1. All of the following are what economists commonly do *except*
   a. describing economic events.
   b. explaining why economic events occur.
   c. making predictions for some economic events.
   d. eliminating scarcity in resources.
   e. making recommendations for economic policy.

   ANS: D   PTS: 1   DIF: moderate   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Economics
   BLM: Bloom's: Knowledge

2. Which of the following is *not* an economic issue?
   a. Why is college tuition so high?
   b. Why has health-care spending increased faster than the rest of the economy?
   c. How can one earn $1 million without working at all?
   d. How can one reduce the currently high levels of unemployment in Europe?
   e. Why are there so many types of dog food?

   ANS: C   PTS: 1   DIF: moderate   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Economics
   BLM: Bloom's: Knowledge

3. *T* or *F*. Explaining why the total amount of miles traveled in vehicles have risen in recent years is one example of what economists do.

   ANS: T   PTS: 1   DIF: basic   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Economics
   BLM: Bloom's: Knowledge

4. To see whether the price of gasoline has risen compared to the prices of other goods and services, one would calculate
   a. gasoline spending divided by spending on all other goods and services.
   b. gasoline spending divided by total consumer spending.
   c. the trend in the price of gasoline.
   d. the price of gasoline divided by the overall price level.
   e. the price of gasoline divided by the rate of inflation.

   ANS: D   PTS: 1   DIF: basic   OBJ: factual
   NAT: Understanding and Applying Economic Models   TOP: Relative Price
   BLM: Bloom's: Knowledge

5. *T* or *F*. The relative price of gasoline has increased since 2000 because we have paid more dollars for each gallon of gasoline.

   ANS: F   PTS: 1   DIF: moderate   OBJ: factual
   NAT: Understanding and Applying Economic Models   TOP: Relative Price
   BLM: Bloom's: Knowledge

6. *T* or *F*. Economic data always give an accurate picture of what affects consumers.

   ANS: F   PTS: 1   DIF: basic   OBJ: factual
   NAT: Understanding and Applying Economic Models   TOP: Data Limitations

7. The table shows the price of motor fuel (mainly gasoline) and the overall price level (the consumer price index) in five-year intervals over the period 1970 through 1990.

Years	Motor Fuel Price	Overall Price Level
1970	27.9	38.8
1975	45.1	53.8
1980	97.4	82.4
1985	98.7	107.6
1990	101.2	130.7

(A)   Plot a diagram of the relative price of motor fuel for the 1970-1990 period.
(B)   Explain what has been happening to the relative price of motor fuel over this period.

ANS:
(A)   The plot of the diagram is shown in the figure below.
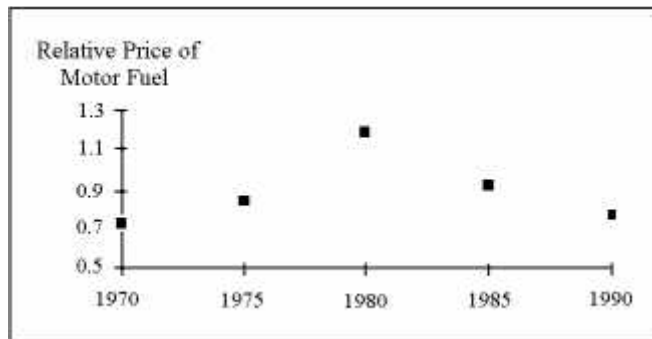
(B)   Refer to the figure shown in answer part (A). The relative price of gasoline increases until 1980 and then declines. Notice how the relative price of gasoline in 1990 is almost equal to its relative price in 1970.

PTS: 1   DIF: challenging   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Relative Price
BLM: Bloom's: Application | AACSB: Analytic

8. The relative price of an iPad is
    a.   the actual price that a consumer pays for the iPad.
    b.   the actual price that the seller received for the iPad.
    c.   the actual price of the iPad compared with its suggested retail price.
    d.   the price of the iPad compared with the average price of all goods and services.
    e.   zero if it is a used iPad.

ANS: D   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Relative Price
BLM: Bloom's: Application | AACSB: Analytic

9. If the price of gasoline decreases but not as much as the decrease in the average price of other goods and services, then the relative price of gasoline
    a.   cannot be determined.

b. decreases.
c. remains the same.
d. increases.
e. increases or decreases, depending on the price of automobiles.

ANS: D   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Relative Price
BLM: Bloom's: Application | AACSB: Analytic

10. If we observe that an increase in the amount of vehicle miles traveled rises after the price of gasoline rises, then we can conclude that
    a. the amount of vehicle miles traveled and the price of gasoline are positively correlated.
    b. the amount of vehicle miles traveled and the price of gasoline are negatively correlated.
    c. the amount of vehicle miles traveled causes the price of gasoline to go up.
    d. the price of gasoline causes the amount of vehicle miles traveled to go up.
    e. a negative causation occurs between the amount of vehicle miles traveled and the price of gasoline

ANS: A   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Correlation
BLM: Bloom's: Analysis | AACSB: Analytic

11. An economic variable is any economic measure that
    a. has different values because of researchers' different perspectives.
    b. has no market value.
    c. has a fixed value over time.
    d. has no effect on the economy.
    e. can vary over a range of values.

ANS: E   PTS: 1   DIF: basic   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Variables
BLM: Bloom's: Knowledge

12. All of the following are examples of an economic variable *except*
    a. the amount of income tax that a household has to pay.
    b. a person's income.
    c. the price of gasoline.
    d. an integer 24.
    e. the number of unemployed people.

ANS: D   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Variables
BLM: Bloom's: Analysis | AACSB: Analytic

13. Two variables are correlated if
    a. they both move up or down at about the same time.
    b. an increase in one variable only causes another variable to increase.
    c. a fall in one variable only causes another variable to fall.
    d. changes in one have no effect on the other.
    e. changes in one variable do not cause changes in the other.

ANS: A   PTS: 1   DIF: basic   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Correlation
BLM: Bloom's: Knowledge

14. Causation
    a. occurs when there is no correlation.
    b. occurs when two variables are correlated.
    c. means one event brings about another event.
    d. means one event is observed to occur along with another.
    e. means one event occurs subsequently to another event.

    ANS: C   PTS: 1   DIF: basic   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Causation
    BLM: Bloom's: Knowledge

15. In order to determine a causation between a change in the price of iPads and the amount of iPads purchased by customers, an economist must show that
    a. there is no correlation between the price of iPads and the quantity of iPads purchased.
    b. the change in the quantity of iPads purchased occurs after the change in the price of iPads.
    c. the change in the price of iPads occurs along with the change in the quantity of iPads purchased.
    d. the changes in the price and quantity of iPads purchased always move in the same direction.
    e. the change in the price of iPads brings about the change in the quantity of iPads purchased.

    ANS: E   PTS: 1   DIF: moderate   OBJ: conceptual
    NAT: Understanding and Applying Economic Models   TOP: Causation
    BLM: Bloom's: Analysis | AACSB: Analytic

16. To determine causality in many sciences, researchers
    a. check for correlation.
    b. use scatter diagrams.
    c. perform controlled experiments.
    d. plot the variables against time or location.
    e. use only a small amount of data.

    ANS: C   PTS: 1   DIF: basic   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Controlled Experiments
    BLM: Bloom's: Knowledge

17. Controlled experiments are
    a. seldom used in economics because economists do not like to repeat experiments.
    b. often used because controlling other factors is relatively easy in economics.
    c. not used as widely in economics as in other disciplines.
    d. often used in economics.
    e. performed by the government to collect economic data.

    ANS: C   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Controlled Experiments
    BLM: Bloom's: Knowledge

18. Experimental economics
    a. is the dominant method in economics.
    b. does not exist.
    c. uses laboratory experiments to analyze economic behavior.
    d. is the method used when comparing the economic experience of other countries.
    e. is the method used by the government to collect economic data.

    ANS: C   PTS: 1   DIF: basic   OBJ: factual

19. *T* or *F*. If two variables are correlated, then it must be true that one of the variables causes the other.

ANS: F   PTS: 1   DIF: basic   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Correlation versus Causation
BLM: Bloom's: Knowledge

20. *T* or *F*. It has been documented that beer consumption rises when the unemployment rate rises. To conclude that this correlation means that increased unemployment causes increased beer consumption is to mistake correlation for causality.

ANS: T   PTS: 1   DIF: basic   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Correlation versus Causation
BLM: Bloom's: Analysis | AACSB: Analytic

21. *T* or *F*. Economics has always been a good example of an experimental science.

ANS: F   PTS: 1   DIF: moderate   OBJ: factual
NAT: The study of economics, and definitions in economics   TOP: Experimental Economics
BLM: Bloom's: Knowledge

22. What is the difference between correlation and causality?

ANS:
Correlation means that one event is observed to occur with another; causality means that if one event occurs, it will result in the occurrence of another event.

PTS: 1   DIF: moderate   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Correlation and Causality
BLM: Bloom's: Knowledge

23. Explain why it is more difficult to determine causality in economics than in other sciences such as physics, chemistry, and biology.

ANS:
Repeated, controlled experiments are often used to determine causality. Doing a controlled experiment requires controlling other factors. This is difficult to do in economics because of the complexity of economic phenomena such as fiscal policy or health care and because of the inability to repeat the policy in a real-world setting.

PTS: 1   DIF: challenging   OBJ: conceptual
NAT: The study of economics, and definitions in economics   TOP: Controlled Experiments
BLM: Bloom's: Analysis | AACSB: Analytic

24. Economic models
    a. are not complicated because the behavior they describe is not complicated.
    b. require either algebra or graphs.
    c. are complicated because human behavior is complicated.
    d. are simplifications of the phenomena they attempt to explain.
    e. need to be the same as the phenomena they describe.

ANS: D   PTS: 1   DIF: basic   OBJ: factual

25. Economic models
    a. are different from the phenomena they attempt to explain.
    b. are new phenomena because they are by-products of experimental economics.
    c. are not complicated because the behavior they describe is not complicated.
    d. are complicated because human behavior is complicated.
    e. would not be needed if controlled experiments were used more often.

    ANS: A   PTS: 1   DIF: basic   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Economic Models
    BLM: Bloom's: Knowledge

26. Economic models differ from those in the physical sciences because
    a. they are usually more difficult than models in the physical sciences.
    b. economics has nothing to do with anything physical.
    c. they are less difficult than those in the physical sciences.
    d. they attempt to explain human behavior.
    e. economics relies on controlled experiments.

    ANS: D   PTS: 1   DIF: basic   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Economic Models
    BLM: Bloom's: Evaluation

27. *T* or *F*. Economic models need to resemble, as much as possible, the phenomena being explained.

    ANS: F   PTS: 1   DIF: moderate   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Economic Models
    BLM: Bloom's: Knowledge | AACSB: Analytic

28. *T* or *F*. An economic model is a tool used to help us understand the real world.

    ANS: T   PTS: 1   DIF: basic   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Economic Models
    BLM: Bloom's: Knowledge | AACSB: Analytic

29. *T* or *F*. An economic model is the same as a theory.

    ANS: T   PTS: 1   DIF: basic   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Economic Models
    BLM: Bloom's: Knowledge

30. *T* or *F*. A model gives the most realistic description of the real world.

    ANS: F   PTS: 1   DIF: moderate   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Economic Models
    BLM: Bloom's: Knowledge

31. Macroeconomics is concerned primarily with
    a. the economy as a whole.
    b. the operation of a particular firm.
    c. individual consumer behavior.
    d. the labor market.

e. a detailed examination of how price and output decisions are made in specific markets.

ANS: A   PTS: 1   DIF: basic   OBJ: factual
NAT: The study of economics, and definitions in economics   TOP: Macroeconomics
BLM: Bloom's: Knowledge

32. Which of the following is more of a microeconomic concept than a macroeconomic concept?
   a. Concern over simultaneous high rates of inflation and unemployment
   b. Price determination in the resource market
   c. The rate of economic growth
   d. Concern over an entire economy's balance of payments
   e. How the composition of output is determined in an economy

ANS: B   PTS: 1   DIF: challenging   OBJ: conceptual
NAT: The study of economics, and definitions in economics   TOP: Microeconomics
BLM: Bloom's: Evaluation | AACSB: Analytic

33. Which of the following is considered a macroeconomic question?
   a. How can one particular firm maximize profits?
   b. What is the impact of competition on the profits of a business?
   c. How can economic policy fight inflation?
   d. How does a family allocate income among various available goods and services?
   e. What factors determine the wage rate in a certain industry?

ANS: C   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: The study of economics, and definitions in economics   TOP: Macroeconomics
BLM: Bloom's: Evaluation | AACSB: Analytic

34. *T or F*. Macroeconomics deals with large industries such as the health-care industry.

ANS: F   PTS: 1   DIF: moderate   OBJ: factual
NAT: The study of economics, and definitions in economics   TOP: Macroeconomics
BLM: Bloom's: Analysis | AACSB: Analytic

35. *T or F*. A microeconomic model must be much smaller in size than a macroeconomic model.

ANS: F   PTS: 1   DIF: moderate   OBJ: factual
NAT: The study of economics, and definitions in economics
TOP: Macro- and Micro-Economics   BLM: Bloom's: Evaluation | AACSB: Analytic

36. Two variables are negatively correlated if
   a. the value of one variable decreases as the value of the other variable decreases.
   b. the value of one variable increases as the value of the other variable decreases.
   c. a fall in one variable only causes another variable to fall.
   d. changes in one have no effect on the other.
   e. the value of one variable remains constant as the value of another variable changes.

ANS: B   PTS: 1   DIF: moderate   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Correlation
BLM: Bloom's: Knowledge

37. When economists explain the relationship between the price of hotdogs and the number that consumers will buy, the *ceteris paribus* assumption implies that
   a. the price of hotdogs is constant.
   b. the quantity of hotdogs purchased is constant.

c. both the price and quantity of hotdogs purchased are constant.
d. factors other than the price and quantity of hotdogs purchased are constant.
e. everything in the world does not change.

ANS: D   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Ceteris Paribus
BLM: Bloom's: Analysis | AACSB: Analytic

Exhibit 2-1
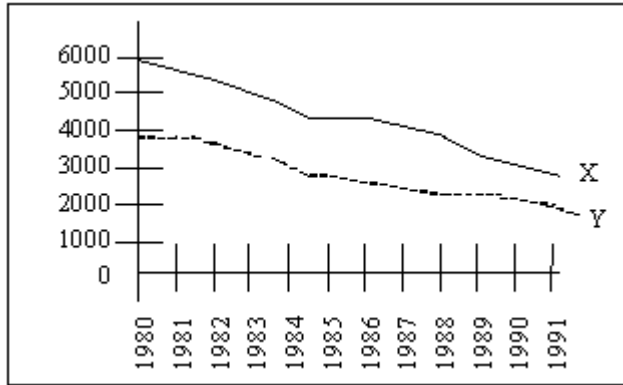
38. Exhibit 2-1 shows movements of two variables, X and Y, from 1980 through 1991. From this diagram the most one can conclude is that
    a. X and Y are positively correlated with each other.
    b. X and Y are negatively correlated with each other.
    c. X and Y are positively correlated with each other and either X causes Y or Y causes X.
    d. we cannot say anything about how X and Y are related because we do not know the units of measurement for X and Y.
    e. X and Y are not correlated with each other.

ANS: A   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Correlation
BLM: Bloom's: Analysis | AACSB: Analytic

Exhibit 2-2
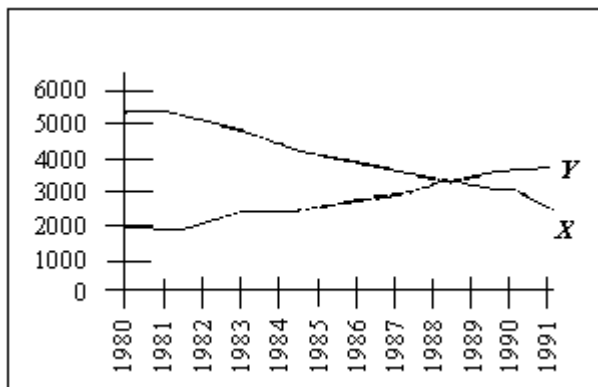
39. Exhibit 2-2 shows the relationship between X and Y between 1980 and 1991. Suppose this correlation between X and Y continues to hold for the next 10 years. If Y declines over the period 1993 through 1998, we would expect
    a. X to fall over the same period because X and Y are negatively correlated.

b. *X* to increase over the same period because *X* and *Y* are positively correlated.
c. *X* to increase over the same period because *X* and *Y* are negatively correlated.
d. the correlation to be unknown because we do not know the units of measurement for *X* and *Y* and thus cannot say anything about how *X* and *Y* are related.
e. *X* to fall over the same period because *X* and *Y* are positively correlated.

ANS: C   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Correlation
BLM: Bloom's: Application | AACSB: Analytic

40. If the quantity demanded of coffee increases when the price of coffee declines, then these two ____ are ____.
   a. variables; negatively related
   b. constants; positively related
   c. variables; positively related
   d. constants; negatively related
   e. variables; not related

ANS: A   PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and Applying Economic Models
TOP: Relationship between Variables   BLM: Bloom's: Application | AACSB: Analytic

Exhibit 2-3
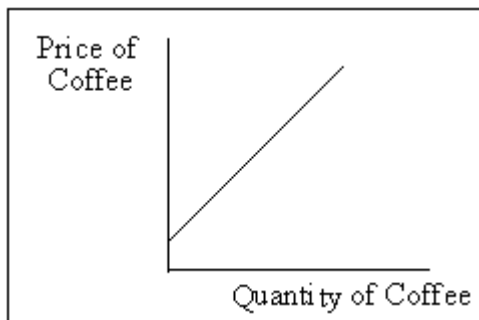
41. Exhibit 2-3 shows two variables that are
   a. constant.
   b. positively related.
   c. negatively related.
   d. not related.
   e. both positively and negatively related.

ANS: B   PTS: 1   DIF: basic   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Economic Models
BLM: Bloom's: Application | AACSB: Analytic

42. In Exhibit 2-3, an example of a constant would be
   a. the quantity of coffee supplied.
   b. the price that corresponds to any quantity of coffee supplied.
   c. the price of coffee.
   d. the slope of the line.
   e. both the price and quantity of coffee.

ANS: D   PTS: 1   DIF: challenging   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Constants
BLM: Bloom's: Analysis | AACSB: Analytic

43. In Exhibit 2-3, an example of a variable would be the
    a. price of coffee.
    b. intercept.
    c. relationship that shows by how many units the supply of coffee will change for any unit change in the price of coffee.
    d. slope of the line.
    e. price at which the supply of coffee is zero.

    ANS: A   PTS: 1   DIF: moderate   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Economic Variables
    BLM: Bloom's: Application | AACSB: Analytic

44. *Ceteris paribus* means
    a. that rational self-interest is being assumed.
    b. "all variables are independent."
    c. that no other assumptions are being made.
    d. "other things being equal."
    e. "all relationships are inverse."

    ANS: D   PTS: 1   DIF: basic   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Ceteris Paribus
    BLM: Bloom's: Knowledge

45. The *ceteris paribus* assumption is used in economics
    a. because economic theory is an accurate reflection of the real world.
    b. to isolate the important variables when formulating a theory.
    c. primarily to identify unstable equilibrium situations.
    d. to make the theory more complicated
    e. to distinguish economics from other disciplines.

    ANS: B   PTS: 1   DIF: challenging   OBJ: conceptual
    NAT: Understanding and Applying Economic Models   TOP: Ceteris Paribus
    BLM: Bloom's: Knowledge

46. In describing the relationship between X and Y, the *ceteris paribus* assumption implies that
    a. the value of X does not change.
    b. the value of Y does not change.
    c. the values of both X and Y do not change.
    d. all other factors that may affect X and Y are constant.
    e. nothing in the world can change.

    ANS: D   PTS: 1   DIF: moderate   OBJ: factual
    NAT: Understanding and Applying Economic Models   TOP: Ceteris Paribus
    BLM: Bloom's: Knowledge

47. *T or F.* The *ceteris paribus*, or everything else held constant, assumption is used in economics primarily to identify unstable equilibrium situations.

    ANS: F   PTS: 1   DIF: basic   OBJ: conceptual
    NAT: Understanding and Applying Economic Models   TOP: Ceteris Paribus
    BLM: Bloom's: Knowledge | AACSB: Analytic

48. *T or F.* The *ceteris paribus* assumption is always used whenever an economist analyzes the relationship of two variables.

ANS: T   PTS: 1   DIF: basic   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Ceteris Paribus
BLM: Bloom's: Knowledge

49. Economists are likely to evaluate the impacts of rising gasoline prices through the use of
    a. outdated models with new applications.
    b. models that are not relevant to the health-care industry.
    c. existing models that are useful for explaining observations.
    d. models that are useful only for exposition in economics textbooks.
    e. new models with old data.

ANS: C   PTS: 1   DIF: moderate   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Economic Models
BLM: Bloom's: Analysis | AACSB: Analytic

50. A major reason for the development of new models is
    a. because of asymmetric information.
    b. that new observations cannot be explained by existing models.
    c. that old economic laws are often repealed.
    d. that human behavior is no longer important.
    e. that new models are always easier to understand.

ANS: B   PTS: 1   DIF: moderate   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: New Models
BLM: Bloom's: Knowledge

51. A model is valid if
    a. it is based on human behavior.
    b. it is new.
    c. it has been around for many years.
    d. observations can be explained by it.
    e. it incorporates asymmetric information.

ANS: D   PTS: 1   DIF: moderate   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: New Models
BLM: Bloom's: Evaluation | AACSB: Analytic

52. A hypothesis is
    a. an alternative to using models.
    b. a testable statement used to explain observations.
    c. an untestable explanation used to explain observations.
    d. a fact.
    e. the same as a theory.

ANS: B   PTS: 1   DIF: moderate   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: Hypothesis
BLM: Bloom's: Knowledge

53. *T* or *F*. Economists develop new models only when new economic data become available.

ANS: F   PTS: 1   DIF: moderate   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: New Models
BLM: Bloom's: Analysis | AACSB: Analytic

54. Explain how economic models are similar to and different from models used in other sciences. What are the consequences of these differences?

ANS:
Acceptable answers will mention that economic models are similar because they are abstractions or simplifications. Moreover, when it comes to real-world applications, many models are at best good approximations. As the discussion on Boyle's law and Charles's law illustrates, both economic models and other scientific models can be models within models.

Economic models differ from other scientific models, especially models in the physical sciences, because they are based on human behavior. The consequence of this is that the approximations of these models are not as good as models in the physical sciences.

PTS: 1   DIF: challenging   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Economic Models
BLM: Bloom's: Knowledge | AACSB: Analytic

55. What is the difference between microeconomics and macroeconomics?

ANS:
Microeconomics studies the behavior of individual firms, households, or specific markets. Macroeconomics focuses on the economy as a whole and is concerned with the topics associated with national income, unemployment, and the price level.

PTS: 1   DIF: basic   OBJ: factual
NAT: The study of economics, and definitions in economics
TOP: Macro- and Micro-Economics   BLM: Bloom's: Analysis | AACSB: Analytic

56. The figure below shows the relationship of the quantity demanded for coffee beans to the price of coffee beans at a local coffee shop.
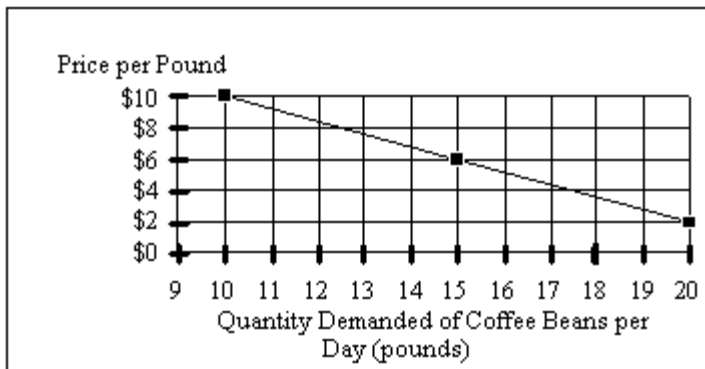
(A) If the price of coffee increases from $6 per pound to $10 per pound, by how much will the quantity demanded for coffee change?
(B) Explain how your answer in part (A) relies on the *ceteris paribus* assumption.

ANS:
(A) The daily demand for coffee will decline from 15 to 10 pounds per day. This is a net decline of 5 pounds.
(B) Any realistic answer will do. For example, the answer in part (A) will not be valid if another store starts selling coffee beans or if it is discovered that drinking coffee is good or bad for your health.

PTS: 1   DIF: challenging   OBJ: conceptual
NAT: Understanding and Applying Economic Models   TOP: Ceteris Paribus
BLM: Bloom's: Application | AACSB: Analytic

57. Explain how new models or theories are developed in economics.

ANS:
First, a hypothesis based on this new model or theory is developed to explain an observation. Then the hypothesis is tested to determine if it is capable of predicting other observations. If the hypothesis passes the test, then it becomes accepted.

PTS: 1   DIF: moderate   OBJ: factual
NAT: Understanding and Applying Economic Models   TOP: New Models
BLM: Bloom's: Knowledge

58. Economics was originally called
    a. political engineering.
    b. political economy.
    c. economic physics.
    d. social engineering.
    e. social physics.

ANS: B   PTS: 1   DIF: basic   OBJ: factual
NAT: The study of economics, and definitions in economics   TOP: Political Economy
BLM: Bloom's: Knowledge

59. Those who support a *laissez faire* system
    a. argue for a French-style economy.
    b. argue for a market economy.
    c. support government intervention.
    d. argue for a command economy.
    e. argue for a mixed economy.

ANS: B   PTS: 1   DIF: basic   OBJ: factual
NAT: The role of government   TOP: Laissez Faire Systems
BLM: Bloom's: Knowledge

60. A market economy in which the government plays some role is called
    a. capitalism.
    b. socialism.
    c. communism.
    d. a *laissez faire* system.
    e. a mixed economy.

ANS: E   PTS: 1   DIF: basic   OBJ: factual
NAT: The role of government   TOP: Mixed Systems
BLM: Bloom's: Knowledge

61. A system in which the government essentially owns and controls all production is called
    a. capitalism.
    b. socialism.
    c. a market system.
    d. a *laissez faire* system.
    e. a mixed economy.

ANS: B   PTS: 1   DIF: basic   OBJ: factual
NAT: The role of government   TOP: Socialism   BLM: Bloom's: Knowledge

62. Karl Marx argued that capitalism would eventually collapse and give rise to a new economic system, which is called
   a. a political system.
   b. socialism.
   c. a market system.
   d. a *laissez faire* system.
   e. a mixed economy.

   ANS: B   PTS: 1   DIF: basic   OBJ: factual
   NAT: The role of government   TOP: Socialism   BLM: Bloom's: Knowledge

63. *T or F*. A *laissez faire* system is an economy with many government regulations.

   ANS: F   PTS: 1   DIF: basic   OBJ: factual
   NAT: The role of government   TOP: Laissez Faire Systems
   BLM: Bloom's: Knowledge

64. *T or F*. A mixed system is an economy with only private industries.

   ANS: F   PTS: 1   DIF: moderate   OBJ: factual
   NAT: The role of government   TOP: Mixed Economies
   BLM: Bloom's: Knowledge

65. *T or F*. In modern market economies, the role of government is small.

   ANS: F   PTS: 1   DIF: moderate   OBJ: factual
   NAT: The role of government   TOP: Market Economies
   BLM: Bloom's: Evaluation

66. Which of the following statements is *true*?
   a. Normative economics deals with what is.
   b. Normative economics expresses someone's opinion.
   c. Positive economics is subjective.
   d. Positive economics deals with what ought to be.
   e. Normative economics tries to refrain from opinions.

   ANS: B   PTS: 1   DIF: moderate   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Normative Economics
   BLM: Bloom's: Knowledge

67. The category of economics that contains statements about what ought to be is known as
   a. objective economics.
   b. positive economics.
   c. normative economics.
   d. microeconomics.
   e. macroeconomics.

   ANS: C   PTS: 1   DIF: moderate   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Normative Economics
   BLM: Bloom's: Knowledge

68. Positive economics is the
    a. study of the desirable attributes of economic relationships.
    b. scientific study of "what is" among economic relationships.
    c. scientific study of how people behave positively.
    d. study of how economic policy should improve the welfare of individuals.
    e. study of how people and institutions should behave.

    ANS: B   PTS: 1   DIF: challenging   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Positive Economics
    BLM: Bloom's: Knowledge

69. Positive economics
    a. will usually indicate which economic policy is best.
    b. is concerned with what ought to be.
    c. is the same as normative economics.
    d. is strictly quantitative and so has little to say to those with philosophical goals to achieve
       in policymaking.
    e. produces verifiable statements.

    ANS: E   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Positive Economics
    BLM: Bloom's: Knowledge

70. Whether to have more or less government involvement in the overall economy is essentially a
    a. normative issue.
    b. positive issue.
    c. political issue, and therefore the techniques of economic analysis are not applicable.
    d. positive or normative issue; it could be either.
    e. both normative and positive issues.

    ANS: A   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Normative Economics
    BLM: Bloom's: Application | AACSB: Analytic

71. A newspaper editorial explaining what should be done to reduce the budget deficit is an example of
    a. everything else held constant.
    b. microeconomics.
    c. functional economics.
    d. positive economics.
    e. normative economics.

    ANS: E   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Normative Economics
    BLM: Bloom's: Application | AACSB: Analytic

72. "Inflation is a more serious problem than unemployment." This statement is an example of
    a. a normative statement.
    b. the fallacy of composition.
    c. a positive statement.
    d. microeconomics.
    e. macroeconomics.

    ANS: A   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Normative Economics
    BLM: Bloom's: Application | AACSB: Analytic

73. "Inflation is currently 4 percent in the United States." This statement is an example of
    a. a positive statement.
    b. a normative statement.
    c. the fallacy of composition.
    d. macroeconomics.
    e. microeconomics.

    ANS: A   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Positive Economics
    BLM: Bloom's: Application | AACSB: Analytic

74. Which of the following is a normative statement?
    a. "Income inequality in the United States has increased."
    b. "The Federal Reserve has observed that the rate of inflation has been increasing."
    c. "The government should increase the minimum wage to help low-income groups."
    d. "Real wages in many cities have decreased over time."
    e. "The relative price of gasoline has remained low in the past 30 years."

    ANS: C   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Normative Economics
    BLM: Bloom's: Application | AACSB: Analytic

75. *T or F*. A positive statement is necessarily a subjective statement.

    ANS: F   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Positive Economics
    BLM: Bloom's: Analysis | AACSB: Analytic

76. *T or F*. All microeconomic issues are normative in nature.

    ANS: F   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Normative Economics
    BLM: Bloom's: Analysis | AACSB: Analytic

77. Economics
    a. can only be used objectively.
    b. cannot be practiced as a science unless it uses controlled experiments.
    c. is always practiced as a science.
    d. is not always used objectively.
    e. can never be used objectively.

    ANS: D   PTS: 1   DIF: basic   OBJ: factual
    NAT: The study of economics, and definitions in economics
    TOP: Economics as a Partisan Tool   BLM: Bloom's: Knowledge

78. To argue that economics is the only science not used objectively is
    a. true because only economics engages in politically controversial issues.
    b. false because other sciences besides economics engage in politically controversial issues.
    c. true because all other sciences use controlled experiments.
    d. false because one's reasoning is either correct or incorrect.
    e. false because none of the other sciences use controlled experiments.

    ANS: B   PTS: 1   DIF: basic   OBJ: factual
    NAT: The study of economics, and definitions in economics

79. To argue that economics is a partisan policy tool means that
    a. economics is being used without political considerations.
    b. part of the policy is based on economic analysis.
    c. economics is not always used objectively.
    d. economics is used objectively.
    e. economic analysis is always misleading.

    ANS: C   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics
    TOP: Economics as a Partisan Tool   BLM: Bloom's: Knowledge | AACSB: Analytic

80. *T* or *F*. Economics is the only science concerned with politically controversial subjects.

    ANS: F   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics   TOP: Partisan Policy
    BLM: Bloom's: Evaluation | AACSB: Analytic

81. For policy decisions to be useful,
    a. political issues need to be taken into consideration along with economic issues.
    b. economics is the only factor for consideration.
    c. economics usually is of little help.
    d. economic analysis is seldom sought.
    e. economic data must be falsified.

    ANS: A   PTS: 1   DIF: moderate   OBJ: conceptual
    NAT: The study of economics, and definitions in economics   TOP: Policy Issues
    BLM: Bloom's: Analysis | AACSB: Analytic

82. Considering the role government plays, what term best describes the U.S. economy? Why?

    ANS:
    The U.S. economy is a mixed economy. Even though most prices of goods and services transacted in this economy are determined by market forces, the government still plays a large role.

    PTS: 1   DIF: moderate   OBJ: conceptual   NAT: The role of government
    TOP: Mixed Economies   BLM: Bloom's: Knowledge | AACSB: Analytic

83. Using gasoline prices as an example, explain what a normative statement is and what a positive statement is.

    ANS:
    Valid positive statements would include "Gasoline prices have gone up due to an increase in gasoline demand" or "The relative price of gasoline has been rising."

    Valid normative statements would include "The government should control the increases in gasoline prices" or "Oil companies should not make so much profit by keeping gasoline prices high."

    PTS: 1   DIF: moderate   OBJ: conceptual
    NAT: The study of economics, and definitions in economics
    TOP: Positive versus Normative Economics
    BLM: Bloom's: Application | AACSB: Analytic

84. When people survey economists' beliefs, they find
    a. a surprising amount of agreement.
    b. that economists act as if they are not human.
    c. that economists lack moral beliefs.
    d. that, for every economist, they get two different answers.
    e. more disagreement than expected.

    ANS: A   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics
    TOP: Disagreement between Economists   BLM: Bloom's: Knowledge

85. A good explanation for why people believe economists always disagree is that
    a. economics is not a science.
    b. this is the impression economists want the public to have of them.
    c. with so many economists, it is always possible to find an economist with a different
       viewpoint.
    d. economics is an inexact science.
    e. economists are trained to argue with others.

    ANS: C   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics
    TOP: Disagreement between Economists   BLM: Bloom's: Knowledge

86. When economists do disagree, the disagreement usually pertains to
    a. positive issues.
    b. normative issues.
    c. theoretical issues.
    d. minor issues.
    e. just about any economic topic.

    ANS: B   PTS: 1   DIF: challenging   OBJ: factual
    NAT: The study of economics, and definitions in economics
    TOP: Disagreement between Economists   BLM: Bloom's: Analysis | AACSB: Analytic

87. Because economists have varying moral beliefs and different views of the world,
    a. it is impossible for there to be anything scientific about economics.
    b. they will disagree on abstract issues.
    c. there are many different types of economic theories.
    d. they will agree more often than not on principles when discussed at an abstract level, but
       they will disagree on whether to apply these principles in real-world circumstances.
    e. economics can never be a science.

    ANS: C   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics
    TOP: Disagreement between Economists   BLM: Bloom's: Knowledge | AACSB: Analytic

88. *T or F*. Most disagreements between economists occur because of different data sources.

    ANS: F   PTS: 1   DIF: moderate   OBJ: factual
    NAT: The study of economics, and definitions in economics
    TOP: Disagreement between Economists   BLM: Bloom's: Knowledge

89. *T or F*. There is total agreement in economics among economists and policymakers.

    ANS: F   PTS: 1   DIF: basic   OBJ: factual

90. Explain how the distinction between positive and normative economics provides insight as to why economists do disagree.

ANS:
In the abstract, economists are often in agreement. Usually this involves positive economics. However, issues such as morality and partisanship usually shape how an economist believes the world ought to be. This is the concern of normative economics. In other words, the disagreement is not over what will happen (positive) if a policy is implemented but whether a policy should be implemented (normative).

PTS: 1   DIF: challenging   OBJ: factual
NAT: The study of economics, and definitions in economics
TOP: Disagreement between Economists   BLM: Bloom's: Analysis | AACSB: Analytic

91. Explain why there is the popular impression that economists seldom agree with each other.

ANS:
First, even if 99 percent of the economics profession agrees with an issue, it is always possible for a news show to find an economist who represents the 1 percent that does not.

In addition, economists are human beings with different moral and philosophical beliefs about what should happen in the world, unrelated to economic models. Consequently, even if economists agree on abstract theory, their different moral and philosophical beliefs cause them to disagree with respect to policy.

PTS: 1   DIF: moderate   OBJ: conceptual
NAT: The study of economics, and definitions in economics
TOP: Consensus among Economists   BLM: Bloom's: Knowledge | AACSB: Analytic

92. Economic analysis
    a. requires few verbal skills.
    b. requires both quantitative and analytical skills.
    c. is based solely on analytical models.
    d. has little use for a historical or philosophical background.
    e. has little use for mathematics.

ANS: B   PTS: 1   DIF: basic   OBJ: factual
NAT: The study of economics, and definitions in economics   TOP: Guide
BLM: Bloom's: Knowledge

93. Studying economics will provide you with tools that are
    a. mainly useful for understanding business issues.
    b. useless in real-world situations.
    c. mainly useful for financial analysis.
    d. not useful for studying issues such as crime, discrimination, and who has the right to sue.
    e. useful for studying issues such as monetary policy, discrimination, and who has the right to sue.

ANS: E   PTS: 1   DIF: basic   OBJ: factual
NAT: The study of economics, and definitions in economics   TOP: Guide
BLM: Bloom's: Knowledge

94. Economics is a study that
   a. is never relevant to people's lives.
   b. cannot be enjoyed if economic models fail to explain the real world.
   c. exists only to provide employment for economists.
   d. can be enjoyed independent of its relevance to society.
   e. can be enjoyed as long as its analysis is scientific.

   ANS: D   PTS: 1   DIF: basic   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Guide
   BLM: Bloom's: Knowledge

95. *T* or *F*. Knowledge of economics will help you make better decisions about education, employment, and investments.

   ANS: T   PTS: 1   DIF: basic   OBJ: conceptual
   NAT: The study of economics, and definitions in economics
   TOP: Improving Lives with Economic Models   BLM: Bloom's: Knowledge

96. *T* or *F*. Economics is mainly concerned with financial issues.

   ANS: F   PTS: 1   DIF: basic   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Scope of Economics
   BLM: Bloom's: Knowledge | AACSB: Analytic

97. *T* or *F*. Economics requires more of a mixture of verbal and quantitative skills than other sciences.

   ANS: T   PTS: 1   DIF: basic   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Economic Skills
   BLM: Bloom's: Knowledge

98. Explain why economics requires historical and philosophical skills in addition to analytical skills.

   ANS:
   Some questions involve a direct answer and require an analytical method to solve them. Other questions are more open-ended, requiring an historical and/or philosophical perspective to answer them.

   PTS: 1   DIF: moderate   OBJ: factual
   NAT: The study of economics, and definitions in economics   TOP: Required Skills
   BLM: Bloom's: Knowledge | AACSB: Analytic

99. Identify whether the following issues are macroeconomic or microeconomic and explain why you categorized them in that way.
   (A) The growth rate of real GDP
   (B) A government policy that guarantees a minimum price of agricultural goods
   (C) A tax on restaurant meals
   (D) A government policy to affect the increase in the overall price level

   ANS:
   (A) Macroeconomic issue because it concerns the whole economy
   (B) Microeconomic issue because this government policy affects a particular industry
   (C) Microeconomic issue because the tax affects a particular industry
   (D) Macroeconomic issue because the government policy affects the overall price level in the economy

100. Identify whether the following statements are positive or normative economic statements, and explain why you categorized them in that way.
(A)   "The best way to improve the economic situation would be to decrease the unemployment rate by decreasing the interest rate."
(B)   "The government increased taxes in order to decrease the budget deficit and improve economic growth."
(C)   "Taxes on businesses decreased production in some industries in the short run."
(D)   "The government should pursue a low-inflation policy by restraining the growth of the money supply."

ANS:
(A)   Normative economic statement expressing an opinion about the best economic policy
(B)   Positive economic statement explaining the government's actions
(C)   Positive economic statement explaining the effect of tax policy on particular industries
(D)   Normative economic statement expressing an opinion about the best monetary policy

101. Interpret the following data on the relative price of cellphones and answer the following questions.

Year	Price of all goods	Price of cellphones
2005	100	100
2006	103	101
2007	105	102
2008	107	103

(A)   Calculate the relative price of cellphones for each year.
(B)   Plot the relative price of cellphones.
(C)   What can you say about how the price of cellphones varied in comparison to the price of all goods between 2005 and 2008?

ANS:
(A)   The relative price of cellphones for each year is shown in the table below.

Year	Price of all goods	Price of cellphones	Relative price of cellphones
2005	100	100	1.00
2006	103	101	0.98
2007	105	102	0.97
2008	107	103	0.96

(B)
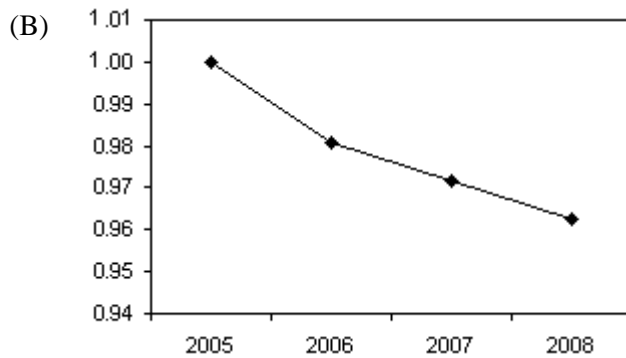
(C)   Because the price of cellphones increased at a slower rate than did the price of all goods, the relative price of cellphones declined over time.

PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and applying economic models   TOP: Working with Data
BLM: Bloom's: Application | AACSB: Analytic

102. Refer to the information in the following table:

Year	Price of all goods	Price of cellphones
2007	100	100
2008	103	101
2009	105	102
2010	107	103

Using the numerical examples in the table, show that the relative price of cellphones can fall on occasions where the price of those goods could be rising, falling, or remaining unchanged.

ANS:
The following table shows the prices of cellphones over time in three situations. In case A, the price of cellphones increased but at a slower rate than did the price of all goods. In case B, the price of cellphones decreased over time. In case C, the price of cellphones was constant over time. However, in all three cases, the relative price of cellphones declined over time.

Year	Price of all goods	Price of cellphones (Case A)	Price of cellphones (Case B)	Price of cellphones (Case C)
2007	100	100	100	100
2008	103	101	99	100
2009	105	102	98	100
2010	107	103	97	100

PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and applying economic models   TOP: Relative Price
BLM: Bloom's: Application | AACSB: Analytic

103. Indicate whether you expect positive or negative correlation for the following pairs of variables. For each pair, state whether causation exists.
(A)   The use of sunglasses and the number of sunny days.

(B)   The number of movie rentals and the number of cable subscriptions.
(C)   Purchases of candy and purchases of Valentine's Day cards.

ANS:
(A)   Positive correlation. The number of sunny days is likely to cause the use of sunglasses.
(B)   Negative correlation. It is difficult to say whether the number of movie rentals causes the number of cable subscription, or vice versa.
(C)   Positive or negative correlation. It is difficult to say whether one causes another.

PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and applying economic models   TOP: Correlation and Causality
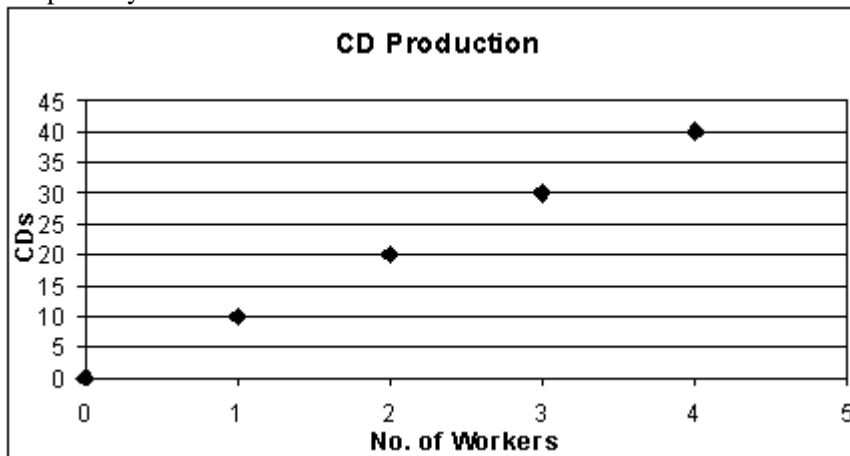BLM: Bloom's: Application | AACSB: Analytic

104. Consider an economic model of CD production. Represent this model graphically, algebraically, and verbally.

CDs	Number of Workers
0	0
10	1
20	2
30	3
40	4

ANS:
Graphically:

Algebraically:
Using the information in the table, the relationship between the number of CDs (CD) and the number of workers (L) can be expressed as $CD = 10L$.

Verbally:
The information in the table indicates a positive and linear relationship between the number of workers and the production of CDs. In other words, as the number of workers increases, the production of CDs also increases.

PTS: 1   DIF: moderate   OBJ: conceptual
NAT: Understanding and applying economic models   TOP: Economic Models
BLM: Bloom's: Application | AACSB: Analytic

105. Suppose you decide to build a model to explain why some companies earned more profits in the past year than others did.
   (A)   What data would you collect?
   (B)   What variable do you believe would supply the major part of the explanation of the variation in profits?
   (C)   If you graph the data with profits on the vertical axis and your explanatory variable on the horizontal axis, will the relationship be upward sloping or downward sloping?
   (D)   What does your answer in part (C) imply for whether the data on profits and the data on your explanatory variable are positively or negatively correlated?

   ANS:
   (A)   I would collect data on company profits and data that can possibly explain variations in profits.
   (B)   I would look at company sizes.
   (C)   I expect the relationship between company profits and size to be upward sloping.
   (D)   An upward sloping relationship implies that company profits and size are positively correlated.

   PTS: 1   DIF: moderate   OBJ: conceptual
   NAT: Understanding and applying economic models   TOP: Correlation
   BLM: Bloom's: Application | AACSB: Analytic

106. What problems would arise if economists did not make *ceteris paribus* assumptions when making predictions?

   ANS:
   Without making *ceteris paribus* assumptions, economists would not be able to control or identify the other factors that would alter the outcome of what they are predicting.

   PTS: 1   DIF: moderate   OBJ: conceptual
   NAT: Understanding and applying economic models   TOP: Ceteris Paribus
   BLM: Bloom's: Knowledge | AACSB: Analytic

107. Describe an experiment that you would run to see how market prices are determined. Also be sure to explain where the *ceteris paribus* assumption is needed.

   ANS:
   I would run an experiment by dividing a group of people into two, one representing buyers and the other representing sellers. I would find out how the market price changes through their interactions. The *ceteris paribus* assumption is used in order to separate the effects of the market price on the buyers' and sellers' decisions from other factors.

   PTS: 1   DIF: moderate   OBJ: conceptual
   NAT: The study of economics, and definitions in economics   TOP: Experimental Economics
   BLM: Bloom's: Comprehension | AACSB: Analytic

108. Suppose an economic study shows that increasing the tax rate on beer will reduce the amount of traffic accidents. Which of the following statements can be valid based on the study because they are positive statements, and which cannot be valid because they are normative statements.
   (A)   "Increasing the tax rate on beer is a method of reducing traffic accidents."
   (B)   "If the government wishes to reduce traffic accidents, it ought to raise the beer tax."
   (C)   "The government should not raise the beer tax on low-income drinkers."

ANS:
(A)   Positive statement.
(B)   Normative statement.
(C)   Normative statement.

PTS: 1   DIF: moderate   OBJ: conceptual
NAT: The study of economics, and definitions in economics   TOP: Positive and Normative
BLM: Bloom's: Analysis | AACSB: Analytic