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Chapter 1: Economics: The Study of Choice

MULTIPLE CHOICE

1. The basic concern of economics is to
   a. keep business firms from losing money.
   b. prove that capitalism is better than socialism.
   c. study the choices people make.
   d. use unlimited resources to produce goods and services to satisfy limited wants.
   e. explain changes in the stock market.

   ANS: C DIF: Easy

2. Economics, generally speaking, is primarily concerned with
   a. the operation of the bond and stock markets.
   b. the issues of income inequality or income equality.
   c. how people choose among the alternatives available to them.
   d. ceteris paribus, the scientific method, and the margin.
   e. keeping the government budget in balance.

   ANS: C DIF: Easy

3. Economics is a
   a. social science that studies goods with no alternative uses.
   b. natural science that studies goods with no alternative uses.
   c. social science concerned chiefly with how people choose among alternatives.
   d. social science concerned chiefly with reasons why society has unlimited resources.
   e. natural science explaining the inner psychology of spending behavior.

   ANS: C DIF: Medium

4. The study of how people choose among the alternatives available to them is the
   a. definition of economics.
   b. model of demand.
   c. theory of opportunity costs.
   d. method of distinguishing between microeconomics and macroeconomics.
   e. focus of personal financial planning.

   ANS: A DIF: Easy

5. According to the textbook, economics is a
   a. social science.
   b. study of business decisions, not social decisions.
   c. part of operations and management science.
   d. part of humanities.
   e. natural science.

   ANS: A DIF: Easy

6. Economics is a
   a. social science that deals with making choices among alternatives.
   b. natural science that concerns itself with allocating relatively scarce resources among alternative ends.
   c. science that has no theories or models based on the scientific method.
   d. humanities course that mainly concerns itself with limited wants versus unlimited resources.
   e. field in the humanities dealing with philosophical questions of material equity.

   ANS: A DIF: Easy

7. When we are forced to make choices, we are facing the concept of:
   a. ceteris paribus
   b. free goods
   c. scarcity
   d. the margin
   e. market discipline

   ANS: C DIF: Easy

8. Scarcity exists when
   a. a choice must be made among two or more alternatives.
   b. we face the notion of "all other things unchanged."
   c. countries and people find themselves facing poverty.
   d. the notions of normative economics come into play.
   e. a good or service is highly desired.

   ANS: A DIF: Medium

9. Scarcity in economics means
   a. not having sufficient resources to produce all the goods and services we want.
   b. the wants of people are limited.
   c. there must be poor people in rich countries.
   d. economists are clearly not doing their jobs.
   e. that the market system has failed to produce the material abundance it's promised.

   ANS: A DIF: Medium

10. A scarce resource is one that
    a. has two or more alternative uses.
    b. exhibits the basic properties of a free good.
    c. is confronted only under socialist conditions.
    d. has an unlimited supply.
    e. is highly desired by consumers.

    ANS: A DIF: Medium

11. A key theme fundamental to all of economics is
    a. there are limited wants.
    b. we are a rich country but are simply not aware of it.
    c. people with unlimited wants have limited means to satisfy them.
    d. there are unlimited resources.

e. people wouldn't feel scarcity if the distribution of resources was more equitable.

ANS: C DIF: Medium

12. The opportunity cost of going to a movie is
    a. the money spent on the ticket only.
    b. all of the other movies that could have been seen instead.
    c. the time spent in the theater only.
    d. the next best use of the time and the money spent.
    e. zero when you're a college student with a flexible schedule.

ANS: D DIF: Medium

13. Although water is very abundant in most places, it is scarce because
    a. it has no alternative uses.
    b. it has two or more alternative uses.
    c. it is a free good and not expensive.
    d. scarce goods in general are not all that costly.
    e. it is not equitably and evenly distributed.

ANS: B DIF: Medium

14. The concept of scarcity indicates that
    a. most goods have no alternative uses.
    b. almost all goods have alternative uses.
    c. most decisions can be made without sacrificing alternatives.
    d. certain societies are able to overcome the constraints imposed by alternative uses of resources.
    e. free goods are largely undesirable.

ANS: B DIF: Medium

15. The existence of alternative uses of a resource implies that it is:
    a. free
    b. scarce
    c. expensive
    d. plentiful
    e. highly desired by consumers

ANS: B DIF: Medium

16. A scarce resource is one that:
    a. is free
    b. is abundant
    c. has alternative uses
    d. has no alternative uses
    e. can only be found in nature

ANS: C DIF: Medium

17. The problem of scarcity is confronted by:
    a. industrialized societies

b. pre-industrialized societies
c. societies governed by communist philosophies
d. all societies
e. religious societies

ANS: D DIF: Medium

18. Which of the following is most likely an example of a free good?
a. sand in aquarium
b. sand in the middle of a desert
c. sand in a children's sandbox
d. sand at the beach
e. sand in an hourglass

ANS: B DIF: Medium

19. A(n) _______ does not pose the problem of scarcity; one use of the good is not an alternative to another use.
a. free good
b. scarce good
c. economic good
d. monetary good
e. public good

ANS: A DIF: Easy

20. Water is considered a scarce good rather than a free good because
a. it has alternative uses.
b. it does not have alternative uses.
c. scarce goods are less expensive than free goods.
d. free goods are more expensive than scarce goods.
e. water is not evenly distributed between societies.

ANS: A DIF: Medium

21. The problem of determining what goods and services society should produce exists because
a. resources are plentiful.
b. resources are scarce.
c. most of our resources are privately rather than socially owned.
d. most of our resources are socially rather than privately owned.
e. political divisions make government's planning process contentious.

ANS: B DIF: Medium

22. The problem of determining what goods and services society should produce
a. exists because we can produce more than we need or want.
b. exists because there are not enough resources to provide all the goods and services that people want to purchase.
c. would not exist if all goods and services were scarce.
d. would not exist if government owned all of the resources.
e. should focus on producing more free goods.

ANS: B DIF: Medium

23. A free good is different from a scarce good because it is
   a. not tradable.
   b. not produced.
   c. not scarce.
   d. found only in nature.
   e. so highly desired that the government makes it available to everyone.

ANS: C DIF: Medium

24. The statement that "there is no such thing as a free lunch" means
   a. there are no tradeoffs between economic goals.
   b. any production requires the use of scarce resources and the sacrifice of another alternative.
   c. choices need not be made in rational behavior.
   d. scarcity only exists in poor societies.
   e. there are no free goods.

ANS: B DIF: Medium

25. The answer to, "What goods are to be produced?" deals with
   a. who gets the goods.
   b. how tastes and preferences are determined.
   c. how resources are combined to produce goods and services.
   d. the kinds and quantities of goods and services produced.
   e. determining which goods will provided by markets and which by the government.

ANS: D DIF: Medium

26. A free good is
   a. also a scarce good.
   b. a relatively abundant good.
   c. a good with no opportunity cost.
   d. a good with relatively low opportunity cost.
   e. one that is provided by the government at no charge.

ANS: C DIF: Medium

27. The fundamental economic questions that every economic system must answer are:
   a. what, how, and for whom
   b. what, why, and for whom
   c. when, why, and for whom
   d. how, when, and how much
   e. what, where, and when

ANS: A DIF: Easy

28. The three fundamental economic questions of what, how, and for whom
   a. exist because of scarcity.
   b. are much more serious in a socialist system.

c. are not serious in a capitalistic system.
d. are not relevant in the industrialized world of today.
e. are faced by governments, but left unaddressed by the market system.

ANS: A DIF: Medium

29. Suppose that voters in your community pass a one-cent sales tax increase to fund education, knowing full well they will have to forgo other goods they typically consume. This primarily addresses the economic question of:
a. How will each good be produced?
b. For whom shall the goods be produced?
c. Why will the resources be used to produce goods?
d. What goods and services should a society produce?
e. Where will the new schools be located?

ANS: D DIF: Medium

30. An answer to the question "How are goods produced?" determines
a. who receives the goods that are produced.
b. how tastes and preferences are determined.
c. how resources are combined in the production of goods.
d. the types and quantities of goods and services produced.
e. which resources will be scarce in the future and which will be free.

ANS: C DIF: Medium

31. The problem of determining how goods and services should be produced exists because
a. we do not have enough skilled workers relative to the number of unskilled workers.
b. we do not have enough unskilled workers relative to the number of skilled workers.
c. corporations want to avoid changing their methods of production.
d. most goods can be produced with different combinations of resources.
e. we do not have enough tools and machinery to equip our workers.

ANS: D DIF: Medium

32. The problem of determining how goods and services should be produced is a problem of deciding
a. the best combinations of resources to be used for producing goods and services.
b. the extent to which imports should be reduced relative to exports.
c. the extent to which exports should be reduced relative to imports.
d. who owns the resources.
e. which goods we should produce and which we should trade for.

ANS: A DIF: Medium

33. In the 1970s, the Organization of Petroleum Exporting Countries (OPEC) tripled the price of petroleum, causing automobile manufacturers to look for ways to produce more fuel-efficient cars by substituting aluminum and plastic for steel. This was primarily a response to the economic question of:
a. When will each good be produced?
b. For whom shall the goods be produced?
c. What goods and services should a society produce?
d. How should goods and services be produced?

e. Why have cars become so expensive?

ANS: D DIF: Hard

34. An answer to the question "For whom" determines
 a. tastes and preferences.
 b. how resources are combined in production.
 c. the kinds and quantities of goods produced.
 d. who gets the goods and services produced.
 e. which workers will be employed to produce the goods and services society desires.

ANS: D DIF: Medium

35. The problem of determining for whom to produce exists because
 a. government regulations prevent firms from producing the kinds of goods that consumers want.
 b. a decision that one person or group will receive a good or service usually means that another person or group will not.
 c. taxes on firms make it more costly for them to produce all the goods that people want.
 d. taxes on consumers make it more difficult for them to buy all the goods they want.
 e. a more equitable distribution of goods tends to improve the health and well-being of people in society.

ANS: B DIF: Medium

36. One question that arises when determining for whom goods and services should be produced is:
 a. Who gets how much of the economic pie?
 b. How can we import more goods for domestic consumption?
 c. How can we reduce exports so as to leave more goods for domestic consumption?
 d. Should society outlaw child labor?
 e. How can we ensure that jobs are available to anyone who wants one?

ANS: A DIF: Medium

37. In the 1930s, the federal government established the social security system to provide a minimum level of income to elderly and disabled people. This primarily addressed the economic question of:
 a. When will each good be produced?
 b. For whom shall the goods be produced?
 c. What goods and services should a society produce?
 d. How should the resources be organized for production?
 e. What goods will be needed for society to care for its older citizens?

ANS: B DIF: Hard

38. In the early days of the COVID pandemic, state governments offered vaccines first to essential workers like health-care providers, senior citizens, and teachers. Prioritizing certain segments of the population was an answer to the question of:
 a. what
 b. when
 c. for whom
 d. how
 e. where

ANS: C DIF: Medium

39. Whenever a choice is made
    a. the value of all the other choices that could have been made is called opportunity cost.
    b. normative economics is encountered.
    c. the problem of "all other things unchanged" results.
    d. the opportunity cost of that choice is value of the next-best alternative.
    e. somebody gains and somebody must lose.

ANS: D DIF: Medium

40. Whenever a choice is made
    a. there is an opportunity cost.
    b. the cost is easy to measure in dollar terms.
    c. a free good must be involved.
    d. scarcity is not the problem.
    e. everyone will win if the choice involves the use of a free good.

ANS: A DIF: Medium

41. Opportunity cost is
    a. the costs of all sacrifices not chosen when a choice is made.
    b. the highest valued alternative to what was chosen.
    c. the result of having made a bad choice.
    d. the result of not making choices at the margin.
    e. the total value of all other items that might have been purchased with the same money.

ANS: B DIF: Medium

42. The opportunity cost of something is
    a. greater during periods of rising prices.
    b. equal to the money cost.
    c. less during periods of falling prices.
    d. what is given up to acquire it.
    e. higher when the good is a free good.

ANS: D DIF: Medium

43. Opportunity cost is
    a. zero for the use of a free combo meal offer.
    b. the dollar payment for a product.
    c. the benefit derived from a product.
    d. the value of the best alternative forgone in making any choice.
    e. irrelevant when the government provides a good to the public for free.

ANS: D DIF: Easy

44. The sacrifice of an alternative is called:
    a. revenue
    b. benefit

c. opportunity cost
d. production
e. the explicit cost of a choice

ANS: C DIF: Medium

45. Economics is different from other social sciences because it gives special emphasis to the study of ______; it is similar to other social sciences because they are all concerned with the study of _______.
a. unlimited resources; economic systems
b. human interactions; limited resources
c. opportunity costs; choices
d. social behavior; scarcity
e. material well-being; equality

ANS: C DIF: Hard

46. The economic way of thinking includes
a. attention paid to the opportunity costs involved in any choice.
b. the assumption that individuals choose to average out some objective.
c. concern with the biological make up of decision makers.
d. emphasis on how choices affect total values rather than marginal values.
e. emphasis on how to achieve material equity while maximizing production.

ANS: A DIF: Medium

47. The economic way of thinking includes
a. more attention paid to benefits rather than the costs involved in any choice.
b. the assumption that individuals choose to maximize some desirable objective.
c. emphasis on how choices affect total values rather than marginal values.
d. the notion that the world has solved the problem of scarcity.
e. emphasis on the strength of the government to provide for human wants and needs.

ANS: B DIF: Medium

48. The economic way of thinking includes
a. more attention paid to benefits rather than the costs involved in any choice.
b. the assumption that individuals choose to average out some objective.
c. emphasis on how choices are made at the margin.
d. the notion that the industrialized nations have solved the problem of scarcity.
e. emphasis on why it's important to think about the total, not marginal, impact of decisions.

ANS: C DIF: Medium

49. Making choices in order to achieve the highest possible value for some desirable objective is termed:
a. maximizing
b. minimizing
c. sanitizing
d. satisfying
e. satisficing

ANS: A DIF: Easy

50. The economic way of thinking has to do with
  a. analyzing benefits but not costs.
  b. analyzing costs but not benefits.
  c. making choices at the margin.
  d. making the distinction between microeconomics and macroeconomics.
  e. achieving equity in distribution while maximizing production.

  ANS: C DIF: Medium

51. The concept of the margin deals with
  a. making incremental choices.
  b. one more or one less of something.
  c. doing a little more or a little less.
  d. thinking about the next thing you will do rather than what you've already done.
  e! All of the above are true.

  ANS: D DIF: Medium

52. A feature that distinguishes economists' approaches to making choices is (are)
  a. assigning opportunity costs a major role in their analyses of choices.
  b. assuming individuals make choices to maximize objectives.
  c. emphasizing that choices are made at the margin.
  d! All of the above are true.
  e! None of the above are true.

  ANS: D DIF: Hard

53. After graduating from college, you consider spending an extra year studying to obtain a special certification that you believe will increase your starting salary from $60,000 per year to $72,000 per year. The extra $12,000 a year the certification will earn you is the _________ benefit of spending another year studying.
  a. average
  b. total
  c. marginal
  d. median
  e. maximum

  ANS: C DIF: Easy

54. The *best* example of making a choice at the margin is
  a. buying a new car.
  b. quitting your job.
  c. a coffee drinker drinking another cup of coffee.
  d. attending college.
  e. giving up cigarettes.

  ANS: C DIF: Medium

55. Macroeconomics deals with
  a. bits and pieces of the economy.

b. the question of how a business unit should operate profitably.
c. the analysis of the aggregate values in the economy.
d. ceteris paribus.
e. how consumers decide which goods to buy and which to forego.

ANS: C DIF: Medium

56. Microeconomics deals primarily with
a. the working of the entire economy or large sectors of it.
b. employment, growth, and inflation.
c. individual units in the economy.
d. normative economics.
e. minimizing society's idle resources in order to achieve high average income for citizens.

ANS: C DIF: Medium

57. The primary emphasis in macroeconomics is on
a. how firms set prices.
b. aggregates in the economy.
c. marginal analysis and normative economics.
d. international trade and environmental economics.
e. the question of what society should produce (and how much).

ANS: B DIF: Easy

58. Unemployment and inflation are
a. not relevant in the U.S. economy today.
b. major topics in macroeconomics.
c. unique only to capitalistic economies.
d. very important in the study of microeconomics.
e. desirable outcomes at the overall societal level.

ANS: B DIF: Medium

59. The study of a single firm and how it determines prices would fall under:
a. macroeconomics
b. microeconomics
c. the study of inflation
d. normative economics
e. econometrics

ANS: B DIF: Medium

60. Which of the following would be a part of macroeconomics? A study of
a. the change in automobile sales due to a change in the price of automobiles.
b. how a tax reduction impacts the profits of a business.
c. inflation.
d. how technological change in the construction industry affects the employment of construction workers.
e. why the price of eggs often surges upward in December.

ANS: C DIF: Hard

61. The branch of economics that examines the choices of individual consumers and firms is:
    a. positive economics
    b. normative economics
    c. macroeconomics
    d. microeconomics
    e. econometrics

ANS: D DIF: Easy

62. The branch of economics that examines the impact of choices on aggregates in the economy is:
    a. positive economics
    b. normative economics
    c. macroeconomics
    d. microeconomics
    e. public economics

ANS: C DIF: Easy

63. Economists concerned about the behavior of individual households, firms, and industries are studying:
    a. microeconomics
    b. macroeconomics
    c. neither macroeconomics nor microeconomics
    d. the "forest" of economic behavior, rather than the "trees"
    e. consumer economics

ANS: A DIF: Medium

64. Economists concerned about economy-wide trends in the unemployment of labor, the rate of inflation, and the level of economic production are studying:
    a. microeconomics
    b. macroeconomics
    c. specific units or parts of the economy
    d. the "trees" of economic behavior, rather than the "forest"
    e. public economics

ANS: B DIF: Medium

65. Macroeconomics is most likely to be concerned with the
    a. amount of unemployment in a specific industry.
    b. economic behavior of a particular household.
    c. economic behavior of specific parts or units of the economy.
    d. the typical standard of living in a country.
    e. role of government in providing goods and services to its citizens.

ANS: D DIF: Medium

66. Microeconomics is most likely to be concerned with the
    a. economy as a whole.
    b. activity of large segments of the economy.

c. economic behavior of specific parts or units of the economy.
d. economy-wide trends in unemployment, prices, and production.
e. standard of living enjoyed by a society.

ANS: C DIF: Medium

67. The Case in Point on the opportunity cost of COVID-19 indicated that even governments face
a. diminishing marginal product.
b. opportunity costs.
c. the fallacy of false cause.
d. positive statements.
e. explicit costs.

ANS: B DIF: Hard

68. The Case in Point on the opportunity cost of COVID-19 indicated that there is a trade-off between
a. vaccines and other scarce resources.
b. vaccines and masks.
c. freedom and life.
d. government and private decision-making.
e. time and money.

ANS: C DIF: Hard

69. The scientific method is more difficult for economists than, say, chemists, because
a. controlled laboratory conditions are more problematic in economics.
b. it is difficult to hold other factors that may affect the variables being studied constant in economics.
c. economic conditions may change quickly and unexpectedly.
d. human behavior is more spontaneous and unpredictable than chemical reactions.
e! All of the above are true.

ANS: E DIF: Medium

70. Anything whose value can change is:
a. a variable
b. a constant
c. a hypothesis
d. endogenous
e! All of the above are true.

ANS: A DIF: Easy

71. Something whose value does not change is a(n):
a. variable
b. constant
c. hypothesis
d. exogenous factor
e! All of the above are true.

ANS: B DIF: Easy

72. A systematic set of procedures through which knowledge is created is:
    a. the economy
    b. the scientific method
    c. a market
    d. a model
    e. algorithm

    ANS: B DIF: Easy

73. A hypothesis is an assertion that can be
    a. proven to be false.
    b. proven to be true.
    c. proven to be true or false.
    d. tested only in the normative sense.
    e. taken on faith.

    ANS: A DIF: Easy

74. A proposition about the relationship between two variables that can be proven false is called:
    a. a hypothesis
    b. a law
    c. a theory
    d. the scientific method
    e. a fallacy

    ANS: A DIF: Easy

75. The models used in economics
    a. are usually limited to variables that are directly related.
    b. are essentially not reliable because they are not testable in the real world.
    c. are of necessity unrealistic and have no relationship to the real world.
    d. emphasize basic relationships by abstracting from complexities in the everyday world.
    e. are purposefully complex in order to capture all of the nuances of human behavior.

    ANS: D DIF: Hard

76. Economic models are
    a. created and used in order to duplicate virtually every aspect of the real world.
    b. useless if they are simple.
    c. made generally of wood, plastic, and/or metal.
    d. based on simplifying assumptions.
    e. attractive individuals chosen to sell economics as a field of study to undergraduates.

    ANS: D DIF: Medium

77. A model or theory in economics is
    a. based mostly on value judgments.
    b. built using relevant observations, assumptions, and abstractions.
    c. only useful if it correctly portrays the real world and all of its complexities.
    d. useful only if it is based on normative economic statements.
    e. useful for predicting what will happen, but not for explaining what has already happened.

ANS: B DIF: Hard

78. Which of the following statements is (are) true?
 a. A model is a set of simplifying assumptions about some aspect of the real world.
 b. Models are based on assumed conditions that are simpler than those of the real world.
 c. A model cannot be a complete representation of the real world.
 d. A model can be used to explain the past and predict what will happen in the future.
 e! All of the above are true.

ANS: D DIF: Hard

79. According to the text, which of the following is *true*?
 a. Scientists can prove a hypothesis is true.
 b. Scientists can show that a hypothesis is false.
 c. Economists really don't try to use the scientific method.
 d. Economists' models are only useful if they are always right.
 e! None of the above is true.

ANS: B DIF: Hard

80. In economics, the function of theories, laws, and hypotheses is to
 a. prevent any misunderstanding of economic behavior.
 b. divide topics between microeconomics and macroeconomics.
 c. generate a complete and unchanging description of economic behavior.
 d. discover relationships between events that are important to economic behavior.
 e. understand the psychology of human desire.

ANS: D DIF: Medium

81. A hypothesis that has been tested extensively without being rejected and has won widespread acceptance is a:
 a. model
 b. constant
 c. variable
 d. theory
 e. maxim

ANS: D DIF: Easy

82. A theory that has won virtually universal acceptance is a:
 a. model
 b. hypothesis
 c. law
 d. variable
 e. paradigm

ANS: C DIF: Easy

83. A simplified representation of a particular problem is a(n):
 a. model

b. constant
c. hypothesis
d. law
e. integrated system

ANS: A DIF: Easy

84. Each of the following statements about the use of models in the study of economics is true *except*:
   a. Models fit the observed facts exactly.
   b. Models are sometimes revised in light of new research findings.
   c. Models are easier to manipulate than the reality they represent.
   d. Models contain the essential features of the economic behavior being studied.
   e. Models require simplifying assumptions.

   ANS: A DIF: Hard

85. Economists are
   a. concerned with developing theories and interested in solving problems.
   b. interested in solving problems but not concerned with developing theories.
   c. reluctant to predict changes in variables such as prices, employment, and spending.
   d. always in agreement on the best way to implement policy decisions.
   e. only interested in measuring the profitability of business firms in the economy.

   ANS: A DIF: Medium

86. Economists are
   a. concerned with developing theories but not interested in solving problems.
   b. interested in solving problems but not concerned with developing theories.
   c. reluctant to predict changes in variables such as prices, employment, and spending.
   d. not always in agreement on the best way to implement policy decisions.
   e. most concerned with issues of achieving economic equality for a country's citizens.

   ANS: D DIF: Medium

87. A variable that responds to a change in another variable is called a(n) _______ variable.
   a. independent
   b. dependent
   c. theoretical
   d. exogenous
   e! All of the above are true.

   ANS: B DIF: Medium

88. A variable that induces a change in another variable is a(n):
   a. dependent variable
   b. independent variable
   c. codependent variable
   d. constant variable
   e. endogenous variable

   ANS: B DIF: Easy

89. A basic assumption used in many economic models is
    a. as price goes up, the amount purchased will go up too.
    b. as price goes up, less will be offered for sale on the market.
    c. if the underlying theory doesn't represent reality, it is not useful.
    d. ceteris paribus, which means all other things remain unchanged.
    e. there are dozens of goods that consumers must choose from.

    ANS: D DIF: Medium

90. Ceteris paribus means
    a. allowing all other things to change.
    b. making value judgments.
    c. all other things unchanged.
    d. differentiating between macroeconomics and microeconomics.
    e. accounting for tastes.

    ANS: C DIF: Easy

91. The "all other things unchanged" assumption is useful because it
    a. states the main economic objectives.
    b. is a vehicle for determining whether a particular outcome is "good" or "bad."
    c. helps to approximate real-world conditions.
    d. helps to restrict analysis to the effects of one single factor on a dependent variable.
    e. allows many economic variables to move in concert with one another.

    ANS: D DIF: Medium

92. The "all other things unchanged" assumption is used to
    a. express the fundamental questions in economics.
    b. approximate real-world conditions.
    c. simplify the complexities of the real world.
    d. account for every possible contingency when predicting human behavior.
    e! do all of the above.

    ANS: C DIF: Medium

93. A term that means "all other things unchanged" is:
    a. dependent variable
    b. independent variable
    c. quid pro quo
    d. ceteris paribus
    e. quod erat demonstrandum

    ANS: D DIF: Easy

94. The use of controlled experiments using particular substances to test hypotheses is most likely to be found in:
    a. chemistry
    b. economics
    c. history

d. the humanities
e. philosophy

ANS: A DIF: Easy

95. Reaching the incorrect conclusion that one event causes another because the events tend to occur together is called
a. the scientific method.
b. the economic way of thinking.
c. making choices at the margin.
d. the fallacy of false cause.
e. fallacy of composition.

ANS: D DIF: Easy

96. The incorrect presumption that because two events tend to occur together, one must cause the other is the
a. confusion of economists.
b. blunder of science.
c. fallacy of false cause.
d. error of inclusion.
e. rule of remarkable correlation.

ANS: C DIF: Easy

97. A person who mistakenly assumes that because one event follows another, the second event results from the first commits the fallacy of:
a. division
b. addition
c. composition
d. false cause
e. ad hominem

ANS: D DIF: Medium

98. Suppose you observe that the sun sets every evening after the six o'clock business report. If you conclude that the six o'clock business report makes the sun set, you are guilty of the fallacy of:
a. division
b. composition
c. false cause
d. science
e. equivocation

ANS: C DIF: Medium

99. The Case in Point on "baldness and heart disease" suggests that by preventing baldness
a. men can reduce the likelihood they will develop colon cancer.
b. men are unlikely to influence their chances of having heart problems.
c. men are likely to reduce their chances of having heart problems.
d. men can live longer.
e. men can live fuller and richer lives.

ANS: B DIF: Medium

100. The observed correlation between baldness and heart disease demonstrates that
   a. being bald causes a man to have heart disease.
   b. being bald actually makes heart disease less likely.
   c. bald men are generally unreliable.
   d. there is probably some other factor that causes both baldness and heart disease.
   e. having undiagnosed heart disease can lead to baldness.

ANS: D DIF: Medium

101. Statements that are a hypothesis or statement of fact are:
   a. pecuniary
   b. positive
   c. nominal
   d. normative
   e. equivocal

ANS: B DIF: Easy

102. An example of a positive statement is:
   a. The rate of unemployment is four percent.
   b. A high rate of economic growth is good for the country.
   c. Everyone in the country needs to be covered by national health insurance.
   d. Baseball players should not be paid higher salaries than the president of the United States.
   e. The minimum wage is too low.

ANS: A DIF: Medium

103. An example of a positive statement is:
   a. The rate of unemployment should be 4 percent.
   b. A high rate of economic growth is good for the country.
   c. An increase in investment spending tends to reduce unemployment.
   d. Everyone in the country needs to be covered by national health insurance.
   e. Cosmetologists should be licensed in order to practice their trade.

ANS: C DIF: Medium

104. Statements that make value judgments are:
   a. pecuniary
   b. positive
   c. nominal
   d. normative
   e. equivocal

ANS: D DIF: Easy

105. An example of a normative statement is:
   a. The rate of unemployment is 4 percent.
   b. A high rate of economic growth is good for the country.

c. The federal government spends half of its budget on national defense.
d. People with health insurance tend to spend more on health care than those who are uninsured.
e. People who are bald are more likely to suffer heart disease.

ANS: B DIF: Medium

106. An example of a normative statement is:
a. The rate of unemployment is 4 percent.
b. A high rate of economic growth creates more jobs for the country.
c. The federal government spends half of its budget on national defense.
d. Everyone in the country needs to be covered by national health insurance.
e. The COVID-19 vaccine is ineffective in preventing the disease.

ANS: D DIF: Medium

107. The current rate of unemployment of 5 percent is too high. This is a _______ statement.
a. normative
b. ceteris paribus
c. positive
d. fallacy of false cause
e. nonsensical

ANS: A DIF: Medium

108. The current rate of unemployment is 5 percent. This statement
a. is positive.
b. is normative.
c. involves a value judgment.
d. is a personal reflection and has no value in economics.
e. cannot be proven right or wrong.

ANS: A DIF: Medium

109. Many disagreements among economists result because
a. economists deal only with positive economics.
b. economists sometimes make normative judgments.
c. economics is a social science.
d. economics deals so much with theories and models.
e. economists are unsure how the market system functions.

ANS: B DIF: Medium

110. "Smokers are more likely to be murdered than nonsmokers." This statement is an example of
a. the fallacy of unintended consequences.
b. a positive economic statement.
c. a normative economic statement.
d. a value judgment.
e. the fallacy of composition.

ANS: B DIF: Medium

111. Most economists' disagreements are a result of
   a. factual considerations.
   b. positive economics.
   c. the scientific method.
   d. normative considerations.
   e. uncertainty about how prices are determined in the markets for goods and services.

   ANS: D DIF: Medium

112. The statement that the minimum wage needs to be increased is a
   a. positive statement.
   b. normative statement.
   c. condition contained in the fallacy of false cause.
   d. scientific conclusion based on marginal analysis.
   e. proven fact.

   ANS: B DIF: Medium

113. Positive statements
   a. imply value judgments must be made.
   b. are factual and can be tested.
   c. deal with what ought to be.
   d. are dealt with primarily in microeconomics.
   e. must be proven true to be valid.

   ANS: B DIF: Easy

114. Positive statements are
   a. microeconomic in nature.
   b. macroeconomic in nature.
   c. statements involving value judgments.
   d. statements that can be tested.
   e. statements about what "should be."

   ANS: D DIF: Medium

115. A normative statement deals with
   a. the facts.
   b. what was, is, or will be.
   c. what ought to be.
   d. the scientific method.
   e. a logical fallacy of some type.

   ANS: C DIF: Medium

116. The Case in Point on COVID-19 indicates that countries facing the coronavirus
   a. could choose to save lives at the cost of lost economic opportunities.
   b. could choose to preserve their economic vitality at the cost of human lives.
   c. faced a trade-off between lives and individual liberties.
   d! All of the above are true.
   e! None of the above are true.

ANS: D DIF: Medium

117. The Case in Point on soccer illustrates the general principle that even professional soccer players
    a. think at the margin.
    b. are concerned with opportunity cost.
    c. display optimizing behavior.
    d. can fall victim to the fallacy of false cause.
    e. worry about questions of what, how, and for whom.

ANS: C DIF: Hard

TRUE/FALSE

118. The existence of alternative uses for a resource implies it isn't scarce.

ANS: F DIF: Easy

119. The situation when we face alternative choices is called abundance.

ANS: F DIF: Easy

120. A good is scarce if we must sacrifice something to obtain it.

ANS: T DIF: Easy

121. Scarcity is determined by the existence of bad alternatives.

ANS: F DIF: Easy

122. A free good is one that can be acquired without sacrifice.

ANS: T DIF: Easy

123. Anything that has alternative uses has an opportunity cost and is, therefore, scarce.

ANS: T DIF: Easy

124. The questions of what goods to produce, how to produce them, and for whom to produce them are of concern only in advanced industrial economies.

ANS: F DIF: Medium

125. The economic way of thinking pays special attention to costs, assumes individuals seek to maximize some objective, and focuses on choices at the margin.

ANS: T DIF: Medium

126. Microeconomics is a branch of economics that examines the impact of choices on aggregates in the economy.

ANS: F DIF: Easy

127. A theory or model is a simplification of reality, in much the same way that a road map shows only those features needed to get from one point to another.

ANS: T DIF: Easy

128. The fallacy of false cause is committed when a person mistakenly assumes that one event causes another because the first event precedes the second.

ANS: T DIF: Easy

129. The three fundamental economic questions are what, how, and why.

ANS: F DIF: Easy

130. Margin suggests additional or incremental.

ANS: T DIF: Easy

131. The opportunity cost of a choice is the expected value of the next-best alternative.

ANS: T DIF: Easy

132. All choices have monetary costs.

ANS: F DIF: Easy

133. An attempt should always be made to maximize opportunity cost.

ANS: F DIF: Easy

134. The value of the next-best alternative not chosen is called opportunity cost.

ANS: T DIF: Easy

135. Economists pay special attention to making choices at the margin.

ANS: T DIF: Easy

136. Individuals will usually make choices to minimize the value of some desirable objective.

ANS: F DIF: Easy

137. Economists attempt to discover explanations for events that are observed.

ANS: T DIF: Easy

138. Ceteris paribus means allowing all things to change.

ANS: F DIF: Easy

139. Positive statements can be tested for being true but they can't be proven false.

ANS: F DIF: Easy

140. The common assumption that all other things remain unchanged is known as the *ad hominem* assumption.

ANS: F DIF: Easy

141. The fallacy of composition exists when two things happen at the same time, leading someone to believe that one event caused the other.

ANS: F DIF: Medium

142. The idea of optimization in economics means doing the best you can with the resources at your disposal.

ANS: T DIF: Medium

ESSAY

143. Briefly define scarcity, choice, and opportunity cost and explain carefully how they are related and why they are so essential in the study of economics.

ANS: *Scarcity means we don't have enough resources to satisfy all of our wants. Because of scarcity, we have to make choices, which means that everything we decide to do comes at the cost of something else—i.e. everything has an opportunity cost.*

DIF: Easy

144. Explain how and why the concept of "all other things unchanged" is so important in the study of economics.

ANS: *The world is a complex place, with lots of moving parts. To keep from reaching false conclusions, it is important to isolate the impact of all of those moving parts on whatever it is we are interested in. So, economists often let one thing change while holding the other factors that may affect a variable of interest constant. For example, we may want to see the impact of a change in price on the quantity of movies consumers see, holding income constant; but we may also want to see how a change in income might affect the quantity of movies consumers see, holding the price constant.*

DIF: Medium

145. Distinguish between microeconomics and macroeconomics.

ANS: *Microeconomics is the study of the market for a single product or for related products, like the markets for bread and flour. Macroeconomics is the study of the economy as a whole, combining the individual markets for (often) unrelated goods like bread, YouTube advertising, sodium pentathol, and professional baseball players.*

DIF: Easy

146. Define positive and normative statements and give four examples of each.

ANS: *Positive statements are testable statements about what actually is or will be. Normative statements are value-laden judgments about what should be. Examples of positive statements are: raising the minimum wage will increase teen unemployment; when the price of a good increases, consumers buy less; men are faster than women, on average; the sun rises in the east. Normative statements are: We should raise the minimum wage; food should be less expensive; women should be half of every corporation's board of directors; we should abandon daylight savings time.*

DIF: Medium

147. "Since economics is a science, economists must not become involved in making any value judgments in their formulation of policy." Do you agree with this statement? Explain.

ANS: *Many of the choices individuals and organizations make involve value judgments. Economics, at a minimum, provides a starting point for weighing those values against one another. By providing evidence about what is possible (efficiency), economics helps policymakers, for example, decide what value they might place on values such as fairness, and at what cost indulging those values comes at.*

DIF: Medium

148. Explain the following statement: "The relative scarcity of resources makes the operation of any economic system a matter of choosing among various alternatives."

ANS: *Because of scarcity, we are forced to make choices. In other words, we must evaluate tradeoffs. There are few universal truths such as "apples are always preferred to oranges." Instead, we might say that "Consumer A likes 4 apples better than 2 oranges." In other words, we can only evaluate economic systems by the choices they make when faced with tradeoffs.*

DIF: Medium

149. Explain the following statement: "In economics there are few absolute solutions. Almost all problem solutions require tradeoffs."

ANS: *Because of scarcity, we are forced to make choices. In other words, we must evaluate tradeoffs. There are few universal truths such as "apples are always preferred to oranges." Instead, we might say that "Consumer A likes 4 apples better than 2 oranges." In other words, we can only make statements about relative preferences, or tradeoffs.*

DIF: Medium

150. Two important notions in economics are the scarcity of resources and the tremendous magnitude of the wants of people. Given this, evaluate and explain the following statement: "The study of economics is essentially to investigate how to maximize the satisfaction of wants utilizing available resources."

ANS: *This statement is true. It is only because of scarcity that people are forced to choose; economics assumes that people will choose the options that will bring them the greatest satisfaction . . . and then tests the theories about how that comes about by gathering evidence.*

DIF: Medium

151. Explain the rationale behind the assertion that economics is a social science and uses the scientific method.

ANS: *Economics studies the decisions that people make, which moves it from a natural science to a social science, as people make personal decisions in the context of others also making decisions at the same time. It uses the scientific method in that economists theorize about how people make decisions (or what decisions they would make in certain circumstances), and then revise or abandon their theories when evidence arises to prove their theories false.*

DIF: Easy