

Chapter 2

Tools of Positive Analysis

Multiple Choice

1. Positive economics

- A) does not depend on market interactions.
- B) only looks at the best parts of the economy.
- C) examines how the economy actually works (as opposed to how it should work).
- D) is very subjective.

Ans: C

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: The Role of Theory

2. The slope of a regression line is calculated by dividing

- A) the intercept by the change in horizontal distance.
- B) the change in horizontal distance by the change in vertical distance.
- C) the change in horizontal distance by the intercept term.
- D) the change in vertical distance by the change in horizontal distance.
- E) none of the answer options are correct.

Ans: D

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Observational Studies

3. Unobserved influences on a regression are captured in the

- A) error term.
- B) parameters.
- C) regression line.
- D) regression coefficient.

Ans: A

Blooms: Understand

Difficulty: 2 Medium

AACSB: Reflective Thinking

Topic: Observational Studies

4. The following can be analyzed using econometrics:

- A) labor supply.
- B) market demand.
- C) tax-setting behavior.
- D) poverty.
- E) all of the answer options are correct.

Ans: e

Blooms: Understand

Difficulty: 2 Medium

AACSB: Reflective Thinking

Topic: Observational Studies

5. The substitution effect

- A) is when individuals consume more of one good and less of another.
- B) is associated with changes in relative prices.
- C) will have no effect if goods are unrelated.
- D) all of the answer options are correct.

Ans: D

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: The Role of Theory

6. Panel data requires

- A) data on individual entities.
- B) time.
- C) neither data on individual entities nor time.
- D) both data on individual entities and time.

Ans: D

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Observational Studies

7. A counterfactual is

- A) what happens when there are no facts.
- B) what would have happened if the treatment group had not received the treatment.
- c) a legal term describing the process of proving that a negative is the actual truth.
- D) none of the answer options are correct.

Ans: B

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Experimental Studies

True/False

8. Empirical analysis generally deals with theory and little data.

- A) True
- B) False
- C) Uncertain

Ans: B

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: The Role of Theory

9. Economists attempt, with moderate success, to perform controlled experiments making policy analysis helpful.

- A) True
- B) False
- C) Uncertain

Ans: A

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Experimental Studies

10. Regression coefficients are indicators of the impact of independent variables on dependent variables.

- A) True
- B) False
- C) Uncertain

Ans: A

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Observational Studies

11. Multiple regression analysis typically requires several computers.

- A) True
- B) False
- C) Uncertain

Ans: C

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Observational Studies

12. Econometrics is the statistical analysis of economic data.

- A) True
- B) False
- C) Uncertain

Ans: A

Blooms: Remember

Difficulty: 1 Easy
AACSB: Reflective Thinking
Topic: Observational Studies

13. Instrumental variables requires that the variable not be correlated with the outcome variable

- A) True
- B) False
- C) Uncertain

Ans: A

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Quasi-Experimental Studies

14. A model is a simplified description of some aspect of the economy.

- A) True
- B) False
- C) Uncertain

Ans: A

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: The Role of Theory

15. Causation and Correlation are generally the same thing.

- A) True
- B) False
- C) Uncertain

Ans: B

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Causation versus Correlation

16. An experimental study is one which individuals are randomly assigned to the treatment and control groups.

- A) True
- B) False
- C) Uncertain

Ans: A

Blooms: Remember

Difficulty: 1 Easy

AACSB: Reflective Thinking

Topic: Experimental Studies

Essay

17. “Since the social sciences are not like the natural sciences, experiments are a waste of time.”
Comment on the above statement.

Ans: It is true that social sciences are not the same as natural sciences. Experiments have been used successfully to tell us more about the world we live in. There are limits that social scientists should be aware of, but to dismiss the use of experimental analysis entirely would be incorrect.

Blooms: Analyze

Difficulty: 3 Hard

AACSB: Analytic

Topic: Experimental Studies

18. Discuss the concept in econometrics that states, “garbage in . . . garbage out.”

Ans: When the data used in an econometric analysis are not carefully screened for errors, there can be faulty and misleading results that occur. There has been some time expended to ensure that the data have been “cleaned” properly.

Blooms: Analyze

Difficulty: 3 Hard

AACSB: Analytic

Topic: Observational Studies

19. It is possible that two different economists can examine the same situation, such as school funding, and reach entirely different conclusions. Why is this so?

Ans: Reasoning resulting in differing results includes the time period under examination, the data sources and proxies used, the econometric tools employed, and many other reasons. This is not to say that because different researchers come to different conclusions the analysis is confused. It just means further investigation is needed.

Blooms: Analyze

Difficulty: 3 Hard

AACSB: Analytic

Topic: Observational Studies

20. It has been suggested in the text that raising taxes on beer will reduce teen fatalities. Comment on this.

Ans: As the text suggests, this is perfect use of experimental data for testing. Using certain states as “controls” would allow us to examine the difference in fatalities between those states that did not change the tax. Of course, we need to control for other differences that might affect outcomes.

Blooms: Understand

Difficulty: 2 Medium

AACSB: Reflective Thinking

Topic: Quasi-Experimental Studies

21. Why might the consequences of imposing a tax on harmful fast foods not adhere to theory?

Ans: Preferences of people with different desires could be altered in unintended ways. All variables could not be controlled for.

Blooms: Analyze

Difficulty: 3 Hard

AACSB: Analytic

Topic: The Role of Theory