

Chapter 1

Introduction

TRUE/FALSE

- Answer: F
Diff: 2
- Answer: T
Diff: 2
- Answer: F
Diff: 3
- Answer: T
Diff: 2
- Answer: T
Diff: 3
- Answer: T
Diff: 1
- Answer: F
Diff: 1
- Answer: F
Diff: 4
- Answer: T
Diff: 3
- Answer: F
Diff: 4
- Answer: T
Diff: 1
- Answer: F
Diff: 1
- Answer: T
Diff: 1
- Answer: F
Diff: 2
- Answer: F
Diff: 1
1. All natural resources are nonrenewable.
 2. Economics is similar to other social science disciplines in that it examines individual and social behavior.
 3. Consumer sovereignty refers to a situation in which there is only one “sovereign” consumer deciding what is to be produced in the market.
 4. The *ceteris paribus* assumption is important to use when building economic models.
 5. In the circular flow model, resources flow from the households to the firms.
 6. Economic models are abstractions from reality.
 7. The circular flow model shows the government purchasing goods and services with tax dollars.
 8. Microeconomics only looks at the behavior of one consumer or one firm in a market, while macroeconomics looks at the behavior of an entire industry or group of consumers.
 9. The statement that a monopoly raises the price of its product is an example of positive economics.
 10. Economic forecasting has improved tremendously in the last 20 years with the development of computers.
 11. Econometrics is the use of statistics to quantify and test economic models.
 12. Economic models have become much simpler in recent years.
 13. Econometric computer models have led to better predictability of economic events.
 14. Economic forecasting has proven no better than the flipping of coins.
 15. An economic forecast will always yield an accurate forecast.

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: F Diff: 2	16. To be useful, a resource must be renewable.	
Answer: F Diff: 1	17. Only the very selfish have insatiable wants.	
Answer: F Diff: 3	18. We wouldn't have to make choices if wants were not insatiable.	
Answer: T Diff: 2	19. Abstracting from reality is an important element of all economic models.	
Answer: T Diff: 1	20. A positive economic statement simply describes what is.	
Answer: T Diff: 1	21. Natural resources include both plants and animals.	
Answer: T Diff: 2	22. Renewable resources can be exhausted.	
Answer: F Diff: 3	23. Human societies have typically run out of resources before substitutes have been discovered or developed.	
Answer: F Diff: 2	24. Stanley Jevons accurately predicted the inevitable bankruptcy of England's coal industry.	
Answer: F Diff: 4	25. Scarcity is a temporary state of insufficiency that ends with new innovation.	
Answer: F Diff: 3	26. The circular flow model shows how households and firms compete with each other.	
Answer: F Diff: 3	27. The circular flow model shows what households buy and sell in the resource market.	
Answer: T Diff: 3	28. Campaign speeches normally include normative economic statements.	
Answer: T Diff: 2	29. Microeconomics and macroeconomics use different units of analysis.	
Answer: T Diff: 1	30. Economics is the social science that describes the way individuals and societies allocate resources to satisfy human wants.	
Answer: F Diff: 3	31. "The unemployment rate is five percent" is an example of a normative statement.	
Answer: T Diff: 2	32. "Unemployment will decrease because the economy is on an upward swing" is an example of a positive statement.	

MULTIPLE CHOICE

Answer: E

Diff: 2

1. To state that the resources of the economy are finite implies that
 - a. we cannot live without them
 - b. we always want more of them
 - c. they are nonrenewable
 - d. at least some of them are renewable
 - e. there is a fixed quantity of them at any point in time

Answer: E

Diff: 2

2. The finite nature of the economy's resource base
 - a. will be solved if only we would learn to conserve
 - b. arises out of people's insatiable appetite for goods
 - c. is only a problem in developing countries
 - d. will disappear as technology advances
 - e. will persist indefinitely

Answer: A

Diff: 1

3. If a resource is nonrenewable and we use 2 percent of its supply per year,
 - a. it will gradually be depleted
 - b. its supply will be constant regardless of use because it has the nonrenewability property
 - c. it will become renewable as its supply approaches zero
 - d. it could never be depleted because 2 percent of a diminishing supply is an increasing amount
 - e. it will decrease at a diminishing rate so that its supply will approach its initial quantity

Answer: C

Diff: 2

4. Human wants
 - a. are unfilled only in the poorer countries of the world
 - b. can be completely satisfied by adopting new production technologies
 - c. can never be fully satisfied
 - d. can be satisfied if they refer only to necessities
 - e. exist only if we are selfish, irrational, or unwilling to modify how we produce goods and services

Answer: D

Diff: 1

5. Scarcity is a problem that
 - a. exists only in the poorer countries of the world
 - b. would disappear if resources were less limited
 - c. can be solved by rapid advances in technology
 - d. exists in every economy
 - e. the rich have solved

Answer: B

Diff: 2

6. The perpetual problem in economics is
 - a. our inability to work together effectively
 - b. our inability to satisfy our wants with the available resources
 - c. the recognition of continual class differences
 - d. our inability to utilize resources efficiently
 - e. likely to be solved in resource-rich countries

Answer: E

Diff: 2

7. Which of the following would *not* be a central issue in economics?
 - a. Who produces the goods?
 - b. How is production carried out?
 - c. Who consumes what?
 - d. What goods are produced?
 - e. When are goods consumed and produced?

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: B Diff: 3	8. Consumer sovereignty implies that	
	a. producers determine what goods will be produced and consumers are free to choose from among them	
	b. consumers choose the composition of our economy's output	
	c. goods are produced on the basis of need	
	d. the government directs the production of consumer goods in the economy	
	e. a committee of consumers determines the key issues in the economy	
Answer: C Diff: 3	9. Consumer sovereignty answers which central issue in economics?	
	a. How will goods be produced?	
	b. Who will produce the goods?	
	c. What goods will be produced?	
	d. For whom will the goods be produced?	
	e. By what method will the goods be produced?	
Answer: D Diff: 3	10. For which of the following questions would consumer sovereignty provide an answer?	
	a. Will a shovel or bulldozer be used to excavate the ground?	
	b. Should the government provide trash collection services in the community?	
	c. Should we have universal health coverage provided by the government?	
	d. Will large or small cars sell the most this year?	
	e. Should there be numerous competitors offering long-distance phone service to the consumer?	
Answer: C Diff: 2	11. An economic model is	
	a. a plastic scaled version of the economy	
	b. a complete depiction of reality	
	c. an abstraction of reality	
	d. applicable to consumer behavior but not to producer behavior	
	e. not an accepted tool of the economics profession	
Answer: A Diff: 3	12. To abstract from reality in an economic model means that	
	a. we include only a few of the essential aspects of reality	
	b. the economic study surveys only a very limited period of time	
	c. we include only those elements that support our hypothesis	
	d. the model includes every aspect of the real world	
	e. the model examines the actions of consumers in the absence of producers and the government	
Answer: C Diff: 3	13. To be valid, an economic model must	
	a. include every activity that occurs in the real world	
	b. include every economic activity that occurs in the real world	
	c. be useful in explaining cause-and-effect relationships in the real world	
	d. exclude any link to the real world	
	e. not be based on an abstraction of the real world	
Answer: C Diff: 2	14. The term <i>ceteris paribus</i> means that	
	a. all important variables in the real world are considered	
	b. all factors that influence the event are changing at the same time	
	c. everything else is being held constant	
	d. everything, except one influence, is changing	
	e. the consumer is king	
Answer: A Diff: 3	15. Choices must be made in the use of resources	
	a. because they are in finite supply	
	b. because they are in finite demand	
	c. only if the resources are nonrenewable	
	d. only if the resources are renewable	
	e. because they are in infinite supply	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: A Diff: 2	16. Resources are scarce	
	a. because there is always a greater demand for them than there is a supply of them	
	b. only if the resources are nonrenewable	
	c. only if the resources are renewable	
	d. because all resources are nonrenewable	
	e. because all resources are renewable	
Answer: B Diff: 3	17. Scarcity is a problem in economics because it means that	
	a. all economies will be poor	
	b. we cannot produce all the goods we want	
	c. consumers will not be able to consume all of the goods that producers have the capacity to produce	
	d. we cannot produce all the food we would want	
	e. the economy cannot improve its peoples' standard of living	
Answer: D Diff: 4	18. "John buys more of good X as his income increases, <i>ceteris paribus</i> ," means	
	a. there is no cause-and-effect relationship between John's income and the quantity of good X he purchases if <i>ceteris paribus</i> applies	
	b. John's demand for good X depends exclusively on income	
	c. John's income and purchases of this good are being held constant	
	d. the change in John's income is the only factor being considered in explaining the change in his purchase of good X	
	e. the price of this good must have decreased in order for John to buy more of the good, regardless of changes in his income	
Answer: D Diff: 4	19. If all prices fall and it is observed that Betty purchases more bananas, which of the following statements can be made?	
	a. Betty purchases more bananas as the price of bananas falls, <i>ceteris paribus</i> .	
	b. Betty purchases more of all goods as their prices fall, <i>ceteris paribus</i> .	
	c. Betty prefers bananas to all other fruits, <i>ceteris paribus</i> .	
	d. There is no <i>ceteris paribus</i> condition in this statement.	
	e. Betty will always buy more bananas when all prices fall, <i>ceteris paribus</i> .	
Answer: A Diff: 2	20. The circular flow model of the economy shows	
	a. the flow of money, goods, and services between households and firms	
	b. why specific flows occur	
	c. the relationship between money and goods within households	
	d. the relationship between resources and the prices of resources	
	e. the flow of resources from households to firms	
Answer: D Diff: 3	21. In the circular flow model of the economy, the resource market is where	
	a. consumers purchase consumer goods and services	
	b. firms purchase goods and services	
	c. consumers supply goods and services	
	d. firms purchase labor, land, and capital	
	e. consumers purchase labor and capital	
Answer: E Diff: 5	22. Which of the following activities would occur in a resource market?	
	a. Reesa buys a new computer to help balance her personal checkbook.	
	b. Randy pays a speeding ticket.	
	c. Ian mows his grass.	
	d. Pam buys a ticket to the ball game.	
	e. General Motors hires additional workers to run a third shift at its Flint, Michigan, factory.	

- Answer: D
Diff: 5
23. Which of the following activities would occur in the product market?
- Harry mows his grass.
 - General Motors hires additional workers to run a third shift at the factory.
 - Sam pays a speeding ticket.
 - Dolly buys a ticket to the ball game.
 - Jane bakes a pie for Thanksgiving dinner.
- Answer: E
Diff: 2
24. The four sources of income for the household are
- taxes, subsidies, imports, interest
 - taxes, interest, rent, rebates
 - interest, rebates, rent, taxes
 - wages, taxes, imports, interest
 - wages, rent, interest, profits
- Answer: A
Diff: 4
25. Which of the following correctly matches the income payment with the resource?
- rent–land; wages–labor; interest–capital; profits–entrepreneurship
 - profits–land; wages–labor; rent–capital; interest–entrepreneurship
 - taxes–land; interest–labor; rent–capital; profits–entrepreneurship
 - interest–land; taxes–labor; interest–capital; rent–entrepreneurship
 - rent–capital; profits–labor; wages–land; interest–entrepreneurship
- Answer: D
Diff: 2
26. Households purchase goods and services in the
- market resource
 - labor market
 - capital market
 - product market
 - circular market
- Answer: C
Diff: 2
27. A firm is an organization that produces
- only goods for sale to households
 - only services for sale to households
 - goods and services for sale to households and businesses
 - only goods for sale to other businesses
 - only resources
- Answer: A
Diff: 2
28. Which of the following would be of particular interest to a microeconomist?
- amount of fruit the typical household consumes
 - nation's inflation rate
 - nation's rate of unemployment
 - budget of the national government
 - growth rate of the economy
- Answer: B
Diff: 3
29. The study of microeconomics and macroeconomics differ in that
- microeconomics is concerned with the domestic economy, while macroeconomics is concerned only with the international economy
 - microeconomics examines the individual units of the economy, while macroeconomics studies the whole economy
 - microeconomics studies the actions of households, while macroeconomics studies the actions of business firms
 - microeconomics studies the economy in terms of private individuals and firms, while macroeconomics includes the effect of government
 - microeconomics examines the whole economy, while macroeconomics studies the individual units of the economy

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: C Diff: 1	30. A positive economic statement concerns	
	a. an opinion on an economic issue that should be taken	
	b. an economic activity that has a positive effect on the economy	
	c. a statement of fact	
	d. a macroeconomic issue or position	
	e. a microeconomic issue or position	
Answer: B Diff: 1	31. A normative economic statement is	
	a. a statement of fact	
	b. a statement of opinion which advocates a particular position	
	c. not acceptable in the economics profession	
	d. the only acceptable manner to present economic information	
	e. a statement based upon government-supplied information	
Answer: D Diff: 4	32. The Secretary of Labor states that wage rates in the country have risen by 2 percent this past year. The head of a local labor union states that wage gains have not kept pace with the 3 percent rate of inflation. The Secretary's statement is a _____ economic statement, and the labor head's statement is a(n) _____ economic statement.	
	a. normative; normative	
	b. normative; positive	
	c. positive; normative	
	d. positive; positive	
	e. proper; improper	
Answer: C Diff: 3	33. The Secretary of Labor states that wage rates in the country have risen by 2 percent this past year. The head of a local labor union states that wage gains should have been higher. The Secretary's statement is a _____ economic statement, and the labor union head's statement is a(n) _____ economic statement.	
	a. normative; normative	
	b. normative; positive	
	c. positive; normative	
	d. positive; positive	
	e. proper; improper	
Answer: D Diff: 3	34. If John says the price of gasoline is too high and Paul says prices are determined by the action of the marketplace, then John has made a(n):	
	a. positive economic statement, and Paul has made a normative economic statement	
	b. positive economic statement, and Paul has made a positive economic statement	
	c. normative economic statement, and Paul has made a normative economic statement	
	d. normative economic statement, and Paul has made a positive economic statement	
	e. improper economic statement, and Paul has made a proper economic statement	
Answer: A Diff: 2	35. Which of the following questions would <i>not</i> be of particular interest to a microeconomist?	
	a. Why do national economies grow?	
	b. What percentage of consumer income is spent on entertainment?	
	c. Why do workers prefer the 4-day workweek?	
	d. What happens to worker productivity when the job shifts to a 4-day workweek?	
	e. How is the electric industry harmed by the passage of new clean air legislation?	
Answer: C Diff: 3	36. The television network newscaster reports that the national inflation rate in the past year was equal to 4 percent. This report is most likely prepared from work done by a(n)	
	a. microeconomist	
	b. normative economist	
	c. macroeconomist	
	d. econometrician	
	e. social scientist rather than an economist	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: B Diff: 1	37. The circular flow diagram is	
	a. an accurate description of reality	
	b. an economic model	
	c. not expected to explain reality	
	d. a road map explaining all money flows in the economy	
	e. a road map explaining all product flows in the economy	
Answer: E Diff: 2	38. A positive economic statement	
	a. contains personal and social value judgments	
	b. is always a mathematical expression	
	c. is never used by an economist	
	d. is proper, provided the advocator is clear the position rests on personal assessment	
	e. is an unbiased report of the facts of the economy	
Answer: E Diff: 3	39. Most economic forecasts	
	a. are accurate	
	b. are more reliable than weather forecasts	
	c. rely on mathematical models	
	d. are totally unreliable because economic changes upset outcomes	
	e. are based on <i>ceteris paribus</i> assumptions	
Answer: C Diff: 4	40. Finite resources	
	a. must be renewable	
	b. must be nonrenewable	
	c. can be renewable or nonrenewable	
	d. are only nature-made resources	
	e. can be expanded in a short period of time	
Answer: D Diff: 2	41. An example of a nonrenewable resource is	
	a. labor	
	b. capital	
	c. entrepreneurship	
	d. iron ore	
	e. automobiles	
Answer: C Diff: 1	42. Gold is	
	a. not a resource in the economy	
	b. an example of a renewable resource for the economy	
	c. an example of a nonrenewable resource for the economy	
	d. part of the capital resources of the economy	
	e. part of the entrepreneurial resources of the economy	
Answer: D Diff: 1	43. Economics is considered to be one of _____ disciplines.	
	a. natural science	
	b. mathematical	
	c. humanities	
	d. social science	
	e. fine arts	
Answer: D Diff: 1	44. Land, water, metals, and minerals are considered to be	
	a. non-scarce resources because they are “gifts of nature”	
	b. free resources because they are “gifts of nature”	
	c. manufactured resources because no resource is useable without labor	
	d. natural resources that are “gifts of nature”	
	e. renewable resources that are “gifts of nature”	

- Answer: B
Diff: 1
45. Which of the following is an example of a renewable resource?
 a. gold
 b. forests
 c. minerals
 d. coal
 e. land
- Answer: A
Diff: 1
46. Which of the following is an example of a nonrenewable resource?
 a. iron
 b. cotton
 c. labor
 d. fish
 e. electricity
- Answer: C
Diff: 3
47. Which of the following statements is true with respect to renewable natural resources?
 a. There are infinite quantities of renewable resources.
 b. Proper management can only protect, not increase, the supply.
 c. Conservation and proper use can protect and even increase the supply of renewable resources.
 d. They cannot be completely destroyed since they can always regenerate.
 e. They cannot exist since this would violate the scarcity principle.
- Answer: D
Diff: 3
48. Which of the following statements is true with respect to nonrenewable natural resources?
 a. With proper management, more natural resources can be created.
 b. The economy will never run out of the resource since it can always find new supplies as the price rises.
 c. Economists can predict with reasonable accuracy when the supply will be depleted.
 d. Before the last unit is taken from the earth, the economy is likely to already have abandoned it and switched to another.
 e. Water is an example of a nonrenewable natural resource.
- Answer: E
Diff: 3
49. In 1865 Jevons wrote a book, *The Coal Question*, in which he predicted that England would soon
 a. switch from coal to alternative sources of energy
 b. discover new sources of coal that would create a glut
 c. go to war with Spain over access to coal deposits
 d. increase its productivity and become a greater economic power
 e. run out of coal
- Answer: C
Diff: 3
50. According to an Added Perspective in the text, drawn from an article in *The Economist*, England's concern about coal in the 1990s is represented by which of the following questions?
 a. Will coal replace oil as new coal deposits are discovered?
 b. Will coal supplies be depleted within the next hundred years?
 c. How much priority should be given to environmental concerns?
 d. How can mining be made profitable to preserve coal miners' jobs?
 e. Should the government use price controls to limit high profits?
- Answer: B
Diff: 1
51. Economists believe that people's wants are
 a. limited by their incomes
 b. insatiable
 c. scarce
 d. mostly irrational
 e. mostly psychological

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: E Diff: 1	52. The perpetual state of insufficiency of resources to satisfy people's unlimited wants is	
	a. apparent only in poor countries	
	b. a contradiction that cannot be resolved	
	c. completely unrealistic	
	d. present in modern economies, but not in the past	
	e. the definition of scarcity	
Answer: C Diff: 1	53. People are forced to make choices because of	
	a. unlimited wants and unlimited resources	
	b. limited wants and unlimited resources	
	c. unlimited wants and limited resources	
	d. limited wants and limited resources	
	e. limited resources are greater than unlimited resources	
Answer: B Diff: 1	54. The study of how people work together to transform resources into goods and services to satisfy their most pressing wants is	
	a. sociology	
	b. economics	
	c. psychology	
	d. anthropology	
	e. management	
Answer: B Diff: 2	55. Economics is the study of how people	
	a. vote for political leaders who decide what is to be produced	
	b. make choices to produce and consume goods and services	
	c. create social institutions that maximize economic well-being	
	d. develop value systems that affect their consumption choices	
	e. form customs and traditions that influence consumption	
Answer: D Diff: 1	56. Economics is considered to be part of the field of	
	a. management science	
	b. mathematical sciences	
	c. actuarial science	
	d. social sciences	
	e. natural sciences	
Answer: C Diff: 3	57. The four central issues in economics include all of the following questions <i>except</i>	
	a. who produces what	
	b. how are goods produced	
	c. when are goods produced	
	d. who consumes what	
	e. who decides about production and consumption	
Answer: E Diff: 1	58. Economists believe that scarcity forces everyone to	
	a. satisfy all their wants	
	b. abandon consumer sovereignty	
	c. limit wants	
	d. create unlimited resources	
	e. make choices	
Answer: D Diff: 1	59. When consumers decide what goods and services the economy produces, they are said to exercise	
	a. control over production of resources	
	b. control over all economic activity	
	c. the direction of the circular flow	
	d. consumer sovereignty	
	e. control over nonrenewable resources	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: A Diff: 2	60. Because consumers want more Baby Bigfeet dolls, more Baby Bigfeet dolls will be produced and brought to the market. This is an example of	
	a. consumer sovereignty	
	b. resources not being scarce	
	c. <i>ceteris paribus</i>	
	d. a natural resource	
	e. macroeconomic activity	
Answer: C Diff: 1	61. When consumers decide that they do not want virtual pets anymore, and this drives all the virtual pet producers out of business, this is a reflection of	
	a. an outrage	
	b. not related to issues of freedom	
	c. consumer sovereignty	
	d. an inefficient use of resources	
	e. a circular flow model	
Answer: B Diff: 5	62. Complete the following analogy: A criminal is to a police artist's sketch as the economy is to	
	a. money	
	b. an economic model	
	c. a resource	
	d. <i>ceteris paribus</i>	
	e. scarcity	
Answer: B Diff: 4	63. Most economic model builders would claim that their models	
	a. include all real-world economic activities	
	b. portray how the real economy works	
	c. take into account all the complexities of how people behave	
	d. contradict the <i>ceteris paribus</i> assumption	
	e. consider all the important pressing issues people confront	
Answer: A Diff: 1	64. The Latin expression <i>ceteris paribus</i> means	
	a. everything else being equal	
	b. economic model	
	c. partially correct	
	d. certainty	
	e. certain particulars	
Answer: C Diff: 2	65. When economists hold factors other than the one they are analyzing constant, they are demonstrating the principle of	
	a. circular flow analysis	
	b. consumer sovereignty	
	c. <i>ceteris paribus</i>	
	d. normative economics	
	e. scarcity modification	
Answer: D Diff: 4	66. Economists argue that when the price of a textbook rises, students reduce their quantity demanded of textbooks. This cause-and-effect relationship holds only under conditions of	
	a. moderate price increases	
	b. market flexibility	
	c. complete information	
	d. <i>ceteris paribus</i>	
	e. consumer sovereignty	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: E Diff: 2	67. A simple model used in your textbook to show how an economy works is the	
	a. renewable resources model	
	b. normative economic model	
	c. insatiable wants model	
	d. econometric model	
	e. circular flow model	
Answer: B Diff: 5	68. In the circular flow model, households provide all of the following resources to firms <i>except</i>	
	a. labor	
	b. money	
	c. capital	
	d. entrepreneurship	
	e. land	
Answer: D Diff: 3	69. In the circular flow model, for every flow of goods, services, and resources there is a counter-flow of	
	a. more goods, services, and resources	
	b. people from firms to households	
	c. people from households to firms	
	d. money	
	e. land, labor, capital, and entrepreneurship	
Answer: C Diff: 2	70. In what market are goods and services sold?	
	a. money market	
	b. household market	
	c. product market	
	d. resource market	
	e. consumer market	
Answer: A Diff: 3	71. Are we running out of natural resources?	
	a. No, because we may abandon the use of a particular resource before we exhaust its supply.	
	b. Yes, because some resources are nonrenewable.	
	c. Yes, because all resources are eventually nonrenewable.	
	d. Yes, because we live in a finite world.	
	e. No, because all resources are in infinite supply.	
Answer: D Diff: 4	72. According to the textbook, what was Adam and Eve's economy like?	
	a. primitive, because technology in the Garden of Eden was non-existent	
	b. wasteful, because Adam and Eve did not know how to use the abundant resources available	
	c. underemployed, because there were only two workers	
	d. there was no economy because there was no reason to economize	
	e. the same as ours because the law of scarcity is universal	
Answer: B Diff: 2	73. In the circular flow model, households derive income from all of the following categories <i>except</i>	
	a. wages earned by labor	
	b. revenue earned by firms	
	c. profit earned by entrepreneurs	
	d. rent earned by people providing land resources	
	e. interest earned by people providing capital resources	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: D Diff: 3	74. In the circular flow model, firms use the money they earn from selling their goods and services to pay for the	
	a. goods and services they buy on the product market	
	b. resources they buy on the product market	
	c. goods and services they buy on the resource market	
	d. resources they buy on the resource market	
	e. differences between the revenue they earn selling the goods and services and the costs involved in producing them	
Answer: E Diff: 3	75. The flows of money compared to the flow of resources, goods, and services in the circular flow model	
	a. occur only once, then they become stocks (as opposed to flows)	
	b. are equivalent when the number of households equals the number of firms	
	c. move in the same direction as long as payments equal revenue	
	d. always lag behind the flow of resources, goods, and services	
	e. move in the opposite direction	
Answer: C Diff: 5	76. An economy is associated with every society because	
	a. in every society there are workers and owners of firms	
	b. all people enjoy consuming goods	
	c. the law of scarcity is universal	
	d. the circular flow model applies to all societies	
	e. economy and society are synonymous	
Answer: A Diff: 4	77. Savings and investments in the circular flow model are	
	a. ignored	
	b. part of the firms' payments	
	c. equal to each other and therefore cancel out	
	d. generated by household earnings	
	e. part of the economy's money flows	
Answer: D Diff: 3	78. The one thing that all economic models have in common is the	
	a. emphasis on macroeconomics	
	b. attempt to explain market prices	
	c. analysis of what ought to be	
	d. use of abstraction	
	e. ability to describe economic realities exactly	
Answer: C Diff: 1	79. Economic analysis that focuses on the market behavior of firms and households is called	
	a. normative economics	
	b. positive economics	
	c. microeconomics	
	d. macroeconomics	
	e. econometrics	
Answer: A Diff: 1	80. Economic analysis that focuses on the economy as a whole is called	
	a. macroeconomics	
	b. microeconomics	
	c. positive economics	
	d. normative economics	
	e. macrometrics	
Answer: B Diff: 2	81. Microeconomics deals with the analysis of all of the following issues <i>except</i>	
	a. wage determination of carpenters	
	b. unemployment during the Great Depression	
	c. how Ford prices its cars	
	d. the decision a college student makes concerning his or her consumption	
	e. how monopoly and competitive markets differ	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: E Diff: 2	82. Macroeconomics deals with the analysis of all of the following questions <i>except</i>	
	a. Why do national economies grow?	
	b. What determines a nation's saving and investment?	
	c. How does a central bank influence inflation?	
	d. Why does a country experience recessions?	
	e. How does Microsoft price its software packages?	
Answer: A Diff: 2	83. Which of the following is a microeconomics topic?	
	a. the price of a new home	
	b. the inflation rate	
	c. the economy's growth rate	
	d. the unemployment rate	
	e. forecasts of recession	
Answer: C Diff: 2	84. Which of the following is a macroeconomics topic?	
	a. wages of textile workers in the Northeast	
	b. the cost of producing 10,000 bookcases	
	c. the economy's annual growth rate	
	d. market demand for fish	
	e. effects of farm subsidies on food prices	
Answer: C Diff: 1	85. Positive economics concerns	
	a. reflections of a country's values	
	b. judgments on the merit of an economic outcome	
	c. statements of fact concerning the economy	
	d. analysis of what ought to be	
	e. analysis of all good or positive market outcomes	
Answer: D Diff: 1	86. Normative economics concerns	
	a. analysis of social and economic norms	
	b. statements of fact	
	c. the analysis of what is	
	d. the study of what ought to be	
	e. value-free judgments	
Answer: A Diff: 4	87. Which of the following is an example of a positive economic statement?	
	a. The economy's output increased by 3 percent last year.	
	b. A central bank should not print more money because inflation will result.	
	c. Congress should stabilize the social security system by raising taxes now.	
	d. The economy should grow at 5 percent each year.	
	e. The government farm products surplus should be distributed to the needy.	
Answer: E Diff: 4	88. Which of the following is an example of a normative economic statement?	
	a. The inflation rate in the United States decreased 4 percent because the price of energy fell.	
	b. The economy grew at an annual rate of 5 percent during the first quarter of this year.	
	c. If two automobile companies merge, the price of automobiles will rise.	
	d. An increase in international trade benefits some workers but hurts others.	
	e. The minimum wage should be increased so that low-income workers can afford to keep up with the cost of living.	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: B Diff: 4	89. Suppose an economist advises the government to disallow a proposed merger between Wendy's and McDonald's because she thinks the fast-food industry ought to be as competitive as possible. This advice is an example of	
	<ul style="list-style-type: none"> a. positive economics b. normative economics c. market discrimination d. econometric analysis e. macroeconomic analysis 	
Answer: C Diff: 4	90. Suppose an economist uses an econometric model to estimate the demand for peanut butter in the United States. This modeling is an example of	
	<ul style="list-style-type: none"> a. economic policy making b. normative economics c. positive economics d. macroeconomic analysis e. descriptive economic analysis 	
Answer: A Diff: 2	91. Normative economics deals with _____ and positive economics deals with _____.	
	<ul style="list-style-type: none"> a. "what should be" topics or issues; "what is" topics or issues b. abstractions of reality; reality c. microeconomics; macroeconomics d. negative economic outcomes; positive economic outcomes e. changing economic conditions; unchanging economic conditions 	
Answer: C Diff: 1	92. Modern statistical methods have created a new branch of economics called	
	<ul style="list-style-type: none"> a. microeconomics b. macroeconomics c. econometrics d. abstract economics e. positive economics 	
Answer: E Diff: 3	93. Econometricians are economists who specialize in	
	<ul style="list-style-type: none"> a. descriptive or nontheoretical analysis b. economic behavioral characteristics of children's consumption c. the study of microeconomics d. the historical view of past economic problems e. quantitative economic research methods 	
Answer: D Diff: 3	94. The Added Perspective in the text refers to the success—or lack of success—of econometric computer models as an aid in economic forecasting. It argues that they have	
	<ul style="list-style-type: none"> a. sharpened forecasts to such an extent that they are almost 100 percent reliable b. eliminated all "errors and omissions" in forecasting models c. worsened the success to non-success ratio of economic forecasts d. led to better predictions but still cannot forecast major "turning points" e. not led to better predictions except in forecasting major "turning points" 	
Answer: D Diff: 1	95. Consumer sovereignty is the freedom to	
	<ul style="list-style-type: none"> a. start a business b. defend one's property against theft c. negotiate price in the market d. buy or not buy goods and services e. consume what one needs 	

- Answer: E
Diff: 2
96. Without which of the following would there be no economics?
 a. professors
 b. government
 c. money
 d. freedom
 e. scarcity
- Answer: D
Diff: 2
97. Without scarcity, people would not have to
 a. share
 b. collaborate
 c. disagree
 d. choose
 e. settle
- Answer: E
Diff: 2
98. Which of the following resources are nonrenewable?
 a. hay
 b. lumber
 c. labor
 d. fish
 e. minerals
- Answer: C
Diff: 1
99. Referring to discussion in an Added Perspective, Stanley Jevons warned in 1865 that England would quickly run out of
 a. lumber
 b. food
 c. coal
 d. oil
 e. clean water
- Answer: C
Diff: 2
100. Scarcity arises because of
 a. international trade disputes
 b. our unwillingness to share earth's bounty
 c. insatiable wants
 d. limited natural resources
 e. primitive technology
- Answer: B
Diff: 1
101. According to your textbook discussion, what best explains the decline in the importance and use of flint?
 a. the decline in tobacco consumption
 b. the adoption of new technologies
 c. the discovery of new copper resources
 d. the widespread use of matches
 e. the discovery of abundant oil resources
- Answer: E
Diff: 2
102. Scarcity forces us to
 a. limit our wants
 b. expand our resources
 c. produce more than we consume
 d. produce whatever we consume
 e. choose

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: A Diff: 5	103. Which of the following disciplines is <i>not</i> part of the social sciences? a. mathematics b. sociology c. anthropology d. psychology e. economics	
Answer: C Diff: 4	104. Economists exclude many interesting economic structures and activities from their models. What they focus on is a. the real world as they see it b. comparisons between the real world and their models c. understanding how their models work and the outcomes they generate d. the relationship between the physical economic reality and money e. the production of real goods and how they are traded	
Answer: A Diff: 4	105. <i>Ceteris paribus</i> refers to all of the following ideas <i>except</i> a. changing just one variable at a time b. holding everything else constant c. everything else being equal d. one-to-one cause and effect relationships e. in the absence of other influences	
Answer: E Diff: 2	106. The <i>circular flow model</i> is all of the following <i>except</i> a. an abstraction from reality b. a model of two markets c. a model of two agents d. a simple economic model e. designed to aid policy makers	
Answer: B Diff: 2	107. The circular flow model shows how _____ interact in markets. a. workers and firms b. firms and households c. firms and banks d. banks and households e. households and government	
Answer: D Diff: 4	108. In the circular flow model, the source of the factors of production used to create goods and services is the a. product market b. resource market c. firms d. households e. exchange market	
Answer: E Diff: 3	109. In the circular flow model, firms purchase in the a. money market and sell in the product market b. product market and sell in the resource market c. resource market and sell in the money market d. product market and sell in the product market e. resource market and sell in the product market	

- Answer: D
Diff: 3
110. Which of the following is *not* a factor of production?
 a. labor hours
 b. capital equipment
 c. acres of cultivatable land
 d. money
 e. physical plant or factory
- Answer: E
Diff: 3
111. According to your textbook, profit is a payment to
 a. capital in the resource market
 b. labor in the entrepreneurial market
 c. capital in the product market
 d. entrepreneurship in the product market
 e. entrepreneurship in the resource market
- Answer: A
Diff: 4
112. Which of the following factor payment matches is *not* correct?
 a. goods–payments for goods
 b. capital–interest
 c. labor–wage
 d. entrepreneurship–profit
 e. land–rent
- Answer: D
Diff: 3
113. A positive economic statement is
 a. something good or desirable
 b. a call for improvement
 c. a statement of opinion
 d. a statement of fact
 e. a suggestion for policy
- Answer: A
Diff: 2
114. Finite resources can be
 a. renewable or nonrenewable
 b. only nonrenewable
 c. only renewable
 d. neither renewable nor nonrenewable
 e. insatiable
- Answer: B
Diff: 3
115. Having insatiable wants is similar to saying that
 a. people should not be so greedy
 b. more is always better
 c. total satisfaction is obtainable
 d. resources are scarce
 e. limits are surmountable
- Answer: E
Diff: 2
116. We are forced to make choices because
 a. economies always operate inefficiently
 b. resources and desires are both infinite
 c. normative economics requires us to
 d. wants are satiable
 e. desires are insatiable and resources are finite

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: D Diff: 3	117. Economics is a study of how	
	a. people interact with each other in social situations	
	b. too many goods and services can make people unhappy	
	c. to make resources infinite	
	d. we allocate our resources to satisfy our wants	
	e. to satisfy all of our wants as a society	
Answer: D Diff: 4	118. What can we conclude about our future after reading Chapter 1?	
	a. We will use up more resources faster and scarcity will become increasingly more severe.	
	b. We will eventually run out of “things we want” causing scarcity to moderate.	
	c. We will eventually run out of “things we want” causing scarcity to disappear.	
	d. Resources will remain scarce and our wants unlimited so that scarcity will remain a fact of life.	
	e. Technology will fully substitute for scarce resources so that even though our wants are unlimited, we will eventually eliminate scarcity.	
Answer: E Diff: 3	119. Bob works for a firm that produces umbrellas. He receives payment for his labor. The firm wants to expand but lacks the capital needed for the expansion. Bob, a person of some means, provides the capital. What payment(s) does the firm now make to Bob?	
	a. rental payment for the loan of capital and wages for labor	
	b. wages for labor and profit for entrepreneurship in providing capital	
	c. interest for Bob’s entrepreneurship in providing capital	
	d. profit for Bob’s entrepreneurship in providing capital	
	e. wages for labor and interest payments for providing capital	
Answer: D Diff: 3	120. Bob works for a firm that produces umbrellas. He receives payment for his labor. The firm wants to expand but lacks the capital needed for the expansion. Bob, a person of some means, provides the capital. What market(s) are these payments made in?	
	a. illegal market	
	b. goods and services market	
	c. product market	
	d. resource market	
	e. umbrella market	
Answer: D Diff: 2	121. We will run out of renewable resources if we	
	a. do not ration them	
	b. consume them faster than nonrenewable resources	
	c. extract them faster than we consume them	
	d. consume them faster than they regenerate	
	e. continue to use them at any rate	
Answer: D Diff: 3	122. Households play what role(s) in the circular flow diagram?	
	a. purchasers of factors of production and sellers of services	
	b. purchasers of factors of production and sellers of goods	
	c. purchasers of goods and services only	
	d. purchasers of goods and services and sellers of factors of production	
	e. purchasers of factors of production only	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: C Diff: 5	123. Suppose we insert \$1 in the circular flow economy. If the \$1 moves around in the same direction, which answer represents a possible sequence of items purchased or rented?	
	a. land, labor, capital, entrepreneurship	
	b. land, services, labor, capital	
	c. goods, labor, services, capital	
	d. goods, labor, capital, services	
	e. labor, capital, labor, rent	
Answer: D Diff: 3	124. Which of the following is a macroeconomic subject?	
	a. umbrellas produced by a firm	
	b. wages earned by a firm producing umbrellas	
	c. cost of producing military aircraft	
	d. savings in the national economy	
	e. profit earned by a firm producing military aircraft	
Answer: D Diff: 3	125. Which of the following is a macroeconomic subject?	
	a. international shipping rates	
	b. price of French wine	
	c. price of Japanese cars	
	d. the rate of growth in the Canadian economy	
	e. home mortgage rates in Brazil	
Answer: D Diff: 3	126. The circular flow model ignores a host of major economic institutions and activities. Focusing on only one basic fact about how the economy works is the model's	
	a. way of getting around the <i>ceteris paribus</i> assumption	
	b. disadvantage because it distorts reality	
	c. flaw because there is no one single fact about an economy	
	d. strength in providing some understanding about how the economy works	
	e. effectiveness in creating policy recommendations	
Answer: C Diff: 4	127. Which of the following is missing from the circular flow model depicted in the textbook?	
	a. businesses	
	b. factors of production	
	c. banks	
	d. what households spend their money on	
	e. goods and services	
Answer: C Diff: 5	128. According to the circular flow model, which statement is true?	
	a. Households with income from land and capital are wealthier than households with income only from labor.	
	b. An entrepreneur who earns a wage must have at least two jobs.	
	c. A household that owns no land or capital can earn only wages and/or profit.	
	d. All services are produced by entrepreneurs.	
	e. Some workers are only paid in interest and profit.	
Answer: C Diff: 3	129. Which of the following signals a normative economic statement?	
	a. is	
	b. has been shown to be	
	c. should be	
	d. can be	
	e. is more than	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: E Diff: 4	130. Which of the following signals a positive economic statement? a. value judgment b. should be c. opinion d. ought to be e. was	
Answer: D Diff: 4	131. Economists use ____ economics to understand how the economy works. They use ____ economics to choose from among several economic policies. a. statistical; circular flow b. macro; micro c. micro; macro d. positive; normative e. normative; positive	
Answer: C Diff: 4	132. A front-page story in the <i>New York Times</i> carries the headline “War on Drugs Continues: 200 More Arrested.” On the editorial page, an opinion piece on the subject is titled “Do We Really Need the War on Drugs?” The opinion piece is more likely than the front-page story to a. have macroeconomic content b. be fact-finding c. contain normative statements d. contain positive statements e. be less a matter of debate	
Answer: A Diff: 2	133. The textbook makes the analogy: economic forecasting is a lot like a. meteorology b. casino gambling c. groping in the dark d. experimental physics e. mathematics	
Answer: A Diff: 3	134. Econometrics is the use of statistics to ____ economic models. a. quantify and test b. try to disprove c. avoid the use of d. create e. simulate	
Answer: D Diff: 4	135. Economists say that since wants are unlimited and the earth contains a finite quantity of resources that people keep using, a. we will run out of resources b. consumers will lose sovereignty c. the circular flow model will eventually shrink d. scarcity will always be a fact of economic life e. the <i>ceteris paribus</i> assumption becomes more universal	
Answer: C Diff: 2	136. The economic view of the consumer as king is reflected most appropriately by the expression a. <i>ceteris paribus</i> b. <i>post hoc, ergo propter hoc</i> c. consumer sovereignty d. <i>ipso facto</i> e. les misérables	

Chapter 1	Chapter 1	Chapter 1
Comprehensive	Micro	Macro
Answer: B Diff: 2	137. Simplicity and fruitfulness are virtues when it comes to judging	
	a. normative economics	
	b. economic models	
	c. positive economics	
	d. consumer sovereignty	
	e. market performance	
Answer: D Diff: 1	138. The circular flow model is an abstract representation of the interaction between households and firms through the institutions of	
	a. government and financing outlets	
	b. church and state	
	c. property and law	
	d. resource and product markets	
	e. trade and conflict	
Answer: E Diff: 2	139. Of the following items, which is least likely to be discussed by a teacher of macroeconomics?	
	a. the national employment	
	b. the business cycles	
	c. our unemployment policy	
	d. national income accounting	
	e. a firm's profit	
Answer: B Diff: 2	140. The combined use of statistics, economic theory, mathematics, and "real world" data is referred to as	
	a. microeconomics	
	b. econometrics	
	c. macroeconomics	
	d. positive economics	
	e. normative economics	
Answer: A Diff: 1	141. "The alarm went off, the sun rose, and I had to make a choice; microeconomics class or sleep longer." The scarce resource in this case is	
	a. time	
	b. logical ability	
	c. textbooks	
	d. alarm clocks	
	e. sunshine	
Answer: B Diff: 1	142. Which of the following is not a renewable resource?	
	a. salmon	
	b. coal	
	c. oak trees	
	d. cattle	
	e. solar energy	
Answer: B Diff: 2	143. Over coffee in the cafeteria Susan stated that the university should be run like a profit-seeking corporation. Sam correctly pointed out that she had made a _____ statement, as Professor McSnerd had described in their economics class.	
	a. <i>ceteris paribus</i> conjunctive	
	b. normative	
	c. macroeconomic	
	d. positive	
	e. microeconomic	

ESSAY

1. Helium balloons are fun. You can buy a 10-balloon bouquet for \$5. But the helium resource supply is limited. Should we be using this scarce resource to produce helium balloons, or should we conserve it for more important uses?
 - a. Make the argument in favor of helium conservation.
 - b. Make the argument against helium conservation.

SOLUTION:

- a. Pro: We may need the helium in the future because there are no alternatives; or because an important, though currently unforeseen, use for it may develop.
 - b. Con: Although helium seems to be a nonrenewable resource, we don't know what the demand for helium will be in the future. If we don't use it now, we may end up with a lot of unused, useless helium in the future.
2.
 - a. What is the difference between macroeconomics and microeconomics?
 - b. Give an example of a question asked in macroeconomics.
 - c. Give an example of a question asked in microeconomics.

SOLUTION:

- a. Microeconomics analyzes the behavior of individual households and firms while macroeconomics analyzes the behavior of the economy as a whole.
 - b. Answers will vary.
 - c. Answers will vary.
3. Explain why economists use models to describe economic behavior.

SOLUTION:

Economic models are abstractions of the real world that allow us to focus on basic economic relationships without being distracted by too much information.

4. One of the most important assumptions that economists make is *ceteris paribus*. Explain why this assumption is so important.

SOLUTION:

This assumption allows economists to develop one-to-one, cause-and-effect relationships in isolation from other potentially influential factors. It allows them to build useful models of the economy.

5. Read the following conversation and explain who made normative economic statements and who made positive economic statements.

Avery: My tax bill is too high!

Brian: Mine is, too. The government should cut taxes.

Carla: Cutting taxes will generate a bigger budget deficit.

Dan: If the government cuts taxes, then the economy will overheat and there will be inflation.

Eric: Inflation is bad.

Fred: Inflation means that goods will be more expensive.

Gary: If the government matches a tax cut with spending cuts, then the size of the deficit will not change.

SOLUTION:

Avery, Brian, and Eric made normative economic statements, because their statements are founded on value judgments. Carla, Dan, Fred, and Gary made positive economic statements, because their statements reflect causal relationships.

6. Draw a circular flow model depicting both the payments received by your household and the goods and services you buy.

SOLUTION:

Answers will vary, although they should all show an income source (a resource market of some sort, or mom and dad, or a spouse) and a product market of some sort. The student should be shown receiving income, goods, and services, and spending money and perhaps working or supplying something to the income source.

7. How do you satisfy insatiable wants in today's world?

SOLUTION:

You can't. The best you can do is to choose between alternatives.

8. Identify the following as topics for microeconomics or topics for macroeconomics, and explain your answers.
- How will the population growth rate affect the economy's growth rate?
 - Should Jimmy O'Bryant, owner of O'Bryant's Heating and Cooling, charge his customers higher rates for Lennox air conditioners, in response to higher wholesale costs for these units?
 - Should Russ Smith reduce the number of hours he works because his wife's income increased?
 - Can Mandy Oliver's employer cut sick leave costs by opening an on-site day care center?
 - Will cutting income tax rates stimulate consumer spending?
 - Will welfare reform cut the unemployment rate?
 - Will Ginny Goldsmith choose to major in information systems or accounting?
 - Will the economic crisis in Thailand affect workers in America?

SOLUTION:

The macro topics are A, E, F, and H because they deal with issues that affect the whole economy. B, C, D, and G are micro topics because they concern one household or one firm.

9. Explain the statement "resources are not, they become."

SOLUTION:

A resource is something which is useful and valuable in the condition in which we find it. Over time things that were not considered resources become resources due to changing human knowledge and needs. Other things become less useful as we need them for fewer purposes; for example, flint is no longer needed for making fires.