

Subjective Short Answer

1. Like biologists and physicists, economists use the dispassionate development and testing of how the world works known as the

ANSWER: scientific method.

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 001.02 - SAE - MANK08

2. As a substitute for laboratory experiments, economists use evidence available through history's

ANSWER: natural experiments.

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 002.02 - SAE - MANK08

3. Suppose a war in the Middle East interrupts the flow of crude oil and oil prices skyrocket around the world. For economists, this historical episode serves as a

ANSWER: natural experiment.

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 003.02 - SAE - MANK08

4. Just like other scientific models, economic models simplify reality using

ANSWER: assumptions.

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 004.02 - SAE - MANK08

5. The three main factors of production, or categories of inputs, used by firms to produce goods and services are

ANSWER: land, labor, and capital.

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works.

TOPICS: Factors of production

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 005.02 - SAE - MANK08

6. In the circular flow diagram, who owns the factors of production and consumes all of the goods and services produced?

ANSWER: households

DIFFICULTY: Easy

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 006.02 - SAE - MANK08

7. In the circular flow diagram, when Brian provides labor through the markets for factors of production to ABC Company, the flow of money he receives in exchange is called

ANSWER: income.

DIFFICULTY: Moderate

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 007.02 - SAE - MANK08

8. In the markets for goods and services in the circular flow diagram, households act as

ANSWER: buyers.

DIFFICULTY: Easy

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 008.02 - SAE - MANK08

9. In the circular flow diagram, when Daphne purchases a new mobile phone, she participates in the markets for

ANSWER: goods and services.

DIFFICULTY: Moderate

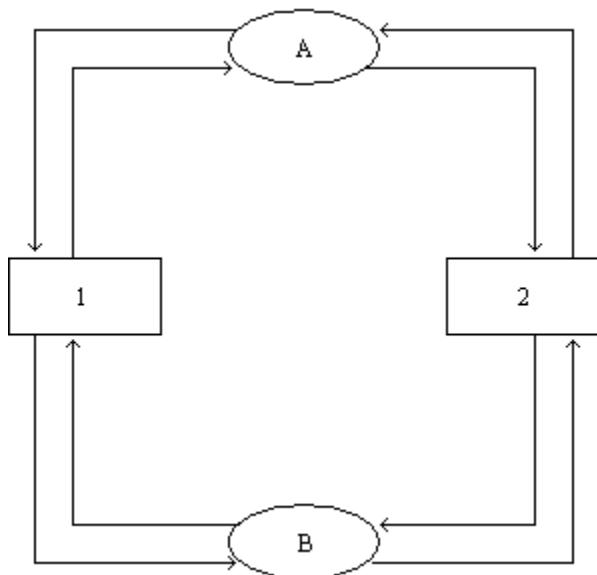
LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 009.02 - SAE - MANK08

Figure 2-3



10. Refer to Figure 2-3. What is the name of the model depicted in the figure?

ANSWER: Circular Flow Model

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 010.02 - SAE - MANK08

11. Refer to Figure 2-3. What do the ovals represent in the figure?

ANSWER: Market for Goods and Services
Market for Factors of Production

DIFFICULTY: Moderate

LEARNING OBJECTIVE: ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 011.02 - SAE - MANK08

12. Refer to Figure 2-3. What do the rectangles represent in the figure?

ANSWER: Firms
Households

DIFFICULTY: Moderate

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 012.02 - SAE - MANK08

13. Refer to Figure 2-3. What do the outer arrows represent in the figure?

ANSWER: flow of dollars

DIFFICULTY: Moderate

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 013.02 - SAE - MANK08

14. Refer to Figure 2-3. What do the inner arrows represent in the figure?

ANSWER: flow of inputs and outputs

DIFFICULTY: Moderate

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 014.02 - SAE - MANK08

15. Refer to Figure 2-3. What does the arrow going from oval A to rectangle 2 represent in the figure?

ANSWER: goods and services bought

DIFFICULTY: Moderate

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 015.02 - SAE - MANK08

16. Refer to Figure 2-3. What does the arrow going from oval B to rectangle 2 represent in the figure?

ANSWER: income

DIFFICULTY: Moderate

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 016.02 - SAE - MANK08

17. Refer to Figure 2-3. What are two elements not included in this figure that could be included in a more complex model?

ANSWER: government
international trade

DIFFICULTY: Challenging

LEARNING OBJECTIVE ECON.MANK.149 - Given a circular flow diagram, describe the agents, markets, and flows.

TOPICS: Circular flow model
Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 017.02 - SAE - MANK08

18. What you must give up to get something else is called the

ANSWER: opportunity cost.

DIFFICULTY: Easy

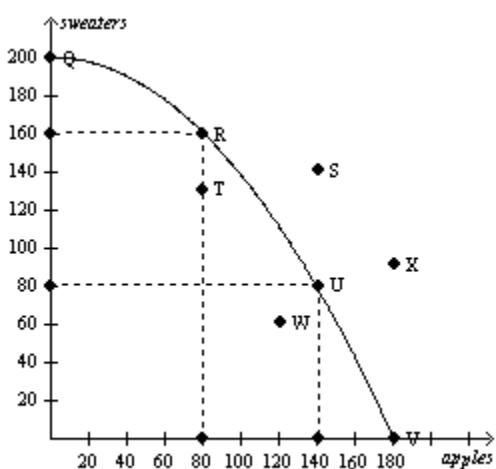
LEARNING OBJECTIVES: ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works.

TOPICS: Economic thinking
Opportunity cost

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 018.02 - SAE - MANK08

Figure 2-14



Consider the production possibilities curve for a country that can produce sweaters, apples (in bushels), or a combination of the two.

19. Refer to Figure 2-14. The bowed outward shape of the production possibilities curve indicates that opportunity cost of apples in terms of sweaters is

ANSWER: increasing.

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model
Opportunity cost

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 019.02 - SAE - MANK08

20. Refer to Figure 2-14. Which point(s) on the graph is(are) efficient production possibilities?

ANSWER: Q, R, U, and V

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.163 - Given a graph of a production possibilities frontier, identify a bundle as inefficient, efficient, feasible, or infeasible.

TOPICS: Production possibilities model
Efficiency

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 020.02 - SAE - MANK08

21. Refer to Figure 2-14. Which point(s) on the graph show unemployment of resources?

ANSWER: T and W

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.037 - Construct a production possibilities frontier.

TOPICS: Production possibilities model

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 021.02 - SAE - MANK08

22. Refer to Figure 2-14. Which point(s) on the graph is(are) unattainable given current resources and technology?

ANSWER: S and X

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.037 - Construct a production possibilities frontier.

TOPICS: Production possibilities model

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 022.02 - SAE - MANK08

23. Refer to Figure 2-14. What is the opportunity cost of moving from point T to point R?

ANSWER: zero

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model
Opportunity cost

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 023.02 - SAE - MANK08

24. Refer to Figure 2-14. What is the opportunity cost of moving from point R to point Q?

ANSWER: 80 bushels of apples

DIFFICULTY: Moderate

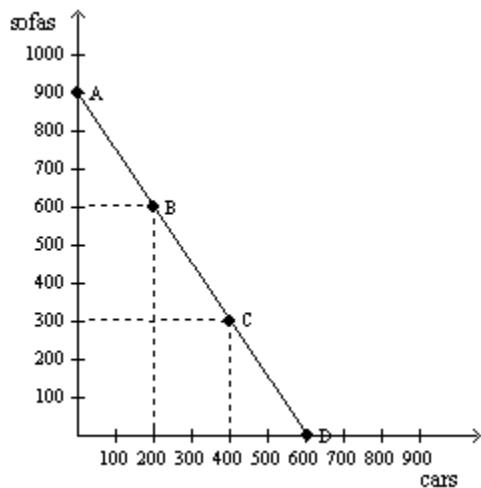
LEARNING OBJECTIVES: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model
Opportunity cost

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 024.02 - SAE - MANK08

Figure 2-15



25. Refer to Figure 2-15. Consider the production possibilities frontier for an economy that produces only sofas and cars. As the economy moves from point A to point D, is the opportunity cost of cars increasing, constant, or decreasing?

ANSWER: constant

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model
Opportunity cost

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 025.02 - SAE - MANK08

26. Refer to Figure 2-15. Consider the production possibilities frontier for an economy that produces only sofas and cars. The opportunity cost of one sofa is

ANSWER: 2/3 of a car.

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model
Opportunity cost

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 026.02 - SAE - MANK08

27. Refer to Figure 2-15. Consider the production possibilities frontier for an economy that produces only sofas and cars. The opportunity cost of one car is

ANSWER: 3/2 sofas.

DIFFICULTY: Moderate

LEARNING OBJS: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model
Opportunity cost

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 027.02 - SAE - MANK08

Table 2-6

Mobile Phones	Pizzas
0	10,000
200	8,000
500	6,000
900	4,000
1400	2,000
2000	0

28. Refer to Table 2-6. Consider the production possibilities table for an economy that produces only mobile phones and pizzas. What is the opportunity cost of increasing production of mobile phones from 200 to 500?

ANSWER: 2,000 pizzas.

DIFFICULTY: Moderate

LEARNING OBJS: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model
Opportunity cost

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 028.02 - SAE - MANK08

29. Refer to Table 2-6. Consider the production possibilities table for an economy that produces only mobile phones and pizzas. What is the opportunity cost of increasing production of pizzas from 4,000 to 6,000?

ANSWER: 400 mobile phones.

DIFFICULTY: Moderate

LEARNING OBJS: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model
Opportunity cost

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 029.02 - SAE - MANK08

30. Refer to Table 2-6. Consider the production possibilities table for an economy that produces only mobile phones and pizzas. Describe the shape of the production possibilities frontier.

ANSWER: bowed outward

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.037 - Construct a production possibilities frontier.

TOPICS: Production possibilities model

KEYWORDS: BLOOM'S: Analysis

CUSTOM ID: 030.02 - SAE - MANK08

31. Who would be more likely to study the effects of government spending on the unemployment rate, a macroeconomist or a microeconomist?

ANSWER: macroeconomist

DIFFICULTY: Moderate

LEARNING OBJECTIVEECON.MANK.204 - Given a scenario, determine if a microeconomist or a macroeconomist would study it.

TOPICS: Macroeconomics

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 031.02 - SAE - MANK08

32. Who would be more likely to study the effects of foreign competition on the accounting industry, a macroeconomist or a microeconomist?

ANSWER: microeconomist

DIFFICULTY: Moderate

LEARNING OBJECTIVEECON.MANK.204 - Given a scenario, determine if a microeconomist or a macroeconomist would study it.

TOPICS: Macroeconomics

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 032.02 - SAE - MANK08

33. Who would be more likely to study the effects of rent control on housing in New York City, a macroeconomist or a microeconomist?

ANSWER: microeconomist

DIFFICULTY: Moderate

LEARNING OBJECTIVEECON.MANK.204 - Given a scenario, determine if a microeconomist or a macroeconomist would study it.

TOPICS: Macroeconomics

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 033.02 - SAE - MANK08

34. Who would be more likely to study the inflation rate in the United States, a macroeconomist or a microeconomist?

ANSWER: macroeconomist

DIFFICULTY: Moderate

LEARNING OBJECTIVEECON.MANK.204 - Given a scenario, determine if a microeconomist or a macroeconomist would study it.

TOPICS: Macroeconomics

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 034.02 - SAE - MANK08

35. When economists are trying to explain the world, they are scientists. When they are trying to improve it, they are

ANSWER: policy advisers.

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.042 - Contrast when an economist acts as a policy adviser and when an economist acts as a scientist.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 035.02 - SAE - MANK08

36. What type of statement is a descriptive statement about how the world is?

ANSWER: positive statement

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.021 - Classify an economic statement as either positive or normative.

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 036.02 - SAE - MANK08

37. What type of statement is a prescriptive statement about how the world ought to be?

ANSWER: normative statement

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.021 - Classify an economic statement as either positive or normative.

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 037.02 - SAE - MANK08

38. Which type of statement - positive or negative - can be evaluated by analyzing data alone?

ANSWER: positive

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.021 - Classify an economic statement as either positive or normative.

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 038.02 - SAE - MANK08

39. Is the following a positive or normative statement? The federal minimum wage is lower than many state minimum wages.

ANSWER: positive

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.021 - Classify an economic statement as either positive or normative.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 039.02 - SAE - MANK08

40. Is the following a positive or normative statement? The Federal Reserve should set an inflation target and employ policies to meet the target.

ANSWER: normative

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.021 - Classify an economic statement as either positive or normative.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 040.02 - SAE - MANK08

41. Is the following a positive or normative statement? The United States government should mandate that every citizen purchases health insurance.

ANSWER: normative

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.021 - Classify an economic statement as either positive or normative.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 041.02 - SAE - MANK08

42. Is the following a positive or normative statement? The unemployment rate in Nevada is higher than the unemployment rate in New York.

ANSWER: positive

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.021 - Classify an economic statement as either positive or normative.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 042.02 - SAE - MANK08

43. Since 1946, the president of the United States has received guidance from a group comprised of three members and a staff of a few dozen economists known as the

ANSWER: Council of Economic Advisers

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

U.S. economy

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 043.02 - SAE - MANK08

44. Economists at which administrative department help formulate spending plans and regulatory policies?

ANSWER: Office of Management and Budget

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

U.S. economy

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 044.02 - SAE - MANK08

45. Economists at which administrative department help design tax policy?

ANSWER: Department of the Treasury

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

U.S. economy

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 045.02 - SAE - MANK08

46. Economists at which administrative department analyze data on workers and those looking for work to help formulate labor-market policies?

ANSWER: Department of Labor

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

U.S. economy

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 046.02 - SAE - MANK08

47. Economists at which administrative department help enforce the nation's antitrust laws?

ANSWER: Department of Justice

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

U.S. economy

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 047.02 - SAE - MANK08

48. The institution that sets the nation's monetary policy is called the

ANSWER: Federal Reserve.

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

TOPICS: Economic thinking

U.S. economy

KEYWORDS: BLOOM'S: Knowledge

CUSTOM ID: 048.02 - SAE - MANK08

49. When economists disagree about whether the government should tax a household's income or its consumption, they are expressing a difference in

ANSWER: scientific judgment.

DIFFICULTY: Moderate

LEARNING OBJECTIVE: ECON.MANK.222 - Given a scenario, identify the source of disagreement between ES: two economists.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 049.02 - SAE - MANK08

50. When economists disagree about whether a policy is fair, they are expressing a difference in

ANSWER: values.

DIFFICULTY: Moderate

LEARNING OBJECTIVE: ECON.MANK.222 - Given a scenario, identify the source of disagreement between ES: two economists.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 050.02 - SAE - MANK08

51. Most economists agree that a large federal budget deficit has what type of effect on the economy?

ANSWER: adverse

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.024 - Classify the different functions an economist may serve.

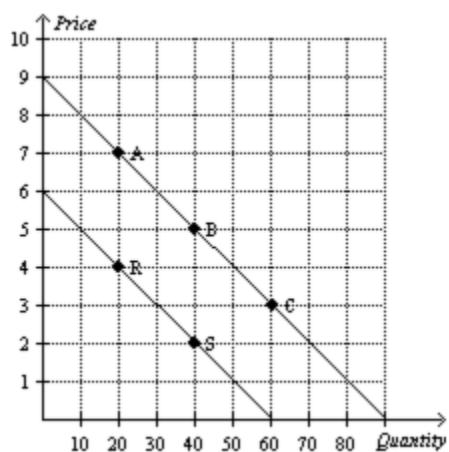
TOPICS: Economic thinking

U.S. economy

KEYWORDS: BLOOM'S: Comprehension

CUSTOM ID: 051.02 - SAE - MANK08

Figure 2-22



52. Refer to Figure 2-22. What are the coordinates of point C?

ANSWER: (60,3)

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 052.02 - SAE - MANK08

53. Refer to Figure 2-22. What is the x-coordinate of point R?

ANSWER: 20

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 053.02 - SAE - MANK08

54. Refer to Figure 2-22. How are price and quantity related in this graph?

ANSWER: negatively correlated

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 054.02 - SAE - MANK08

55. Refer to Figure 2-22. What is the slope of the line with points A, B, and C?

ANSWER: -0.1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 055.02 - SAE - MANK08

56. Refer to Figure 2-22. Is a move from point A to point B considered a shift of the curve or a movement along the curve?

ANSWER: movement along the curve

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.207 - Given a scenario, determine if that scenario will cause a movement along or a shift of a good's demand curve.

TOPICS: Demand

Supply and demand

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 056.02 - SAE - MANK08

57. Refer to Figure 2-22. Is a move from point A to point R considered a shift of the curve or a movement along the curve?

ANSWER: shift of the curve

DIFFICULTY: Easy

LEARNING OBJECTIVES: ECON.MANK.207 - Given a scenario, determine if that scenario will cause a movement along or a shift of a good's demand curve.

TOPICS: Demand

Supply and demand

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 057.02 - SAE - MANK08

58. Refer to Figure 2-22. Given that price is measured on the vertical axis, quantity is measured on the horizontal axis, and that the curves are downward-sloping, what type of curves are depicted here?

ANSWER: demand curves

DIFFICULTY: Easy

LEARNING OBJECTIVE ECON.MANK.071 - Determine the effects of an event using the supply and demand model.

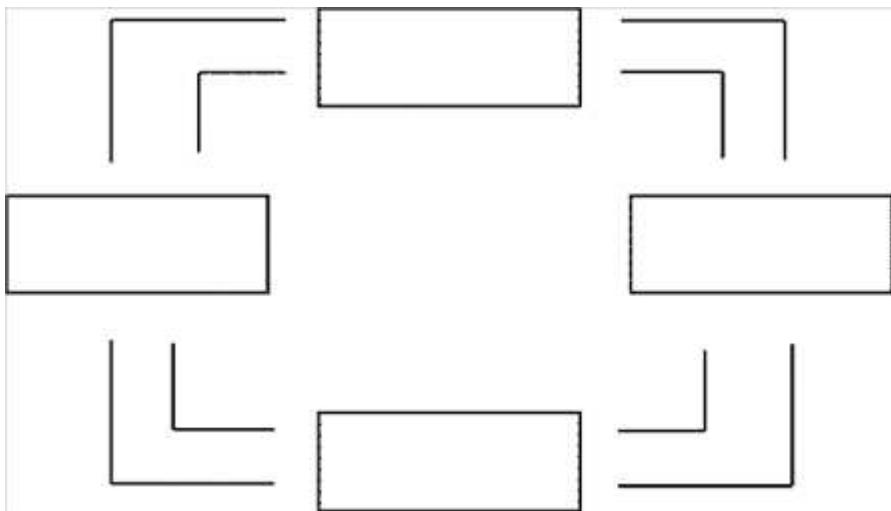
TOPICS: Demand

Supply and demand

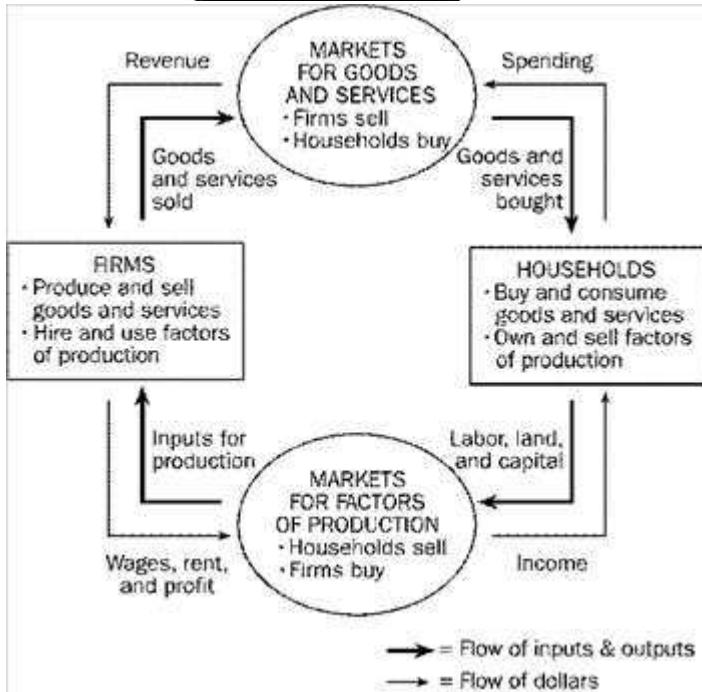
KEYWORDS: BLOOM'S: Application

CUSTOM ID: 058.02 - SAE - MANK08

59. Using the outline below, draw a circular-flow diagram representing the interactions between households and firms in a simple economy. Explain briefly the various parts of the diagram.



ANSWER:



This diagram should duplicate the essential characteristics of the diagram in the text, with an explanation of the meaning of each flow and each market. It is important that the student understands that the inner loop represents the flow of real goods and services and that the outer loop represents the corresponding flow of payments.

DIFFICULTY: Easy

KEY WORDS:

LEARNING OBJECTIVE: Given a circular flow diagram, describe the agents, markets, and flows.

KEY WORDS:

KEY WORDS:

TOPICS:

Circular flow model

Economic thinking

KEY WORDS: Knowledge

KEY WORDS:

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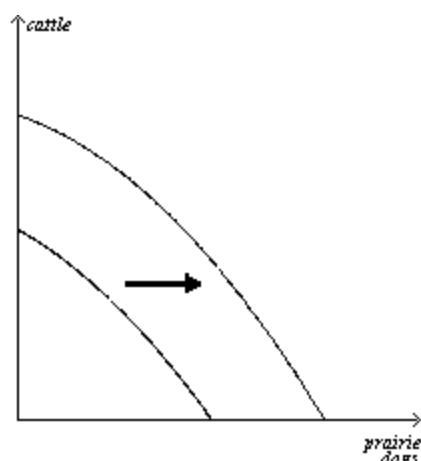
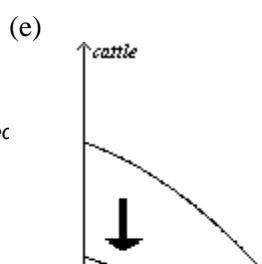
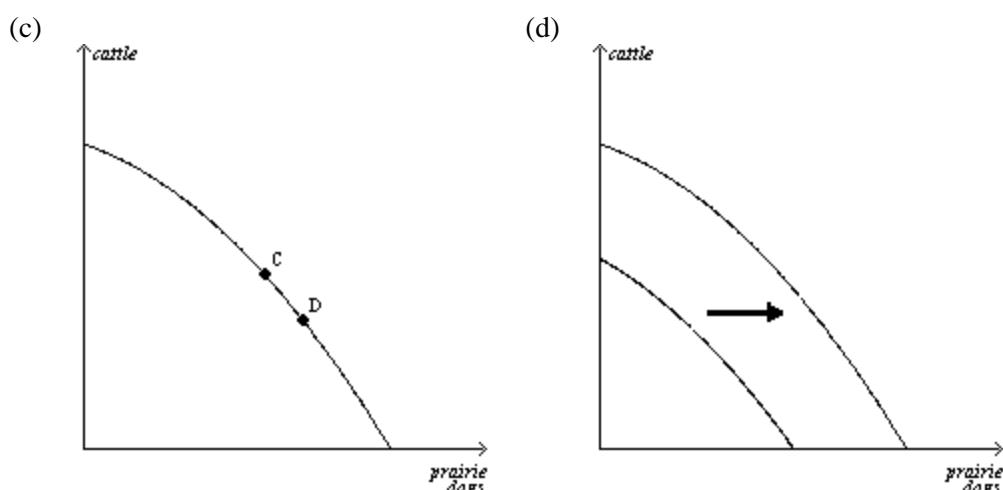
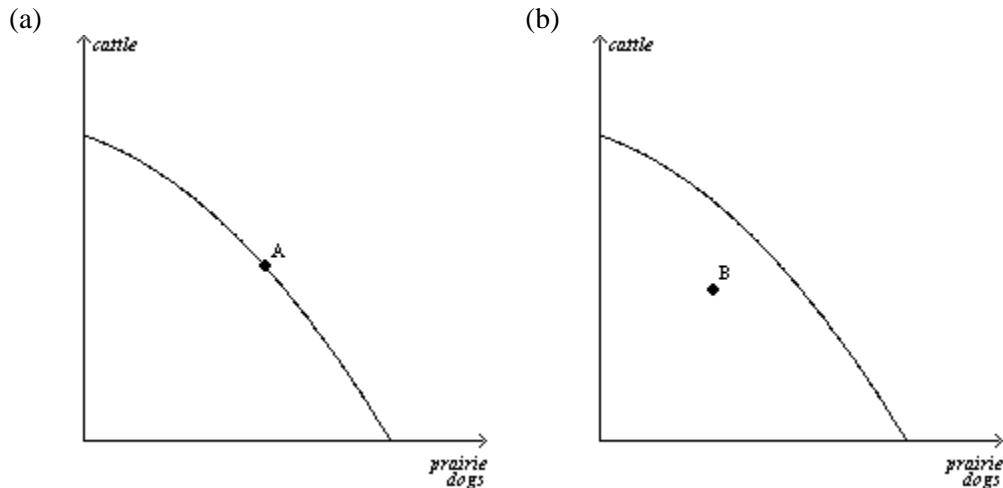
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60. The prairie dog has always been considered a problem for American cattle ranchers. They dig holes that cattle and horses can step in, and they eat grass necessary for cattle. Recently, ranchers have discovered that there is a demand for prairie dogs as pets. In some areas, prairie dogs can sell for as high as \$150 each. Cattlemen are now fencing off prairie dog towns on their land so these towns will not be disturbed by their cattle.

Draw a rancher's production possibilities frontier showing increasing opportunity cost of cattle production in terms of prairie dog production. Using a separate graph for each situation, show what would happen to the initial production possibilities frontier in each of the following situations:

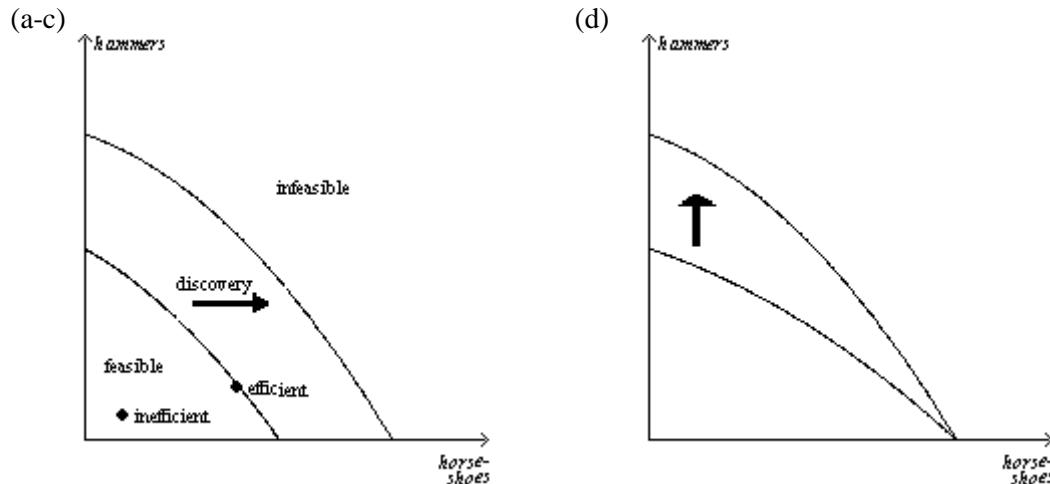
- The outcome is efficient, with ranchers choosing to produce equal numbers of cattle and prairie dogs.
- As a protest against the government introducing the gray wolf back into the wild in their state, ranchers decide to withhold 25 percent of the available grassland for grazing.
- The price of prairie dogs increases to \$200 each, so ranchers decide to allot additional land for prairie dogs.
- The government grants new leases to ranchers, giving them 10,000 new acres of grassland each for grazing.
- A drought destroys most of the available grass for grazing of cattle, but not for prairie dogs since they also eat plant roots.

ANSWER:



61. Draw a production possibilities frontier showing increasing opportunity cost of hammers in terms of horseshoes.
- On the graph, identify the area of feasible outcomes and the area of infeasible outcomes.
 - On the graph, label a point that is efficient and a point that is inefficient.
 - On the graph, illustrate the effect of the discovery of a new vein of iron ore, a resource needed to make both horseshoes and hammers, on this economy.
 - On a second graph, illustrate the effect of a new computerized assembly line in the production of hammers on this economy.

ANSWER:



DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.162 - Given a graph of a production possibilities frontier, determine the opportunity cost for producing each commodity.

TOPICS: Production possibilities model

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 061.02 - SAE - MANK08

62. Identify each of the following topics as being part of microeconomics or macroeconomics:

- the impact of a change in consumer income on the purchase of luxury automobiles
- the effect of a change in the price of Coke on the purchase of Pepsi
- the impact of a war in the Middle East on the rate of inflation in the United States
- factors influencing the rate of economic growth
- factors influencing the demand for tractors
- the impact of tax policy on national saving
- the effect of pollution taxes on the U.S. copper industry
- the degree of competition in the cable television industry
- the effect of a balanced-budget amendment on economic stability
- the impact of deregulation on the savings and loan industry

ANSWER: a, b, e, g, h, and j are microeconomic topics. c, d, f, and i are macroeconomic topics.

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ECON.MANK.012 - Apply basic, economic principles of individual decision making that determine how an economy generally works.

TOPICS: BLOOM'S: Application

CUSTOM ID: 062.02 - SAE - MANK08

63. Which of the following statements are positive and which are normative?
- a. The minimum wage creates unemployment among young and unskilled workers.
 - b. The minimum wage ought to be abolished.
 - c. If the price of a product in a market decreases, then, other things equal, quantity demanded will increase.
 - d. A little bit of inflation is worse for society than a little bit of unemployment.
 - e. There is a tradeoff between inflation and unemployment in the short run.
 - f. If consumer income increases, then, other things equal, the demand for automobiles will increase.
 - g. The U.S. income distribution is not fair.
 - h. U.S. workers deserve more liberal unemployment benefits.
 - i. If interest rates increase, then investment will decrease.
 - j. If welfare benefits were reduced, then the country would be better off.

ANSWER: a, c, e, f, and i are positive statements. b, d, g, h, and j are normative statements.

DIFFICULTY: Moderate

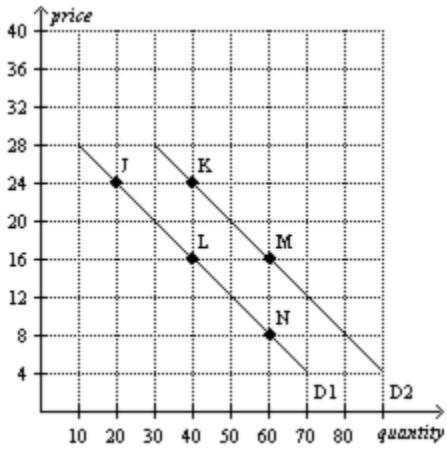
LEARNING OBJECTIVES: ECON.MANK.021 - Classify an economic statement as either positive or normative.

TOPICS: Economic thinking

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 063.02 - SAE - MANK08

64. Use the following graph to answer the following questions.
- How would point J be represented as an ordered pair?
 - What type of curve is this?
 - Does this curve show a positive or negative correlation between price and quantity?
 - Compute the slope of D_1 between points J and L.
 - What is the slope of D_1 between points L and N? Why would you not have to calculate this answer?
 - What is it called if we move from D_1 to D_2 ?
 - How do you know that the slope of D_2 is the same as the slope of D_1 ?



ANSWER:

- (20,24)
- a demand curve
- a negative correlation between price and quantity
- 8/20 or -2/5
- 2/5; because the slope of a straight line is constant
- an increase in demand.
- because the 2 lines are parallel

DIFFICULTY:

Moderate

LEARNING OBJECTIVE ECON.MANK.071 - Determine the effects of an event using the supply and demand model.

S:

TOPICS: Demand

Supply and demand

KEYWORDS: BLOOM'S: Application

CUSTOM ID: 064.02 - SAE - MANK08