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Name:_____ Class:_____ Date:_____

Ch 01: The Art and Science of Economic Analysis

1. The fact that people have unlimited wants means that:
   a. they always want more of at least one good.
   b. people always purchase the goods that cost the least.
   c. there is always an excess supply of necessary goods in the market.
   d. selfish people are not concerned about others.

ANSWER: a

2. The problem of scarce resources:
   a. can be solved in a market economy but not in a command economy.
   b. can be solved if all resources are jointly owned by the public and private sectors.
   c. implies that the resources are not freely available.
   d. arises because all natural resources are owned by the government in every country.

ANSWER: c

3. Which of the following sentences is the best example of scarcity of time?
   a. Hugo is unemployed.
   b. Sasha wants to spend his money on a new hoverboard.
   c. Hugo is doing homework instead of going to the movies with his friends.
   d. Aria, a geography teacher, is retired and spends a lot of time gardening.

ANSWER: c

4. Scarcity:
   a. applies to an attorney but not to an Uber driver.
   b. exists to a greater or lesser extent for everybody.
   c. exists only in high-income economies.
   d. exists only in low-income economies.

ANSWER: b

5. Because resources are scarce and wants are unlimited, _____.
   a. only individuals from high-income families get everything they want
   b. we must choose from among our many wants
   c. there will be more services produced than goods
   d. people search for spiritual fulfillment rather than material fulfillment

ANSWER: b

6. Which of the following statements regarding the basic economic problem of scarcity is correct?
   a. The problem will exist only in countries that are not highly industrialized.
   b. The problem will disappear as production increases.
   c. The problem will disappear as technology improves.
   d. The problem will exist as long as resources are available in limited amounts.

ANSWER: d

7. Economics is best defined as the study of how:
   a. people make decisions in a world of scarcity.

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b. governments can influence the social structure.
c. to separate the executive from the legislature and the judiciary.
d. individuals can participate in electing their representatives to the government.

ANSWER: a

8. Which of the following is the best definition of economics?
a. An investigation of the evolutionary process of mankind
b. A study of society as a system of interconnected parts
c. A study of how people deal with the problem of scarcity
d. An examination of the structure and the role of the government in an economy

ANSWER: c

9. Economics is best described as the:
a. study of choice when scarcity exists.
b. study of the development of human society.
c. study of the composition and structure of matter.
d. branch of science that uses the principles of sociology.

ANSWER: a

10. Economics:
a. studies human behavior when scarcity exists and choices must be made.
b. does not provide a reasonable explanation of how people make decisions
c. does not accurately explain any human behavior as it is based on the assumption of rationality
d. is better at showing the way things ought to be than other social sciences

ANSWER: a

11. Mia is a retired economist who enjoys building wooden puzzles for her grandkids. She uses a workbench and tools from her garage, lumber she bought from the lumber store for $25, and varnish and paint she had left over from another project last year. As a retired economist is always an economist, which of the following statements is she likely to make about building wooden puzzles?
a. I'm not paying for any resources, so the wooden puzzles I'm building are a good example of free goods.
b. I only paid $25 for the lumber, so the wooden puzzles that I'm building are a good example of free goods.
c. I'm using scarce resources to build the wooden puzzles.
d. The resources I'm using to build the wooden puzzles are not scarce.

ANSWER: c

12. Michigan has an abundant supply of fresh water. However, an economist would consider it a scarce resource because:
a. water is necessary for human survival.
b. pollution will eventually destroy all life in the Great Lakes.
c. water is limited in supply relative to people's unlimited wants.
d. water commands a very high price.

ANSWER: c

13. Natural resources are:

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a. not considered scarce because no one pays for them.
b. not used in producing luxury goods.
c. renewable and exhaustible.
d. available in unlimited quantities.

ANSWER: c

14. Which of the following fundamental resources is the basis of labor?
a. Capital
b. Natural resources
c. Time
d. Profit

ANSWER: c

15. A resource is something that:
a. is used to produce goods and services.
b. is provided by nature and not produced by society.
c. exists in unlimited quantities in developed countries.
d. must be produced by a firm.

ANSWER: a

16. In economics, capital is defined as:
a. natural resources, such as water, oil, and iron ore.
b. the number of people in the labor force.
c. all human creations used to produce goods and services.
d. the money exchanged in the underground economy.

ANSWER: c

17. Which of the following would an economist classify as physical capital?
a. 100 shares of stock in Amazon.com
b. A $100 bill
c. A credit card
d. An engineer's laptop

ANSWER: d

18. Which of the following is not classified as physical capital by economists?
a. A $10 bill in a cashier's drawer at McDonald's
b. A commercial building that houses 250 employees
c. An electrician's power tools
d. A company-owned car

ANSWER: a

19. When economists refer to human capital, they refer to:
a. income earned by capitalists.
b. skills used in production.

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c. dividends earned by investors.
d. bonds held by the public.
ANSWER: b

20. Which of the following is an example of physical capital?
a. The owner of a local coffee shop
b. A dump truck
c. Money
d. Plumbing skills
ANSWER: b

21. An entrepreneur:
a. always makes a profit.
b. is appointed by the board of directors to manage the operations of a firm.
c. is a profit-seeking decision maker.
d. is an individual that benefits by not paying skilled resources for their services.
ANSWER: c

22. The payment in return for the use of capital is _____.
a. profit
b. interest
c. rent
d. dividends
ANSWER: b

23. The payment in return for the use of natural resources is _____.
a. profit
b. wages
c. rent
d. dividends
ANSWER: c

24. Entrepreneurial ability is rewarded by _____.
a. profit
b. wages
c. rent
d. dividends
ANSWER: a

25. Resources can be divided into _____.
a. people, money, and machines
b. savings, spending, investment, and capital
c. human resources, technology, and government
d. natural resources, labor, capital, and entrepreneurial ability

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ANSWER: d

26. Natural resources:
    a. include bodies of water, trees, oil reserves, and minerals.
    b. are not scarce.
    c. are inexhaustible as long as they are managed properly.
    d. are the result of human effort.

ANSWER: a

27. In economics, capital refers to:
    a. wages earned by workers.
    b. dividends and interest earned by investors.
    c. the foreign reserves held by governments.
    d. machines, buildings, tools, and knowledge.

ANSWER: d

28. An entrepreneur is:
    a. an individual who has an education.
    b. an organizer who seeks profitable opportunities and is willing to accept risks.
    c. a person who is hired by a firm to manage its operations.
    d. a person who earns profit without accepting any risks.

ANSWER: b

29. If a firm produces and sells only one unit of a good, its profit would be equal to the:
    a. market price of the good.
    b. revenue from the item sold minus the cost of the resources used to produce the good.
    c. difference between the interest paid by the firm on its outstanding loans and the rate of depreciation.
    d. sum of the price of the good and the wages paid to labor.

ANSWER: b

30. Unlike a service, a good:
    a. is desirable.
    b. uses resources to satisfy wants.
    c. is physical and tangible.
    d. is abundant and free.

ANSWER: c

31. The difference between a good and a service is that:
    a. a good helps satisfy unlimited wants but a service does not.
    b. a service helps satisfy unlimited wants but a good does not.
    c. a service is available in unlimited quantities but a good is not.
    d. a good is tangible but a service is not.

ANSWER: d

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32. Which of the following is a service?
    a. anything that can be used indefinitely
    b. anything for which people pay less money than they pay for a good
    c. an intangible activity that satisfies human wants
    d. any output produced by the service sector industry, such as fast food

ANSWER: c

33. As goods and services are scarce, _____.
    a. the opportunity cost is zero
    b. people must choose among alternatives
    c. all human wants can be satisfied
    d. resource prices are fixed

ANSWER: b

34. Goods and services are limited in supply because:
    a. people are greedy.
    b. they are produced using scarce resources.
    c. people have limited wants.
    d. they are produced by firms that seek profits.

ANSWER: b

35. A good or service is considered scarce if:
    a. any quantity of it can be consumed at a zero price.
    b. the amount people desire exceeds the amount available at a zero price.
    c. the amount people desire equals the amount available at any price.
    d. the amount people desire is less than the amount available at any price.

ANSWER: b

36. The expression "there's no such thing as a free lunch" means that:
    a. services may be free, but goods are never free.
    b. even if a good or service has a price of zero, it has a cost.
    c. charitable organizations should not serve free lunches to individuals from low-income families.
    d. individuals from low-income families are really the ones who pay for their allegedly free lunches.

ANSWER: b

37. Your best friend buys you lunch on your birthday. You think this was not a free lunch because:
    a. even if you didn't pay in dollars for it, you paid for it in extra calories.
    b. the resources used to produce the lunch were not available to satisfy other wants.
    c. you disagree with the expression "the best things in life are free."
    d. you can eat only if you work out first.

ANSWER: b

38. The interaction of economic decision makers:
    a. is not based on marginal analysis.

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b. determines how an economy's resources are allocated.
c. is not important in economic analysis.
d. occurs infrequently.

ANSWER: b

39. Goods and services are bought and sold in:
a. product markets.
b. resource markets.
c. foreign exchange markets.
d. the stock market.

ANSWER: a

40. Resources are bought and sold in:
a. product markets.
b. resource markets.
c. foreign exchange markets.
d. the stock market.

ANSWER: b

41. Households:
a. own and sell resources.
b. play a very minor role in an economy.
c. supply goods and services.
d. are the largest purchasers of resources.

ANSWER: a

42. The labor market is an example of:
a. the derivatives market.
b. a market in which the natural forces of demand and supply do not operate.
c. a market in which there is no scarcity.
d. a resource market.

ANSWER: d

43. In the simple circular flow model, the two markets are:
a. capital goods and consumer goods markets.
b. goods and services markets.
c. product and resource markets.
d. households and firms markets.

ANSWER: c

44. In the circular-flow model, households supply all of the following except:
a. labor.
b. goods and services.
c. capital.

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d. entrepreneurial ability.

ANSWER: b

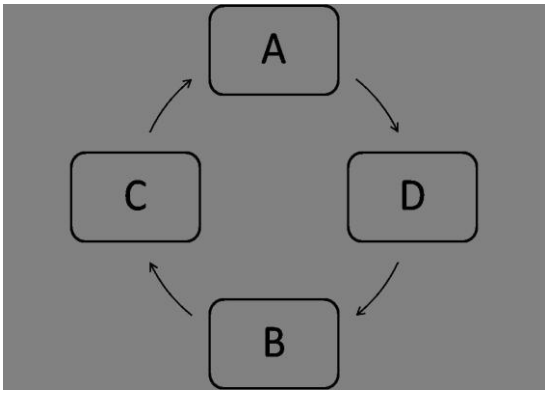
45. In the circular-flow model, firms demand all of the following except:
    a. labor.
    b. goods and services.
    c. capital.
    d. entrepreneurial ability.

ANSWER: b

46. In the circular-flow model, firms supply:
    a. labor.
    b. goods and services.
    c. capital.
    d. entrepreneurial ability.

ANSWER: b

Exhibit 1.1. The circular-flow model



47. **Refer to Exhibit 1.1.** Box B represents
    a. firms.
    b. resource markets.
    c. households.
    d. product markets.

ANSWER: b

48. **Refer to Exhibit 1.1**. If box D represents firms, then box C represents
    a. firms.
    b. resource markets.
    c. households.
    d. product markets.

ANSWER: c

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49. **Refer to Exhibit 1.1**. If box C represents households, then box D represents
    a. firms.
    b. resource markets.
    c. households.
    d. product markets.

ANSWER: a

50. **Refer to Exhibit 1.1.** If D represents firms and B represents resource markets, then the flow from D to B is:
    a. revenue.
    b. wages, interest, rent, and profit.
    c. labor, capital, and natural resources.
    d. income and expenditures.

ANSWER: b

51. **Refer to Exhibit 1.1.** If B represents resource markets and C represents households, then the flow from B to C is:
    a. wages, interest, rent, and profit.
    b. expenditures.
    c. labor, capital, and natural resources.
    d. income.

ANSWER: d

52. **Refer to Exhibit 1.1.** If C represents households and A represents product markets, then the flow from C to A is:
    a. revenue.
    b. expenditures.
    c. products.
    d. income.

ANSWER: b

53. **Refer to Exhibit 1.1.** If A represents product markets, and D represents firms, then the flow from A to D is:
    a. revenue.
    b. expenditures.
    c. labor, capital, and natural resources.
    d. goods and services.

ANSWER: a

Exhibit 1.2. The circular-flow model

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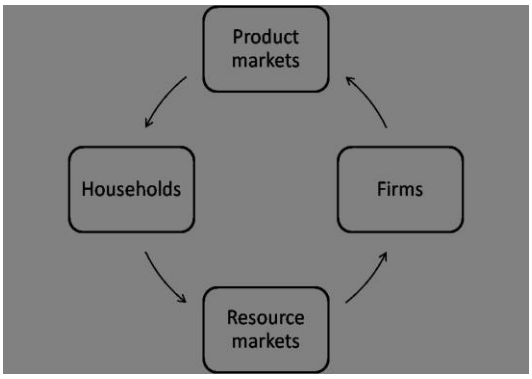

54. **Refer to Exhibit 1.2**. The flow from firms to product markets is
   a. goods and services.
   b. products.
   c. labor, capital, natural resources, and entrepreneurial ability.
   d. resources.

ANSWER: a

55. **Refer to Exhibit 1.2.** Firms supply _____ to households through product markets.
   a. goods and services
   b. products
   c. labor, capital, natural resources, and entrepreneurial ability
   d. wages, interest, rent, and profit

ANSWER: a

56. **Refer to Exhibit 1.2.** Households supply _____ to firms through resource markets.
   a. goods and services
   b. products
   c. labor, capital, natural resources, and entrepreneurial ability
   d. wages, interest, rent, and profit

ANSWER: c

57. By rational, economists mean that people:
   a. think only of themselves.
   b. know with certainty which alternative will turn out to be the best.
   c. try to make the best choices they can.
   d. try to maximize the cost of achieving a benefit.

ANSWER: c

58. The assumption that individuals act rationally implies that people:
   a. implicitly calculate the costs of and the benefits from an activity to decide if it is worthwhile.
   b. undertake all those activities that do not have any marginal benefit.
   c. only consider the costs of an activity to decide whether it is worthwhile.

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d. perform charitable deeds only if the cost is high for the benefactor.

ANSWER: a

59. You observe that grocery shoppers choose the shortest line at the checkout. This is an example of:
    a. rational self-interest
    b. selfishness
    c. altruism
    d. blind materialism

ANSWER: a

60. Rational choice implies:
    a. the use of an economic model.
    b. making decisions aimed at achieving some predetermined goal.
    c. that only monetary costs and benefits are weighed.
    d. that scarcity can be eliminated for that individual.

ANSWER: b

61. Economists believe that:
    a. people who choose to promote the interests of others cannot be acting rationally.
    b. concern for the welfare of others is consistent with the concept of self-interest.
    c. charitable donations would disappear if tax deductions for charitable giving were eliminated.
    d. the notion of self-interest rules out concern for others.

ANSWER: b

62. Rational choice takes time and requires information, but time and information are themselves _____.
    a. abundant
    b. selfish
    c. freely available
    d. scarce

ANSWER: d

63. Given that consumers need time and information to make good choices, which of the following is correct?
    a. Advertising is always harmful to consumers.
    b. Time and information are scarce and therefore valuable.
    c. Marginal analysis does not apply to the acquisition of information.
    d. Acquiring more information is always rational.

ANSWER: b

64. Given that consumers need time and information to make good choices, which of the following is correct?
    a. Paying for information is a waste of money.
    b. Acquiring more information is always rational.
    c. Marginal analysis does not apply to the acquisition of information.
    d. Consumers are willing to pay for information that improves choices.

ANSWER: d

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65. Rational decision makers continue to acquire information as long as the additional benefit expected from that information _____ the additional cost of gathering it.
   a. is less than
   b. exceeds
   c. is equal to
   d. is the same as

ANSWER: b

66. Economists generally believe that:
   a. a rational individual will pursue an activity if the average cost of the activity is equal to the total benefit from it.
   b. a rational individual will pursue an activity if the total benefit of the activity is more than the total cost of the activity.
   c. a rational individual will pursue an activity if the total cost of the activity is more than the total benefit from it.
   d. economic decisions result from random behavior.

ANSWER: b

67. Economic information:
   a. is usually scarce and costly to acquire.
   b. is usually available free to any decision maker.
   c. is usually not required for rational decision making.
   d. must be complete before any decision is made.

ANSWER: a

68. Economic _____ usually involves some adjustment to the existing situation.
   a. analysis
   b. choice
   c. information
   d. hypothesis

ANSWER: b

69. In economics, marginal usually refers to:
   a. a small change in an economic variable.
   b. a low-quality product or resource.
   c. an unimportant and irrelevant economic variable.
   d. an all-or-nothing economic decision.

ANSWER: a

70. In economics, _____ means incremental, additional, or extra.
   a. benefit
   b. marginal
   c. causation
   d. association

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ANSWER: b

71. In economics, marginal analysis:
    a. has no practical applications or real-world uses.
    b. eliminates incorrect decisions and bad choices.
    c. involves comparing the additional costs and additional benefits of an activity.
    d. involves examining only the total costs and total benefits of an activity.

ANSWER: c

72. A rational decision maker will make a change only if:
    a. the marginal benefit from the change exceeds the average benefit from the change.
    b. there are no costs involved.
    c. the change increases social welfare.
    d. the expected marginal benefit exceeds the expected marginal cost.

ANSWER: d

73. You will buy another pair of shoes only if:
    a. the marginal benefit from the change exceeds the average benefit from the change.
    b. there are no costs involved.
    c. the change increases social welfare.
    d. the expected marginal benefit exceeds the expected marginal cost.

ANSWER: d

74. Economists believe that people respond in a predictable way to changes in costs and benefits. This is known as:
    a. opportunity cost.
    b. scarcity.
    c. innovation.
    d. marginal analysis.

ANSWER: d

75. When economists say that people act as rational decision makers, they mean that:
    a. people act on the basis of their instincts.
    b. once a pattern of behavior has been established, people tend to become set in their ways.
    c. people respond in predictable ways to changes in costs and benefits.
    d. people rarely make errors when permitted to make transactions.

ANSWER: c

76. For an economist, marginal means:
    a. incremental.
    b. unimportant.
    c. level or size.
    d. inferior.

ANSWER: a

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77. For a non-economist, marginal means:
    a. inferior.
    b. unimportant.
    c. level or size.
    d. scarcity.

ANSWER: a

78. If the marginal cost of adding a new line of products is $10 million, then Walmart should add the product
    a. if marginal costs fall.
    b. if marginal benefits fall.
    c. if marginal benefits are less than $10 million.
    d. if marginal benefits are more than $10 million.

ANSWER: d

79. You want to sell your old mobile phone to your cousin, who wants to give you $300 for it. You will have to pay $40 to ship the phone to your cousin. As a rational decision maker, you should:
    a. sell it because the marginal benefit is smaller than the marginal cost.
    b. not sell it because the marginal benefit is smaller than the marginal cost.
    c. sell it because the marginal benefit is greater than the marginal cost.
    d. not sell it because the marginal benefit is greater than the marginal cost.

ANSWER: c

80. You want to sell your old car to your cousin, who wants to give you $20,000 for it. You will have to pay to tow the car to your cousin. As a rational decision maker, you should sell your car if the towing fee is:
    a. $19,999.
    b. $25,000.
    c. $30,100.
    d. $29,900.

ANSWER: a

81. To say that people make decisions at the margin means that:
    a. they usually wait until the last minute before making any decision.
    b. they weigh the additional costs and the additional benefits of various activities before they make a decision.
    c. most people just barely get by on the incomes they earn and live in poverty.
    d. if given a choice, most people would prefer to make their own decisions concerning the things that affect their lives.

ANSWER: b

82. Ricardo decided to go to class today instead of going to the movies. He made this decision because the additional benefit of going to:
    a. class exceeded the additional cost of going to class.
    b. the movies exceeded the additional cost of going to class.
    c. class exceeded the additional cost of going to the movies.
    d. the movies exceeded the additional cost of going to the movies.

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ANSWER: a

83. A rational decision maker will take only those actions for which the expected marginal benefit:
    a. is positive.
    b. exactly equals the total cost.
    c. is greater than or equal to the expected marginal cost.
    d. is less than the expected marginal cost.

ANSWER: c

84. You currently subscribe to eight streaming apps and are trying to decide whether you should subscribe to a ninth. What should determine your decision?
    a. The total cost of the streaming apps
    b. The cost of the ninth app compared to the additional enjoyment you would get from it
    c. The enjoyment you would get from the ninth streaming app
    d. The cost of the ninth app including the time it would take to watch additional shows

ANSWER: b

Table 1.1

Hours	Revenue
1	20
2	40
3	60
4	80
5	100

Mohamed tutors fellow students for $20 an hour.

85. **Refer to Table 1.1.** What is Mohamed's marginal benefit if he tutors for two hours instead of one hour?
    a. $80
    b. $60
    c. $40
    d. $20

ANSWER: d

86. **Refer to Table 1.1.** What is Mohamed's marginal benefit if he tutors for three hours instead of two hours?
    a. $20
    b. $40
    c. $60
    d. $80

ANSWER: a

87. **Refer to Table 1.1.** What is Mohamed's marginal benefit if he tutors for four hours instead of two hours?
    a. $80
    b. $60
    c. $40

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d. $20

ANSWER: c

Table 1.1

Hours	Revenue
1	$20
2	$40
3	$60
4	$80
5	$100

Mohamed tutors fellow students for $20 an hour.

88. **Refer to Table 1.1.** What is Mohamed's marginal benefit if he tutors for five hours instead of three hours?
a. $100
b. $80
c. $60
d. $40

ANSWER: d

89. **Refer to Table 1.1.** Mohamed hires an assistant for $10 per hour. What is his marginal cost if he tutors 1 hour a week and also pays his assistant?
a. $40
b. $30
c. $20
d. $10

ANSWER: d

90. **Refer to Table 1.1.** Mohamed hires an assistant for $10 per hour. What is his marginal cost if he tutors 5 hours per week instead of 4 hours per week and also pays his assistant?
a. $40
b. $30
c. $20
d. $10

ANSWER: d

91. Which of the following would be a topic considered in the field of macroeconomics?
a. The study of the growth of the Russian economy
b. The study of the causes of the relocation of U.S. manufacturing firms to India
c. The study of the differences in wages between men and women in Slovenia
d. The study of the effect of rent control on the housing market in Chicago

ANSWER: a

92. Microeconomics is the study of:
a. the effect of an increase in money supply on interest rates.
b. the effect of an increase in interest rates on the level of investment in an economy.

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c. the government's role as a distributor in an economy.
d. the economic behavior of individual decision makers.
ANSWER: d

93. Macroeconomics is the study of:
a. the behavior of large firms in a market.
b. the profit-maximizing behavior of producers.
c. the behavior of the economy as a whole.
d. how to use the least amount of natural resources to produce goods and services.
ANSWER: c

94. The determination of unemployment in specific markets is studied in:
a. econometrics.
b. normative economics.
c. macroeconomics.
d. microeconomics.
ANSWER: d

95. Macroeconomists analyze:
a. the factors that affect the output decisions of individual firms.
b. the effect of a tariff on the demand for a good.
c. the factors that influence the spending decisions of particular households.
d. the impact of unemployment on the growth rate of an economy.
ANSWER: d

96. Economic fluctuations are:
a. the output decisions of individual firms.
b. the effect of a tariff on the demand for a good.
c. the factors that influence the spending decisions of particular households.
d. the rise and fall of economic activity relative to the long-term growth trend of the economy
ANSWER: d

97. Economic fluctuations are also known as:
a. the output decisions of individual firms.
b. the effect of a tariff on the demand for a good.
c. the factors that influence the spending decisions of particular households.
d. business cycles.
ANSWER: d

98. An economic theory:
a. distorts reality in all its complexity.
b. is based on normative statements.
c. focuses on the unique aspects of each situation.
d. is a simplification of reality.

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ANSWER: c

99. Economic models, such as the circular-flow model:
    a. distort reality in order to improve forecasting ability.
    b. predict phenomena without explaining them.
    c. explain phenomena without predicting them.
    d. include every detail and interrelation among variables that are being analyzed.

ANSWER: d

100. An economic theory seeks to:
    a. capture the important elements of the problem under study.
    b. predict phenomena without explaining them.
    c. explain phenomena without predicting them.
    d. include every detail and interrelation among variables that are being analyzed.

ANSWER: a

101. The simple circular-flow model for households and firms is an economic model that focuses on the interaction between households and firms. Which of the following statements regarding the model is correct?
    a. As the model does not include the interaction between firms and resource markets, it does not predict correctly.
    b. As the model does not include the interaction between households and product markets, it does not predict correctly.
    c. The model has too many simplifying assumptions, and it cannot be used to make predictions about the real world.
    d. The model is a simplification of the real world, and it can be used to make predictions about the real world.

ANSWER: d

102. An economic model:
    a. produces poor predictions if it includes assumptions.
    b. must be presented in mathematical terms.
    c. is used to make predictions about the real world.
    d. can never be proven wrong if its assumptions are realistic.

ANSWER: c

103. Economic theories are:
    a. useful because they are as precise as theories in the physical sciences.
    b. useless because they are based on abstractions.
    c. useful because they allow us to make predictions.
    d. complex to understand because they do not make assumptions.

ANSWER: c

104. A good economic theory:
    a. is based on value judgments.
    b. contains as much detail as possible.
    c. cannot be proven false.

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d. can be used to make predictions.

ANSWER: d

105. The basic purpose of economic models is to:
a. make simplifying assumptions about the real world.
b. explain and predict events.
c. collect empirical data to support facts.
d. construct situations where controlled experiments can be carried out.

ANSWER: b

106. When constructing an economic model, economists:
a. rely mostly on their own value judgments and ignore the far more complex world of facts.
b. always try to duplicate reality by including all available information.
c. use assumptions that are true for the individual but never true for the whole economy.
d. must rely on assumptions for the sake of simplification.

ANSWER: d

107. All economic models must involve simplifications because:
a. economists would be unable to command high salaries if their models were too simple.
b. human behavior is very erratic and unpredictable.
c. reality is too complex to understand in its entirety, so we must reduce the complexity to a level that we can understand.
d. economists try to cover all the possible variables.

ANSWER: c

108. An economic model is useful if it:
a. includes every detail of reality.
b. involves no unproven assumptions.
c. is expressed in equations.
d. makes accurate predictions.

ANSWER: d

109. Economic theories:
a. express normative values.
b. use only perfect and complete information to formulate and test hypotheses.
c. use the fallacy of composition to validate hypotheses.
d. predict cause and effect in the real world.

ANSWER: d

110. Economists employ the scientific method to help explain economic behavior. In part, this means that:
a. there is a single economic theory accepted by all economists.
b. economic hypotheses are tested to determine their validity.
c. all economic laws have been proven true by laboratory tests.
d. assumptions are not necessary in economics.

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ANSWER: b

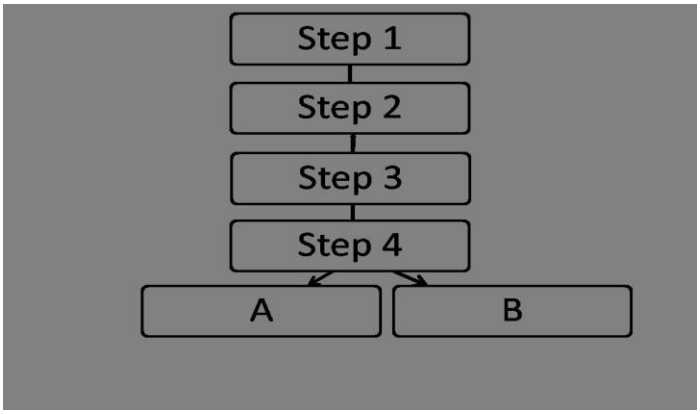
111. An economic model that sometimes makes incorrect predictions can be used by economic decision makers:
   a. under no circumstances.
   b. only if it assumes a positive correlation between the variables being analyzed.
   c. if it is mathematical.
   d. until a better model is developed.

ANSWER: d

112. Which of the following is an accurate list, in order, of the steps of the scientific method?
   a. Define variables; state assumptions; form a hypothesis; test
   b. State assumptions; define variables; form a hypothesis; test
   c. Identify variables; state assumptions; test; form a hypothesis
   d. Identify variables; form a hypothesis; form behavioral assumptions; test

ANSWER: a

Exhibit 1.3.



113. **Refer to Exhibit 1.3** of the Scientific Method: Step-by-Step. Step 1 is:
   a. Formulate a hypothesis.
   b. Specify assumptions.
   c. Identify the question and define relevant variables.
   d. Test the hypothesis.

ANSWER: c

114. **Refer to Exhibit 1.3** of the Scientific Method: Step-by-Step. Step 2 is:
   a. Identify the question and define relevant variables.
   b. Test the hypothesis.
   c. Formulate a hypothesis.
   d. Specify assumptions.

ANSWER: d

115. **Refer to Exhibit 1.3** of the Scientific Method: Step-by-Step. Step 3 is:

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a. Identify the question and define relevant variables.
b. Test the hypothesis.
c. Formulate a hypothesis.
d. Specify assumptions.

ANSWER: c

116. **Refer to Exhibit 1.3** of the Scientific Method: Step-by-Step. Step 4 is:
a. Formulate a hypothesis.
b. Test the hypothesis.
c. Identify the question and define relevant variables.
d. Specify assumptions.

ANSWER: b

117. **Refer to Exhibit 1.3** of the Scientific Method: Step-by-Step. If Box A is 'Reject the hypothesis,' then Box B is:
a. Formulate a hypothesis.
b. Modify the approach.
c. Reject the hypothesis
d. Use the hypothesis until a better one shows up.

ANSWER: d

118. The "other-things-constant" assumption:
a. allows an economist to make useful predictions.
b. is a prediction.
c. applies only to consumers' decisions and not to those of firms.
d. implies rational self-interest on the part of all economic actors.

ANSWER: a

119. The "other-things-constant" assumption is also known as:
a. ceteris paribus.
b. prediction.
c. normative.
d. variable.

ANSWER: a

120. In the economic model of consumer behavior, rational self-interest would likely be:
a. a key variable.
b. the hypothesis of the model.
c. a behavioral assumption.
d. a prediction of the model.

ANSWER: c

121. Behavioral assumptions:
a. describe what motivates decision makers.
b. pertain only to consumers.

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c. hold all other things constant.
d. are ways to test a hypothesis.

ANSWER: a

122. A hypothesis is:
a. an assumption about the behavior of economic agents.
b. a prediction of what will occur given certain assumptions.
c. a normative statement.
d. a forecast of future events.

ANSWER: b

123. A(n) _____ is a theory about how key variables relate to each other.
a. assumption
b. prediction
c. normative statement
d. hypothesis

ANSWER: d

124. Which of the following is not a part of the scientific method in economics?
a. making normative statements
b. identifying the question
c. formulating a hypothesis
d. defining the relevant variables

ANSWER: a

125. The assumption of rational self-interest is an example of a(n):
a. other-things-constant assumption.
b. behavioral assumption.
c. certainty.
d. variable.

ANSWER: b

126. The scientific method is useful:
a. only in fields of science such as chemistry and physics.
b. for testing the validity of the prediction of economic theories.
c. for predicting the behavior of individual consumers and producers.
d. when no economic variables can be assumed to be constant.

ANSWER: b

127. Step one in the scientific method to study economic problems is to:
a. formulate a hypothesis.
b. reflect an opinion.
c. specify assumptions.
d. define relevant variables.

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ANSWER: d

128. The primary behavioral assumption is:
    a. opportunity cost.
    b. demand.
    c. rational self-interest.
    d. scarcity.

ANSWER: c

129. Which of the following is an example of a positive economic statement?
    a. Workers with families should be paid at least the minimum wage.
    b. If crime rates were reduced, the world would be a better place to live.
    c. Marginal tax rates should be reduced for individuals in the highest tax bracket.
    d. An increase in the price of gasoline will cause a reduction in the amount of gasoline purchased.

ANSWER: d

130. Which of the following is a positive statement?
    a. An unemployment rate of 6 percent or higher is shameful for any country.
    b. Unemployment is a less important problem than inflation.
    c. Unemployment in the U.S. reached an all-time high in 2020.
    d. An inflation rate of 9 percent is too high.

ANSWER: c

131. A normative economic statement:
    a. is a hypothesis used to test economic theory.
    b. is a statement of fact.
    c. is a statement of what ought to be, not what is.
    d. indicates what will occur if certain assumptions are true.

ANSWER: c

132. Which of the following is a normative economic statement?
    a. The U.S. rate of unemployment was lower in 2019 than it was in 2014.
    b. Savings accounts earn interest, whereas checking accounts do not.
    c. The most significant issue that the U.S. is facing is the inflation rate.
    d. The unemployment rate increases when the percentage of the labor force without jobs increases.

ANSWER: c

133. Which of the following is an example of a normative economic statement?
    a. Incomes increase when national production increases.
    b. All citizens of an economy should have access to free college education.
    c. When the price of a good rises, people will buy more of it.
    d. The more time you spend studying, the higher your economics test scores will be.

ANSWER: b

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134. Which of the following is an example of a normative economic statement?
a. If the money supply decreases, interest rates will increase.
b. Teenage unemployment would be lower if there were no minimum wage.
c. The quantity of popcorn sold increases as the price of popcorn decreases.
d. The federal government should eliminate the debt ceiling because it does not serve any useful purpose.
ANSWER: d

135. "Legal immigration to the United States should be increased." This is an example of a:
a. normative statement.
b. positive statement.
c. forecast.
d. theory.
ANSWER: a

136. The difference between a positive economic statement and a normative economic statement is that:
a. a positive statement must be true, while a normative statement is often not true.
b. a normative statement must be true, while a positive statement is often not true.
c. a positive statement can be verified, while a normative statement cannot be verified.
d. a normative statement can be verified, while a positive statement cannot be verified.
ANSWER: c

137. The difference between positive economic statements and normative economic statements is that:
a. positive statements are based on fact, while normative statements are based on opinion.
b. positive statements are based on opinion, while normative statements are based on fact.
c. positive statements are true and normative statements are often false.
d. positive statements are often false and normative statements are true.
ANSWER: a

138. Sources of confusion in economic analysis include:
a. fallacy of composition.
b. rational self-interest.
c. fallacy of segmentation.
d. mistake of ignoring primary effects.
ANSWER: a

139. Sources of confusion in economic analysis include:
a. fallacy of segmentation.
b. mistake of ignoring primary effects.
c. rational self-interest.
d. association-is-causation fallacy.
ANSWER: d

140. Sources of confusion in economic analysis include:
a. fallacy of segmentation.

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b. mistake of ignoring secondary effects.
c. rational self-interest.
d. telling stories.

ANSWER: b

141. Ingrid claims that every time she sits for an exam, it begins to rain. Ingrid is committing the:
a. fallacy of composition.
b. fallacy that association is causation.
c. fallacy of segmentation.
d. mistake of ignoring secondary effects.

ANSWER: b

142. Rumi is a huge soccer fan. He claims that because his favorite team has five all-stars on it, the team is awesome and will win the FIFA World Cup. Rumi is committing the:
a. fallacy of composition.
b. fallacy that association is causation.
c. fallacy of segmentation.
d. mistake of ignoring the secondary effects.

ANSWER: a

143. Environmentalists have continually argued for the use of alternatives to fossil fuels to generate energy and that wind farms are a good alternative. As windmills can harm migratory birds, we could say that environmentalists have committed the:
a. fallacy of composition.
b. fallacy that association is causation.
c. fallacy of segmentation.
d. mistake of ignoring secondary effects.

ANSWER: d

144. Mateo notices that as German auto production increases, German population growth increases as well. He claims that one way to decrease population growth is for the government to require automakers to reduce production. His friend reminds him that he:
a. would be correct only when the economy was in a recession.
b. has committed the fallacy that association is causation.
c. would be correct only if Germany experienced a high rate of economic growth.
d. has committed the fallacy of composition.

ANSWER: b

145. One might commit the fallacy of composition by concluding that:
a. statements that are true during prosperity are not necessarily true during depression.
b. what is good for the individual is necessarily good for the group.
c. an event that precedes another is necessarily the cause of the latter.
d. intentions need not coincide with actions.

ANSWER: b

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146. Which of the following is not an example of the fallacy of composition?
   a. If I can get to work fastest by taking the interstate, so can everyone else.
   b. If I can only get away from it all by going to Fairbanks, everyone who needs to get away should go to Fairbanks.
   c. Every time I play with my dog, it rains; therefore, playing with my dog brings rain.
   d. If a Couch Potato antenna gives me the best TV reception, then everyone should have a Couch Potato antenna.

ANSWER: c

147. The fallacy of composition involves assuming that:
   a. you can determine the composition of a complex product just by examining its exterior properties.
   b. consumer durable goods today do not last as long as they did a generation ago.
   c. any mistakes made in producing a product using an assembly line technique will lead to a compounding of errors as the product moves down the line.
   d. what is true for any individual component in a group is true for the group as a whole.

ANSWER: d

148. One of the difficulties with an economic policy such as rent control is that:
   a. policy makers do not consider its secondary effects.
   b. the policy affects only the renters and not apartment owners.
   c. it is difficult to enforce anti-discrimination laws in the rental market.
   d. it makes landlords wealthy at the expense of renters.

ANSWER: a

149. Someone who committed the association-is-causation fallacy might conclude that:
   a. event B, which followed event A, was caused by event A.
   b. event B, which followed event A, was not necessarily caused by event A.
   c. what is true for the individual is not necessarily true for the group.
   d. what is true for the individual is also true for the group.

ANSWER: a

150. Someone who commits the fallacy of composition is likely to assume that:
   a. what is true for the individual is not necessarily true for the group.
   b. event B, which followed event A, was caused by event A.
   c. event B, which followed event A, was not necessarily caused by event A.
   d. what is true for the individual is also true for the group.

ANSWER: d

151. The _____ is the incorrect idea that if two variables are associated in time, one must necessarily cause the other.
   a. association-is-causation fallacy.
   b. fallacy of composition.
   c. behavioral assumption.
   d. secondary effect.

ANSWER: a

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152. Unintended consequences of economic actions that may develop slowly over time as people react to events is known as:
a. the association-is-causation fallacy.
b. the fallacy of composition.
c. a primary effect.
d. a secondary effect.
ANSWER: d

153. _____ are unintended consequences of economic actions that may develop slowly over time as people react to events.
a. Association-is-causation fallacies
b. Fallacies of composition
c. Primary effects
d. Secondary effects
ANSWER: d

154. The incorrect belief that what is true for the individual must necessarily be true for the group is known as:
a. the association-is-causation fallacy.
b. the fallacy of composition.
c. a primary effect.
d. a secondary effect.
ANSWER: b

155. The fallacy of _____ is the incorrect belief that what is true for the individual must necessarily be true for the group.
a. causation
b. composition
c. behavioral assumptions
d. secondary effects
ANSWER: b

156. An economist's main professional objective is to:
a. become wealthy.
b. control the government's decision-making processes.
c. understand how the economy works.
d. discover which stock prices will decrease.
ANSWER: c

157. Economics is best defined as how people use scarce resources to satisfy unlimited wants.
a. True
b. False
ANSWER: True

158. Resources consist of labor and natural resources.
a. True

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b. False

ANSWER: False

159. In economics, money is an example of capital.
a. True
b. False

ANSWER: False

160. Labor is the physical and mental effort used to produce goods and services.
a. True
b. False

ANSWER: True

161. Scarcity occurs when the amount people desire is less than the amount available at a zero price.
a. True
b. False

ANSWER: False

162. Economic choice results from scarcity.
a. True
b. False

ANSWER: True

163. An economist would classify 500 shares of stock in General Mills, Inc. as capital.
a. True
b. False

ANSWER: False

164. Resources are used only in the production of goods, not services.
a. True
b. False

ANSWER: False

165. Profit is the payment received by resource owners for the use of their capital.
a. True
b. False

ANSWER: False

166. Rent is the payment received by resource owners for the use of their natural resources.
a. True
b. False

ANSWER: True

167. Profit is the payment made for land resources.
a. True

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b. False

ANSWER: False

168. Considering both product markets and resource markets, most economic decision makers participate in the economy as both buyers and sellers.

a. True

b. False

ANSWER: True

169. Labor and capital are exchanged in the resource market.

a. True

b. False

ANSWER: True

170. A rational individual gives more to charity when such contributions receive favorable tax treatment.

a. True

b. False

ANSWER: True

171. A rational individual would make charitable contributions only if such contributions receive favorable tax treatment.

a. True

b. False

ANSWER: False

172. The assumption of rational self-interest does not rule out the possibility of concern for other individuals.

a. True

b. False

ANSWER: True

173. Rational self-interest is equivalent to pure selfishness.

a. True

b. False

ANSWER: False

174. Aleksi is thinking about buying a new condo. Rational self-interest demands that she do exhaustive research to acquire every bit of information possible about her potential options.

a. True

b. False

ANSWER: True

175. It is always rational to acquire more information before making a decision.

a. True

b. False

ANSWER: True

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176. A marginal adjustment refers only to a minor change.
   a. True
   b. False
ANSWER: False

177. A rational decision maker compares the expected marginal cost to the expected marginal benefit of any activity.
   a. True
   b. False
ANSWER: True

178. Most real economic choices involve small (or marginal) changes rather than all-or-nothing decisions.
   a. True
   b. False
ANSWER: True

179. Economic decision makers will continue to acquire information only as long as the expected additional benefit exceeds the expected additional cost of the information.
   a. True
   b. False
ANSWER: True

180. Discussions about the housing market in New York City is a microeconomics topic.
   a. True
   b. False
ANSWER: True

181. An economic model will produce poor predictions if it includes assumptions.
   a. True
   b. False
ANSWER: False

182. A good economic theory brings clarity to chaos.
   a. True
   b. False
ANSWER: True

183. Most economists consider a theory a good one if it predicts well.
   a. True
   b. False
ANSWER: True

184. Normative economic statements are claims based on opinions and value judgement.
   a. True
   b. False
ANSWER: True

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185. "There should be less discrimination against women" is an example of a positive economic statement.
a. True
b. False
ANSWER: False

186. Most of the disagreement among economists involves normative debates.
a. True
b. False
ANSWER: True

187. "An increase in the price of cheese causes consumers to purchase more cheese" is an example of a positive economic statement.
a. True
b. False
ANSWER: True

188. The ceteris paribus assumption is the other-things-constant assumption.
a. True
b. False
ANSWER: True

189. The ceteris paribus assumption is a behavioral assumption.
a. True
b. False
ANSWER: False

190. Economics is as much an art as it is a science.
a. True
b. False
ANSWER: True

191. Economists often focus on average behavior because it is easier to predict.
a. True
b. False
ANSWER: True

192. Economic theory allows economists to predict the behavior of a specific person or firm.
a. True
b. False
ANSWER: False

193. The association-is-causation fallacy is the error of assuming that what is true for one member of a group must be true for the group.
a. True

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b. False

ANSWER: False

194. The fallacy of composition is the error of believing that a cause-and-effect relationship exists between two events that are associated in time.

a. True

b. False

ANSWER: False

195. One problem with rent control is that policymakers often ignore its secondary effects.

a. True

b. False

ANSWER: True

196. Secondary effects are consequences of economic actions that develop slowly over time as people react to events.

a. True

b. False

ANSWER: True

197. As a scientist, an economist's main professional objective is to become wealthy.

a. True

b. False

ANSWER: False

198. College graduates with history or literature as their major tend to earn more than those who choose more quantitative disciplines like economics.

a. True

b. False

ANSWER: False

199. Economics is the only social science and the only business discipline for which the Nobel Prize is awarded.

a. True

b. False

ANSWER: True

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