Chapter 1

WHAT IS ECONOMICS?

Definition of Economics

Topic: Incentives
Skill: Recognition
1) An incentive
   A) could be a reward but could not be a penalty.
   B) could be a penalty but could not be a reward.
   C) could be either a reward or a penalty.
   D) is the opposite of a tradeoff.
Answer: C

Topic: Definition of Economics
Skill: Recognition
2) The most fundamental economic problem is
   A) security.
   B) scarcity.
   C) health.
   D) the fact the United States buys more goods from foreigners than we sell to foreigners.
Answer: B

Topic: Definition of Economics
Skill: Conceptual
3) Economics is best defined as the study of how people, businesses, governments, and societies
   A) choose abundance over scarcity.
   B) make choices to cope with scarcity.
   C) use their infinite resources.
   D) attain wealth.
Answer: B

Topic: Definition of Economics
Skill: Conceptual
4) Economists point out that scarcity confronts
   A) neither the poor nor the rich.
   B) the poor but not the rich.
   C) the rich but not the poor.
   D) both the poor and the rich.
Answer: D

Topic: Definition of Economics
Skill: Conceptual
5) Scarcity requires that people must
   A) cooperate.
   B) compete.
   C) trade.
   D) make choices.
Answer: D

Topic: Definition of Economics
Skill: Conceptual
6) As an economic concept, scarcity applies to
   A) both money and time.
   B) money but not time.
   C) time but not money.
   D) neither time nor money.
Answer: A

Topic: Definition of Economics
Skill: Conceptual
7) Which is the most accurate definition of the study of economics? Economics is the study of
   A) the distribution of surplus goods to those in need.
   B) affluence in a morally bankrupt world.
   C) the choices we make because of scarcity.
   D) ways to reduce wants to eliminate the problem of scarcity.
Answer: C

Topic: Microeconomics and Macroeconomics
Skill: Recognition
8) Which of the following is a macroeconomic topic?
   A) The reasons for a rise in the price of orange juice.
   B) The reasons for the rise in average prices.
   C) Why plumbers earn more than janitors.
   D) Whether the army should buy more tanks or more rockets.
Answer: B
9) Which of the following is a microeconomic topic?
   A) The reasons why Kathy buys less orange juice.
   B) The reasons for a decline in average prices.
   C) The cause of why total employment may decrease.
   D) The effect of the government budget deficit on inflation.

   Answer: A

10) Microeconomics focuses on all of the following EXCEPT
    A) the purchasing decisions that an individual consumer makes.
    B) the effect of increasing the money supply on inflation.
    C) the hiring decisions that a business makes.
    D) the effect of an increase in the tax on cigarettes on cigarette sales.

   Answer: B

11) In broad terms the difference between microeconomics and macroeconomics is that
    A) they use different sets of tools and ideas.
    B) microeconomics studies decisions of individual people and firms and macroeconomics studies the entire national economy.
    C) macroeconomics studies the effects of government regulation and taxes on the price of individual goods and services whereas microeconomics does not.
    D) microeconomics studies the effects of government taxes on the national unemployment rate.

   Answer: B

12) Studying the determination of prices in individual markets is primarily a concern of
    A) positive economics.
    B) negative economics.
    C) macroeconomics.
    D) microeconomics.

   Answer: D

13) The analysis of the behavior of individual decision-making units is the definition of
    A) microeconomics.
    B) positive economics.
    C) macroeconomics.
    D) normative economics.

   Answer: A

14) Which of the following topics would be studied in a microeconomics course?
    A) How a trade agreement between the United States and Mexico affects both nations’ unemployment rates.
    B) Comparing inflation rates across countries.
    C) How rent ceilings impact the supply of apartments.
    D) How a tax rate increase will impact total production.

   Answer: C

15) Which of the following is a macroeconomic issue?
    A) How a rise in the price of sugar affects the market for sodas.
    B) How federal government budget deficits affect interest rates.
    C) What determines the amount a firm will produce.
    D) The cause of a decline in the price of peanut butter.

   Answer: B

16) Which of the following is an issue in macroeconomics?
    A) the purchasing decisions that an individual consumer makes
    B) the effect of increasing the money supply on inflation
    C) the hiring decisions that a business makes
    D) the effect of an increase in the tax on cigarettes on cigarette sales

   Answer: B
Topic: Microeconomics and Macroeconomics
Skill: Conceptual
17) Macroeconomic topics include
A) total, nationwide employment.
B) studying what factors influence the price and
quantity of automobiles.
C) studying the determination of wages and pro-
duction costs in the software industry.
D) the impact of government regulation of markets.
Answer: A

Topic: Microeconomics and Macroeconomics
Skill: Recognition
18) Macroeconomics is the branch of economics that
studies
A) prices of individual goods.
B) the way individual markets work.
C) the economy as a whole.
D) important, as opposed to trivial, issues.
Answer: C

Two Big Economic Questions

Topic: What Goods and Services Are Produced?
Skill: Conceptual
19) When an economy produces more houses and
fewer typewriters, it is answering the ____ ques-
tion.
A) “what”
B) “how”
C) “where”
D) “for whom”
Answer: A

Topic: What Goods and Services Are Produced?
Skill: Conceptual
21) U.S. producers decide to produce more compact
cars and fewer SUVs as the price of gasoline rises.
Producers are answering the ____ question.
A) “what”
B) “how”
C) “when”
D) “how many”
Answer: A

Topic: What Goods and Services Are Produced?
Skill: Conceptual
22) The question “Should movies or compact discs be
produced?” is an example of the
A) “what” question.
B) “how” question.
C) “where” question.
D) “for whom” question.
Answer: A

Topic: Trends in Production
Skill: Recognition
23) Which of the following statements is correct?
A) The United States produces more goods than
services.
B) The United States produces more services than
goods.
C) The percentage of people producing goods in
the United States has steadily increased over the
last 60 years.
D) The United States produces an equal amount of
goods and services.
Answer: B

Topic: Trends in Production
Skill: Recognition
24) Which of the following is correct concerning pro-
duction in the United States?
A) The percentage of people employed in farming
has decreased over the last 60 years.
B) The percentage of people employed in manufact-
turing has increased over the last 60 years.
C) The percentage of people employed in construc-
tion has increased over the last 60 years.
D) The percentage of people employed in services
has decreased over the last 60 years.
Answer: A
CHAPTER 1

Topic: How Are Goods and Services Produced?
Skill: Conceptual
25) When China builds a dam using few machines and a great deal of labor, it is answering the ____ question.
A) “what”
B) “how”
C) “where”
D) “for whom”
Answer: B

Topic: How Are Goods and Services Produced?
Skill: Conceptual
26) When a textile company keeps track of its inventory using a computer and its competitor uses a spreadsheet and pencil, they are both answering the ____ question.
A) “what”
B) “how”
C) “for whom”
D) “where”
Answer: B

Topic: Human Capital
Skill: Recognition
27) Human capital is
A) all capital owned by individuals, but not by corporations or governments.
B) all capital owned by individuals or corporations, but not by governments.
C) machinery that meets or exceeds federal safety standards for use by humans.
D) the skill and knowledge of workers.
Answer: D

Topic: Entrepreneurship
Skill: Recognition
28) Entrepreneurs do all of the following EXCEPT
A) organize labor, land, and capital.
B) come up with new ideas about what, how, when and where to produce.
C) bear risk from business decisions.
D) own all the other resources.
Answer: D

Topic: For Whom are the Goods and Services Produced?
Skill: Conceptual
29) To answer the “for whom” question, we study
A) the global economy.
B) income differences.
C) business cycles.
D) technological change.
Answer: B

Topic: For Whom are the Goods and Services Produced?
Skill: Conceptual
30) The fact that people with higher incomes get to consume more goods and services addresses the ____ question.
A) “for whom”
B) “when”
C) “where”
D) “how”
Answer: A

Topic: Factors of Production
Skill: Conceptual
31) Which of the following is NOT a factor of production?
A) the water used to cool a nuclear power plant.
B) the effort of farmers raising cattle.
C) the wages paid to workers.
D) the management skill of a small business owner.
Answer: C

Topic: Factors of Production
Skill: Conceptual
32) Which of the following is NOT a factor of production?
A) a new computer used by a small business owner.
B) the time worked by elementary school teachers.
C) a tractor used by a wheat farmer.
D) a share of stock issued by a firm.
Answer: D

Topic: Labor
Skill: Conceptual
33) An autoworker is considered ____ and earns ____.
A) labor; rent.
B) entrepreneurship; wages.
C) labor; wages.
D) capital; rent.
Answer: C
34) Overtime worked by a JCPenney associate is considered ____ and earns ____.
A) labor; wages.
B) entrepreneurship; profit.
C) human capital; interest.
D) labor; profit.
Answer: A

35) When a university decides to add to the football stadium instead of adding to the baseball stadium, it faces the
A) “what” tradeoff.
B) “how” tradeoff.
C) “for whom” tradeoff.
D) macroeconomic question.
Answer: A

36) When a farmer decides to increase the amount of acreage devoted to wheat and grow fewer acres of soybeans, the farmer is facing the
A) “what” tradeoff.
B) “how” tradeoff.
C) “for whom” tradeoff.
D) microeconomic question.
Answer: A

38) The “how” tradeoff occurs when
A) a firm decides to produce refrigerators instead of dishwashers.
B) a farm uses machinery to pick oranges instead of employing migrant workers.
C) the government increases income taxes paid by the rich.
D) we answer the macroeconomic question.
Answer: B

39) When the government decides to provide tax relief for small businesses while placing higher taxes on large corporations, it is facing the
A) “what” tradeoff.
B) “how” tradeoff.
C) “for whom” tradeoff.
D) macroeconomic question.
Answer: C

40) Because we face scarcity, every choice involves
A) money
B) the question “what.”
C) giving up something for nothing.
D) an opportunity cost
Answer: D

41) The term used to emphasize that making choices in the face of scarcity involves a cost is
A) substitution cost.
B) opportunity cost.
C) utility cost.
D) accounting cost.
Answer: B

42) The loss of the highest-valued alternative defines the concept of
A) marginal benefit.
B) scarcity.
C) entrepreneurship.
D) opportunity cost.
Answer: D
CHAPTER 1

Topic: Opportunity Cost  
Skill: Recognition  
43) Opportunity cost means  
A) the accounting cost minus the marginal cost.  
B) the highest-valued alternative forgone.  
C) the accounting cost minus the marginal benefit.  
D) the monetary costs of an activity.  
Answer: B

Topic: Opportunity Cost  
Skill: Recognition  
44) The opportunity cost of any action is  
A) all the possible alternatives forgone.  
B) the highest-valued alternative forgone.  
C) the time required but not the monetary cost.  
D) the monetary cost but not the time required.  
Answer: B

Topic: Opportunity Cost  
Skill: Conceptual  
47) During the summer you have made the decision to attend summer school, which precludes you from working at your usual summer job in which you normally earn $6,000 for the summer. Your tuition cost is $3,000, books and supplies cost $300, and room and board cost $1,000. The opportunity cost of attending summer school is  
A) $10,300.  
B) $6,000.  
C) $4,300.  
D) $3,300.  
Answer: A

Topic: Opportunity Cost  
Skill: Conceptual  
48) On Saturday morning, you rank your choices for activities in the following order: go to the library, work out at the gym, have breakfast with friends, and sleep late. Suppose you decide to go to the library. Your opportunity cost is  
A) working out at the gym, having breakfast with friends, and sleeping late.  
B) working out at the gym.  
C) zero because you do not have to pay money to use the library.  
D) not clear because not enough information is given.  
Answer: B

Topic: Opportunity Cost  
Skill: Conceptual  
49) You decide to take a vacation and the trip costs you $2,000. While you are on vacation, you do not report to work where you could have earned $750. The opportunity cost of the vacation is  
A) $2,000.  
B) $750.  
C) $2,750.  
D) $1,250.  
Answer: C
**Topic: Opportunity Cost**  
**Skill: Conceptual**

50) When an action is chosen, the highest-valued alternative NOT chosen is called the  
A) implicit cost.  
B) explicit cost.  
C) accounting cost.  
D) opportunity cost.  
**Answer: D**

**Topic: Opportunity Cost**  
**Skill: Conceptual**

51) The term “opportunity cost” points out that  
A) there may be such a thing as a free lunch.  
B) not all individuals will make the most of life’s opportunities because some will fail to achieve their goals.  
C) executives do not always recognize opportunities for profit as quickly as they should.  
D) any decision regarding the use of a resource involves a costly choice.  
**Answer: D**

**Topic: Opportunity Cost**  
**Skill: Conceptual**

52) During the next hour John can play basketball, watch television, or read a book. The opportunity cost of reading a book  
A) is how much the book cost when it was purchased.  
B) is the value of playing basketball if John prefers that to watching television.  
C) is the value of playing basketball and the value of watching television.  
D) equals how much John enjoys the book.  
**Answer: B**

**Topic: Opportunity Cost**  
**Skill: Conceptual**

53) Misty has the option of purchasing one of three products: Brand A, Brand B, or Brand C. Each costs ten dollars. If she decides that Brand A meets her needs best, then the opportunity cost of this decision is  
A) Brand B plus Brand C.  
B) twenty dollars.  
C) Brand A.  
D) Brand B or Brand C, depending on which is considered the highest-value alternative forgone.  
**Answer: D**

**Topic: Opportunity Cost**  
**Skill: Conceptual**

54) Which of the following is NOT an example of an opportunity cost?  
A) By spending Thursday night studying for an economics exam, a student was unable to complete a homework assignment for calculus class.  
B) Because David used all of his vacation time to paint his house, he was unable to visit the Caribbean last year.  
C) Because Mary is now being paid a higher wage, she can afford to buy a new car even though she is moving into a bigger apartment.  
D) By choosing to attend college, Jean was not able to continue working as an electrician; as a result, she gave up more than $85,000 in earnings while she was in college.  
**Answer: C**

**Topic: Opportunity Cost**  
**Skill: Conceptual**

55) From 8 to 11 p.m., Sam can either attend a basketball game, a hockey match or the symphony. Suppose that Sam decides to attend the hockey match and thinks to herself that if she did not go to the match she would go to the symphony. Then the opportunity cost of attending the hockey match is  
A) going to the symphony and the basketball game.  
B) going to the symphony.  
C) going to the basketball game.  
D) three hours of time.  
**Answer: B**

**Topic: Opportunity Cost**  
**Skill: Analytical**

56) When the government chooses to use resources to build a dam, these sources are no longer available to build a highway. This choice illustrates the concept of  
A) a market mechanism.  
B) macroeconomics.  
C) opportunity cost.  
D) a fallacy of composition.  
**Answer: C**
**Topic: Marginal Benefit/Marginal Cost**  
**Skill: Recognition**

57) Marginal benefit is the benefit  
A) that your activity provides to someone else.  
B) of an activity that exceeds its cost.  
C) that arises from the secondary effects of an activity.  
D) that arises from an increase in an activity.  
Answer: D

**Topic: Marginal Benefit**  
**Skill: Recognition**

58) The benefit that arises from an increase in an activity is called  
A) the marginal benefit.  
B) the marginal cost.  
C) opportunity cost.  
D) an incentive.  
Answer: A

**Topic: Marginal Cost**  
**Skill: Recognition**

59) Marginal cost is the cost  
A) that your activity imposes on someone else.  
B) that arises from an increase in an activity.  
C) of an activity that exceeds its benefit.  
D) that arises from the secondary effects of an activity.  
Answer: B

**Topic: Marginal Benefit/Marginal Cost**  
**Skill: Conceptual**

60) Laura is a manager for HP. When Laura must decide whether to produce a few additional printers, she is choosing at the margin when she compares  
A) the total revenue from sales of printers to the total cost of producing all the printers.  
B) the extra revenue from selling a few additional printers to the extra costs of producing the printers.  
C) the extra revenue from selling a few additional printers to the average cost of producing the additional printers.  
D) HP’s printers to printers from competing companies, such as Lexmark.  
Answer: B

**Economics: A Social Science**

**Topic: Positive and Normative**  
**Skill: Recognition**

61) In economics, positive statements are about  
A) the way things ought to be.  
B) the way things are.  
C) macroeconomics, not microeconomics.  
D) microeconomics, not macroeconomics.  
Answer: B

**Topic: Positive and Normative**  
**Skill: Recognition**

62) A positive statement is  
A) about what ought to be.  
B) about what is.  
C) the result of a model’s normative assumptions.  
D) valid only in the context of a model with simple assumptions.  
Answer: B

**Topic: Positive and Normative**  
**Skill: Recognition**

63) A positive statement is  
A) about what ought to be.  
B) about what is.  
C) always true.  
D) one that does not use the *ceteris paribus* clause.  
Answer: B

**Topic: Positive and Normative**  
**Skill: Recognition**

64) A positive statement  
A) is an affirming statement that is strongly worded.  
B) is a statement of what ought to be.  
C) is a statement of what is.  
D) cannot be tested by checking it against the facts.  
Answer: C
Topic: Positive and Normative  
Skill: Recognition  
65) Which of the following are true regarding “positive” statements?  
I. They describe what “ought to be.”  
II. They describe what is believed about how the world appears.  
III. They can be tested as to their truthfulness.  
A) I and II.  
B) II and III.  
C) I and III.  
D) I, II and III.  
Answer: B

66) Positive and normative statements differ in that  
A) positive statements can be tested, whereas normative statements cannot.  
B) normative statements can be tested, whereas positive statements cannot.  
C) normative statements depict “what is” and positive statements depict “what ought to be.”  
D) positive statements can be graphed, whereas normative statements cannot.  
Answer: A

67) Which of the following is an example of a positive statement?  
A) Government should not redistribute income.  
B) Business firms ought to contribute more to charities.  
C) Households are the primary source of saving.  
D) The foreign sector should be more tightly controlled.  
Answer: C

68) Which of the following is an example of a positive statement?  
A) We should cut back on our use of carbon-based fuels such as coal and oil.  
B) Increasing the minimum wage results in more unemployment.  
C) Every American should have equal access to health care.  
D) The Federal Reserve ought to cut the interest rate.  
Answer: B

69) Which of the following is a positive statement?  
A) Taxes should be lower because then people get to keep more of what they earn, so they will work more.  
B) My economics class should last for two terms because it is my favorite class.  
C) A 10 percent increase in income leads to a 4 percent increase in the consumption of beef.  
D) Given their negative impact on productivity, the government should eliminate labor unions.  
Answer: C

70) When Al makes the statement, “The cost of living has increased 10 percent over the past 10 years,” he is  
A) making a normative statement.  
B) making a positive statement.  
C) testing an economic model.  
D) facing the standard of living tradeoff.  
Answer: B

71) Which of the following is a positive statement?  
A) State lotteries are good methods to use for raising revenues.  
B) Increased prison sentences are the best way to reduce the crime rate.  
C) An increase in gas prices leads people to carpool more.  
D) Inflation is a more serious problem than is deflation.  
Answer: D
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**Topic: Positive and Normative**

**Skill: Conceptual**

72) The statement “Managers with a college education earn $18 an hour while ski instructors who did not complete college earn $10” is

A) a political statement.
B) a positive statement.
C) a normative statement.
D) an ethical statement.

**Answer: B**

73) The statement “An increase in the price of gasoline will lead to a decrease in the amount purchased” is

A) a political statement.
B) a positive statement.
C) a normative statement.
D) a scientific statement.

**Answer: B**

74) Which of the following is a positive statement?

A) The government must lower the price of a pizza so that more students can afford to buy it.
B) The best level of taxation is zero percent because then people get to keep everything they earn.
C) My economics class should last for two terms because it is my favorite class.
D) An increase in tuition will cause fewer students to apply to college.

**Answer: D**

75) Which of the following is a positive statement?

A) Low rents will restrict the supply of housing.
B) Low rents are good because they make apartments more affordable.
C) Housing costs too much.
D) Owners of apartment buildings ought to be free to charge whatever rent they want.

**Answer: A**

76) The statement “The unemployment rate for teens is higher than that for adults” is

A) a political statement.
B) a positive statement.
C) a normative statement.
D) an ethical statement.

**Answer: B**

77) The statement “Prices rise more in countries with rapid growth in the money supply” is

A) a political statement.
B) a positive statement.
C) a normative statement.
D) an ethical statement.

**Answer: B**

78) Statements about what ought to be are called

A) positive statements.
B) normative statements.
C) assumptions.
D) implications.

**Answer: B**

79) Normative statements are statements about

A) prices.
B) quantities.
C) what is.
D) what ought to be.

**Answer: D**

80) A normative statement is

A) about what ought to be.
B) about what is.
C) always true.
D) one that does not use the *ceteris paribus* clause.

**Answer: A**
**WHAT IS ECONOMICS?**

**Topic: Positive and Normative**
**Skill: Recognition**
81) In economics, normative statements are about
A) the way things ought to be.
B) the way things are.
C) marginal benefits, not marginal costs.
D) marginal costs, not marginal benefits.

*Answer: A*

**Topic: Positive and Normative**
**Skill: Conceptual**
82) Which of the following is a normative statement?
A) The price of candy bars is $1.25 each.
B) Candy bars are more expensive than newspapers.
C) You should eat less candy.
D) Popcorn and candy are sold in movie theaters.

*Answer: C*

**Topic: Positive and Normative**
**Skill: Conceptual**
83) Which of the following is a normative statement?
A) The unemployment rate is too high.
B) Forty percent of the public believes that the unemployment rate is too high.
C) The unemployment rate rose last month.
D) All of the above.

*Answer: A*

**Topic: Positive and Normative**
**Skill: Conceptual**
84) “Government should act to reduce poverty levels.”
A) This statement is a normative statement.
B) This statement is a positive statement.
C) This statement is an example of the fallacy of composition.
D) This statement is an example of the *post hoc* fallacy.

*Answer: A*

**Topic: Positive and Normative**
**Skill: Conceptual**
85) When Susan makes the statement, “The government should spend less money to take care of national parks,” she is
A) making a normative statement.
B) making a positive statement.
C) testing an economic model.
D) facing the standard of living tradeoff.

*Answer: A*

**Topic: Positive and Normative**
**Skill: Conceptual**
86) “All children should have health insurance” is a
A) positive statement
B) normative statement
C) fallacy of composition
D) *post hoc* fallacy

*Answer: B*

**Topic: Positive and Normative**
**Skill: Conceptual**
87) “The rich should pay higher income tax rates than the poor” is an example of a
A) normative statement.
B) positive statement.
C) descriptive statement.
D) theoretical statement.

*Answer: A*

**Topic: Positive and Normative**
**Skill: Conceptual**
88) Which of the following is a normative statement?
A) Studying more hours leads to an increase in your GPA.
B) An increase in tax rates means people work fewer hours.
C) Taking extra vitamin C prevents catching a cold.
D) States should require all motorcycle riders to wear helmets to reduce the number of riders killed.

*Answer: D*

**Topic: Positive and Normative**
**Skill: Conceptual**
89) Which of the following is a normative statement?
A) Low rents will restrict the supply of housing.
B) Low rents are good because they make apartments more affordable.
C) Housing costs are rising.
D) Owners of apartment buildings are free to charge whatever rent they want.

*Answer: B*
90) Which of the following is an example of a normative statement?
A) Household consumption is the largest component of spending.
B) Government spending rose in the 1990s.
C) The business sector is the primary source of jobs.
D) Households should save more.
Answer: D

91) Which of the following is a normative statement?
A) Next year’s inflation rate will be under 4 percent.
B) Consumers will buy more gasoline over the Christmas holiday even if the price of gas is 10 cents higher than it was during the Thanksgiving holiday.
C) The government’s cuts in welfare spending impose an unfair hardship on the poor.
D) The current butter surplus is the result of federal policies.
Answer: C

92) Suppose that an economist tells you that people in the United States do not save enough out of their incomes. This is an example of ____ statement.
A) an autonomous
B) a positive
C) a normative
D) a ceteris paribus
Answer: C

93) The task of economic science is to discover ____ that are consistent with ____.
A) positive statements; what we observe
B) normative statements; positive statements
C) positive statements; normative statements
D) ways to make money; the law
Answer: A

94) Economic models
A) are essentially different from those used in other sciences.
B) always use graphs.
C) simplify reality.
D) include all relevant facts.
Answer: C

95) Economic models
A) do not address questions about the economy.
B) are better if they include most of the detail of the real economy.
C) rely on simplification.
D) make no assumptions that have not been proved.
Answer: C

96) An economic theory is
A) a generalization that summarizes what we understand about economic choices.
B) always a mathematical, or nonverbal, model.
C) usually more complex than the real world.
D) a positive statement that cannot use the ceteris paribus clause.
Answer: A

97) Three steps that economists take to discover how the economic world works are
A) speculation; observation and measurement; and, drawing conclusions.
B) observation and measurement; model building; and, testing models.
C) model building; speculation; and, revision.
D) data mining; data testing; and, drawing conclusions.
Answer: B
The birth of economics as an intellectual discipline can be dated fairly precisely in the eighteenth century with
A) the opening of the London stock exchange.
B) the publication of the book, *The Wealth of Nations*.
C) the introduction of paper currency.
D) the development of the factory system.
Answer: B

Who wrote *The Wealth of Nations*?
A) Thomas Jefferson.
B) Karl Marx.
C) Adam Smith.
D) Michael Parkin.
Answer: C

Adam Smith wrote the book
A) *First Principles of Economics*.
B) *The Wealth of Nations*.
C) *Poverty and Progress*.
D) *The Dismal Science*.
Answer: B

The author of the book *The Wealth of Nations* is
A) James Madison.
B) Adam Smith.
C) Thomas Carlyle.
D) John Pierpont Morgan.
Answer: B

Allowing only one factor to vary at any given time, keeping all other factors constant, is using the technique of
A) *post hoc*.
B) *ceteris paribus*.
C) composition.
D) compensation.
Answer: B

Holding all variables except one constant and assessing the impact of the one variable which has changed is an example of using
A) the *ceteris paribus* assumption.
B) normative economic analysis.
C) a flawed economic model.
D) an untestable proposition.
Answer: A

*Ceteris paribus* is the Latin expression for
A) the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
B) the error of reasoning that a first event causes a second event because the first event occurred before the second event.
C) an expression that means “other things being equal.”
D) a statement about the way the economic world ought to be.
Answer: C

The expression that means “other things being equal” is
A) The fallacy of composition.
B) the *post hoc* fallacy.
C) *ceteris paribus*.
D) normative economics.
Answer: C

The Latin term “*ceteris paribus*” means
A) “false unless proven true”
B) “other things being equal”
C) “after this, therefore because of this”
D) “what is true of the whole is not necessarily true of the parts”
Answer: B
107) “Ceteris paribus” means
A) what is
B) what ought to be
C) that which will be
D) other things being equal
Answer: D

108) The term “ceteris paribus” means
A) using market mechanisms.
B) the study of scarcity and choice.
C) value free and testable.
D) all other things remaining constant or equal.
Answer: D

109) “Ceteris paribus” means
A) making all the necessary changes.
B) other things being equal.
C) for certain parameters.
D) let the buyer beware.
Answer: B

110) When economists study the effects of unemployment insurance on the unemployment rate by comparing the United States with Canada, they assume that other conditions in the two economies do not differ significantly. This procedure is an example of
A) the fallacy of composition.
B) the post hoc fallacy.
C) applying the ceteris paribus principle.
D) falling prey to the post composition fallacy.
Answer: C

111) The fallacy of composition is evident in which of the following statements?
A) “X and Y go together, therefore X has caused Y.”
B) “What is bad for the Joneses is bad for the Smiths.”
C) “Technological progress helps everybody.”
D) “If each farmer works harder, all farmers will be richer.”
Answer: D

112) The fallacy of composition is the false belief that
A) what is true for the parts is also true for the whole.
B) because event A occurred before event B, event A caused event B.
C) because event A occurred after event B, event A caused event B.
D) the ceteris paribus condition does not apply.
Answer: A

113) The fallacy of composition is the (false) statement that
A) theories bridge models and the real world.
B) models can be positive without being normative.
C) what is true of the parts is true of the whole.
D) experiments can be designed to analyze human behavior.
Answer: C

114) The fallacy of composition is the
A) assertion that what is true for the parts of the whole must be true for the whole.
B) claim that one event caused another because the first event came first.
C) use of ceteris paribus in order to study the impact of one factor.
D) claim that the timing of two events has nothing to do with which event caused the other.
Answer: A
Topic: Fallacy of Composition  
Skill: Conceptual  
115) A farmer grazes two cows on one acre of land. To increase total milk yield, he purchases two more cows and allows all four cows to graze on his land. Unfortunately the cows overgraze on his land and the food supply to the cows is reduced, which causes the total milk yield of the four cows to fall below that achieved when only two cows were grazed. The farmer has fallen prey to  
A) the fallacy of composition.  
B) the post hoc fallacy.  
C) the ceteris paribus normative fallacy.  
D) the marginal benefit/marginal cost fallacy.  
Answer: A  

Topic: Fallacy of Composition  
Skill: Conceptual  
116) Because total income in the United States has increased over time, everyone’s total income has increased as well. This incorrect argument is an example of  
A) opportunity cost.  
B) the fallacy of composition.  
C) the post hoc fallacy.  
D) voluntary exchange.  
Answer: B  

Topic: Fallacy of Composition  
Skill: Recognition  
117) The fallacy of composition is  
A) the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.  
B) the error of reasoning that a first event causes a second event because the first event occurred before the second event.  
C) an expression that means “other things being equal.”  
D) a statement about the way the economic world ought to be.  
Answer: A  

Topic: Fallacy of Composition  
Skill: Conceptual  
118) “Hunting limits on deer help ensure a constant population. Therefore, if I only hunt to my limit, there will be sufficient deer for all.” This statement is an example of a possible  
A) ceteris paribus fallacy.  
B) fallacy of composition.  
C) post hoc fallacy.  
D) normative statement.  
Answer: B  

Topic: Fallacy of Composition  
Skill: Conceptual  
119) To better see a football game, one spectator stands. Assuming that everyone trying to get a good view of the game can also stand represents an example of the  
A) opportunity cost fallacy.  
B) the fallacy of composition.  
C) the fallacy of truth.  
D) post hoc fallacy.  
Answer: B  

Topic: Post Hoc Fallacy  
Skill: Recognition  
120) The post hoc fallacy is the error of reasoning  
A) from predictions to theories.  
B) from models to predictions.  
C) from cause and effect to models.  
D) from timing to cause and effect.  
Answer: D  

Topic: Post Hoc Fallacy  
Skill: Recognition  
121) You are not surprised that it has started to rain. After all, a hour ago you just finished washing your car. Your reasoning is an example of  
A) the ceteris paribus assumption.  
B) the fallacy of composition.  
C) the post hoc fallacy.  
D) the distinction between positive and normative statements.  
Answer: C
122) The post hoc, ergo propter hoc fallacy is
A) the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
B) the error of reasoning that a first event causes a second event because the first event occurred before the second event.
C) an expression that means “other things being equal.”
D) a statement about the way the economic world ought to be.
Answer: B

123) A rooster crows and then the sun rises. The rooster thinks that the sun rises because he crows. And he is very proud of it. The rooster falls prey to
A) his self interest
B) the post hoc fallacy
C) marginal thinking
D) the fallacy of composition
Answer: B

124) “Every time I go to a basketball game, our team wins.” This statement is an example of
A) ceteris paribus fallacy.
B) fallacy of composition.
C) post hoc fallacy.
D) a normative economic statement.
Answer: C

125) An economic expansion follows a stock market boom. A cautious economist would not claim that the stock market caused the expansion because the economist wants to avoid
A) the fallacy of composition, which is an error in reasoning from timing to cause and effect.
B) the post hoc fallacy, which is an error in reasoning from timing to cause and effect.
C) the fallacy of composition, which states that what is true of the parts is true of the whole.
D) the post hoc fallacy, which states that what is true of the parts is true of the whole.
Answer: B

126) Most economists agree that
A) Tariffs and import restrictions make most people worse off.
B) A minimum wage increases unemployment among young workers and low-skilled workers.
C) Rent ceilings cut the availability of housing.
D) All of the above.
Answer: D

127) The fact that wants cannot be fully satisfied with available resources reflects the definition of
A) the what tradeoff.
B) scarcity.
C) the big tradeoff.
D) for whom to produce.
Answer: B

128) Studying the effects choices have on the individual markets within the economy is part of
A) scarcity.
B) microeconomics.
C) macroeconomics.
D) incentives.
Answer: C
**Topic: Study Guide Question, Two Big Economic Questions**
**Skill: Analytical**
129) Which of the following is NOT part of the first big economic question?
A) What goods and services are produced?
B) How are goods and services produced?
C) For whom are goods and services produced?
D) Why do incentives affect only marginal costs?
Answer: D

**Topic: Study Guide Question, What Goods and Services Are Produced?**
**Skill: Analytical**
130) The question, “Should Taco Bell produce more tacos or more burritos?” is an example of the
A) “what” question.
B) “how” question.
C) “where” question.
D) “for whom” question.
Answer: A

**Skill: Conceptual**
131) The fact that KFC decides to produce chicken rather than meatloaf best reflects ____ tradeoff.
A) a what
B) a how
C) a for whom
D) an incentive
Answer: A

**Topic: Study Guide Question, Opportunity Cost**
**Skill: Conceptual**
132) From 8 P.M to 10 P.M., Susan can attend a movie, study, or talk with friends. Suppose that Susan decides to go to the movie but thinks that, if she hadn’t, she would otherwise have talked with friends. The opportunity cost of attending the movie is
A) talking with friends and studying.
B) studying.
C) talking with friends.
D) two hours of time.
Answer: C

**Topic: Study Guide Question, Opportunity Cost**
**Skill: Conceptual**
133) When the government hires people to serve in the army, these people are no longer available to do other work. This choice illustrates the concept of
A) an incentive.
B) a social interest/private interest conflict.
C) opportunity cost.
D) marginal benefit.
Answer: C

**Topic: Study Guide Question, Positive and Normative**
**Skill: Recognition**
134) A normative statement is
A) about what ought to be.
B) about what is.
C) always true.
D) one that does not use the ceteris paribus clause.
Answer: A

**Topic: Study Guide Question, Positive and Normative**
**Skill: Recognition**
135) Which of the following is a positive statement?
A) The government must provide health insurance so that the poor can obtain decent medical treatment.
B) The government should spend more on education.
C) My favorite dinner is pizza and soda.
D) An increase in the price of pizza will lead fewer students to buy pizza.
Answer: D

**Topic: Study Guide Question, Economic Model**
**Skill: Recognition**
136) An economic model includes
A) post hoc statements.
B) no use of ceteris paribus.
C) all known details in order to increase its accuracy.
D) only details considered essential.
Answer: D
CHAPTER 1

Topic: Study Guide Question, Ceteris Paribus
Skill: Recognition
137) The Latin term ceteris paribus means
A) “false for the whole, false for the parts.”
B) “other things the same.”
C) “true for the parts not necessarily true for the whole.”
D) “buyer beware.”
Answer: B

Topic: Study Guide Question, Fallacy of Composition
Skill: Conceptual
138) One student in a football stadium with 30,000 students can see the game better if he or she stands up. Assuming that all 30,000 students can each see the game better if they all stand is an example of the
A) fallacy of ceteris paribus.
B) fallacy of composition.
C) fallacy of large numbers.
D) post hoc fallacy.
Answer: B

Topic: Study Guide Question, Post Hoc Fallacy
Skill: Recognition
139) The post hoc fallacy is the
A) assertion that what is true for parts of the whole must be true for the whole.
B) claim that one event caused another because the one event came first.
C) incorrect use of ceteris paribus in order to study the impact of one factor.
D) claim that normative statements are less important than positive statements.
Answer: B

MyEconLab Questions

Topic: Definition of Economics
Level 1: Definitions and Concepts
140) Economics can be defined as the social science that explains the
A) choices made by politicians
B) choices we make when we trade in markets
C) choices that we make as we cope with scarcity
D) choices made by households
Answer: C

Topic: Scarcity
Level 1: Definitions and Concepts
141) Scarcity is a situation in which
A) some people are poor and others are rich
B) something is being wasted
C) we are unable to satisfy all our wants
D) long lines form at gas stations
Answer: C

Topic: Microeconomics and Macroeconomics
Level 1: Definitions and Concepts
142) Microeconomics is the study of
A) the choices that individuals and businesses make
B) all aspects of scarcity
C) the global economy
D) the national economy
Answer: D

Topic: Factors of Production
Level 1: Definitions and Concepts
143) Factors of production include all of the following EXCEPT
A) machines made in past years.
B) money
C) entrepreneurship
D) an wheat field that is not irrigated
Answer: B

Topic: Factors of Production
Level 1: Definitions and Concepts
144) The income earned by the people who sell the services of the factor of production is called
A) capital; rent
B) entrepreneurship; wages
C) land; profit
D) entrepreneurship; profit
Answer: D

Topic: What Tradeoff
Level 1: Definitions and Concepts
145) When the government chooses to spend the tax dollars that it collects on homeland security, its choice
A) involves a tradeoff of other goods and services such as education for more homeland security
B) illustrates that scarcity does not always exist
C) involves no tradeoff because the defense is necessary
D) primarily affects who gets the goods and services produced.
Answer: A
Topic: Choices at the Margin
Level I: Definitions and Concepts
146) Making a choice at the margin means ____.
   A) letting someone else choose for you
   B) waiting until the last minute to make a choice
   C) deciding to do a little bit more or a little bit less of an activity
   D) making a choice by comparing the total benefit and the total cost
   Answer: C

Topic: Choices at the Margin
Level I: Definitions and Concepts
147) Suppose that for the past two months, you have studied economics one hour a day. You now decide to study economics two hours a day. For the past two months, ____.
   A) your marginal cost of studying economics for an hour must have exceeded its marginal benefit
   B) the marginal cost of studying economics must have fallen
   C) your marginal benefit from studying economics an hour must have been greater than its marginal cost
   D) the opportunity cost of studying economics must have risen.
   Answer: C

Topic: Incentives, Marginal Cost and Marginal Benefit
Level I: Definitions and Concepts
148) If the cost of a computer falls by a large amount, you have an incentive to ____.
   A) buy a new computer
   B) take a shorter vacation
   C) use your friend’s computer rather than buy one yourself
   D) avoid buying anew computer because it is now less valuable
   Answer: A

Topic: Positive and Normative
Level I: Definitions and Concepts
149) The statement that ____ is a positive statement.
   A) more students should study economics
   B) the price of gasoline is too high
   C) too many people in the United States have no health care insurance
   D) the price of sugar in the United States is higher than the price in Australia
   Answer: D

Topic: Economic Science
Level I: Definitions and Concepts
150) The task of economic science is to ____.
   A) help us understand how the economic world works
   B) tell us what is good for us
   C) make moral choices about things like drugs
   D) save the earth from the overuse of natural resources
   Answer: A

Topic: Economic Science
Level I: Definitions and Concepts
151) Economists make progress by ____.
   A) concentrating on clarifying all normative statements while disregarding positive statements
   B) discarding normative statements that do not pass extensive testing
   C) building and testing economic models
   D) asking people whether they are better off or worse off
   Answer: C

Topic: Ceteris Paribus
Level I: Definitions and Concepts
152) The term ceteris paribus means ____.
   A) other things being equal
   B) equal access to public transportation
   C) when other things all change
   D) for better or worse
   Answer: A

Topic: Post Hoc Fallacy
Level I: Definitions and Concepts
153) Which statement is an example of the post hoc fallacy?
   A) Fans crowding into a college football stadium cause the football game to be played.
   B) There should be equal access to public transportation.
   C) The reason cows are not an endangered species is because many people eat beef.
   D) Hold everything constant except the price of juice.
   Answer: A
Chapter 1: Definitions and Concepts

154) The statement that ____ is an example of the fallacy of composition.
   A) the ceteris paribus fallacy cannot lead to the post hoc fallacy
   B) all children should have equal access to good public transportation
   C) end-of-the-year holiday season shopping causes the holiday season
   D) if one fan at a football can see better by standing, then all fans can see better if they all stand

Answer: D

Topic: Agreement and Disagreement

Level I: Definitions and Concepts

155) Economists generally agree that ____.
   A) minimum wages increase the employment of low-skilled workers
   B) rent ceilings cut the availability of housing
   C) a large budget deficit makes no significant difference
   D) tariffs make people better off

Answer: B