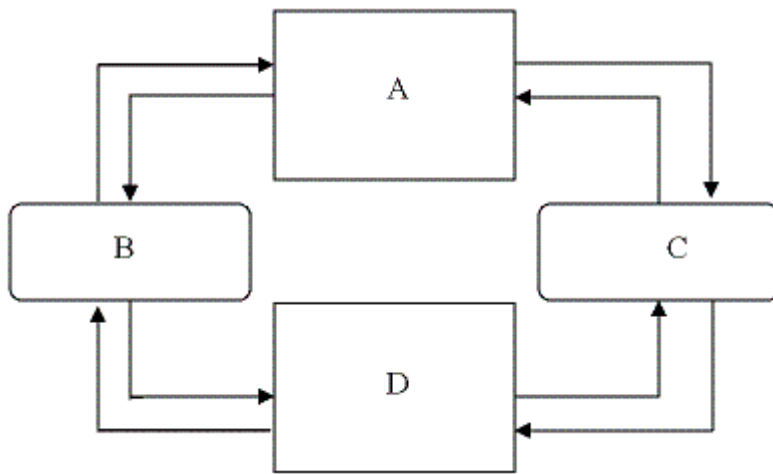
106. In the simple circular flow model:
- a. firms are suppliers of resources and demanders of products.
  - b. households are suppliers of products and demanders of resources.
  - c. households are demanders of products and suppliers of resources.
  - d. firms are the suppliers of both resources and products.
  - e. households are the suppliers of both resources and products.

ANS: C                      PTS: 1                      REF: 12

107. The circular flow of economic activity is a model of the:
- a. flow of goods, services, and payments between households and firms.
  - b. influence of government on business behavior.
  - c. role of unions and government in the economy.
  - d. interaction among taxes, prices, and profits.
  - e. economy's banking system.

ANS: A                      PTS: 1                      REF: 12

108. In the graph of the circular flow model below, area B represents



- a. product markets.
- b. firms.
- c. factor markets.
- d. households.

ANS: D

PTS: 1

REF: 12

109. In the circular flow model:

- a. households receive income from businesses in exchange for providing inputs and use that income to buy goods and services from businesses.
- b. businesses receive revenues from households in exchange for providing goods and services and use those revenues to buy inputs from households.
- c. households receive revenue for selling goods and services to businesses, and use that revenue to buy inputs from businesses.
- d. Households receive income from businesses in exchange for providing inputs and use that income to buy goods and services from businesses AND businesses receive revenues from households in exchange for providing goods and services and use those revenues to buy inputs from households.

ANS: D

PTS: 1

REF: 12

110. An economic theory:

- a. should be as detailed as possible in order to model the complexity of an economy.
- b. is an abstraction from reality.
- c. is only useful if it rests on realistic assumptions.
- d. is unrealistic and therefore of dubious usefulness in explaining what occurs in a complex economy.

ANS: B

PTS: 1

REF: 13

111. A good economic theory:

- a. rests on realistic assumptions.
- b. explains economic behavior and predicts well.
- c. can best be expressed mathematically.
- d. always provides a highly detailed analysis of an economic sector.

ANS: B

PTS: 1

REF: 13

112. A good economic theory:

- a. includes every detail that affects the economic behavior of interest.
- b. relies on simplifying assumptions in order to explain economic behavior.

- c. does not rely on simplifying assumptions.
- d. is impossible to achieve because of the difficulty of conducting controlled experiments.
- e. is normative and therefore not testable.

ANS: B                      PTS: 1                      REF: 13

113. A hypothesis is:

- a. a normative economic statement.
- b. a testable proposition.
- c. a statement that cannot be evaluated using real-world data.
- d. a model with no connection to the real world.

ANS: B                      PTS: 1                      REF: 13

114. A theory can best be defined as:

- a. an untestable assertion or statement of untestable fact.
- b. a testable statement that can be definitively proven to be true or false using empirical analysis.
- c. a normative statement that can be tested empirically through analysis of real-world data.
- d. a deliberate simplification of factual relationships that attempts to explain and predict how those relationships work.

ANS: D                      PTS: 1                      REF: 13

115. Which of the following is correct?

- a. "Theory" and "hypothesis" are interchangeable terms meaning the same thing.
- b. A hypothesis may result from a tested and confirmed theory.
- c. A theory may result from a tested and confirmed hypothesis.
- d. A hypothesis is a theory whose formulation relies on mathematics.

ANS: C                      PTS: 1                      REF: 13

116. Economists use theories to:

- a. abstract from the complexities of the world.
- b. understand economic behavior.
- c. explain and help predict human behavior.
- d. do all of the actions listed.

ANS: D                      PTS: 1                      REF: 13

117. The best test of an economic theory is:

- a. the rigor of its mathematical formulation.
- b. its ability to explain and predict.
- c. the accuracy of its assumptions.
- d. the level of real-world detail it captures.

ANS: B                      PTS: 1                      REF: 13

118. Economists need to develop abstractions in order to:

- a. avoid analyzing real-world economic interactions, which are too complicated to understand.
- b. distinguish normative economic behavior from positive economic behavior.
- c. avoid committing the fallacy of composition.
- d. understand and explain economic behavior.
- e. justify their salaries, much in the way lawyers speak and write in "legalese."

ANS: D

PTS: 1

REF: 13

119. What is the difference between a theory and a hypothesis?
- A hypothesis abstracts from reality while a theory describes reality.
  - A theory abstracts from reality while a hypothesis describes reality.
  - A theory is an established explanation.
  - A hypothesis is not an established explanation.
  - A theory is an established explanation AND a hypothesis is not an established explanation.

ANS: E

PTS: 1

REF: 13

120. Identify the chain of events in creating a theory:
- gather data, evaluate results, tentatively accept the theory, support or refute the hypothesis.
  - predict behavior, evaluate the results, formulate a hypothesis.
  - select a theory, create a hypothesis, evaluate the evidence.
  - formulate a hypothesis, gather data, evaluate the results, support or refute the hypothesis, tentatively accept theory.

ANS: D

PTS: 1

REF: 14

121. An economist at the University of Alaska at Anchorage has been asked to explain why the price of Alaskan crude oil has fallen recently. In order to assemble a scholarly answer, the professor should take which steps?
- Develop a hypothesis, test the proposition by engaging in empirical analysis, and examine the data to see if it fits with the facts.
  - Gather data on crude oil prices and seemingly unrelated variables in order to look for associations, then formulate a hypothesis based on those unexpected associations.
  - Ask people in Alaska why they are not purchasing oil.
  - None of the above. The oil industry is controlled by a cartel; therefore price changes in the industry cannot be explained using economic theories.

ANS: A

PTS: 1

REF: 14

122. An economist might hypothesize that people will buy less gasoline at a price of \$3.00 per gallon than at \$2.50 per gallon. In order for the hypothesis to become a theory, it would have to be tested. Which of the following observations would seem to support this hypothesis?
- People in each region buy the same amount of gasoline regardless of the price.
  - Gasoline consumption varies with the quantity of cars purchased in each region.
  - Individuals line up to purchase more gasoline at higher prices with the expectation that the fuel will be of higher quality.
  - Individuals in each region respond to an increase in price by purchasing less gasoline.

ANS: D

PTS: 1

REF: 14

123. When economists use the term "*ceteris paribus*," they mean that:
- the causal relationship between two economic variables cannot be determined.
  - the analysis is true for the individual but not for the economy as a whole.
  - all other variables except the ones specified are assumed to be constant.
  - their conclusions are based on normative rather than positive economic analysis.

ANS: C

PTS: 1

REF: 14

124. The term "*ceteris paribus*" means that:
- everything is variable.
  - all variables except those specified are constant.

- c. no one knows which variables will change and which will remain constant.
- d. what is true for the individual is not necessarily true for the whole.
- e. all variables are held constant.

ANS: B                      PTS: 1                      REF: 14

125. Economists use the term "*ceteris paribus*" to indicate that:
- a. the analysis is true for the individual but not for the economy as a whole.
  - b. supply and demand are in balance.
  - c. their conclusions are based on normative rather than positive economic analysis.
  - d. other things are assumed to remain constant.

ANS: D                      PTS: 1                      REF: 14

126. "*Ceteris paribus*" means:
- a. if events A and B occur together, one must cause the other.
  - b. all relevant details are included.
  - c. what is true for the individual must be true for the whole.
  - d. holding other things constant.
  - e. association does not imply causation.

ANS: D                      PTS: 1                      REF: 14

127. The importance of the *ceteris paribus* assumption is that it:
- a. allows one to separate normative economic issues from positive economic ones.
  - b. allows one to generalize from the whole to the individual.
  - c. allows one to analyze the relationship between two variables apart from the influence of other variables.
  - d. allows one to hold all variables constant so the economy can be carefully observed in a suspended state.

ANS: C                      PTS: 1                      REF: 14

128. An economic theory is tested by:
- a. assessing the realism of its assumptions.
  - b. polling economists to see if there is consensus as to the validity of the hypothesis.
  - c. comparing and contrasting its simplicity with related theories.
  - d. comparing its predictions with real-world data.

ANS: D                      PTS: 1                      REF: 14

129. Economics is different from a "hard" science like physics because:
- a. economists abstract from reality in creating their theories.
  - b. economics is easier to study than physics.
  - c. economists must explain their theories to policy makers who lack formal mathematical training.
  - d. economists cannot easily control all the variables that might influence human behavior.
  - e. research in economics is primarily conducted in a very "social" way via interviews of consumers and corporate leaders.

ANS: D                      PTS: 1                      REF: 14

130. An economic hypothesis:
- a. can be tested using empirical analysis.
  - b. can be tested using normative analysis.
  - c. cannot be tested since it is normative in nature.

d. cannot be tested since it is a positive economic statement.

ANS: A                      PTS: 1                      REF: 14

131. In order to determine if a hypothesis is valid we must utilize

- a. qualitative analysis.
- b. empirical analysis.
- c. marginal analysis.
- d. average analysis.
- e. production analysis.

ANS: B                      PTS: 1                      REF: 14

132. Economics:

- a. is a natural science like biology and chemistry.
- b. is composed of two main branches known as positive and normative economics.
- c. is a science concerned with reaching generalizations about human behavior, not unlike sociology or psychology.
- d. is concerned with predicting business conditions in the future, not with the current state of the stock market.
- e. is concerned with firm behavior, not human behavior.

ANS: C                      PTS: 1                      REF: 14

133. *Ceteris paribus* if the price of cell phones increases we would expect that consumers would want to buy

- a. fewer cell phones because of the higher price.
- b. more cell phones because of the higher price.
- c. fewer cell phones because of improved technology of other goods.
- d. more cell phones because of improved wireless coverage areas and speed

ANS: A                      PTS: 1                      REF: 14

134. Most people consider economics a(n):

- a. social science.
- b. physical science.
- c. accounting science.
- d. earth science.
- e. anthropological science.

ANS: A                      PTS: 1                      REF: 14

135. An economic hypothesis is tested:

- a. by assessing the realism of its assumptions.
- b. by comparing the hypothesis's predictions to real-world data.
- c. most frequently by using a controlled experiment.
- d. by assessing the level of descriptive detail.
- e. by none of the above. Economic hypotheses are theoretical and therefore cannot be tested.

ANS: B                      PTS: 1                      REF: 14

136. A scientist trying to test a theory about the relationship between people's consumption of alcohol and their longevity would want to hold all of the following variables constant except \_\_\_\_:

- a. the amount of alcohol that people in the experimental group consumed.
- b. the amount of cigarettes that people in the experimental group smoked.
- c. the amount of dietary fat that people in the experimental group consumed.

d. past histories of heart and lung disease.

ANS: A                      PTS: 1                      REF: 14

137. The *ceteris paribus* assumption is used in economic analyses in order to:
- cover special cases.
  - include all relevant factors.
  - add realism.
  - simplify the analysis of a complex world.

ANS: D                      PTS: 1                      REF: 14

138. What would not be held constant in testing a theory that if a student studies harder, he will get a better grade?
- The course being taken.
  - The ability and effort of the other students in the class.
  - The grading scale in the course.
  - The number of hours the student spends studying.
  - All of the variables given would be held constant in testing such a theory.

ANS: D                      PTS: 1                      REF: 14

139. Which factor best explains the increased level of difficulty in observation and prediction in the social sciences than in physical sciences?
- Abstraction
  - Fallacy of composition
  - Scarcity
  - Self-interest
  - Human behavior

ANS: E                      PTS: 1                      REF: 14

140. If U.S. consumers bought more gasoline in 2008 (when prices averaged \$3.22 per gallon) than they did in 1970 (when prices averaged \$0.30 per gallon), does that mean that people buy more gasoline at higher prices?
- No, because 1970 prices are ancient history compared to 2001 prices.
  - No, because there is too little information provided about inflation, consumer income and other variables to make an appropriate comparison.
  - Yes, because gas is a necessity that is in short supply. Consumers are always willing to buy more gasoline-even at higher prices.
  - Yes, because gasoline is a luxury good that consumers willingly purchase - even at higher prices.

ANS: B                      PTS: 1                      REF: 14

141. A theory asserts that manufacturers are less willing to sell units of output as the price of a good decreases. However, as the price of computers fell throughout the 1990s, more computers were sold. Which of the following best explains the apparent conflict between theory and data?
- The theory must be invalid.
  - The theory rests on assumptions that are too simplistic.
  - It is likely that variables other than the price and quantity of computers sold were changing.
  - All variables other than the price and quantity of computers sold were unchanged.

ANS: C                      PTS: 1                      REF: 15

142. A theory asserts that consumers will purchase less of a good at higher prices than they will at lower prices. However, when the average price of cars increased throughout the 1990s, more cars were purchased. Which of the following best explains the apparent conflict between theory and data?
- a. The *ceteris paribus* assumption is valid.
  - b. It is likely that variables other than the price and quantity of cars demanded were changing.
  - c. The theory is valid. However, the price and quantity data gathered by researchers was clearly measured incorrectly.
  - d. The theory must be invalid.

ANS: B                      PTS: 1                      REF: 15

143. A leading game-console manufacturer slashes the price of its flagship product by ten percent. Holding other things such as income and preferences constant, which of the following is the most likely group behavior prediction?
- a. Price reduction will have no impact on purchase patterns.
  - b. Price reduction will be associated with a reduction in quality; thereby reducing sales.
  - c. More game consoles will be sold at lower prices.
  - d. Group behavior cannot be predicted.

ANS: C                      PTS: 1                      REF: 15

144. Difficulty in prediction social sciences is the result of analyzing \_\_\_\_ but can be overcome by focusing on \_\_\_\_ groups.
- a. experiments; small groups
  - b. experiments; large groups
  - c. human behavior; small groups
  - d. human behavior; large groups

ANS: D                      PTS: 1                      REF: 15

145. Macroeconomic topics do not usually include:
- a. the rate of inflation.
  - b. the rate of unemployment.
  - c. economic growth.
  - d. the profit maximizing decisions of an individual manufacturer.
  - e. the control of the money supply by the central bank.

ANS: D                      PTS: 1                      REF: 16

146. Which of the following lies primarily within the realm of microeconomics?
- a. an empirical analysis of the relationship between the growth of the money supply and the rate of inflation
  - b. an economic model forecasting the impact of a tax increase on consumer spending and national output
  - c. a study of supply and demand conditions in the market for orange juice
  - d. a model forecasting the impact of a change in interest rates on the level of investment in the economy

ANS: C                      PTS: 1                      REF: 16

147. "I woke up earlier today to beat other fishermen to the fish and yet I caught the same number of fish at 5 a.m. as I did at noon." Which of the following best explains this occurrence?
- a. Many other fishermen also believe that they can catch a greater quantity of fish if they arrive earlier at the fishing area. So the area is crowded early in the day.



- b. The fish do not care when they eat, so they are likely to bite on the bait at any time during the day.
- c. The catching of fish is mostly luck, so timing is not important.
- d. The early bird catches the worm.

ANS: A                      PTS: 1                      REF: 16

148. Which of the following lies primarily within the realm of macroeconomics?
- a. a study of the elasticity of demand for gasoline
  - b. a study of how tax cuts stimulate aggregate production
  - c. an analysis of supply and demand conditions in the electricity market
  - d. a study of the impact of "mad cow" disease on the price of beef worldwide

ANS: B                      PTS: 1                      REF: 16

149. Which of the following is most likely a topic of discussion in a microeconomics course?
- a. a decrease in the share of national income paid to the government in taxes
  - b. an increase in the price of lumber used to construct houses
  - c. an increase in the rate of inflation
  - d. an increase in the number of jobless individuals filing unemployment claims
  - e. the size of the national debt

ANS: B                      PTS: 1                      REF: 16

150. The basic difference between macroeconomics and microeconomics is that:
- a. microeconomics looks at the forest (aggregate markets) while macroeconomics is concerned with the trees (individual markets).
  - b. macroeconomics is concerned with policy decisions while microeconomics applies only to theory.
  - c. microeconomics is concerned with the trees (individual markets) while macroeconomics is concerned with the forest (aggregate markets).
  - d. macroeconomics is concerned with positive economics while microeconomics is concerned with normative economics.

ANS: C                      PTS: 1                      REF: 16

151. The branch of economics that focuses on outcomes in highly aggregated markets, such as the markets for labor or consumer products, is called:
- a. macroeconomics.
  - b. Marxian economics.
  - c. positive economics.
  - d. normative economics.
  - e. microeconomics.

ANS: A                      PTS: 1                      REF: 16

152. The branch of economics that focuses on the conduct of affairs within narrowly defined units, such as households or business firms, is called:
- a. macroeconomics.
  - b. microeconomics.
  - c. socioeconomics.
  - d. applied economics.
  - e. market economics.

ANS: B                      PTS: 1                      REF: 16

153. Microeconomic topics do not usually include:
- a. how wages are determined in the labor market.
  - b. the magnitude of national income.
  - c. how firms choose output to maximize profits.
  - d. how consumers maximize utility subject to a budget constraint.
  - e. the monopolization of an industry by a single firm.

ANS: B                      PTS: 1                      REF: 16

154. The branch of economics that studies the economy as a whole is:
- a. normative economics.
  - b. positive economics.
  - c. microeconomics.
  - d. macroeconomics.
  - e. global economics.

ANS: D                      PTS: 1                      REF: 16

155. Macroeconomics:
- a. is narrower in scope than microeconomics.
  - b. analyzes mergers and acquisitions between firms.
  - c. is concerned with the expansion and contraction of the overall economy.
  - d. is concerned with the expansion of a small sole proprietorship into a large corporation.
  - e. is primarily concerned with the decisions of individual households.

ANS: C                      PTS: 1                      REF: 16

156. Microeconomic topics do not usually include:
- a. the regulation of monopoly firms.
  - b. the impact of large government budget deficits on private investment spending.
  - c. the determinants of the supply of wheat by farmers.
  - d. the determinants of the demand for DVD players by consumers.
  - e. the impact of a change in the price of leather used to manufacture shoes.

ANS: B                      PTS: 1                      REF: 16

157. Macroeconomic topics do not generally include:
- a. inflation.
  - b. aggregate demand.
  - c. government spending and taxation.
  - d. the production decisions of individual firms.
  - e. the measurement of total economic output.

ANS: D                      PTS: 1                      REF: 16

158. Measuring the rate of inflation is primarily a concern of:
- a. positive economics.
  - b. normative economics.
  - c. microeconomics.
  - d. macroeconomics.
  - e. accounting.

ANS: D                      PTS: 1                      REF: 16

159. The determination of prices in the market for automobiles is primarily a concern of:
- a. positive economics.

- b. normative economics.
- c. microeconomics.
- d. macroeconomics.
- e. accounting.

ANS: C                      PTS: 1                      REF: 16

160. Microeconomics:
- a. provides an overall view of the economy and how it functions.
  - b. explores the behavior of individual consumers and firms when confronted with scarcity.
  - c. examines the aggregate behavior of consumers and firms when confronted with scarcity.
  - d. is a "positive" science, whereas macroeconomics is a "normative" science.
  - e. is concerned with full employment, price stability and economic growth.

ANS: B                      PTS: 1                      REF: 16

161. Microeconomics primarily models:
- a. the overall economy.
  - b. the behavior of firms but not households.
  - c. the behavior of households but not firms.
  - d. the behavior of both firms and households and how they interact in the marketplace.
  - e. how the government balances the federal budget.

ANS: D                      PTS: 1                      REF: 16

162. Macroeconomics primarily examines:
- a. the behavior of individual households and firms.
  - b. how prices are determined within individual markets.
  - c. the output levels that maximize the profits of business firms.
  - d. broad issues such as national output, employment and inflation.
  - e. the consumption decisions of individual households.

ANS: D                      PTS: 1                      REF: 16

163. Microeconomics differs from macroeconomics in that:
- a. microeconomics studies individual decision making while macroeconomics examines aggregate decision making.
  - b. microeconomics studies aggregate decision making while macroeconomics examines individual decision making.
  - c. microeconomics utilizes positive economic analysis while macroeconomics utilizes normative economic analysis.
  - d. microeconomics is concerned with consumer behavior while macroeconomics is concerned with firm behavior.
  - e. There is no difference between microeconomics and macroeconomics.

ANS: A                      PTS: 1                      REF: 16

164. Which of the following are likely to be studied in a microeconomics course?
- a. choices made by individual consumers
  - b. the production decisions made by individual firms
  - c. how the economy's total output is measured
  - d. how an increase in government spending affects the level of unemployment
  - e. Both choices made by individual consumers and production decisions made by individual firms are likely to be studied in a microeconomics course.

ANS: E                      PTS: 1                      REF: 16

165. The basic difference between macroeconomics and microeconomics is:
- a. microeconomics concentrates on individual markets while macroeconomics focuses primarily on international trade.
  - b. microeconomics concentrates on the behavior of individual consumers while macroeconomics focuses on the behavior of firms.
  - c. microeconomics concentrates on the behavior of individual consumers and firms while macroeconomics focuses on the performance of the entire economy.
  - d. microeconomics explores the causes of inflation while macroeconomics focuses on the causes of unemployment.

ANS: C                      PTS: 1                      REF: 16

166. Economics can be divided into two main branches of study:
- a. capitalism and communism.
  - b. capitalism and socialism.
  - c. demand and supply.
  - d. microeconomics and macroeconomics.
  - e. fiscal policy and monetary policy.

ANS: D                      PTS: 1                      REF: 16

167. Which of the following is most likely a topic of discussion in macroeconomics?
- a. an increase in the price of a pizza
  - b. a decrease in the production of VCRs by a consumer electronics company
  - c. an increase in the wage rate paid to automobile workers
  - d. a decrease in the unemployment rate
  - e. the entry of new firms into the software industry

ANS: D                      PTS: 1                      REF: 16

168. Which of the following is an example of microeconomic analysis?
- a. impact of taxation on national income
  - b. impact of national income on tax revenues
  - c. rate of increase in the national debt
  - d. relationship between inflation and interest rates set by the Federal Reserve
  - e. none of the above

ANS: E                      PTS: 1                      REF: 16

169. The branch of economics that studies the aggregate decisions of all households and all firms is called:
- a. positive economics.
  - b. normative economics.
  - c. microeconomics.
  - d. macroeconomics.
  - e. environmental economics.

ANS: D                      PTS: 1                      REF: 16

170. Which of the following statements most likely lies within the realm of microeconomics?
- a. Unemployment rises during a recession and falls during an expansion.
  - b. A rapid acceleration of the supply of money may create inflation.
  - c. An increase in government spending will increase the aggregate demand for goods and services in the economy.
  - d. An increase in labor costs will increase the additional cost of producing another airplane.

e. A decrease in federal income tax rates will stimulate increased consumer spending.

ANS: D

PTS: 1

REF: 16

171. Which of the following statements most likely lies within the realm of macroeconomics?
- a. An increase in the price of automobiles will lead to a decrease in the quantity of automobiles demanded.
  - b. Due to process innovations in computer chip manufacturing, the market supply of computers increased.
  - c. Due to an economic recession, manufacturing firms began implementing layoffs of their workforces.
  - d. Anticipating that the benefits would outweigh costs involved, an undergraduate student purchases the course textbook.
  - e. A consumer electronics firm found that it could minimize its losses by shutting down its operations altogether.

ANS: C

PTS: 1

REF: 16

172. Which of the following statements can explain why an association between Event A and Event B may not imply causality from A to B?
- a. The observed association may be coincidental.
  - b. There may be a third variable that is responsible for causing both events.
  - c. Causality may run from Event B to Event A instead of in the opposite direction.
  - d. All of the answers can explain why an association between Event A and Event B may not imply causality from A to B.

ANS: D

PTS: 1

REF: 16

173. In the discussion of correlation and causation, correlation means:
- a. two sets of phenomena may be related, but one does not necessarily cause the other.
  - b. two sets of phenomena are not related and one may in fact cause the other.
  - c. that when two phenomena are repeatedly observed together, one must cause the other.
  - d. that if a groundhog sees his shadow in February, this phenomena causes there to be six more weeks of bad weather.

ANS: A

PTS: 1

REF: 16

174. If individuals who sit in the back of the classroom receive lower grades on average than the rest of the class, does that mean that sitting in the back of a classroom causes one to perform poorly on exams?
- a. Not necessarily. The reoccurrence of a certain relationship between two variables does not necessarily imply causation.
  - b. It is not possible for an economist to determine causation between variables.
  - c. The reoccurrence of such a relationship is sufficient evidence that sitting in the back of a classroom will lead to lower grades.
  - d. The reoccurrence of such a relationship is sufficient evidence that students who receive low grades prefer to keep a low profile and always sit in the back of the classroom.

ANS: A

PTS: 1

REF: 16

175. If two variables appear to be causally related, it is possible that:
- a. they are indeed related.
  - b. the two variables appear related by sheer coincidence.
  - c. causation may run in the opposite direction.
  - d. an additional correlated factor may be the source of the causality.
  - e. all of the reasons given are possible answers.

ANS: E

PTS: 1

REF: 16

176. Ten-year-old Josh observes that people who play football are larger than normal and tells his mom that he's going to play football because it will make him big and strong. Josh is:
- committing the fallacy of composition.
  - violating the *ceteris paribus* assumption.
  - mistaking correlation for causation.
  - committing the fallacy of decomposition.

ANS: C

PTS: 1

REF: 16

177. Many people have heard that the stock market rises when a team from the National Football Conference (NFC) wins the Super Bowl, and falls when a team from the American Football Conference (AFC) is victorious. If you conclude that there is a causal relationship between the outcome of the Super Bowl and stock prices, you probably are:
- confusing correlation with causation.
  - violating the *ceteris paribus* assumption.
  - committing the fallacy of composition.
  - confusing the direction of causality, since everyone knows that stock prices determine which team wins the Super Bowl.

ANS: A

PTS: 1

REF: 16

178. A student football team manager examined variables influencing the team's record and concluded that the best scores resulted when the "third-string" team played the most minutes. Therefore he recommended that the third-string team become the first team. This conclusion was probably erroneous because the manager has:
- confused positive and normative analysis.
  - committed the fallacy of composition.
  - failed to recognize that correlation is not causation.
  - incorrectly analyzed the direction of causation.

ANS: D

PTS: 1

REF: 16

179. If rain dancing is associated with rain, does that necessarily mean rain dancing causes rain?
- No. This is an example of a failure to properly employ the *ceteris paribus* assumption.
  - If it rains after individuals have engaged in rain dancing then there is certainly causation at work.
  - No. This is an example of the fallacy of composition.
  - No. Two variables may be correlated without one necessarily causing the other.
  - No. This is an example of a failure to understand the difference between positive and normative economic analysis.

ANS: D

PTS: 1

REF: 16

180. Which of the following topics would be covered in microeconomics?
- The effects of an increase in the supply of lumber on the homebuilding industry.
  - The unemployment rate.
  - The effects of interest rates on the overall economy.
  - The inflation rate.

ANS: A

PTS: 1

REF: 16

181. Which of the following questions is addressed primarily by macroeconomics?
- The allocation of scarce satellite orbit slots.

- b. Decisions made by a manufacturer of a particular good.
- c. Policies to control the inflation rate.
- d. A consumer's decision to buy more clothing and less food.

ANS: C                      PTS: 1                      REF: 16

182. A microeconomist would most likely study the effect of a reduction in income tax rates on:
- a. total output in the economy.
  - b. the output of the steel industry.
  - c. inflation.
  - d. unemployment

ANS: B                      PTS: 1                      REF: 16

183. A macroeconomist would most likely study the effect of a reduction in income tax rates on:
- a. inflation.
  - b. the output of the steel industry.
  - c. total output in the economy.
  - d. unemployment
  - e. all of the variables listed except the output of the steel industry.

ANS: E                      PTS: 1                      REF: 16

184. Which of the following is most likely an example of correlation but not an example of causation?
- a. In the U.S., more pizza is consumed on Super Bowl Sunday than any other day of the year.
  - b. The cost of advertising during the first half of the Super Bowl is greater than the cost of advertising in the second half.
  - c. Each time I eat a chili dog and drink a beer before a game, my teams wins.
  - d. Generally speaking winning football team tend to average more rushing yards than losing football teams.

ANS: C                      PTS: 1                      REF: 16

185. Which of the following involves the fallacy of composition?
- a. Because sitting in the back of classrooms is correlated with getting lower grades in the class, students should always sit closer to the front of the classroom.
  - b. Historically, the stock market rises in years the NFC team wins the Super Bowl and falls when the AFC wins the Super Bowl, I am rooting for the NFC team to win for the sake of my investment portfolio.
  - c. When a basketball team spends more to get better players, it is more successful, which proves that all the teams should spend more to get better players.
  - d. An increase in the amount of money I have will make me better off, so an increase in the supply of money in the economy will make Americans as a group better off.
  - e. Both the basketball and the money supply scenarios involve the fallacy of composition.

ANS: E                      PTS: 1                      REF: 17

186. Which of the following is true?
- a. Virtually all theories in economics are expressed using a *ceteris paribus* ("let everything else be equal" or "holding everything else constant") assumption.
  - b. The fallacy of composition is that, even if something is true for an individual, it is not necessarily true for many individuals as a group.
  - c. One must always be careful not to confuse correlation with causation.
  - d. Positive analysis involves statements about what is or what is likely to happen.

e. All of the answers are true.

ANS: E

PTS: 1

REF: 17

187. "When one basketball team spends a large sum of money acquiring better players, it is better off. If all teams do the same thing, all of them are better off." These statements demonstrate:

- a. the fallacy of composition.
- b. confusing association with causation.
- c. a misunderstanding of the direction of causality.
- d. the *ceteris paribus* condition.

ANS: A

PTS: 1

REF: 17

188. Which of the following best illustrates the fallacy of composition?

- a. If Mr. Smith had more money, he could buy more scarce goods; if the Adams family had more money, it could buy additional goods.
- b. If Ms. Spann had more money, she could buy more scarce goods; if the nation had more money, everyone could buy more scarce goods.
- c. If other variables are not held constant, economists may not observe the relationship between price and quantity demanded that is expected.
- d. Aggregate consumption may not behave in the same manner as the consumption of a particular individual.

ANS: B

PTS: 1

REF: 17

189. The fallacy of composition is:

- a. the erroneous view that an economic activity can sometimes exceed the sum of its components.
- b. the erroneous view that what is true for the individual will also be true for the group.
- c. the view that the aggregation of economic activity will necessarily lead to an outcome that is different than the outcome generated by each individual in the group.
- d. the idea that association need not imply causation.
- e. the failure to hold other variables constant when analyzing the relationship between two particular variables.

ANS: B

PTS: 1

REF: 17

190. Which of the following best illustrates the fallacy of composition?

- a. If I stand up at a baseball game I will be able to see the game better; if all fans stood up at a baseball game they would all be able to see the game better.
- b. If I wore a jacket to a baseball game in October, I would be warmer; if all fans wore jackets they would all be warmer.
- c. If I purchase fewer concessions at a baseball game, I will save money; if all fans purchase fewer concessions then all can save money.
- d. If I yell more during a baseball game it will be louder if all fans yell more during the game it will be much louder.

ANS: A

PTS: 1

REF: 17

191. The fallacy of composition is the erroneous view that:

- a. an increase in the supply of money will cause a general increase in the level of prices.
- b. a small change in an economic variable will have an unrecognizable but significant effect on the economy.
- c. when two events are associated, the one observed first must have caused the second.
- d. if something is true for an individual, then it must also be true for a group.



ANS: D

PTS: 1

REF: 17

192. Which of the following best illustrates the fallacy of composition?
- a. If the price of a product rises, the quantity supplied will decline.
  - b. The average wage rate tends to increase at approximately the same rate as inflation; hence, wage increases must cause inflation.
  - c. Resources are scarce; therefore, there is no such thing as a free lunch.
  - d. If I talk loudly at a party, I have a better chance of being heard by my listeners. If everyone at the party talks loudly, everyone can be heard more clearly.

ANS: D

PTS: 1

REF: 17

193. Which of the following best illustrates the fallacy of composition?
- a. I hate driving to work when the traffic is so heavy, so I decide to leave 30 minutes earlier than in the past. If everyone were to leave 30 minutes earlier for work, we'd all get to work faster.
  - b. A great many people have been immunized against polio because it can be such a devastating disease. As a result, I probably do not personally need to be immunized against polio.
  - c. Whenever I attend a baseball game at the local stadium, the home team wins. Therefore, if I attend all of the team's local games, they will achieve a perfect winning record at home.
  - d. The parking at Ohio State University is in short supply on the main campus. It would be better for more people to ride the bus to school.

ANS: A

PTS: 1

REF: 17

194. The fallacy of composition is essentially the error of:
- a. confusing association with causation.
  - b. confusing normative economics with positive economics.
  - c. generalizing from the individual to the whole.
  - d. omitting relevant variables from an economic model.
  - e. generalizing from the whole to the individual.

ANS: C

PTS: 1

REF: 17

195. Your mother tells you, "Watching ten hours of TV per day will make you stupid." This is a positive statement because:
- a. your mother says it with a positive tone in her voice.
  - b. it is your mother's opinion.
  - c. it is a proposition that can be tested.
  - d. your mother is only thinking of your best interest.

ANS: C

PTS: 1

REF: 17

196. Positive statements are:
- a. prescriptive, making claims about how the world ought to be.
  - b. descriptive, making claims about how the world is.
  - c. optimistic, putting the best possible interpretation on things.
  - d. affirmative, justifying existing economic policy.

ANS: B

PTS: 1

REF: 17

197. Which of the following is a positive statement?
- a. The average high temperature in Miami, Florida in February is lower than the average high temperature in Chicago, Illinois.

- b. An increase in cigarette smoking will lead to a decrease in the likelihood of getting lung cancer.
- c. 30 minutes of exercise three or more times per week will decrease the occurrence of heart disease.
- d. all of the answers are positive statements

ANS: D                      PTS: 1                      REF: 17

198. Which of the following is a statement of positive economics?

- a. New tax laws are needed to help the poor.
- b. Teenage unemployment should be reduced.
- c. We should increase Social Security payments to the elderly.
- d. An increase in tax rates will reduce unemployment.
- e. It is only fair that firms that are protected from competition by government-granted monopolies pay higher corporate taxes.

ANS: D                      PTS: 1                      REF: 17

199. "A reduction in the rate at which stock dividends are taxed will lead to greater investment in the stock market." This is an example of:

- a. a positive economic statement.
- b. a negative economic statement.
- c. the fallacy of composition.
- d. a normative economic statement.
- e. confusing correlation with causation.

ANS: A                      PTS: 1                      REF: 17

200. An economic study concludes that an investment tax credit would increase business investment next year. This is an example of:

- a. normative analysis.
- b. positive analysis.
- c. negative economic analysis.
- d. the fallacy of composition.
- e. generalizing from the whole to the individual.

ANS: B                      PTS: 1                      REF: 17

201. Which of the following is a positive statement?

- a. Increased money supply growth will lead to a higher rate of inflation.
- b. The average distance between the earth and the moon is 100,000 miles.
- c. There are more millionaires in Uganda than in the United States.
- d. People watch more TV during finals week than during the rest of the term.
- e. All of the answers are positive statements.

ANS: E                      PTS: 1                      REF: 17

202. "Mandating longer sentences for any criminal's third arrest will lead to a reduction in crime. Less crime will reduce the number of police officers cities will hire." This quotation:

- a. contains positive statements only.
- b. contains normative statements only.
- c. contains both normative and positive statements.
- d. contains neither normative nor positive statements.

ANS: A                      PTS: 1                      REF: 17

203. Which of the following best illustrates the fallacy of composition?
- a. If I have more money, I will be better off; therefore if we all had more money, we all would be better off.
  - b. If I buy more gas each week, my gas consumption increases; therefore, if all gas consumers buy more gas each week, total gas consumption will increase.
  - c. If I spend more time studying, I will learn more; therefore, if all students spend more time studying, they will learn more.
  - d. If women's hemlines are higher this year, the Dow Jones Industrials average will fall.

ANS: A                      PTS: 1                      REF: 17

204. Which of the following is a statement of positive economics?
- a. The income tax reduces after-tax incomes of the rich.
  - b. A reduction in tax rates makes the after-tax distribution of income fairer.
  - c. Tax rates ought to be reduced so that people will work more.
  - d. All of the above are statements of positive economics.
  - e. None of the above is statements of positive economics.

ANS: A                      PTS: 1                      REF: 17

205. Which of the following is a statement of positive economics?
- a. Unemployment is a more severe problem in societies than inflation.
  - b. Our current unemployment rate is a serious problem.
  - c. If the overall unemployment rate is 6 percent, black unemployment rates will exceed 12 percent.
  - d. An unemployment rate of 4 percent would be too low.

ANS: C                      PTS: 1                      REF: 17

206. "Employment fell last month to its lowest level in the last six years" is an example of:
- a. the fallacy of composition.
  - b. positive economics.
  - c. normative economics.
  - d. a refutable statement.
  - e. both positive economics and a refutable statement.

ANS: E                      PTS: 1                      REF: 17

207. Bill says: "The imposition of a tax on tequila will increase its price." Bob says: "Taxes should be imposed on tequila because college students drink too much."
- a. Both statements are normative.
  - b. Both statements are positive.
  - c. Bill's statement is normative, and Bob's statement is positive.
  - d. Bill's statement is positive, and Bob's statement is normative.

ANS: D                      PTS: 1                      REF: 17-18

208. Which of the following is true?
- a. Positive analysis involves what is or what is likely to happen.
  - b. Normative analysis involves judgments about what should or ought to be the case.
  - c. Both statements about positive and normative analysis are true.
  - d. Neither statement about positive and normative analysis is.

ANS: C                      PTS: 1                      REF: 17-18

209. Which of the following is false?

- a. A positive statement must be testable but need not be true.
- b. A hypothesis is a normative statement.
- c. Normative analysis involves subjective, non-testable statements.
- d. The majority of disagreements in economics stem from normative issues.

ANS: B                      PTS: 1                      REF: 18

210. Which of the following contains only normative statements?
- a. A higher income tax rate would increase tax revenues, which should be used to give more aid to the poor.
  - b. The birth rate is reduced as economies urbanize, but that also leads to a decreased average age of developing countries' populations.
  - c. An increase in the price of corn will decrease the amount of corn purchased. However, it will increase the amount of wheat purchased.
  - d. A decrease in the price of butter will increase the amount of butter purchased, but that would be bad because it would increase Americans' cholesterol levels.
  - e. none of the answers contains only normative statements.

ANS: E                      PTS: 1                      REF: 18

211. Which of the following is a normative statement?
- a. An increase in taxes will cause higher unemployment.
  - b. An increase in tariffs will increase the domestic prices paid by consumers.
  - c. Income should be redistributed from the top 2% of wage earners to the lower income brackets.
  - d. Running government budget deficits leads to higher market interest rates.
  - e. Increasing the money supply will lead to inflation.

ANS: C                      PTS: 1                      REF: 18

212. When President Harry Truman said that he wanted to find a one-armed economist because his economic advisors always said, "On the one hand . . . and on the other hand . . ." he recognized that the advice of economists is often equivocal. Why is their advice often equivocal?
- a. Economists cannot make up their minds on policy matters.
  - b. Economists always disagree with each other on policy issues.
  - c. Economists are aware that trade-offs are involved in most policy questions.
  - d. Economists are often unable to identify the critical questions involved in policy issues.

ANS: C                      PTS: 1                      REF: 18

213. Which of the following is an example of a normative statement?
- a. Higher unemployment rates are common among young people.
  - b. Young people should learn how to prepare their own taxes.
  - c. Auto insurance rates are generally lower for younger drivers.
  - d. Persons under the age of 30 watch more movies than those over the age of 30.
  - e. An individual under the age of 30 will generally have a longer life expectancy than someone over the age of 50.

ANS: B                      PTS: 1                      REF: 18

214. "The government should levy higher taxes on the rich and use the additional revenues to provide better housing for the poor." This statement illustrates:
- a. the fallacy of composition.
  - b. the basic principle of economics.
  - c. a normative economic statement.

- d. a positive economic statement.
- e. *ceteris paribus*.

ANS: C                      PTS: 1                      REF: 18

215. "The minimum wage should be increased so that low-income workers can afford to feed their families." This is an example of:
- a. a positive economic statement.
  - b. a negative economic statement.
  - c. the fallacy of composition.
  - d. a normative economic statement.
  - e. confusing correlation with causation.

ANS: D                      PTS: 1                      REF: 18

216. Which of the following represents a normative statement?
- a. A decrease in price leads to an increase in quantity demanded.
  - b. The temperature outside is 90 degrees.
  - c. The study of economics is more important than the study of history.
  - d. People will buy less butter at \$1.50 per pound than they will at \$1.00 per pound.
  - e. As an economy develops, the nation's birth rate tends to fall.

ANS: C                      PTS: 1                      REF: 18

217. Normative statements are:
- a. prescriptive, making claims about how the world ought to be.
  - b. descriptive, making claims about how the world is.
  - c. optimistic, putting the best possible interpretation on things.
  - d. statements that establish production goals for the economy.

ANS: A                      PTS: 1                      REF: 18

218. Suppose there are two members of the U.S. Congress who were once economics professors. Why is it important to be able to distinguish their positive from their normative statements about economic policy?
- a. Their positive statements help us understand the economy's response to a particular policy, while their normative statements reflect their value judgments.
  - b. Their positive statements help us understand the good results of a policy change, and their normative statements help us understand the negative results.
  - c. We really do not have to worry about them since trained economists never make normative statements.
  - d. Economists are always making assumptions, and policy should not be based on assumptions.
  - e. Economists are "tricky" by nature, so we need to be able to distinguish truth from political rhetoric.

ANS: A                      PTS: 1                      REF: 18

219. In a congressional debate about agricultural price supports, senators, members of congress, and other experts made the following four statements. Which of these is a normative statement?
- a. "Price supports are important because America should preserve the small family farm."
  - b. "Without price supports, the price of wheat and corn will fall by over twenty percent."
  - c. "The decline in commodity prices caused by the removal of price supports will result in fewer, larger farms."
  - d. "The decline in commodity prices caused by the removal of price supports will reduce the

number of tractors sold in the United States."

ANS: A                      PTS: 1                      REF: 18

220. Economics:
- a. is a narrowly focused discipline.
  - b. is a broad-ranging, problem-solving discipline.
  - c. concerns itself only with monetary decisions.
  - d. says very little about "everyday life."
  - e. deals strictly with business management decisions.

ANS: B                      PTS: 1                      REF: 19

221. Understanding economics would be helpful to which of the following individuals?
- a. a college student planning her next semester courses
  - b. an engineer building a superhighway
  - c. a fashion designer selecting fabric for a new spring collection
  - d. a restaurant owner deciding whether to expand his establishment's hours of operation
  - e. All of the students listed.

ANS: E                      PTS: 1                      REF: 19

222. Which of the following is not an example of the use of the problem solving perspective provided by economics?
- a. An investor considers the tax consequences of selling stocks in order to buy bonds (which she believes offer a better return).
  - b. A rancher recognizes that raising more cattle this year will damage his pasture and limit next year's herd size.
  - c. The Fogelberg family takes its vacation at Lake Arrowhead this year simply because they have done so for as long as anyone can remember.
  - d. An economics student contemplates the other subjects that she should be studying before deciding to study economics this evening.

ANS: C                      PTS: 1                      REF: 19

223. In economic terms, religious and spiritual services are treated as:
- a. goods that people desire.
  - b. resources or inputs.
  - c. marginal benefits.
  - d. *priceless* commodities.

ANS: A                      PTS: 1                      REF: 20

224. Graphs are useful because of the way they:
- a. facilitate interpretation and analysis of data.
  - b. clarify interpretation and analysis of ideas.
  - c. permit a person to more easily see relationships.
  - d. convey an idea that might otherwise take many words.
  - e. do all of the functions listed.

ANS: E                      PTS: 1                      REF: 22

225. The beginning point of a graph (the 0,0 point) is known as:
- a. ground zero.
  - b. the quadrant.
  - c. the origin.

- d. variable one.
- e. the beginning.

ANS: C                      PTS: 1                      REF: 22

226. Which of the following graphs or charts must add up to one hundred percent?

- a. a labor graph
- b. a pie chart
- c. a time-series graph
- d. a scatter diagram

ANS: B                      PTS: 1                      REF: 22

227. "The hotter it gets, the more water people drink." This statement implies that the relationship between temperature and water consumption must have:

- a. no relationship.
- b. a negative slope.
- c. a positive slope.
- d. either positive or negative slope.

ANS: C                      PTS: 1                      REF: 24

228. Which of the following is an example of a relationship with a negative slope?

- a. spending increases as incomes rise
- b. more items purchased when prices drop
- c. more items sold when quality improves
- d. less items purchased when quality decreases

ANS: B                      PTS: 1                      REF: 24

229. Most students expect that if they spend more time studying, the outcome will be improved grades in the course. This supposes that:

- a. a positive relationship exists between studying and grades.
- b. a negative relationship exists between studying and grades.
- c. grades are independent variables.
- d. grades are not dependent variables.

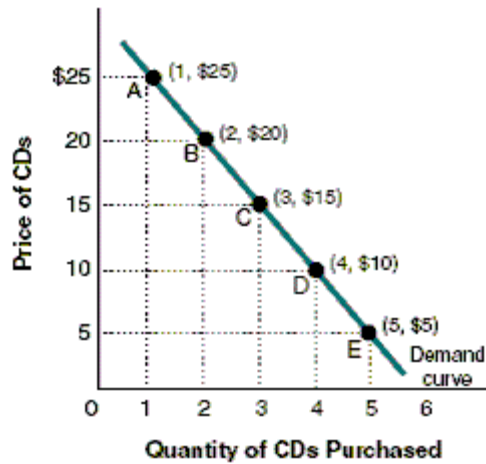
ANS: A                      PTS: 1                      REF: 24

230. Considering a linear curve, which of the following is not a correct observation?

- a. Its slope can be measured as a ratio of the change in the Y value to the change in the X value.
- b. It is also called a straight-line curve.
- c. Its slope can be measured as a ratio of the rise over the run.
- d. It should have a positive slope.

ANS: D                      PTS: 1                      REF: 26

**Exhibit 1-A**



231. Referring to **Exhibit 1-A**, which point on the demand curve represents the maximum number of CDs purchased?

- a. A
- b. B
- c. C
- d. D
- e. E

ANS: E                      PTS: 1                      REF: 24

232. **Exhibit 1-A** demonstrates that:

- a. price and quantity purchased are positively related.
- b. there is an inverse relationship between price and quantity purchased.
- c. as the price increases, the quantity purchased increases.
- d. price and quantity purchased share a direct relationship.

ANS: B                      PTS: 1                      REF: 24

**Table 1-A**

Combination	Price of Apples per Bushel in Dollars	Quantity of Apples Purchased in Bushels
A	9	3
B	7	4
C	5	6
D	4	8
E	2	10

233. **Table 1-A** demonstrates that price and quantity at each combination:

- a. are inversely related.
- b. are negatively related.
- c. are positively related.
- d. have no affect on each other.
- e. can be expressed as either inversely or negatively related.

ANS: E                      PTS: 1                      REF: 24

234. **Table 1-A** demonstrates that:

- a. more apples are purchased at each and every price.



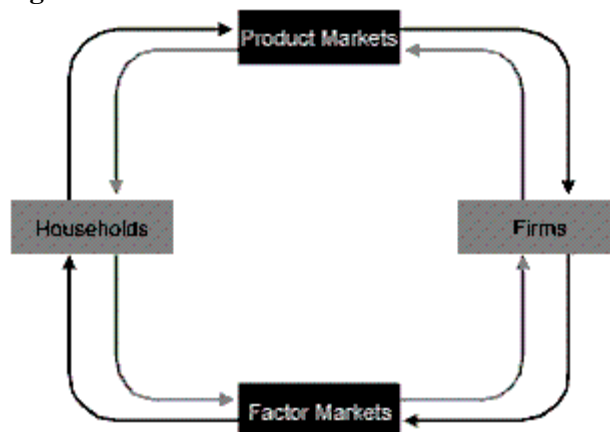
- b. more apples are purchased as the price declines.
- c. fewer apples are purchased as the price declines.
- d. fewer apples are purchased at each and every price.

ANS: B

PTS: 1

REF: 24

**Figure 1-A**



235. Refer to **Figure 1-A**. In the circular flow diagram, goods and services:
- a. flow in a clockwise direction.
  - b. flow in a counterclockwise direction.
  - c. are sold by businesses in the factor market.
  - d. flow in a clockwise direction AND are sold by businesses in the factor market
  - e. flow in a counterclockwise direction AND are sold by businesses in the factor market.

ANS: B

PTS: 1

REF: 12

236. Refer to **Figure 1-A**. In the circular flow diagram, payments for goods and services:
- a. flow in a clockwise direction.
  - b. flow in a counterclockwise direction.
  - c. are received by firms in the factor market.
  - d. flow in a clockwise direction AND are received by firms in the factor market.
  - e. flow in a counterclockwise direction AND are received by firms in the factor market.

ANS: A

PTS: 1

REF: 12