|  |
| --- |
| **True / False** |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. Economists try to address their subject with a scientist’s objectivity.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. Economists devise theories, collect data, and then analyze these data in an attempt to verify or refute their theories.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. The scientific method is the dispassionate development and testing of theories about how the world works.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. The scientific method can be applied to the study of economics.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. While the scientific method is applicable to studying natural sciences, it is not applicable to studying a nation’s economy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. For economists, conducting experiments is often difficult and sometimes impossible.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. Economists usually have to make do with whatever data the world happens to give them.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. It is difficult for economists to make observations and develop theories, but it is easy for economists to run experiments to generate data to test their theories.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. Since economists cannot use natural experiments offered by history, they must use carefully constructed laboratory experiments instead.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. Historical episodes are not valuable to economists.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. Historical episodes allow economists to illustrate and evaluate current economic theories.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. Good assumptions simplify a problem without substantially affecting the answer.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. Assumptions can simplify the complex world and make it easier to understand.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. Economists often find it worthwhile to make assumptions that do not necessarily describe the real world.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. Economists use one standard set of assumptions to answer all economic questions.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. Economic models are most often composed of diagrams and equations.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. Economic models omit many details to allow us to see what is truly important.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. Economic models can help us understand reality only when they include all details of the economy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. An economic model can accurately explain how the economy is organized because it is designed to include, to the extent possible, all features of the real world.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. All scientific models, including economic models, simplify reality in order to improve our understanding of it.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. The circular-flow diagram explains, in general terms, how the economy is organized and how participants in the economy interact with one another.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 22. A circular-flow diagram is a visual model of the economy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. The circular flow model is not used anymore because it fails to perfectly replicate real world situations.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. In the circular-flow diagram, households and firms are the decision makers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 25. In the circular-flow diagram, firms produce goods and services using the factors of production.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. In the circular-flow diagram, factors of production are the goods and services produced by firms.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. In the circular-flow diagram, factors of production include land, labor, and capital.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. In the circular-flow diagram, firms own the factors of production and use them to produce goods and services.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. In the circular-flow diagram, firms consume all the goods and services that they produce.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 30. In the circular-flow diagram, the two types of markets in which households and firms interact are the markets for goods and services and the markets for factors of production.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. In the markets for goods and services in the circular-flow diagram, households are buyers and firms are sellers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. In the markets for the factors of production in the circular-flow diagram, households are buyers and firms are sellers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. In the circular-flow diagram, one loop represents the flow of goods, services, and factors of production, and the other loop represents the corresponding flow of dollars.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. In the circular-flow diagram, one loop represents the flow of goods and services, and the other loop represents the flow of factors of production.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. In the circular-flow diagram, payments for labor, land, and capital flow from firms to households through the markets for the factors of production.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 36. The production possibilities frontier is a graph that shows the various combinations of outputs that the economy can possibly produce given the available factors of production and the available production technology.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- |
| ***Figure 2-10***  ​  ​  ​  ​  ​ |

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| 37. **Refer to Figure 2-10**. If this economy uses all its resources in the dishwasher industry, it produces 35 dishwashers and no doghouses.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 38. **Refer to Figure 2-10**. It is possible for this economy to produce 75 doghouses.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. **Refer to Figure 2-10**. It is possible for this economy to produce 30 doghouses and 20 dishwashers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. **Refer to Figure 2-10**. It is possible for this economy to produce 45 doghouses and 30 dishwashers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. **Refer to Figure 2-10**. When this economy produces 30 doghouses and 25 dishwashers there is full employment.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. **Refer to Figure 2-10**. This economy fully employs its resources when it produces 35 dishwashers and zero doghouses.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. **Refer to Figure 2-10**. Given the technology available for manufacturing doghouses and dishwashers, this economy does not have enough of the factors of production to support the level of output represented by point C.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. **Refer to Figure 2-10**. Points A, B, and D represent feasible outcomes for this economy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. **Refer to Figure 2-10**. Points B and C represent infeasible outcomes for this economy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. **Refer to Figure 2-10**. Points A, B, and D represent efficient outcomes for this economy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
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| 47. **Refer to Figure 2-10**. Point B represents an inefficient outcome for this economy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. **Refer to Figure 2-10**. Unemployment could cause this economy to produce at point B.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. **Refer to Figure 2-10**. The opportunity cost of moving from point A to point D is 10 dishwashers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. **Refer to Figure 2-10**. The opportunity cost of moving from point B to point D is 15 doghouses.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. **Refer to Figure 2-10**. The opportunity cost of moving from point B to point A is zero.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. **Refer to Figure 2-10**. The opportunity cost of an additional doghouse increases as more doghouses are produced.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- |
| ***Figure 2-11***  ​ |

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| 53. **Refer to Figure 2-11**. Point B represents an inefficient outcome for this economy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. **Refer to Figure 2-11**. The opportunity cost of moving from point A to point B is zero.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. **Refer to Figure 2-11**. The opportunity cost of producing an additional pair of shoes increases as more shoes are produced.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. **Refer to Figure 2-11**. This economy fully employs its resources when it produces 4000 shoes and zero t-shirts.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. **Refer to Figure 2-11**. It is possible for this economy to produce 1000 shoes.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
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| 58. With the resources it has, an economy can produce at any point on or outside the production possibilities frontier, but it cannot produce at points inside the frontier.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 59. Points inside the production possibilities frontier represent feasible levels of production.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. Points inside the production possibilities frontier represent inefficient levels of production.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. Points on the production possibilities frontier represent efficient levels of production.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
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| 62. Points outside the production possibilities frontier represent infeasible levels of production.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. If a major union goes on strike, then the country would be operating inside its production possibilities frontier.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. An outcome is said to be efficient if an economy is getting all it can from the scarce resources it has available.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. An outcome is said to be efficient if an economy is conserving the largest possible quantity of its scarce resources while still meeting the basic needs of society.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 66. A production point is said to be efficient if there is no way for the economy to produce more of one good without producing less of another.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. If an economy can produce more of one good without giving up any of another good, then the economy’s current production point is inefficient.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. Unemployment causes production levels to be inefficient.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 69. The opportunity cost of something is what you give up to get it.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. The production possibilities frontier shows the opportunity cost of one good as measured in terms of the other good.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. When a production possibilities frontier is bowed outward, the opportunity cost of one good in terms of the other is constant.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. When a production possibilities frontier is bowed outward, the opportunity cost of one good in terms of the other depends on how much of each good is being produced.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. When a production possibilities frontier is bowed outward, the opportunity cost of the first good in terms of the second good increases as more of the second good is produced.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. When a production possibilities frontier is bowed outward, the opportunity cost of the second good in terms of the first good increases as more of the second good is produced.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. A production possibilities frontier has a bowed shape if the opportunity cost is constant at all levels of output.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 76. Economists believe that production possibilities frontiers rarely have a bowed shape.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 77. A production possibilities frontier will be bowed outward if some of the economy’s resources are better suited to producing one good than another.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 78. The trade-off between the production of one good and the production of another good can change over time because of technological advances.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. A technological advance in the production of the first good increases the opportunity cost of the first good in terms of the second good.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 80. While the production possibilities frontier is a useful model, it cannot be used to illustrate economic growth.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. Economic growth causes a production possibilities frontier to shift outward.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. If new government regulations designed to protect wetlands remove very productive farmland from production, then the production possibilities frontier will shift inward.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. Production possibilities frontiers can be used to illustrate scarcity, trade-offs, opportunity cost, efficiency, unemployment, technological advances, and economic growth.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 84. Microeconomics is the study of how households and firms make decisions and how they interact in specific markets.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. Macroeconomics is the study of economy-wide phenomena.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 86. The effects of borrowing by the federal government would be studied by a microeconomist rather than a macroeconomist.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. The effects of foreign competition on the U.S. textile industry would be studied by a microeconomist rather than a macroeconomist.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. A macroeconomist, rather than a microeconomist, would study the effects on a market from two firms merging.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. Microeconomics and macroeconomics are closely intertwined.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 90. When economists are trying to explain the world, they are scientists, and when they are trying to help improve the world, they are policy advisers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 91. Economists acting as scientists make positive statements, while economists acting as policy advisers make normative statements.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 92. Normative statements describe how the world is, while positive statements prescribe how the world should be.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 93. Positive statements are descriptive, while normative statements are prescriptive.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 94. Positive statements can be evaluated using data alone, but normative statements cannot.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 95. Evaluating normative statements involves values as well as facts.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 96. "Society would be better off if the welfare system were abolished" is a normative statement, not a positive statement.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 97. "Other things equal, an increase in supply causes a decrease in price" is a normative statement, not a positive statement.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 98. "Minimum wage laws result in unemployment” is a normative statement, while “the minimum wage should be higher” is a positive statement.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 99. “The US should not restrict employers from outsourcing work to foreign countries” is a normative statement.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 100. Trade-offs are involved in most policy decisions.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 101. Since 1946, the president of the United States has received guidance from the Council of Economic Advisers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 102. The Council of Economic Advisers consists of thirty members and a staff of several dozen economists.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 103. The duties of the Council of Economic Advisers are to advise the president of the United States and to determine U.S. monetary policy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 104. The Council of Economic Advisers’ *Economic Report of the President* discusses recent developments in the economy and presents the council’s analysis of current policy issues.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 105. The President counts among his economic advisors the Congressional Budget Office.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 106. Economists at the U.S. Department of the Treasury help design U.S. coins and paper money.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 107. Economists at the U.S. Department of Justice help enforce the nation’s antitrust laws.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 108. Economists work both inside and outside the administrative branch of the U.S. government.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 109. The Congressional Budget Office, which is staffed by economists, provides Congress with independent evaluations of policy proposals.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 110. There is only one explanation for why economists give conflicting advice on policy issues, and it is that they have different values about what policy should try to accomplish.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 111. Economists may disagree about the validity of alternative positive theories about how the world works.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 112. Different values are not a reason for disagreement among economists.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 113. In surveys of professional economists, fourteen propositions were endorsed by an overwhelming majority of respondents.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 114. Because almost all economists oppose policies that restrict trade among nations, policymakers do not restrict imports of certain goods.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 115. According to John Maynard Keynes, an economist must possess a rare combination of skills including being a mathematician, historian, statesman, and philosopher.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

|  |  |  |  |  |  |  |  |  |
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| 116. In economics, graphs serve two purposes: they offer a way to visually express ideas, and they provide a way of finding and interpreting patterns when analyzing economic data.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 117. Examples of graphs of a single variable include pie charts, bar graphs, and time-series graphs.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 118. A pie chart is a way to display information regarding two variables.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 119. In the ordered pair (10,30), 10 is the y-coordinate and 30 is the z-coordinate.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 120. In the ordered pair (10,30), 10 is the horizontal location of the point and 30 is the vertical location of the point.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 121. Two variables that have a positive correlation move in the same direction.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 122. Two variables that have a negative correlation move in opposite directions.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 123. When two variables move in opposite directions, the curve relating them is upward sloping, and we say the variables are positively related.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 124. When two variables move in the same direction, the curve relating them is downward sloping, and we say the variables are negatively related.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 125. When a variable that is named on an axis of a graph changes, the curve shifts.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 126. When a variable that is not named on either axis of a graph changes, we read the change as a movement along the curve.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 127. The concept of slope can be used to answer questions about how much one variable responds to changes in another variable.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 128. The slope of a line is equal to the change in the x-variable divided by the change in the y-variable.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 129. The slope of an upward-sloping line is positive, and the slope of a downward-sloping line is negative.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 130. The slope of a horizontal line is infinite, and the slope of a vertical line is zero.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 131. The slope of a line is the ratio of the vertical distance covered to the horizontal distance covered along the line.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 132. If a line passes through the points (20,5) and (10,10), then the slope of the line is 1/2.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 133. If a line passes through the points (20,5) and (10,10), then the slope of the line is -2.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 134. Changes in one variable on a graph might be caused by the other variable on the graph or by a third omitted variable.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 135. Deciding that A causes B when in fact B causes A is a mistake called omitted variable bias.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 136. The broken window fallacy states that when a window breaks and someone spends money to repair it, they have created new economic activity that would not have otherwise taken place.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| **Subjective Short Answer** |

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| 137. Like biologists and physicists, economists use the dispassionate development and testing of how the world works known as the   |  |  | | --- | --- | | *ANSWER:* | scientific method. | |

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| 138. As a substitute for laboratory experiments, economists use evidence available through history’s   |  |  | | --- | --- | | *ANSWER:* | natural experiments. | |

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| ***Figure 2-12***  ​  ​  ​  ​  ​  ​ |

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| 139. **Refer to Figure 2-12.** What is the name of the model depicted in the figure?   |  |  | | --- | --- | | *ANSWER:* | Circular Flow Model | |

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| 140. **Refer to Figure 2-12.** What do the ovals represent in the figure?   |  |  | | --- | --- | | *ANSWER:* | Market for Goods and Services  Market for Factors of Production | |

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| 141. **Refer to Figure 2-12.** What do the rectangles represent in the figure?   |  |  | | --- | --- | | *ANSWER:* | Firms  Households | |

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| 142. **Refer to Figure 2-12.** What do the outer arrows represent in the figure?   |  |  | | --- | --- | | *ANSWER:* | flow of dollars | |

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| 143. **Refer to Figure 2-12.** What do the inner arrows represent in the figure?   |  |  | | --- | --- | | *ANSWER:* | flow of inputs and outputs | |

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| 144. **Refer to Figure 2-12.** What does the arrow going from oval A to rectangle 2 represent in the figure?   |  |  | | --- | --- | | *ANSWER:* | goods and services bought | |

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| --- | --- | --- |
| 145. **Refer to Figure 2-12.** What does the arrow going from oval B to rectangle 2 represent in the figure?   |  |  | | --- | --- | | *ANSWER:* | income | |

|  |  |  |
| --- | --- | --- |
| 146. **Refer to Figure 2-12.** What are two elements not included in this figure that could be included in a more complex model?   |  |  | | --- | --- | | *ANSWER:* | government  international trade | |

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| --- | --- | --- |
| 147. Suppose a war in the Middle East interrupts the flow of crude oil and oil prices skyrocket around the world. For economists, this historical episode serves as a   |  |  | | --- | --- | | *ANSWER:* | natural experiment. | |

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| 148. Just like other scientific models, economic models simplify reality using   |  |  | | --- | --- | | *ANSWER:* | assumptions. | |

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| 149. The three main factors of production, or categories of inputs, used by firms to produce goods and services are   |  |  | | --- | --- | | *ANSWER:* | land, labor, and capital. | |

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| 150. In the circular flow diagram, who owns the factors of production and consumes all of the goods and services produced?   |  |  | | --- | --- | | *ANSWER:* | households | |

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| 151. In the circular flow diagram, when Brian provides labor through the markets for factors of production to ABC Company, the flow of money he receives in exchange is called   |  |  | | --- | --- | | *ANSWER:* | income. | |

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| 152. In the markets for goods and services in the circular flow diagram, households act as   |  |  | | --- | --- | | *ANSWER:* | buyers. | |

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| 153. In the circular flow diagram, when Daphne purchases a new mobile phone, she participates in the markets for   |  |  | | --- | --- | | *ANSWER:* | goods and services. | |

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| 154. What you must give up to get something else is called the   |  |  | | --- | --- | | *ANSWER:* | opportunity cost. | |

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| ***Figure 2-13***  ​  Consider the production possibilities curve for a country that can produce sweaters, apples (in bushels), or a combination of the two.  ​  ​  ​ |

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| 155. **Refer to Figure 2-13.** The bowed outward shape of the production possibilities curve indicates that opportunity cost of apples in terms of sweaters is   |  |  | | --- | --- | | *ANSWER:* | increasing. | |

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| 156. **Refer to Figure 2-13.** Which point(s) on the graph is(are) efficient production possibilities?   |  |  | | --- | --- | | *ANSWER:* | Q, R, U, and V | |

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| 157. **Refer to Figure 2-13.** Which point(s) on the graph show unemployment of resources?   |  |  | | --- | --- | | *ANSWER:* | T and W | |

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| 158. **Refer to Figure 2-13.** Which point(s) on the graph is(are) unattainable given current resources and technology?   |  |  | | --- | --- | | *ANSWER:* | S and X | |

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| 159. **Refer to Figure 2-13.** What is the opportunity cost of moving from point T to point R?   |  |  | | --- | --- | | *ANSWER:* | zero | |

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| 160. **Refer to Figure 2-13.** What is the opportunity cost of moving from point R to point Q?   |  |  | | --- | --- | | *ANSWER:* | 80 bushels of apples | |

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| ***Figure 2-14***  ​  ​ |

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| 161. **Refer to Figure 2-14.** Consider the production possibilities frontier for an economy that produces only sofas and cars. As the economy moves from point A to point D, is the opportunity cost of cars increasing, constant, or decreasing?   |  |  | | --- | --- | | *ANSWER:* | constant | |

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| 162. **Refer to Figure 2-14.** Consider the production possibilities frontier for an economy that produces only sofas and cars. The opportunity cost of one sofa is   |  |  | | --- | --- | | *ANSWER:* | 2/3 of a car. | |

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| 163. **Refer to Figure 2-14.** Consider the production possibilities frontier for an economy that produces only sofas and cars. The opportunity cost of one car is   |  |  | | --- | --- | | *ANSWER:* | 3/2 sofas. | |

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| ***Table 2-4***   |  |  | | --- | --- | | **Mobile Phones** | **Pizzas** | | 0 | 10,000 | | 200 | 8,000 | | 500 | 6,000 | | 900 | 4,000 | | 1400 | 2,000 | | 2000 | 0 | |

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| 164. **Refer to Table 2-4.** Consider the production possibilities table for an economy that produces only mobile phones and pizzas. What is the opportunity cost of increasing production of mobile phones from 200 to 500?   |  |  | | --- | --- | | *ANSWER:* | 2,000 pizzas. | |

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| 165. **Refer to Table 2-4.** Consider the production possibilities table for an economy that produces only mobile phones and pizzas. What is the opportunity cost of increasing production of pizzas from 4,000 to 6,000?   |  |  | | --- | --- | | *ANSWER:* | 400 mobile phones. | |

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| 166. **Refer to Table 2-4.** Consider the production possibilities table for an economy that produces only mobile phones and pizzas. Describe the shape of the production possibilities frontier.   |  |  | | --- | --- | | *ANSWER:* | bowed outward | |

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| 167. Who would be more likely to study the effects of government spending on the unemployment rate, a macroeconomist or a microeconomist?   |  |  | | --- | --- | | *ANSWER:* | macroeconomist | |

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| 168. Who would be more likely to study the effects of foreign competition on the accounting industry, a macroeconomist or a microeconomist?   |  |  | | --- | --- | | *ANSWER:* | microeconomist | |

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| 169. Who would be more likely to study the effects of rent control on housing in New York City, a macroeconomist or a microeconomist?   |  |  | | --- | --- | | *ANSWER:* | microeconomist | |

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| 170. Who would be more likely to study the inflation rate in the United States, a macroeconomist or a microeconomist?   |  |  | | --- | --- | | *ANSWER:* | macroeconomist | |

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| 171. When economists are trying to explain the world, they are scientists. When they are trying to improve it, they are   |  |  | | --- | --- | | *ANSWER:* | policy advisers. | |

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| 172. What type of statement is a descriptive statement about how the world is?   |  |  | | --- | --- | | *ANSWER:* | positive statement | |

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| 173. What type of statement is a prescriptive statement about how the world ought to be?   |  |  | | --- | --- | | *ANSWER:* | normative statement | |

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| 174. Which type of statement - positive or normative - can be evaluated by analyzing data alone?   |  |  | | --- | --- | | *ANSWER:* | positive | |

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| 175. Is the following a positive or normative statement? The federal minimum wage is lower than many state minimum wages.   |  |  | | --- | --- | | *ANSWER:* | positive | |

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| 176. Is the following a positive or normative statement? The Federal Reserve should set an inflation target and employ policies to meet the target.   |  |  | | --- | --- | | *ANSWER:* | normative | |

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| 177. Is the following a positive or normative statement? The United States government should mandate that every citizen purchases health insurance.   |  |  | | --- | --- | | *ANSWER:* | normative | |

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| 178. Is the following a positive or normative statement? The unemployment rate in Nevada is higher than the unemployment rate in New York.   |  |  | | --- | --- | | *ANSWER:* | positive | |

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| 179. Since 1946, the president of the United States has received guidance from a group comprised of three members and a staff of a few dozen economists known as the   |  |  | | --- | --- | | *ANSWER:* | Council of Economic Advisers | |

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| 180. Economists at which administrative department help formulate spending plans and regulatory policies?   |  |  | | --- | --- | | *ANSWER:* | Office of Management and Budget | |

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| 181. Economists at which administrative department help design tax policy?   |  |  | | --- | --- | | *ANSWER:* | Department of the Treasury | |

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| 182. Economists at which administrative department analyze data on workers and those looking for work to help formulate labor-market policies?   |  |  | | --- | --- | | *ANSWER:* | Department of Labor | |

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| 183. Economists at which administrative department help enforce the nation’s antitrust laws?   |  |  | | --- | --- | | *ANSWER:* | Department of Justice | |

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| 184. The institution that sets the nation’s monetary policy is called the   |  |  | | --- | --- | | *ANSWER:* | Federal Reserve. | |

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| 185. When economists disagree about whether the government should tax a household’s income or its consumption, they are expressing a difference in   |  |  | | --- | --- | | *ANSWER:* | scientific judgment. | |

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| 186. When economists disagree about whether a policy is fair, they are expressing a difference in   |  |  | | --- | --- | | *ANSWER:* | values. | |

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| 187. Most economists agree that a large federal budget deficit has what type of effect on the economy?   |  |  | | --- | --- | | *ANSWER:* | adverse | |

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| ***Figure 2-15***  ​  ​ |

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| 188. **Refer to Figure 2-15.** What are the coordinates of point C?   |  |  | | --- | --- | | *ANSWER:* | (60,3) | |

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| 189. **Refer to Figure 2-15.** What is the x-coordinate of point R?   |  |  | | --- | --- | | *ANSWER:* | 20 | |

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| 190. **Refer to Figure 2-15.** How are price and quantity related in this graph?   |  |  | | --- | --- | | *ANSWER:* | negatively correlated | |

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| 191. **Refer to Figure 2-15.** What is the slope of the line with points A, B, and C?   |  |  | | --- | --- | | *ANSWER:* | -0.1 | |

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| 192. **Refer to Figure 2-15.** Is a move from point A to point B considered a shift of the curve or a movement along the curve?   |  |  | | --- | --- | | *ANSWER:* | movement along the curve | |

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| 193. **Refer to Figure 2-15.** Is a move from point A to point R considered a shift of the curve or a movement along the curve?   |  |  | | --- | --- | | *ANSWER:* | shift of the curve | |

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| 194. **Refer to Figure 2-15.** Given that price is measured on the vertical axis, quantity is measured on the horizontal axis, and that the curves are downward-sloping, what type of curves are depicted here?   |  |  | | --- | --- | | *ANSWER:* | demand curves | |

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| 195. Using the outline below, draw a circular-flow diagram representing the interactions between households and firms in a simple economy. Explain briefly the various parts of the diagram.  ​  ​  ​   |  |  | | --- | --- | | *ANSWER:* | ​  This diagram should duplicate the essential characteristics of the diagram in the text, with an explanation of the meaning of each flow and each market. It is important that the student understands that the inner loop represents the flow of real goods and services and that the outer loop represents the corresponding flow of payments.  ​  ​ | |

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| 196. The prairie dog has always been considered a problem for American cattle ranchers. They dig holes that cattle and horses can step in, and they eat grass necessary for cattle. Recently, ranchers have discovered that there is a demand for prairie dogs as pets. In some areas, prairie dogs can sell for as high as $150 each. Cattlemen are now fencing off prairie dog towns on their land so these towns will not be disturbed by their cattle.  Draw a rancher’s production possibilities frontier showing increasing opportunity cost of cattle production in terms of prairie dog production. Using a separate graph for each situation, show what would happen to the initial production possibilities frontier in each of the following situations:   |  |  | | --- | --- | | a. | The outcome is efficient, with ranchers choosing to produce equal numbers of cattle and prairie dogs. | | b. | As a protest against the government introducing the gray wolf back into the wild in their state, ranchers decide to withhold 25 percent of the available grassland for grazing. | | c. | The price of prairie dogs increases to $200 each, so ranchers decide to allot additional land for prairie dogs. | | d. | The government grants new leases to ranchers, giving them 10,000 new acres of grassland each for grazing. | | e. | A drought destroys most of the available grass for grazing of cattle, but not for prairie dogs since they also eat plant roots. |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​   |  |  | | --- | --- | | (a) | (b) | |  |  |   ​   |  |  | | --- | --- | | (c) | (d) | |  |  |   ​   |  | | --- | | (e) | |  |   ​  ​  ​ | |

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| 197. Draw a production possibilities frontier showing increasing opportunity cost of hammers in terms of horseshoes.   |  |  | | --- | --- | | a. | On the graph, identify the area of feasible outcomes and the area of infeasible outcomes. | | b. | On the graph, label a point that is efficient and a point that is inefficient. | | c. | On the graph, illustrate the effect of the discovery of a new vein of iron ore, a resource needed to make both horseshoes and hammers, on this economy. | | d. | On a second graph, illustrate the effect of a new computerized assembly line in the production of hammers on this economy. |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​   |  |  | | --- | --- | | (a-c) | (d) | |  |  |   ​  ​ | |

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| 198. Identify each of the following topics as being part of microeconomics or macroeconomics:   |  |  | | --- | --- | | a. | the impact of a change in consumer income on the purchase of luxury automobiles | | b. | the effect of a change in the price of Coke on the purchase of Pepsi | | c. | the impact of a war in the Middle East on the rate of inflation in the United States | | d. | factors influencing the rate of economic growth | | e. | factors influencing the demand for tractors | | f. | the impact of tax policy on national saving | | g. | the effect of pollution taxes on the U.S. copper industry | | h. | the degree of competition in the cable television industry | | i. | the effect of a balanced-budget amendment on economic stability | | j. | the impact of deregulation on the savings and loan industry |  |  |  | | --- | --- | | *ANSWER:* | a, b, e, g, h, and j are microeconomic topics. c, d, f, and i are macroeconomic topics. | |

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| 199. Which of the following statements are positive and which are normative?   |  |  | | --- | --- | | a. | The minimum wage creates unemployment among young and unskilled workers. | | b. | The minimum wage ought to be abolished. | | c. | If the price of a product in a market decreases, then, other things equal, quantity demanded will increase. | | d. | A little bit of inflation is worse for society than a little bit of unemployment. | | e. | There is a tradeoff between inflation and unemployment in the short run. | | f. | If consumer income increases, then, other things equal, the demand for automobiles will increase. | | g. | The U.S. income distribution is not fair. | | h. | U.S. workers deserve more liberal unemployment benefits. | | i. | If interest rates increase, then investment will decrease. | | j. | If welfare benefits were reduced, then the country would be better off. |  |  |  | | --- | --- | | *ANSWER:* | a, c, e, f, and i are positive statements. b, d, g, h, and j are normative statements. | |

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| 200. Use the following graph to answer the following questions.   |  |  | | --- | --- | | a. | How would point J be represented as an ordered pair? | | b. | What type of curve is this? | | c. | Does this curve show a positive or negative correlation between price and quantity? | | d. | Compute the slope of *D*1 between points J and L. | | e. | What is the slope of *D*1 between points L and N? Why would you not have to calculate this answer? | | f. | What is it called if we move from *D*1 to *D*2? | | g. | How do you know that the slope of *D*2 is the same as the slope of *D*1? |   ​   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | a. | (20,24) | | b. | a demand curve | | c. | a negative correlation between price and quantity | | d. | -8/20 or -2/5 | | e. | -2/5; because the slope of a straight line is constant | | f. | an increase in demand. | | g. | because the 2 lines are parallel | | |