

Survey of Economics, 7e (O'Sullivan/Sheffrin/Perez)
Chapter 1 Introduction: What Is Economics?

1.1 What Is Economics?

- 1) Economics is best defined as the study of
- A) financial decision-making.
 - B) how consumers make purchasing decisions.
 - C) the choices made by people faced with scarcity.
 - D) inflation, unemployment, and economic growth.

Answer: C

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

- 2) Economics is the study of
- A) how to invest in the stock market.
 - B) how society uses limited resources.
 - C) the role of money in markets.
 - D) how government officials decide which goods and services are produced.

Answer: B

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

- 3) Scarcity can best be defined as a situation in which
- A) there are no buyers willing to purchase what sellers have produced.
 - B) there are not enough goods to satisfy all of the buyers' demand.
 - C) the resources we use to produce goods and services are limited.
 - D) there is more than enough money to satisfy consumers' wants.

Answer: C

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) An arrangement that allows buyers and sellers to exchange things is called

- A) a contract.
- B) a market.
- C) money.
- D) efficient.

Answer: B

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) Because resources are limited

- A) only the very wealthy can get everything they want.
- B) firms will be forced out of business.
- C) the availability of goods will be limited but the availability of services will not.
- D) people must make choices.

Answer: D

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) A trade-off refers to

- A) allowing the government and other organizations to choose for us.
- B) sacrificing one thing for another.
- C) deciding who consumes the products produced in an economy.
- D) holding other variables fixed.

Answer: B

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) Resources are all of the following EXCEPT

- A) unlimited and in abundance.
- B) the things we use to produce goods and services.
- C) limited in quantity and can be used in different ways.
- D) scarce and therefore require choices to be made.

Answer: A

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

8) The knowledge and skills acquired by a worker through education and experience is a description of which factor of production?

- A) physical capital
- B) human capital
- C) labor
- D) entrepreneurship

Answer: B

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

9) The physical and mental effort people use to produce goods and services is a description of which factor of production?

- A) physical capital
- B) human capital
- C) labor
- D) entrepreneurship

Answer: C

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

10) The effort used to coordinate the factors of production is a description of

- A) physical capital.
- B) human capital.
- C) labor.
- D) entrepreneurship.

Answer: D

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

11) All of the following are considered natural resources EXCEPT

- A) a coral reef.
- B) gold.
- C) labor.
- D) a redwood forest.

Answer: C

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

12) Normative economics

- A) is the focus of most modern economic reasoning.
- B) answers the question "What ought to be?"
- C) predicts the consequences of alternative actions.
- D) answers the question "What is?"

Answer: B

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

13) Which of the following is an example of a normative question?

- A) How will an increase in the inheritance tax affect tax revenues?
- B) What fraction of an income tax cut will be spent on imported goods?
- C) Should Florida implement a state income tax to reduce its deficit?
- D) How will an increase in unemployment benefits affect the unemployment rate?

Answer: C

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

14) Which of the following is a question answered with positive economic analysis?

- A) Should the college reduce tuition for out-of-state residents?
- B) Should the college charge higher tuition for part-time students?
- C) If the college increased its eligibility requirements for enrollment, will class sizes decline?
- D) Should the college eliminate its athletic program to cut its costs?

Answer: C

Diff: 2

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

- 15) Which of the following is a question answered with normative economic reasoning?
- A) If the college offers free textbooks for students, will more students read their textbooks?
 - B) If the college provided less financial aid for out-of-state students, would more in-state students benefit?
 - C) If the college increased its enrollment requirements, would class size decline?
 - D) Should the college increase tuition to fund its athletic programs?

Answer: D

Diff: 2

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

- 16) The 3 key economic questions include all of the following EXCEPT

- A) "what products do we produce?"
- B) "how do we produce these products?"
- C) "where should these products be produced?"
- D) "who consumes the products?"

Answer: C

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

- 17) Deciding how a society's products are distributed among its citizens answers the economic question of

- A) who consumes the products produced.
- B) what products will be produced.
- C) where will the products be consumed.
- D) how will the products be produced.

Answer: A

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

18) Deciding if a company will produce automobiles by robotics or manual labor answers the economic question of

- A) who consumes the products produced.
- B) what products will be produced.
- C) where will the products be consumed.
- D) how will the products be produced.

Answer: D

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

19) Deciding if a power company will generate electricity from wind power or coal answers the economic question of

- A) who consumes the products produced.
- B) what products will be produced.
- C) where will the products be consumed.
- D) how will the products be produced.

Answer: D

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

20) An economic model is a

- A) realistic version of an economic environment.
- B) detailed version of an economic issue.
- C) fictional representation of an entire economy.
- D) simplified representation of an economic environment.

Answer: D

Diff: 1

Topic: Economic Models

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

21) Economic models are used to

- A) explain every detail of an economic theory.
- B) explore decision making by individuals, firms and other organizations.
- C) build physical renditions of government construction projects.
- D) represent the complexities of economic environments.

Answer: B

Diff: 1

Topic: Economic Models

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

22) Talking about alternatives is the first step in a process that helps us make better choices about how we use our resources.

Answer: TRUE

Diff: 1

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

23) In the past few centuries, choices have led to a substantial decline in the standards of living around the globe.

Answer: FALSE

Diff: 1

Topic: What Is Economics?

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

24) Scarcity is a situation in which resources are unlimited in quantity and can be used in different ways.

Answer: FALSE

Diff: 1

Topic: What Is Economics?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

25) Positive economics answers the question, "What *ought* to be?" Normative economics predicts the consequences of alternative actions, answering the questions, "What *is*?" or "What *will be*?"

Answer: FALSE

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

26) Normative economics answers the question, "What *ought* to be?" Positive economics predicts the consequences of alternative actions, answering the questions, "What *is*?" or "What *will be*?"

Answer: TRUE

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

27) Most modern economic analysis is normative in nature, but involves questions with positive aspects.

Answer: FALSE

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

28) Economists will always reach the same conclusion in their positive analyses.

Answer: FALSE

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

29) One of the key economic questions is "where should products be produced?"

Answer: FALSE

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

30) One of the key economic questions is "who consumes the products?"

Answer: TRUE

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

31) An economic model is a detailed version of an economic environment.

Answer: FALSE

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

32) Economic models explore decision making by individuals, firms and other organizations.

Answer: TRUE

Diff: 1

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

33) Would an economist consider clean air a scarce resource? Explain.

Answer: Yes, because the air had alternative uses. We can choose to use it to either breathe or to undertake activities that pollute it. The more we want to breathe clean air the more we must limit the production of pollutants. The more we pollute the air the less we can breathe clean air.

Diff: 2

Topic: What Is Economics?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-1

34) List and briefly describe the five factors of production.

Answer: Natural resources—those resources provided by nature. Labor—the physical and mental effort used by people to produce goods and services. Physical capital—the infrastructure, equipment, machines and structures used to produce goods and services. Human capital—the knowledge and skills obtained by workers through education and experience.

Entrepreneurship—the organizing and coordination of the other four factors of production needed to produce and sell products.

Diff: 2

Topic: What Is Economics?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

35) Give an example of something that is scarce in your life and explain the choices you've made because of scarcity.

Answer: Responses are numerous and will vary by students.

Diff: 1

Topic: What Is Economics?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-1

36) Positive economic analysis answers what question?

Answer: Positive economic analysis answers the question "what is" or "what will be."

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

37) Normative economic analysis answers what question?

Answer: Normative economic analysis answers the question "what ought to be."

Diff: 1

Topic: Positive versus Normative Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

38) Richard runs a pizza delivery restaurant. List the three basic types of decisions studied in economics and give an example from Richard's restaurant.

Answer: How to produce? With what resources will the pizzas be produced? What to produce? What sorts of pizza do people order? Who consumes the products? Which people decided to come to the restaurant on a given day?

Diff: 2

Topic: The Three Key Economic Questions: What, How, and Who?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-1

1.2 Economic Analysis and Modern Problems

1) According to the Texas Transportation Institute, the typical U.S. commuter wastes approximately how much time per year due to traffic congestion?

- A) 14 hours
- B) 22 hours
- C) 47 hours
- D) 96 hours

Answer: C

Diff: 1

Topic: Economic View of Traffic Congestion

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) In the final two decades of the twentieth century, average per capita global income

- A) increased by approximately 35 percent.
- B) remained relatively unchanged.
- C) decreased by approximately 6 percent.
- D) increased by more than 75 percent.

Answer: A

Diff: 1

Topic: Economic View of Poverty in Africa

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) In the final two decades of the twentieth century, per capita income in sub-Saharan Africa

- A) increased by approximately 35 percent.
- B) remained relatively unchanged.
- C) decreased by approximately 6 percent.
- D) increased by more than 75 percent.

Answer: C

Diff: 1

Topic: Economic View of Poverty in Africa

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) Prior to the financial crisis and recession which began in 2007, credit for mortgages was _____, creating a _____.

- A) virtually unavailable; housing bubble
- B) only available to borrowers with high credit scores; shortage of affordable housing
- C) easily obtained; housing boom
- D) unavailable to low-income borrowers; large demand for rental properties

Answer: C

Diff: 1

Topic: Economic View of the Current World Recession

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) The financial crisis and recession which began in 2007

- A) impacted only high-income countries.
- B) was only severe in the United States.
- C) had a global impact.
- D) impacted only low-income countries.

Answer: C

Diff: 1

Topic: Economic View of the Current World Recession

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) Congestion taxes tend to cause an increase in traffic volume during rush hours.

Answer: FALSE

Diff: 1

Topic: Economic View of Traffic Congestion

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) In the 1980s and 1990s, average per capita income increased by a greater percentage in sub-Saharan Africa than it did in the rest of the world.

Answer: FALSE

Diff: 1

Topic: Economic View of Poverty in Africa

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

1.3 The Economic Way of Thinking

1) Who is associated with the following summary of the economic way of thinking: "The theory of economics does not furnish a body of settled conclusions immediately acceptable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its processor draw correct conclusions."

- A) John Maynard Keynes
- B) Alfred Marshall
- C) Adam Smith
- D) President Harry Truman

Answer: A

Diff: 1

Topic: The Economic Way of Thinking

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) To make things simpler and focus attention on what really matters, economists

- A) use assumptions.
- B) ignore all variables.
- C) think at the margin.
- D) respond to incentives.

Answer: A

Diff: 1

Topic: Use Assumptions to Simplify

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) A variable measures

- A) something that always has the same value.
- B) something that can take on different values.
- C) factors that occur with high degrees of uncertainty.
- D) the degree to which something varies over time.

Answer: B

Diff: 1

Topic: Isolate Variables - Ceteris Paribus

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) The Latin phrase *ceteris paribus* means that when a relationship between two variables is being studied

- A) both are treated as unpredictable.
- B) neither of those two variables is allowed to change.
- C) all other variables are held fixed.
- D) we recognize that some factors are unknown.

Answer: C

Diff: 1

Topic: Isolate Variables - Ceteris Paribus

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) To think at the margin means to consider

- A) how nothing remains constant over time.
- B) how a small change in one variable affects another variable.
- C) how people behave in their own self-interest.
- D) how people will decide what to purchase.

Answer: B

Diff: 1

Topic: Think at the Margin

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) Jerome has a "C" average in his philosophy course and a "B" average in his economics course. He decides to study an extra hour for his philosophy exam. This is an example of

- A) thinking at the margin.
- B) using assumptions to simplify.
- C) *ceteris paribus*.
- D) *caveat emptor*.

Answer: A

Diff: 1

Topic: Think at the Margin

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) A small change in a variable is

- A) an average change.
- B) a *ceteris paribus* change.
- C) an efficient change.
- D) a marginal change.

Answer: D

Diff: 1

Topic: Think at the Margin

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

8) Adam Smith

- A) is considered the founder of economics.
- B) introduced the concept of *ceteris paribus* to the discussion of supply and demand.
- C) is responsible for refining the model of supply and demand.
- D) is the author of this text.

Answer: A

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

9) When economists assume that people are rational and respond to incentives, they mean

- A) people act with kindness.
- B) people are altruistic.
- C) people act in their own self-interest.
- D) people are selfish.

Answer: C

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

10) When deciding to implement a congestion tax, economists and the government would use the elements of the economic way of thinking to primarily determine

- A) if the tax would be allocated equitably.
- B) what tax amount should be charged.
- C) who should be exempt from the tax.
- D) how much revenue will the tax generate.

Answer: B

Diff: 1

Topic: Example: London Addresses its Congestion Problem

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

11) After the implementation of the congestion tax in London, traffic volume was reduced and travel time for cars and buses was cut in half. This is an example of

- A) responding to incentives.
- B) the role of pricing in allocating resources.
- C) *caveat emptor*.
- D) comparative advantage.

Answer: A

Diff: 1

Topic: Example: London Addresses its Congestion Problem

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

12) When determining an appropriate congestion tax, economists would use which of the following elements of the economic way of thinking?

- A) thinking at the margin
- B) isolating variables
- C) making assumptions
- D) all of the above

Answer: D

Diff: 2

Topic: Example: London Addresses its Congestion Problem

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

Recall the Application about the increase in purchases of hybrid vehicles to answer the following question(s).

13) According to the Application, one factor which was responsible for roughly one-fifth of hybrid vehicles purchased in 2007 was a federal subsidy of up to \$3,400 per hybrid vehicle. The increase in sales due to this subsidy is an example of which element of the economic way of thinking?

- A) responding to incentives
- B) thinking at the margin
- C) isolating variables
- D) using assumptions to simplify

Answer: A

Diff: 1

Topic: Application 1, Incentives to Buy Hybrid Vehicles

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

14) According to the Application, one factor which was responsible for roughly one-third of hybrid vehicles purchased in 2007 was an increase in the price of gasoline. The increase in sales due to higher gasoline prices describes the economic concept of

- A) using assumptions to simplify.
- B) *ceteris paribus*.
- C) marginal thinking.
- D) rational self interest.

Answer: D

Diff: 1

Topic: Application 1, Incentives to Buy Hybrid Vehicles

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

15) According to the Application, the average cost of abating one ton of CO₂ emissions through the hybrid subsidy is \$177, but a switch from coal to natural gas in power plants would reduce CO₂ emissions at less than one-third the cost of the hybrid subsidy. The increase in cost associated with the reduction of one ton of CO₂ emissions (assuming that each unit of CO₂ emissions is measured in tons) describes the economic concept of

- A) using assumptions to simplify.
- B) *ceteris paribus*.
- C) marginal thinking.
- D) rational self interest.

Answer: C

Diff: 1

Topic: Application 1, Incentives to Buy Hybrid Vehicles

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

Recall the Application about housing prices in Cuba to answer the following question(s).

16) According to the Application, in 1960 the Cuban government

- A) confiscated most housing in the country.
- B) did not allow people to sell or rent their homes.
- C) caused a large shortage of housing as a result of its policies.
- D) all of the above

Answer: D

Diff: 1

Topic: Application 2, Housing Prices in Cuba

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

17) Recent housing reforms in Cuba should give homeowners _____ incentives to repair their homes and therefore _____ construction of new homes.

- A) more; decrease
- B) more; increase
- C) fewer; decrease
- D) fewer; increase

Answer: B

Diff: 2

Topic: Application 2, Housing Prices in Cuba

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

18) Using assumptions to make things simpler and focus attention on what really matters is like using a road map to plan a trip.

Answer: TRUE

Diff: 1

Topic: Use Assumptions to Simplify

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

19) *Ceteris paribus* means "Let the buyer beware."

Answer: FALSE

Diff: 1

Topic: Isolate Variables - Ceteris Paribus

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

20) *Ceteris paribus* is the same as rise / run.

Answer: FALSE

Diff: 1

Topic: Isolate Variables - Ceteris Paribus

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

21) A small, one-unit change in value is called a marginal change.

Answer: TRUE

Diff: 1

Topic: Think at the Margin

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

22) A key assumption of most economic analysis is that people act rationally, meaning they respond to incentives.

Answer: TRUE

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

23) A key assumption of most economic analysis is that people are altruistic, meaning that they act in their own self-interest.

Answer: FALSE

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

24) Economists assume that individuals make informed decisions and act in their own self-interest.

Answer: TRUE

Diff: 1

Topic: Rational People Respond to Incentives

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

25) The congestion tax implemented in London reduced traffic volume and cut travel time for cars and buses in half.

Answer: TRUE

Diff: 1

Topic: Example: London Addresses its Congestion Problem

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

26) To determine an appropriate congestion tax, an economist has to assume that people respond to incentives.

Answer: TRUE

Diff: 1

Topic: Example: London Addresses its Congestion Problem

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

Recall the Application about housing prices in Cuba to answer the following question(s).

27) According to the Application, recent reforms in Cuba have relied less on the free market in determining prices in the housing market.

Answer: FALSE

Diff: 1

Topic: Application 2, Housing Prices in Cuba

Skill: Fact

AACSB: Reflective Thinking

Learning Outcome: Micro-1

28) What is meant by the term "marginal change"?

Answer: A marginal change is a small, one unit change in value.

Diff: 1

Topic: Think at the Margin

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

1.4 Preview of Coming Attractions: Macroeconomics

1) Macroeconomics is best described as the study of

- A) very large issues.
- B) the choices made by individual households, firms, and governments.
- C) the nation's economy as a whole.
- D) the relationship between inflation and wage inequality.

Answer: C

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-1

2) Which of the following is a macroeconomic question?

- A) Should we have a constitutional amendment requiring the government to implement a national consumption tax to replace the current income tax?
- B) Why did a leading computer manufacturer establish call centers in India?
- C) Why does a pharmaceutical manufacturer try to lower its production costs?
- D) Should the government put a tax on alcohol in an attempt to assist in the funding of support groups like Alcoholics Anonymous?

Answer: A

Diff: 2

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

3) Which of the following is NOT a macroeconomic question?

- A) Should we have a constitutional amendment requiring the federal government to balance the budget each year?
- B) Should restaurants be required to list the number of calories for each product on their menus?
- C) How does a fiscal stimulus package affect gross domestic product?
- D) Should Congress enact tougher immigration laws to reduce unemployment?

Answer: B

Diff: 2

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

- 4) We can use macroeconomic analysis to
A) learn how to balance a checkbook.
B) study the choices made by households.
C) understand marginal changes in the macroeconomy.
D) understand why economies grow.

Answer: D

Diff: 2

Topic: Using Macroeconomics to Understand Why Economies Grow

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

- 5) Macroeconomics involves the study of the decision-making of individual firms or individuals.

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

- 6) Macroeconomics helps explain economic fluctuations, why the economy shrinks and expands and why some of the economy's resources are idle.

Answer: TRUE

Diff: 1

Topic: Using Macroeconomics to Understand Economic Fluctuations

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

- 7) Describe the field of economics known as macroeconomics.

Answer: Macroeconomics is the study of the nation's economy as a whole. Macroeconomics focuses on the issues of inflation, unemployment and economic growth.

Diff: 1

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Macro-1

8) Explain three ways we can use macroeconomic analysis.

Answer: Macroeconomics explains why some resources increase over time and how an increase in these resources translates into a higher standard of living. In the fastest-growing countries, citizens save a large fraction of the money they earn. Firms can then borrow the funds saved to purchase machinery and equipment that make their workers more productive. The fastest growing countries also have well-educated workforces, allowing firms to quickly adopt new technologies that increase worker productivity. All economies, including ones that experience a general trend of growth, are subject to economic fluctuations including periods when the economy shrinks. During an economic downturn, some of the economy's resources are idle. Many workers are unemployed, and many factories and stores are closed. By contrast, sometimes the economy grows too rapidly, causing inflation. Macroeconomics helps us understand why these fluctuations occur—why the economy sometimes cools and sometimes overheats—and what we can do to moderate the fluctuations. A third reason for studying macroeconomics is to make informed business decisions. A manager who intends to borrow money for a new factory or store could use her knowledge of macroeconomics to predict the effects of current public policies on interest rates and then decide whether to borrow the money now or later.

Diff: 2

Topic: Preview of Coming Attractions: Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-1

1.5 Preview of Coming Attractions: Microeconomics

1) The study of the choices made by individual households, firms, and government is called

- A) macroeconomics.
- B) microeconomics.
- C) managerial economics.
- D) market economics.

Answer: B

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2) Microeconomics is best described as the study of

- A) the choices made by individual households, firms, and governments.
- B) inflation, unemployment, gross national product, and the nation's economy as a whole.
- C) how markets interact in the aggregate economy.
- D) marginal changes in the economy.

Answer: A

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) Which of the following is a microeconomic question?

- A) Should companies pay for employees' health insurance?
- B) Why do some countries have higher economic growth rates than other countries?
- C) Should Congress and the president take action to reduce the unemployment rate?
- D) Should the Fed attempt to influence the interest rate to control potential inflation?

Answer: A

Diff: 1

Topic: Using Microeconomics to Evaluate Public Policies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) Which of the following is a microeconomic question?

- A) Should the government decrease unemployment benefits to reduce the unemployment rate?
- B) Why do some countries have higher inflation rates than other countries?
- C) Should the government subsidize corn farmers to encourage the production of ethanol?
- D) Should congress decrease taxes to help stimulate the economy?

Answer: C

Diff: 2

Topic: Using Microeconomics to Evaluate Public Policies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) Microeconomics helps explain economic fluctuations, why the economy shrinks and expands and why some of the economy's resources are idle.

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) Microeconomics is the study of aggregate behavior in the economy.

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) One example of a microeconomic question is, "How will prices in the clothing industry change if the government bans imports from China?"

Answer: TRUE

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

8) One example of a microeconomic question is, "Should unemployment benefits be increased?"

Answer: FALSE

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

9) Describe the field of economics known as microeconomics.

Answer: Microeconomics is the study of the choices made by households, firms and government and how these choices affect the markets for goods and services.

Diff: 1

Topic: Preview of Coming Attractions: Microeconomics

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-1

10) Explain three ways we can use microeconomic analysis.

Answer: 1. To understand markets and predict changes: One reason for studying microeconomics is to better understand how markets work. Once you know how markets operate, you can use economic analysis to predict how various events affect product prices and quantities.

2. To make personal and managerial decisions: On the personal level, we use economic analysis to decide how to spend our time, what career to pursue, and how to spend and save the money we earn. As workers, we use economic analysis to decide how to produce goods and services, how much to produce, and how much to charge for them.

3. To evaluate public policies: While societies use markets to make the most of decisions concerning production and consumption, the government has several important roles in a market-based society. We can use economic analysis to determine how well the government performs its roles in the market economy. We can also explore the trade-offs associated with various public policies.

Diff: 2

Topic: Preview of Coming Attractions: Microeconomics

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

1.6 Appendix: Using Graphs and Percentages

1) There is a positive relationship between two variables if

- A) they move in opposite directions.
- B) they move in the same direction.
- C) one variable changes and the other does not.
- D) neither variable moves.

Answer: B

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

2) There is a negative relationship between two variables if

- A) they move in opposite directions.
- B) they move in the same direction.
- C) one variable changes and the other does not.
- D) neither variable moves.

Answer: A

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

3) The slope of a curve measures

- A) the change in one variable in response to the change in the other variable.
- B) the length of the curve.
- C) only the change in the horizontal variable.
- D) only the change in the vertical variable.

Answer: A

Diff: 1

Topic: Computing the Slope

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

- 4) Slope is calculated as the
- A) change in the vertical variable divided by the change in the horizontal variable.
 - B) change in the horizontal variable divided by the change in the vertical variable.
 - C) the vertical axis divided by the horizontal axis.
 - D) change in the vertical variable.

Answer: A

Diff: 1

Topic: Computing the Slope

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

- 5) The slope of a straight line
- A) is constant.
 - B) is negative.
 - C) is zero.
 - D) changes along the curve.

Answer: A

Diff: 1

Topic: Computing the Slope

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

- 6) If the variable on the vertical axis increases by 20 and the variable on the horizontal axis increases by 5, the slope of the line is

- A) 0.25.
- B) 4.
- C) 15.
- D) 100.

Answer: B

Diff: 1

Topic: Computing the Slope

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

7) If the variable on the vertical axis increases by 24 and the variable on the horizontal axis decreases by 3, the slope of the line is

- A) -24.
- B) -8.
- C) 3.
- D) 72.

Answer: B

Diff: 1

Topic: Computing the Slope

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

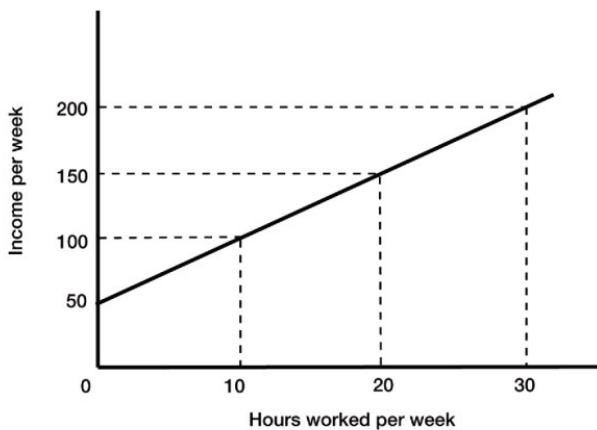


Figure 1A.1

8) Refer to Figure 1A.1. If the hours worked per week are 20, the income per week is

- A) 50.
- B) 100.
- C) 150.
- D) 200.

Answer: C

Diff: 1

Topic: Graphing Two Variables, graphing

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

9) Refer to Figure 1A.1. If the hours worked per week are 30, the income per week is

- A) 50.
- B) 100.
- C) 150.
- D) 200.

Answer: D

Diff: 1

Topic: Graphing Two Variables, graphing

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

10) Refer to Figure 1A.1. The slope of the line between the points where income equals 50 and income equals 200 is

- A) 0.2.
- B) 5.
- C) 10.
- D) 50.

Answer: B

Diff: 1

Topic: Computing the Slope, graphing

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

11) Refer to Figure 1A.1. The slope of the line between the points where hours worked per week are 20 and hours worked per week are 30 is

- A) 0.2.
- B) 5.
- C) 10.
- D) 50.

Answer: B

Diff: 1

Topic: Computing the Slope, graphing

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

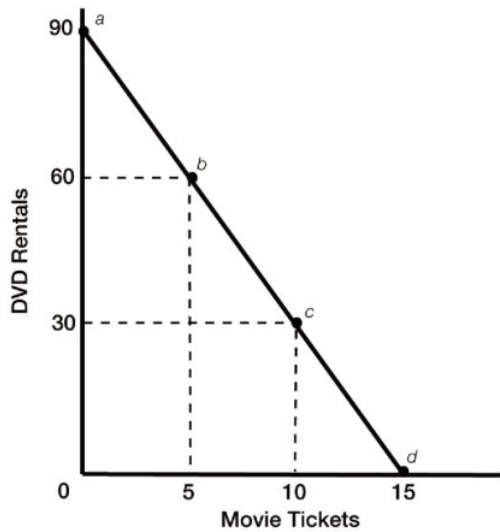


Figure 1A.2

12) Refer to Figure 1A.2. If this consumer rents zero DVDs, how many movie tickets will she purchase?

- A) 0
- B) 5
- C) 10
- D) 15

Answer: D

Diff: 1

Topic: Graphing Negative Relationships, graphing

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

13) Refer to Figure 1A.2. If this consumer rents 60 DVDs, how many movie tickets will she purchase?

- A) 0
- B) 5
- C) 10
- D) 15

Answer: B

Diff: 1

Topic: Graphing Negative Relationships, graphing

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

14) Refer to Figure 1A.2. The slope of the curve

- A) is negative.
- B) is positive.
- C) is zero.
- D) changes along the curve.

Answer: A

Diff: 1

Topic: Computing the Slope, graphing

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

15) Refer to Figure 1A.2. The slope between points a and c is

- A) -5.
- B) -6.
- C) 10.
- D) 30.

Answer: B

Diff: 1

Topic: Computing the Slope, graphing

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

16) The slope of a nonlinear curve

- A) is constant.
- B) is negative.
- C) is zero.
- D) changes along the curve.

Answer: D

Diff: 1

Topic: Graphing Nonlinear Relationships

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

17) If the price of monthly satellite TV service increases from \$40 to \$50, the percentage change is

- A) 5 percent.
- B) 20 percent.
- C) 25 percent.
- D) 45 percent.

Answer: C

Diff: 2

Topic: Computing Percentage Changes

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

18) If the price of a 32GB memory card decreases from \$25 to \$20, the percentage change is

- A) -20 percent.
- B) -33 percent.
- C) -50 percent.
- D) -60 percent.

Answer: A

Diff: 2

Topic: Computing Percentage Changes

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

Recall the Application about the government of Mexico City repainting highway lane lines to transform a 4-lane highway into a 6-lane highway to answer the following question(s).

19) When the government converted the highway from 4 lanes into 6 lanes, they claimed the capacity had increased by 50 percent. When the government switched the highway back from 6 lanes to 4 lanes, they claimed the capacity had been decreased by 33 percent. Had the government used the midpoint method, the percentage increase would have been _____ percent and the percentage decrease would have been _____ percent.

- A) 33; 50
- B) 33; 33
- C) 40; 40
- D) 50; 50

Answer: C

Diff: 2

Topic: Application 3, The Perils of Percentages

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

20) When computing percentage changes, using the simple approach results in increases and decreases which are

- A) identical.
- B) symmetric.
- C) not symmetric.
- D) more accurate than using the midpoint method.

Answer: C

Diff: 1

Topic: Application 3, The Perils of Percentages

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-2

21) If you work 4 extra hours, and the slope of the curve showing the relationship between your income and work hours is 8, your income will increase by

- A) \$2.
- B) \$4.
- C) \$12.
- D) \$32.

Answer: D

Diff: 2

Topic: Using Equations to Compute Missing Values

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

22) To increase income by \$120 when the slope of the curve showing the relationship between your income and work hours is 8, how many extra hours will you need to work?

- A) 8
- B) 15
- C) 112
- D) 960

Answer: B

Diff: 2

Topic: Using Equations to Compute Missing Values

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

23) The origin of a graph is the intersection of the two axes, where the value of both variables is zero.

Answer: TRUE

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

24) Positive relationships are also referred to as inverse relationships.

Answer: FALSE

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

25) Negative relationships are also referred to as inverse relationships.

Answer: TRUE

Diff: 1

Topic: Graphing Two Variables

Skill: Definition

AACSB: Reflective Thinking

Learning Outcome: Micro-2

26) Slope is calculated as rise / run.

Answer: TRUE

Diff: 1

Topic: Computing the Slope

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2

27) Slope is calculated as a change in the variable on the horizontal axis divided by a change in the variable on the vertical axis.

Answer: FALSE

Diff: 1

Topic: Computing the Slope

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-2