

Chapter 1: Economics: The Study of Choice

Multiple Choice

1. The basic concern of economics is to:

- A) keep business firms from losing money.
- B) prove that capitalism is better than socialism.
- C) study the choices people make.
- D) use unlimited resources to produce goods and services to satisfy limited wants.

Ans: C

Difficulty: Easy

2. Economics, generally speaking, is primarily concerned with:

- A) the operation of the bond and stock markets.
- B) the issues of income inequality or income equality.
- C) how people choose among the alternatives available to them.
- D) ceteris paribus, the scientific method, and the margin.

Ans: C

Difficulty: Easy

3. Economics is a:

- A) social science that studies goods with no alternative uses.
- B) natural science that studies goods with no alternative uses.
- C) social science concerned chiefly with how people choose among alternatives.
- D) social science concerned chiefly with reasons why society has unlimited resources.

Ans: C

Difficulty: Medium

4. The study of how people choose among the alternatives available to them is the:

- A) definition of economics.
- B) model of demand.
- C) theory of opportunity costs.
- D) method of distinguishing between microeconomics and macroeconomics.

Ans: A

Difficulty: Easy

5. According to the textbook, economics is a:

- A) social science.
- B) study of business decisions, not social decisions.
- C) part of operations and management science.
- D) part of humanities.

Ans: A

Difficulty: Easy

6. Economics is a:

- A) social science that deals with making choices among alternatives.
- B) natural science that concerns itself with allocating relatively scarce resources among alternative ends.
- C) science that has no theories or models based on the scientific method.
- D) humanities course that mainly concerns itself with limited wants versus unlimited resources.

Ans: A

Difficulty: Easy

7. When we are forced to make choices we are facing the concept of:

- A) ceteris paribus.
- B) free goods.
- C) scarcity.
- D) the margin.

Ans: C

Difficulty: Easy

8. Scarcity exists when:

- A) a choice must be made among two or more alternatives.
- B) we face the notion of "all other things unchanged."
- C) countries and people find themselves facing poverty.
- D) the notions of normative economics come into play.

Ans: A

Difficulty: Medium

9. Scarcity in economics means:

- A) not having sufficient resources to produce all the goods and services we want.
- B) the wants of people are limited.
- C) there must be poor people in rich countries.
- D) economists are clearly not doing their jobs.

Ans: A

Difficulty: Medium

10. A scarce resource is one that:

- A) has two or more alternative uses.
- B) exhibits the basic properties of a free good.
- C) is confronted only under socialist conditions.
- D) has an unlimited supply.

Ans: A

Difficulty: Medium

11. A key theme fundamental to all of economics is:

- A) there are limited wants.
- B) we are a rich country but are simply not aware of it.
- C) people have unlimited wants facing limited means to satisfy them.
- D) there are unlimited resources.

Ans: C

Difficulty: Medium

12. The opportunity cost of going to a movie is:

- A) the money spent on the ticket only.
- B) all of the other movies that could have been seen instead.
- C) the time spent in the theater only.
- D) the next best use of the time and the money spent.

Ans: D

Difficulty: Medium

13. Although water is very abundant in most places, it is scarce because:

- A) it has no alternative uses.
- B) it has two or more alternative uses.
- C) it is a free good and not expensive.
- D) scarce goods in general are not all that costly.

Ans: B

Difficulty: Medium

14. The concept of scarcity indicates that:

- A) most goods have no alternative uses.
- B) almost all goods have alternative uses.
- C) most decisions can be made without sacrificing alternatives.
- D) certain societies are able to overcome the constraints imposed by alternative uses of resources.

Ans: B

Difficulty: Medium

15. The existence of alternative uses of a resource implies that it is:

- A) free.
- B) scarce.
- C) expensive.
- D) plentiful.

Ans: B

Difficulty: Medium

16. A scarce resource is one that:

- A) is free.
- B) is abundant.
- C) has alternative uses.
- D) has no alternative uses.

Ans: C

Difficulty: Medium

17. The problem of scarcity is confronted by:

- A) industrialized societies.
- B) pre-industrialized societies.
- C) societies governed by communist philosophies.
- D) all societies.

Ans: D

Difficulty: Medium

18. Which of the following is most likely an example of a free good?

- A) Sand in aquarium
- B) Sand in the middle of a desert
- C) Sand in a children's sandbox
- D) Sand at the beach

Ans: B

Difficulty: Medium

19. A(n) _____ does not pose the problem of scarcity; one use of the good is not an alternative to another use.

- A) free good
- B) scarce good
- C) economic good
- D) monetary good

Ans: A

Difficulty: Easy

20. Water is considered a scarce good rather than a free good because:

- A) it has alternative uses.
- B) it does not have alternative uses.
- C) scarce goods are less expensive than free goods.
- D) free goods are more expensive than scarce goods.

Ans: A

Difficulty: Medium

21. The problem of determining what goods and services society should produce exists because:

- A) resources are plentiful.
- B) resources are scarce.
- C) most of our resources are privately rather than socially owned.
- D) most of our resources are socially rather than privately owned.

Ans: B

Difficulty: Medium

22. The problem of determining what goods and services society should produce:

- A) exists because we can produce more than we need or want.
- B) exists because there are not enough resources to provide all the goods and services that people want to purchase.
- C) would not exist if all goods and services were scarce.
- D) would not exist if government owned all of the resources.

Ans: B

Difficulty: Medium

23. A free good is different from a scarce good because it is:

- A) not tradable.
- B) not produced.
- C) not scarce.
- D) found only in nature.

Ans: C

Difficulty: Medium

24. The statement that "there is no such thing as a free lunch" means:

- A) there are no tradeoffs between economic goals.
- B) any production requires the use of scarce resources, and thus the sacrifice of another alternative.
- C) choices need not be made in rational behavior.
- D) scarcity only exists in poor societies.

Ans: B

Difficulty: Medium

25. The answer to, "What goods are to be produced?" deals with:

- A) who gets the goods.
- B) how tastes and preferences are determined.
- C) how resources are combined to produce goods and services.
- D) the kinds and quantities of goods and services produced.

Ans: D

Difficulty: Medium

26. A free good is:

- A) also a scarce good.
- B) a relatively abundant good.
- C) a good with no opportunity cost.
- D) a good with relatively low opportunity cost.

Ans: C

Difficulty: Medium

27. The fundamental economic questions that every economic system must answer are:

- A) what, how, and for whom.
- B) what, why, and for whom.
- C) when, why, and for whom.
- D) how, when, and how much.

Ans: A

Difficulty: Easy

28. The three fundamental economic questions of what, how, and for whom:

- A) exist because of scarcity.
- B) are much more serious in a socialist system.
- C) are not serious in a capitalistic system.
- D) are not relevant in the industrialized world of today.

Ans: A

Difficulty: Medium

29. Suppose that voters in your community pass a one-cent sales tax increase to fund education, knowing full well they will have to forgo other goods they typically consume. This primarily addresses the economic question of:

- A) How will each good be produced?
- B) For whom shall the goods be produced?
- C) Why will the resources be used to produce goods?
- D) What goods and services should a society produce?

Ans: D

Difficulty: Medium

30. An answer to the question "How are goods produced?" determines:

- A) who receives the goods that are produced.
- B) how tastes and preferences are determined.
- C) how resources are combined in the production of goods.

D) the types and quantities of goods and services produced.

Ans: C

Difficulty: Medium

31. The problem of determining how goods and services should be produced exists because:

- A) we do not have enough skilled workers relative to the number of unskilled workers.
- B) we do not have enough unskilled workers relative to the number of skilled workers.
- C) corporations want to avoid changing their methods of production.
- D) most goods can be produced with different combinations of resources.

Ans: D

Difficulty: Medium

32. The problem of determining how goods and services should be produced is a problem of deciding:

- A) the best combinations of resources to be used for producing goods and services.
- B) the extent to which imports should be reduced relative to exports.
- C) the extent to which exports should be reduced relative to imports.
- D) who owns the resources.

Ans: A

Difficulty: Medium

33. In the 1970s, the Organization of Petroleum Exporting Countries (OPEC) tripled the price of petroleum, causing automobile manufacturers to look for ways to produce more fuel-efficient cars by substituting aluminum and plastic for steel. This was primarily a response to the economic question of:

- A) When will each good be produced?
- B) For whom shall the goods be produced?
- C) What goods and services should a society produce?
- D) How should goods and services be produced?

Ans: D

Difficulty: Hard

34. An answer to the question "For whom" determines:

- A) tastes and preferences.
- B) how resources are combined in production.
- C) the kinds and quantities of goods produced.
- D) who gets the goods and services produced.

Ans: D

Difficulty: Medium

35. The problem of determining for whom to produce exists because:

- A) government regulations prevent firms from producing the kinds of goods that consumers want.
- B) a decision that one person or group will receive a good or service usually means that another person or group will not.
- C) taxes on firms make it more costly for them to produce all the goods that people want.
- D) taxes on consumers make it more difficult for them to buy all the goods they want.

Ans: B

Difficulty: Medium

36. One question that arises when determining for whom goods and services should be produced is:
- A) Who gets how much of the economic pie?
 - B) How can we import more goods for domestic consumption?
 - C) How can we reduce exports so as to leave more goods for domestic consumption?
 - D) Should society outlaw child labor?

Ans: A

Difficulty: Medium

37. In the 1930s, the federal government established the social security system to provide a minimum level of income to elderly and disabled people. This primarily addressed the economic question of:
- A) When will each good be produced?
 - B) For whom shall the goods be produced?
 - C) What goods and services should a society produce?
 - D) How should the resources be organized for production?

Ans: B

Difficulty: Hard

38. Whenever a choice is made:
- A) the value of all the other choices that could have been made is called opportunity cost.
 - B) normative economics is encountered.
 - C) the problem of "all other things unchanged" results.
 - D) the opportunity cost of that choice is the highest-valued other choice that could have been made.

Ans: D

Difficulty: Medium

39. Whenever a choice is made:
- A) the cost of that choice could be referred to as opportunity cost.
 - B) the cost is easy to measure in dollar terms.
 - C) a free good must be involved.
 - D) scarcity is not the problem.

Ans: A

Difficulty: Medium

40. Opportunity cost is:

- A) the costs of all sacrifices not chosen when a choice is made.
- B) the highest valued other choice that could have been made.
- C) the result of having made a bad choice.
- D) the result of not making choices at the margin.

Ans: B

Difficulty: Medium

41. The opportunity cost of something is:

- A) greater during periods of rising prices.
- B) equal to the money cost.
- C) less during periods of falling prices.
- D) what is given up to acquire it.

Ans: D

Difficulty: Medium

42. Opportunity cost is:

- A) zero for the use of a free combo meal offer.
- B) the dollar payment for a product.
- C) the benefit derived from a product.
- D) the value of the best alternative forgone in making any choice.

Ans: D

Difficulty: Easy

43. The sacrifice of an alternative is called:

- A) revenue.
- B) benefit.
- C) opportunity cost.
- D) production.

Ans: C

Difficulty: Medium

44. Economics is different from other social sciences because it gives special emphasis to the study of _____; it is similar to other social sciences because they are all concerned with the study of _____.

- A) unlimited resources; economic systems
- B) human interactions; limited resources
- C) opportunity costs; choices

D) social behavior; scarcity

Ans: C

Difficulty: Hard

45. The economic way of thinking includes:

- A) attention paid to the opportunity costs involved in any choice.
- B) the assumption that individuals choose to average out some objective.
- C) concern with the biological make up of decision makers.
- D) emphasis on how choices affect total values rather than marginal values.

Ans: A

Difficulty: Medium

46. The economic way of thinking includes:

- A) more attention paid to benefits rather than the costs involved in any choice.
- B) the assumption that individuals choose to maximize some objective.
- C) emphasis on how choices affect total values rather than marginal values.
- D) the notion that the world has solved the problem of scarcity.

Ans: B

Difficulty: Medium

47. The economic way of thinking includes:

- A) more attention paid to benefits rather than the costs involved in any choice.
- B) the assumption that individuals choose to average out some objective.
- C) emphasis on how choices are made at the margin.
- D) the notion that the industrialized nations have solved the problem of scarcity.

Ans: C

Difficulty: Medium

48. Making choices that are expected to achieve the highest possible value for some objective is termed:

- A) maximizing.
- B) minimizing.
- C) sanitizing.
- D) satisfying.

Ans: A

Difficulty: Easy

49. The economic way of thinking has to do with:

- A) analyzing benefits but not costs.
- B) analyzing costs but not benefits.
- C) making choices at the margin.

D) making the distinction between microeconomics and macroeconomics.

Ans: C

Difficulty: Medium

50. The concept of the margin deals with:

- A) making incremental choices.
- B) one more or one less of something.
- C) doing a little more or a little less.
- D) all of the above.

Ans: D

Difficulty: Medium

51. A feature that distinguishes economists' approach to making choices is (are):

- A) assigning opportunity costs a major role in their analyses of choices.
- B) assuming individuals make choices to maximize objectives.
- C) emphasizing that choices are made at the margin.
- D) all of the above.

Ans: D

Difficulty: Hard

52. A choice made _____ is a choice whether to do a little more or a little less of something.

- A) at the front end
- B) in the beginning
- C) at the margin
- D) all of the above.

Ans: C

Difficulty: Easy

53. The BEST example of making a choice at the margin is:

- A) buying a new car.
- B) quitting your job.
- C) a coffee drinker drinking another cup of coffee.
- D) attending college.

Ans: C

Difficulty: Medium

54. Macroeconomics deals with:

- A) bits and pieces of the economy.
- B) the question of how a business unit should operate profitably.
- C) the analysis of the aggregate values in the economy.
- D) ceteris paribus.

Ans: C

Difficulty: Medium

55. Microeconomics deals with:

- A) the working of the entire economy or large sectors of it.
- B) employment, growth, and inflation.
- C) individual units in the economy.
- D) normative economics for the most part.

Ans: C

Difficulty: Medium

56. The primary emphasis in macroeconomics is on:

- A) how firms set prices.
- B) aggregates in the economy.
- C) marginal analysis and normative economics.
- D) international trade and environmental economics.

Ans: B

Difficulty: Easy

57. Unemployment and inflation are:

- A) not relevant in the U.S. economy today.
- B) major topics in macroeconomics.
- C) unique only to capitalistic economies.
- D) very important in the study of microeconomics.

Ans: B

Difficulty: Medium

58. The study of a single firm and how it determines prices would fall under:

- A) macroeconomics.
- B) microeconomics.
- C) the study of inflation.
- D) normative economics.

Ans: B

Difficulty: Medium

59. Which of the following would be a part of macroeconomics? A study of:

- A) the change in automobile sales due to a change in the price of automobiles.
- B) a tax reduction impact on the profits of a business.
- C) inflation.
- D) the unemployment of workers displaced by technological change in the typesetting industry.

Ans: C

Difficulty: Hard

60. The branch of economics that examines the choices of consumers and firms is:

- A) positive economics.
- B) normative economics.
- C) macroeconomics.
- D) microeconomics.

Ans: D

Difficulty: Easy

61. The branch of economics that examines the impact of choices on aggregates in the economy is:

- A) positive economics.
- B) normative economics.
- C) macroeconomics.
- D) microeconomics.

Ans: C

Difficulty: Easy

62. Economists concerned about the behavior of individual households, firms, and industries are studying:

- A) microeconomics.
- B) macroeconomics.
- C) neither macroeconomics nor microeconomics.
- D) the "forest" of economic behavior, rather than the "trees."

Ans: A

Difficulty: Medium

63. Economists concerned about economy-wide trends in the unemployment of labor, the rate of inflation, and the level of economic production are studying:

- A) microeconomics.
- B) macroeconomics.
- C) specific units or parts of the economy.
- D) the "trees" of economic behavior, rather than the "forest."

Ans: B

Difficulty: Medium

64. Macroeconomics is most likely to be concerned with the:

- A) amount of unemployment in a specific industry.
- B) economic behavior of a particular household.
- C) economic behavior of specific parts or units of the economy.

D) aggregates in the economy.

Ans: D

Difficulty: Medium

65. Microeconomics is most likely to be concerned with the:

- A) economy as a whole.
- B) activity of large segments of the economy.
- C) economic behavior of specific parts or units of the economy.
- D) economy-wide trends in unemployment, prices, and production.

Ans: C

Difficulty: Medium

66. The Case in Point on the *Simpsons* indicated that even fictional characters face:

- A) diminishing marginal product.
- B) opportunity costs.
- C) the fallacy of false cause.
- D) positive statements.

Ans: B

Difficulty: Hard

67. The Case in Point on the *Simpsons* indicated that time is:

- A) a scarce resource.
- B) a resource without alternative uses.
- C) a ubiquitous resource.
- D) not a resource.

Ans: A

Difficulty: Hard

68. The scientific method is more difficult for economists than, say, chemists, because:

- A) controlled laboratory conditions are more problematic in economics.
- B) it is difficult to hold other factors that may affect the variables being studied constant in economics.
- C) economic conditions may change quickly and unexpectedly.
- D) all of the above.

Ans: D

Difficulty: Medium

69. Anything whose value can change is a:

- A) variable.
- B) constant.
- C) hypothesis.

D) all of the above.

Ans: A

Difficulty: Easy

70. Something whose value does not change is a:

- A) variable.
- B) constant.
- C) hypothesis.
- D) all of the above.

Ans: B

Difficulty: Easy

71. A systematic set of procedures through which knowledge is created is:

- A) the economy.
- B) the scientific method.
- C) a market.
- D) a model.

Ans: B

Difficulty: Easy

72. A hypothesis is an assertion that can be:

- A) proven to be false.
- B) proven to be true.
- C) proven to be true or false.
- D) tested only in the normative sense.

Ans: A

Difficulty: Easy

73. A proposition about the relationship between two variables that can be proven false is called:

- A) a hypothesis.
- B) a law.
- C) a theory.
- D) the scientific method.

Ans: A

Difficulty: Easy

74. The models used in economics:

- A) are usually limited to variables that are directly related.
- B) are essentially not reliable because they are not testable in the real world.
- C) are of necessity unrealistic and have no relationship to the real world.
- D) emphasize basic relationships by abstracting from complexities in the everyday world.

Ans: D

Difficulty: Hard

75. Economic models are:

- A) created and used in order to duplicate virtually every aspect of the real world.
- B) useless if they are simple.
- C) made generally of wood, plastic, and/or metal.
- D) built using assumptions.

Ans: D

Difficulty: Medium

76. A model or theory in economics is:

- A) based mostly on value judgments.
- B) built using relevant observations, assumptions, and abstractions.
- C) only useful if it correctly portrays the real world and its complexities.
- D) useful only if it is based on normative economic statements.

Ans: B

Difficulty: Hard

77. Which of the following statements is (are) true?

- A) A model is a set of simplifying assumptions about some aspect of the real world.
- B) Models are based on assumed conditions that are simpler than those of the real world.
- C) A model cannot be a complete representation of the real world.
- D) All of the above are true.

Ans: D

Difficulty: Hard

78. According to the text, which of the following is true?

- A) Scientists can prove a hypothesis is true.
- B) Scientists can show that a hypothesis is false.
- C) Economists really don't try to use the scientific method.
- D) None of the above is true.

Ans: B

Difficulty: Hard

79. In economics, the function of theories, laws, and hypotheses is to:

- A) prevent any misunderstanding of economic behavior.
- B) divide topics between microeconomics and macroeconomics.
- C) generate a complete and unchanging description of economic behavior.
- D) discover relationships between events that are important to economic behavior.

Ans: D

Difficulty: Medium

80. A hypothesis that has been tested extensively without being rejected and has won widespread acceptance is a:

- A) model.
- B) constant.
- C) variable.
- D) theory.

Ans: D

Difficulty: Easy

81. A theory that has won virtually universal acceptance is a:

- A) model.
- B) hypothesis.
- C) law.
- D) variable.

Ans: C

Difficulty: Easy

82. A simplified representation of a particular problem is a:

- A) model.
- B) constant.
- C) hypothesis.
- D) law.

Ans: A

Difficulty: Easy

83. Each of the following statements about the use of models in the study of economics is true EXCEPT:

- A) models fit the observed facts exactly.
- B) models are sometimes revised in light of new research findings.
- C) models are easier to manipulate than the reality they represent.
- D) models contain the essential features of the economic behavior being studied.

Ans: A

Difficulty: Hard

84. Economists are:

- A) concerned with developing theories and interested in solving problems.
- B) interested in solving problems but not concerned with developing theories.
- C) reluctant to predict changes in variables such as prices, employment, and spending.
- D) always in agreement on the best way to implement policy decisions.

Ans: A

Difficulty: Medium

85. Economists are:

- A) concerned with developing theories but not interested in solving problems.
- B) interested in solving problems but not concerned with developing theories.
- C) reluctant to predict changes in variables such as prices, employment, and spending.
- D) not always in agreement on the best way to implement policy decisions.

Ans: D

Difficulty: Medium

86. A variable that responds to a change in another variable is called a(n) _____ variable.

- A) independent
- B) dependent
- C) theoretical
- D) all of the above are true

Ans: B

Difficulty: Medium

87. A variable that induces a change in another variable is a(n):

- A) dependent variable.
- B) independent variable.
- C) codependent variable.
- D) constant variable.

Ans: B

Difficulty: Easy

88. A basic assumption used in many economic models is:

- A) as price goes up, the amount purchased will go up too.
- B) as price goes up, less will be offered for sale on the market.
- C) if the underlying theory doesn't represent reality, it is not useful.
- D) ceteris paribus, which means all other things remain unchanged.

Ans: D

Difficulty: Medium

89. Ceteris paribus means:

- A) allowing all other things to change.
- B) making value judgments.
- C) all other things unchanged.
- D) differentiating between macroeconomics and microeconomics.

Ans: C

Difficulty: Easy

90. The "all other things unchanged" assumption is useful because it:

- A) states the main economic objectives.
- B) is a vehicle for determining whether a particular outcome is "good" or "bad".
- C) helps to approximate real-world conditions.
- D) helps to restrict analysis to the effect of a single economic factor.

Ans: D

Difficulty: Medium

91. The "all other things unchanged" assumption is used to:

- A) express the fundamental questions in economics.
- B) approximate real-world conditions.
- C) simplify the very complex real world.
- D) do all of the above.

Ans: C

Difficulty: Medium

92. A term that means "all other things unchanged" is:

- A) dependent variable.
- B) independent variable.
- C) quid pro quo.
- D) ceteris paribus.

Ans: D

Difficulty: Easy

93. The use of controlled experiments using particular substances to test hypotheses is most likely to be found in:

- A) chemistry.
- B) economics.
- C) history.
- D) the humanities.

Ans: A

Difficulty: Easy

94. Reaching the incorrect conclusion that one event causes another because the events tend to occur together is called:

- A) the scientific method.
- B) the economic way of thinking.
- C) making choices at the margin.
- D) the fallacy of false cause.

Ans: D

Difficulty: Easy

95. The incorrect presumption that because two events tend to occur together, one must cause the other is the:

- A) confusion of economists.
- B) blunder of science.
- C) fallacy of false cause.
- D) error of inclusion.

Ans: C

Difficulty: Easy

96. A person who mistakenly assumes that because one event follows another, the second event results from the first commits the fallacy of:

- A) division.
- B) addition.
- C) composition.
- D) false cause.

Ans: D

Difficulty: Medium

97. Suppose you observe that the sun sets every evening after the six o'clock business report. If you conclude that the six o'clock business report makes the sun set, you are guilty of the fallacy of:

- A) division.
- B) composition.
- C) false cause.
- D) science.

Ans: C

Difficulty: Medium

98. The Case in Point on "baldness and heart disease" suggests that by preventing baldness:

- A) men can reduce the likelihood they will develop colon cancer.
- B) men are unlikely to influence their chances of having heart problems.
- C) men are likely to reduce their chances of having heart problems.
- D) men can live longer.

Ans: B

Difficulty: Medium

99. The observed correlation between baldness and heart disease demonstrates that:

- A) being bald causes a man to have heart disease.

- B) being bald actually makes heart disease less likely.
- C) bald men are generally unreliable.
- D) there is probably some other factor that causes both baldness and heart disease.

Ans: D

Difficulty: Medium

100. Statements that are a hypothesis or statement of fact are:

- A) pecuniary.
- B) positive.
- C) nominal.
- D) normative.

Ans: B

Difficulty: Easy

101. An example of a positive statement is:

- A) The rate of unemployment is 4 percent.
- B) A high rate of economic growth is good for the country.
- C) Everyone in the country needs to be covered by national health insurance.
- D) Baseball players should not be paid higher salaries than the president of the United States.

Ans: A

Difficulty: Medium

102. An example of a positive statement is:

- A) The rate of unemployment should be 4 percent.
- B) A high rate of economic growth is good for the country.
- C) an increase in investment spending tends to reduce unemployment.
- D) Everyone in the country needs to be covered by national health insurance.

Ans: C

Difficulty: Medium

103. Statements that make value judgments are:

- A) pecuniary.
- B) positive.
- C) nominal.
- D) normative.

Ans: D

Difficulty: Easy

104. An example of a normative statement is:

- A) The rate of unemployment is 4 percent.
- B) A high rate of economic growth is good for the country.

- C) The federal government spends half of its budget on national defense.
- D) People with health insurance tend to spend more on health care than those who are uninsured.

Ans: B

Difficulty: Medium

105. An example of a normative statement is:

- A) The rate of unemployment is 4 percent.
- B) A high rate of economic growth creates more jobs for the country.
- C) The federal government spends half of its budget on national defense.
- D) Everyone in the country needs to be covered by national health insurance.

Ans: D

Difficulty: Medium

106. The current rate of unemployment of 5 percent is too high. This is a _____ statement.

- A) normative
- B) ceteris paribus
- C) positive
- D) fallacy of false cause

Ans: A

Difficulty: Medium

107. The current rate of unemployment is 5 percent. This statement:

- A) is positive.
- B) is normative.
- C) involves a value judgment.
- D) is a personal reflection and has no value in economics.

Ans: A

Difficulty: Medium

108. Many disagreements among economists result because:

- A) economists deal only with positive economics.
- B) economists sometimes make normative judgments.
- C) economics is a social science.
- D) economics deals so much with theories and models.

Ans: B

Difficulty: Medium

109. "Smokers are more likely to be murdered than nonsmokers." This statement is an example of:

- A) the fallacy of unintended consequences.

- B) a positive economic statement.
- C) a normative economic statement.
- D) a value judgment.

Ans: B

Difficulty: Medium

110. Most economists' disagreements are a result of:

- A) factual considerations.
- B) positive economics.
- C) the scientific method.
- D) normative considerations.

Ans: D

Difficulty: Medium

111. The statement that the minimum wage needs to be increased is a:

- A) positive statement.
- B) normative statement.
- C) condition contained in the fallacy of false cause.
- D) scientific conclusion based on marginal analysis.

Ans: B

Difficulty: Medium

112. Positive statements:

- A) imply value judgments must be made.
- B) are factual and can be tested.
- C) deal with what ought to be.
- D) are dealt with primarily in microeconomics.

Ans: B

Difficulty: Easy

113. Positive statements are:

- A) microeconomic in nature.
- B) macroeconomic in nature.
- C) statements involving value judgments.
- D) statements that can be tested.

Ans: D

Difficulty: Medium

114. A normative statement deals with:

- A) the facts.
- B) what was, is, or will be.

- C) what ought to be.
- D) the scientific method.

Ans: C

Difficulty: Medium

True/False

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

Ans: False

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

Ans: False

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

Ans: True

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

Ans: False

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

Ans: True

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

Ans: True

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

Ans: False

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

Ans: True

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

Ans: False

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

Ans: True

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

Ans: True

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

Ans: False

13. Margin suggests additional or incremental.

Ans: True

14. Opportunity cost is the expected value of the alternative not chosen.

Ans: True

15. All choices have monetary costs.

Ans: False

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

Ans: False

17. The value of the next-best choice not chosen is called opportunity cost.

Ans: True

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

Ans: True

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

Ans: False

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

Ans: True

21. Ceteris paribus means allowing all things to change.

Ans: False

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

Ans: False

Short Answer

1. Briefly define scarcity, choice, and opportunity cost and explain carefully how they are related and why they are so essential in the study of economics.
2. Explain how and why the concept of "all other things unchanged" is so important in the study of economics.
3. Distinguish between microeconomics and macroeconomics.
4. Define positive and normative statements and give four examples of each.
5. "Since economics is a science, economists must not become involved in making any value judgments in their formulation of policy." Do you agree with this statement? Explain.
6. Explain the following statement: "The relative scarcity of resources makes the operation of any economic system a matter of choosing among various alternatives."
7. Explain the following statement: "In economics there are few absolute solutions. Almost all problem solutions require tradeoffs."
8. Two important notions in economics are the scarcity of resources and the tremendous magnitude of the wants of people. Given this, evaluate and explain the following statement: "The study of economics is essentially to investigate how to maximize the satisfaction of wants utilizing available resources."
9. Explain the rationale behind the assertion that economics is a social science and uses the scientific method.