Economics Today 21st edition Miller Test Bank

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***Economics Today, 21e* (Miller)**
Chapter 1 The Nature of Economics

1.1 The Power of Economic Analysis

1) The economic way of thinking will help you
A) make decisions in financing your home.
B) analyze solutions to economic problems.
C) make better decisions concerning your education.
D) all of these
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) Economic analysis is used
A) only by instructors and students in economics to understand the world.
B) only by business people to raise profits.
C) only by policy makers to make policy decisions.
D) in decision making.
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
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3) Economic analysis is a tool that
A) aids decision making.
B) helps us understand why people make mistakes.
C) helps us forgive selfish people.
D) makes everyone rich.
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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4) Economics is best defined as the
A) study of how people make choices to satisfy their wants.
B) study of individual self-interests.
C) study of why people do not react to incentives.
D) process by which goods are sold in free markets.
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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5) Economics can be described as the study of how people use _____ resources to satisfy _____ wants.
A) unlimited; unlimited
B) unlimited; limited
C) limited; unlimited
D) limited; limited
Answer: C
Diff: 1
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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6) Which statement most accurately describes economics?
A) Economics is the study of how people make money.
B) Economics is the study of how people make choices to satisfy their wants.
C) Economics is the study of social values a society should choose.
D) Economics is the study of how to eliminate scarcity.
Answer: B
Diff: 1
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7) In economic analysis, people's resources are
A) limited and their wants are unlimited.
B) unlimited and their wants are also unlimited.
C) limited and their wants are also limited.
D) unlimited and their wants are limited.
Answer: A
Diff: 1
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8) In economics, items that are used to produce goods and services are known as
A) wants.
B) needs.
C) outputs.
D) resources.
Answer: D
Diff: 1
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9) In economics, all the items that people would consume if they had unlimited income are known as
A) wants.
B) aggregates.
C) outputs.
D) needs.
Answer: A
Diff: 1
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10) In economics, _____ are limited but _____ are unlimited.
A) wants; resources
B) resources; wants
C) money; ideas
D) ideas; money
Answer: B
Diff: 1
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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11) Economics is the study of how
A) people become selfish.
B) preferences are determined.
C) psychology influences preferences.
D) people make choices.
Answer: D
Diff: 1
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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12) A fundamental aspect of economics is to
A) ensure that every firm makes a profit.
B) analyze how choices are made.
C) satisfy all our wants.
D) make sure that we always have sufficient resources.
Answer: B
Diff: 1
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13) Economics is the study of
A) how to get rich.
B) how people allocate their limited resources to satisfy their unlimited wants.
C) how people spend their income.
D) why people want certain goods and services rather than other goods and services.
Answer: B
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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14) Economics is the study of
A) nonhuman phenomena.
B) the determinants of preferences.
C) scarce resources and unlimited wants.
D) the physical sciences.
Answer: C
Diff: 1
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15) Economics deals with
A) how to profit from the stock market.
B) how to satisfy limited human wants.
C) how society allocates unlimited resources.
D) how individuals allocate scarce resources to satisfy unlimited human wants.
Answer: D
Diff: 1
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16) Economics is the study of
A) how to own as many resources as possible.
B) *ceteris paribus*.
C) the way people think rather than the way they act.
D) how people allocate their limited resources to satisfy their unlimited wants.
Answer: D
Diff: 1
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17) Economic resources are
A) all the items that people would purchase if they had limited wants.
B) all the unlimited items that people would purchase with limited income.
C) items of value that are used to make other things that satisfy people's wants.
D) the total planned expenditures throughout the nation.
Answer: C
Diff: 1
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18) Economics deals with choices
A) that involve the wants of individuals.
B) that involve what people only need to survive.
C) that people make without self-motivated interest.
D) that people normally do not make.
Answer: A
Diff: 1
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19) Economics is a social science that involves the study of how individuals
A) develop their tastes and preferences.
B) develop their goals and objectives in life.
C) pursue happiness.
D) choose among alternatives to satisfy their unlimited wants.
Answer: D
Diff: 1
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20) Economics is a part of the
A) social sciences.
B) natural sciences.
C) biological sciences.
D) hard sciences.
Answer: A
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21) Wants are
A) another term for needs.
B) the things people would consume if they had unlimited incomes.
C) the things people consume with their income.
D) all the things people really need in order to live comfortably.
Answer: B
Diff: 1
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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22) The primary purpose of economics is to understand how people make
A) money.
B) mistakes.
C) choices.
D) a comfortable living.
Answer: C
Diff: 1
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23) The primary objective of economics is
A) to learn how to create more resources.
B) to study how people make choices with limited resources.
C) to learn how to make the most profits with a given amount of resources.
D) to study why some people are never happy with the resources they have.
Answer: B
Diff: 1
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24) The basic economic problem is a situation of
A) limited resources and unlimited wants.
B) both limited resources and limited wants.
C) limited incomes and unlimited choices.
D) unlimited incomes and limited choices.
Answer: A
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25) Economics is the study of how people make
A) subjective judgments.
B) life easy.
C) money.
D) choices.
Answer: D
Diff: 1
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26) Economics is a
A) hard science.
B) physical science.
C) natural science.
D) social science.
Answer: D
Diff: 1
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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27) Economics is a study of
A) how to make money in the stock market.
B) how to run a business successfully.
C) the allocation of scarce resources.
D) personal finance.
Answer: C
Diff: 1
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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28) Economics is the study of
A) the allocation of scarce resources to satisfy unlimited wants.
B) why some people want certain goods and services.
C) earning the most income.
D) ways to use fewer resources.
Answer: A
Diff: 1
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29) Resources are
A) unlimited.
B) able to be replicated in large quantities.
C) what people would buy if their income was unlimited.
D) used to produce goods and services to satisfy people's wants.
Answer: D
Diff: 1
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30) _____ are the things that are used to produce items that satisfy people's wants.
A) Concepts
B) Production possibilities curves
C) Resources
D) Costs
Answer: C
Diff: 2
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31) Economics is most precisely defined as
A) a study of what people need to survive.
B) a study of how culture evolves in different geographic areas.
C) the same as the study of finance and management.
D) the study of how people make choices.
Answer: D
Diff: 1
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32) Economics
A) is a social science.
B) is concerned with limited resources.
C) is concerned with unlimited wants.
D) all of these are correct.
Answer: D
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33) Which of the following is NOT a focus of the study of economics?
A) how individual preferences are formed
B) unemployment
C) inflation
D) prices in particular markets
Answer: A
Diff: 1
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34) Because resources are scarce relative to wants, the study of economics concerns
A) how money is important to people.
B) how individuals, businesses, and governments make choices.
C) how money is used to buy what people want.
D) None of these are correct.
Answer: B
Diff: 2
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35) In economics
A) both resources and wants are limited.
B) both resources and wants are unlimited.
C) resources are limited but wants are unlimited.
D) resources are unlimited but wants are limited.
Answer: C
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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36) Which of the following is a characteristic of economics?
A) allocation of limited resources in an effort to satisfy potentially unlimited wants
B) the focus on how people behave not in their own self-interest
C) the way society deals with people's needs
D) all of these
Answer: A
Diff: 2
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37) Microeconomics is defined as that part of economic analysis that
A) studies the behavior of the economy as a whole.
B) includes the problems of inflation and unemployment.
C) studies individual decision making by households and firms.
D) concerns aggregate production and consumption.
Answer: C
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

38) Macroeconomics is the study of
A) aggregate economic variables.
B) output in particular industries.
C) how individuals make important decisions.
D) all of these.
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

39) Microeconomics is the study of
A) the behavior of the economy as a whole.
B) a nation from the perspective of the whole world.
C) how individuals and firms make decisions.
D) the effect that money has in the economic system.
Answer: C
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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40) Macroeconomics is best defined by which of the following statements?
A) Macroeconomics is the study of how firms attempt to maximize profits.
B) Macroeconomics is the study of the behavior of the economy as a whole.
C) Macroeconomics is the study of individual households.
D) Macroeconomics is the study of how the prices of individual goods are determined.
Answer: B
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
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41) Macroeconomics deals with _____ while microeconomics deals with _____.
A) choices important to people; choices not important to people
B) economy-wide choices; choices of individuals
C) choices that involve money; choices that does not involve money
D) choices of rich people; choices of poor people
Answer: B
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

42) Macroeconomics deals with
A) aggregates within the economy.
B) specific sectors within the economy.
C) only large households in a country.
D) decisions made by firms.
Answer: A
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

43) Which of the following would most likely NOT be taught in a microeconomics course?
A) changes in prices of automobiles
B) the effects of a gas tax on gas purchases
C) the effect of an increase in wheat prices on farmers' behavior
D) changes in unemployment across the nation
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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44) Which of the following would most likely NOT be taught in a macroeconomics course?
A) price changes in the world's oil markets
B) factors leading to different economic growth rates among countries
C) government actions in response to a slowdown in the economy
D) the relationship between the inflation rate and the unemployment rate
Answer: A
Diff: 1
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Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
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45) A macroeconomist would study
A) the price changes of smart phones.
B) the cost problems at several airlines.
C) the economy's total income level.
D) none of these
Answer: C
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

46) A microeconomist would study all of the following issues EXCEPT
A) the impact of a change in consumer income on the sales of corn.
B) the impact of a snowstorm on the sales of snow shovels.
C) the most efficient means for General Motors to produce an automobile.
D) the effect of a change in income taxes on the nation's rate of unemployment.
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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47) A macroeconomist would most likely study
A) the effects of changing grape prices on the market for oranges.
B) the effects of an increase in wage rates on a woman's decision to enter the labor force.
C) the effects of a lower income tax rates on the nation's total production of goods and services.
D) the effect of increased union wages on the cost of producing automobiles.
Answer: C
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

48) The impact of higher taxes would be examined by
A) a microeconomist.
B) a macroeconomist.
C) both a macroeconomist and a microeconomist.
D) neither a macroeconomist nor a microeconomist.
Answer: C
Diff: 2
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49) One topic of study for a microeconomist would be the
A) causes of inflation.
B) causes of a nation's unemployment level.
C) effects of a gasoline price increase on consumer behavior.
D) effects of an increase in government spending on overall economic activity.
Answer: C
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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50) A friend wants to learn how a nation's unemployment rate is calculated and how it changes over time. He asks you which economics course to take and you advise him to enroll in
A) macroeconomics.
B) microeconomics.
C) either micro- or macroeconomics. They both concentrate equally on those issues.
D) political science because economics doesn't address those topics in its courses.
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

51) Which of the following would likely be studied in a macroeconomics course?
A) the unemployment rate
B) total output in an economy
C) the inflation rate
D) all of these
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
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52) Macroeconomics is concerned with
A) individual consumers.
B) government decision making concerning farm price supports.
C) aggregates.
D) the effects on a corporation of a strike by the United Auto Workers.
Answer: C
Diff: 1
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53) Macroeconomics often relies on microeconomic analysis because
A) microeconomics is older than macroeconomics.
B) microeconomic theory can be tested and macroeconomic theory cannot be tested.
C) all aggregates are made up of individuals and firms.
D) the effects of macroeconomic subjects such as inflation and unemployment are independent of individual consumers and firms.
Answer: C
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

54) Microeconomics is concerned with studying which of the following?
A) the determinants of national unemployment
B) the effects of monetary policy
C) the study of a nation's workforce
D) none of these
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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55) Microeconomics is concerned with the study of
A) the effects of inflation.
B) the effects of government spending.
C) the effects on individual producers of higher wages paid to workers.
D) aggregates.
Answer: C
Diff: 2
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56) Microeconomics focuses on
A) individual decision makers.
B) decisions only on small expenses.
C) small changes in an economy.
D) satisfying the specific needs of a community.
Answer: A
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57) Macroeconomics is concerned with
A) individual business firms.
B) specific markets.
C) individual consumers.
D) a nation's economy.
Answer: D
Diff: 1
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Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
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58) Microeconomics examines the
A) total household expenditures.
B) behavior of the economy as a whole.
C) aggregate business spending.
D) decision making undertaken by individual households.
Answer: D
Diff: 1
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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59) Macroeconomics is concerned with studying the
A) behavior of individual decision makers.
B) performance of the economy as a whole.
C) prices of specific companies' stocks.
D) wants of individual consumers.
Answer: B
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

60) Macroeconomics would be concerned with
A) implications of changes in unemployment and inflation.
B) the effects on individual consumers of changes in the price of gasoline for a business.
C) the effects of a tax on beer.
D) the effects of wage increases on steel manufacturers.
Answer: A
Diff: 2
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61) The study of an individual's choice about what type of computer to buy is a subject of
A) macroeconomics.
B) microeconomics.
C) an aggregate concept.
D) not a concern for economic analysis.
Answer: B
Diff: 2
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62) The study of the aggregate economic variables is
A) macroeconomics.
B) microeconomics.
C) positive economics.
D) normative economics.
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

63) In economics, the word "aggregate" refers to
A) the government.
B) how individual households differ from each other.
C) the public sector itself.
D) an economy as a whole.
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

64) The distinction between microeconomics and macroeconomics is
A) clearly drawn, and there is no overlap between them.
B) determined by economists in a clear and concise manner.
C) narrowly drawn, and microeconomic analysis often relies on macroeconomic tools.
D) often blurred because aggregates are made up of individuals and firms.
Answer: D
Diff: 2
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65) Modern economists are increasingly using microeconomic analysis in macroeconomics because
A) microeconomic theory is more scientific.
B) aggregate outcomes stem from decisions made by individuals, business firms and government.
C) macroeconomic subjects such as inflation affect all individuals.
D) macroeconomics is older and more outdated.
Answer: B
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

66) Which of the following is NOT studied in microeconomics?
A) the effect of an increase in gasoline taxes on the purchase of gasoline
B) the impact of government spending on the unemployment rate
C) the impact of firms' hiring choices on their employees' wages
D) the impact of higher fuel prices on the cost of airline tickets
Answer: B
Diff: 2
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67) All of the following are examples of macroeconomic problems EXCEPT
A) inflationary pressures caused by an increase in the cost of petroleum.
B) unemployment caused by a fall off in the level of residential construction.
C) a decline in the rate of overall economic growth.
D) consumers deciding to buy more fish and less beef because of concerns about a healthier diet.
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
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68) Macroeconomics is concerned primarily with
A) large firms or multinational corporations.
B) production and prices in particular markets.
C) aggregate economic variables.
D) normative issues.
Answer: C
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69) Microeconomics studies
A) decisions made by individual consumers and firms.
B) the changes in economic theory brought about by changes in the nationwide economy.
C) how changes in the nation's birth rate affect its labor force.
D) how changes in the money supply affect how much households consume.
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

70) Which of the following terms identifies something that macroeconomists would study but that microeconomists would NOT?
A) incentives
B) resources
C) rationality
D) aggregates
Answer: D
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

71) Which of the following would likely be considered as a topic of microeconomics?
A) a nation's unemployment rate
B) Gross Domestic Product
C) the price of apples
D) the effects of fiscal policy on the economy
Answer: C
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

72) Macroeconomics might study which of the following?
A) the causes of domestic unemployment
B) decision making undertaken by firms
C) decision making undertaken by households
D) determinants of the prices of rare goods (e.g., diamonds)
Answer: A
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

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73) Which of the following is NOT a characteristic or focus of microeconomics?
A) individual consumers
B) analysis of aggregate economic variables
C) firm behavior
D) individual markets
Answer: B
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

74) Which of the following is a microeconomic concern?
A) the rate of economic growth in a small nation of Cuba
B) the current unemployment rate in the United Kingdom
C) consumer behavior in the smartphone market
D) national output of Canada
Answer: C
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

75) Which of the following is a macroeconomic concern?
A) the unemployment rate in a specific industry
B) the national output of the United States
C) wage levels in specific industries
D) the operation of an individual firm
Answer: B
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

76) The study of how a particular firm might choose to maximize its profits would fall into what type of analysis?
A) macroeconomics
B) microeconomics
C) political economics
D) aggregate economics
Answer: B
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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77) What type of economics would most typically deal with *aggregates*?
A) macroeconomics
B) microeconomics
C) normative economics
D) financial economics
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

78) Which of the following is a microeconomic topic?
A) the increase in the amount of imports from China to the United States
B) the rate at which the cost of living has increased in Canada
C) the marketing strategy of Apple Computer company
D) the increase in the employment level of the United States in the past year
Answer: C
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

79) Which of the following topics is a macroeconomic subject?
A) a proposed merger between two companies
B) the level of sales at a particular department store
C) increases in the overall price level of a nation
D) the pricing decision of a firm
Answer: C
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

80) Which of the following is an aggregate?
A) the number of shoes in one man's closet
B) the bushels of apples one farmer sells
C) the price of a particular textbook
D) the total production of all goods and services
Answer: D
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

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81) All of the following are aspects of microeconomics EXCEPT
A) monopolies.
B) a firm maximizing profit.
C) a worker choosing one job over another.
D) the average level of prices of all goods and services produced in a country in a year.
Answer: D
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

82) The impact of an increase in the gasoline tax on sales of electric vehicles is
A) a macroeconomics topic because it deals with taxes.
B) a microeconomics topic because it deals with one industry.
C) not an economic issue, but rather a political issue.
D) a normative issue and so it is not an economic topic.
Answer: B
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

83) Which of the following would most likely be part of the study of microeconomics?
A) how General Motors makes decisions regarding its production goals
B) national income
C) the total economic output of our domestic economy
D) overall price stability in the United States
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

84) All of the following are aspects of macroeconomics EXCEPT
A) the U.S. unemployment rate.
B) the production decisions of a pharmaceutical firm.
C) the budget deficit of the United States.
D) foreign trade.
Answer: B
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

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85) Individual decision making by consumers and producers is the focus of
A) macroeconomics.
B) microeconomics.
C) aggregate measures.
D) any economic model.
Answer: B
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

86) Aggregate measures are
A) anything to do with economics.
B) a total measure of a variable in the economy.
C) used only by policymakers but not by firms.
D) determined by the government.
Answer: B
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

87) Microeconomics is the study of
A) aggregate measures of the economy.
B) economic issues for an entire region.
C) federal budget details.
D) individual decision making.
Answer: D
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

88) An example of a microeconomic decision is a situation in which
A) a central bank considers how much to increase the money supply during the coming month in an effort to constrain the rate of inflation.
B) Congress and the president seek to reach a compromise on how much to increase government spending in an effort to influence national expenditures.
C) a firm evaluates how much to reduce the price of its product in an effort to influence sales and boost its profits.
D) a government contemplates buying foreign currencies in an effort to influence exchange rates and the country's demand for goods and services.
Answer: C
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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89) Artificial intelligence (AI) technologies
A) produce large volumes of data that make decision making more complicated.
B) free businesses, governments, and consumers from making decisions.
C) often reveal economic relationships that do not actually exist.
D) can enable individuals to make more informed decisions.
Answer: D
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

90) An example of artificial intelligence (AI) technologies is
A) machine learning.
B) bounded rationality.
C) economic theory formation.
D) a false reality technique.
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

91) When a company applies data-analytics techniques to large amounts of information on product prices, quality features and quantities sold, the company is dealing with
A) microeconomic issues.
B) macroeconomic issues.
C) non-economic issues.
D) aggregate economic issues.
Answer: A
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

92) What is the economic way of thinking, and why is it important?
Answer: The economic way of thinking provides a framework for analyzing solutions to economic problems. Since economic problems confront all of us much of the time, knowledge of economics will enable us to arrive at better decisions, and enable us to evaluate many public policy questions in a systematic manner.
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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93) What is economics and what does it try to explain?
Answer: Economics is the study of how people allocate their limited resources in an attempt to satisfy their unlimited wants. Therefore, it is the study of how people make choices. Economics tries to explain real-world behavior, especially as it relates to interactions of people confronting limited resources.
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

94) Explain the study of economics.
Answer: Economics is the study of how people allocate their limited resources in an attempt to satisfy their unlimited wants. Because of this contrast between limited resources and unlimited wants, economics is the study of how people make choices.
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

95) Is inflation a macroeconomic or a microeconomic question? Why?
Answer: Inflation is a macroeconomic question because it deals with an economy-wide phenomenon. The price increase of a specific product, such as gasoline, would be a microeconomic matter. Since inflation deals with prices in the economy as a whole, it is a macroeconomic concern.
Diff: 2
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

96) Distinguish between macroeconomics and microeconomics.
Answer: Macroeconomics is concerned with the behavior of the economy as a whole, while microeconomics is concerned with the choices of individual decision-makers, such as households and firms. Macroeconomics deals with aggregates, such as the total output of the economy or unemployment, while microeconomics deals with how many hours a person chooses to work or how many people a firm decides to hire.
Diff: 1
Topic: 1.1 The Power of Economic Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers

1) An economic system is
A) the universe of all resources.
B) a way to create new resources.
C) a mechanism to allocate scarce resources.
D) an organization that generates profits.
Answer: C
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

2) The way that a society allocates resources to satisfy human wants is called
A) an economic system.
B) an assumption.
C) realism.
D) ceteris paribus.
Answer: A
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

3) The questions that an economic system attempts to solve include
A) what to produce.
B) how to produce items.
C) for whom items are produced.
D) all of these.
Answer: D
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

4) Which of the following is NOT one of the basic questions that an economic system attempts to answer?
A) How to identify what people need?
B) What to produce?
C) How will goods and services be produced?
D) For whom will goods and services be produced?
Answer: A
Diff: 2
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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5) What is the type of economic system that relies on one central authority to make economic decisions?
A) free market
B) price system
C) command and control
D) mixed economic system
Answer: C
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

6) What is the type of economic system that answers the basic economic questions through a decentralized decision making process?
A) market system
B) dictatorship
C) command and control
D) mixed economic system
Answer: A
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

7) Central planning is a key characteristic of which economic system?
A) free market
B) price system
C) command and control
D) mixed economic system
Answer: C
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

8) Under a pure price system, the decision of resource allocation is made by
A) the head of the government.
B) those who have the right to vote in government elections.
C) individuals who own the resources.
D) no one.
Answer: C
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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9) In a market system, the what, how and for whom questions in economics are determined by
A) those who are not in the market.
B) buyers and sellers together.
C) the central authority.
D) no one.
Answer: B
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

10) Prices provide signals about resource allocation to all individuals in a _____ system.
A) market
B) command and control
C) central planning
D) political
Answer: A
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

11) In a market system, _____ provide signals about whether resources are relatively scarce or abundant.
A) prices
B) buyers alone
C) government officials
D) scientists
Answer: A
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

12) The United States is best known as a
A) pure market system.
B) dictatorship.
C) command and control system.
D) mixed economic system.
Answer: D
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

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13) A mixed economic system is best described as an economy with a mix of
A) state and federal governments.
B) domestic and foreign firms.
C) free markets and government control.
D) for-profit organizations and not-for-profit organizations.
Answer: C
Diff: 1
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

14) Distinguish between a command and control economic system and a price system.
Answer: In a command and control economic system, economic decisions about resource allocation are made by a central authority, such as a central government or a king or queen. Under command and control, this central authority decides what items will be produced, how will the items be produced, and who will obtain those items. In a price or market system, the what, how and for whom issues are determined via decentralized decision making among buyers and sellers in the market.
Diff: 2
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

15) Describe the signaling aspect of the price system regarding the three basic economic questions.
Answer: In the price system, prices provide information to individual buyers and sellers about what and how many items should be produced, how production of items should be organized, and who will choose to buy the produced items. Prices basically serve as signals to everyone within the system about which resources are relatively scarce and which are relatively abundant.
Diff: 2
Topic: 1.2 The Three Basic Economic Questions and Two Opposing Sets of Answers
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

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1.3 The Economic Approach: Systematic Decisions

1) In his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, economist Adam Smith argued that individuals
A) always tend to act in an altruistic manner.
B) always consider the impact of their actions on the welfare of others.
C) are motivated by self-interest.
D) are never rational.
Answer: C
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) Economists assume that people are motivated by
A) benevolence.
B) altruism.
C) greed.
D) rational self-interest.
Answer: D
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) One major assumption of economics is that people
A) act as if they systematically pursue self-interest.
B) behave randomly without any predictable pattern.
C) are sometimes rational and sometimes irrational.
D) always pursue the interests of others.
Answer: A
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) If people act as if they systematically pursue their own self-interest, then they will most likely
A) respond irrationally to any incentive.
B) respond to a given incentive in a random manner.
C) respond predictably to a given incentive.
D) not respond to any incentive.
Answer: C
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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5) When studying individuals' economic behavior, economists assume that
A) individuals understand the rationale for all their actions.
B) individuals act as if they were rational.
C) only educated people act as if they were rational.
D) self-interest is of limited relevance in predicting an individual's actions.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) The assumption that people do NOT intentionally make decisions that would leave them worse off is known as
A) the rationality assumption.
B) the false assumption.
C) the *ceteris paribus* assumption.
D) the normative assumption.
Answer: A
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) When the text refers to rational self-interest, it means
A) your looking out for what is best for you as an individual.
B) your focus on your own contributions to society.
C) behavior that makes society better off.
D) behavior that hurts other people.
Answer: A
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) In economics, the concept that individuals are motivated by self-interest and respond predictably to opportunities is known as
A) rational behavior.
B) altruism.
C) normative bias.
D) empiricism.
Answer: A
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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9) Economists assume people behave rationally, which means that people
A) never make a mistake.
B) do not intentionally make decisions that make themselves worse off.
C) have the necessary information to always make correct decisions.
D) always understand the consequences of their decisions.
Answer: B
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) Sara looks into her closet and discovers a pair of like-new shoes she no longer wears because they are out of fashion. From the economist's perspective, was Sara behaving rationally when she bought those shoes?
A) No. If any of a person's decisions have poor results, that person is irrational.
B) Yes, Sara didn't buy those shoes when they were out of fashion.
C) No. The rationality assumption states that rational people never make mistakes.
D) It's not clear because psychology, not economics, deals with the rationality assumption.
Answer: B
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) Do economists analyze people's thought processes or do they look at what people actually do?
A) Economists focus only on people's thought processes.
B) Economists focus on what people do, not their thought processes.
C) An economist's focus is about half-and-half between actions and thought processes.
D) Macroeconomists focus on thought processes while microeconomists focus on actions.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

12) When people donate money to a charity, they behave
A) rationally if the act gives them satisfaction.
B) irrationally because the act does not benefit anyone.
C) in an unpredictable manner because the act involves bounded rationality.
D) in a way that only makes themselves worse off.
Answer: A
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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13) The potential rewards that are available to an individual if a particular activity is undertaken are known as
A) greed.
B) irrational thought processes.
C) incentives.
D) intrinsic values.
Answer: C
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

14) Father says, "Earn an A on your next report card and I'll help you buy a car." An economist would say that this parent is providing his child a(n)
A) study disincentive.
B) reason to slack off and not worry about her grades.
C) bribe.
D) incentive.
Answer: D
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

15) Some pet owners are using an "invisible fence" to keep their animals from straying. Every time the animal steps over the edge of the property, it gets a mild shock. A social scientist would call the shock
A) a price signal.
B) a reward.
C) a disincentive.
D) a normative incentive.
Answer: C
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

16) Which of the following is TRUE of incentives?
A) Different people are motivated by different incentives.
B) Money is the only measure of incentives.
C) All of the people in a particular nation are motivated by the same incentives.
D) In economics, people are assumed to respond to disincentives instead of incentives.
Answer: A
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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17) Economists assume people are motivated by
A) unlimited resources.
B) pride.
C) self-interest.
D) social justice.
Answer: C
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

18) Self-interest relates to
A) only monetary objectives.
B) both monetary and nonmonetary objectives.
C) the *ceteris paribus* assumption.
D) normative economic analysis and not positive economic analysis.
Answer: B
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) Economists assume people behave
A) instinctively.
B) rationally.
C) irrationally.
D) greedily.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

20) Which of the following is always TRUE of rational behavior?
A) It always entails pursuing one's own best interest.
B) It always yields the best possible outcome for all individuals.
C) It never involves the pursuit of greedy self-interest.
D) It never involves taking into account the interests of others.
Answer: A
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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21) John has a math test tomorrow. He has decided to go to the gym today and then study math for several hours. Which of the following statements is TRUE?
A) John did not use the economic way of thinking because his decision on how to allocate his time did not involve money.
B) John's decision on how to allocate his time is inconsistent with the rationality assumption since he has decided to go to the gym.
C) John's decision on how to allocate his time is consistent with the rationality assumption since the decision is intended to make him better off.
D) John's decision does not involve his pursuit of self-interest.
Answer: C
Diff: 3
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) People behave rationally when they
A) follow the advice of government leaders.
B) never have regrets about their decisions.
C) make decisions they think will make themselves better off.
D) make decisions with a focus only on financial outcomes.
Answer: C
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) Which of the following is a TRUE statement about the economic assumption of rationality?
A) Individuals who are rational necessarily ignore the interests of others.
B) Individuals generally act as though they are rational.
C) Individual behavior may be irrational but group behavior is always rational.
D) People make decisions as if they are the most selfish in the world.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

24) A decision made by a rational person
A) is intended to make the person worse off.
B) would always make the person wealthier.
C) is identical to a decision that would be made by any other person facing the same choices.
D) is intended to make the person better off.
Answer: D
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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25) The assumption that individuals will not intentionally make decisions that will leave them worse off is known as
A) microeconomic analysis.
B) macroeconomic analysis.
C) a model or theory.
D) the rationality assumption.
Answer: D
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) The rationality assumption says that
A) people do not intentionally make decisions that would leave them worse off.
B) people never make decisions that would leave them worse off.
C) people do not respond to incentives since incentives require scarce resources.
D) all economic analysis must be normative.
Answer: A
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

27) Jose is rational if he
A) does not intentionally make decisions that would leave him worse off.
B) never makes a mistake in his life.
C) only responds to rewards that involve money.
D) always uses a model or mathematical formula to help him make a decision.
Answer: A
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

28) A possible rational reason why older people, on average, show less interest in learning how to use new technologies is because
A) older people are not as smart as (today's) young people.
B) they are acting irrationally.
C) they have fewer years to gain a return from learning how to use new technologies.
D) the financial cost for older people is greater than the cost to younger people.
Answer: C
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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29) Incentives are
A) potential rewards available if a particular activity is undertaken.
B) ineffective as a device to get people to behave in a certain fashion.
C) inappropriate ways to obtain a certain kind of behavior.
D) useless when people behave rationally.
Answer: A
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

30) Which of the following would provide an incentive to increase the amount of beef consumed?
A) a decrease in the price of beef
B) a tax on beef sales
C) promotion of chicken consumption
D) a ban on beef sales by the Food and Drug Administration
Answer: A
Diff: 3
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

31) People respond to incentives
A) by ignoring negative incentives and responding to positive incentives only.
B) only when they are irrational.
C) as they never intentionally make decisions that would leave them worse off.
D) when they have low incomes.
Answer: C
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

32) The threat of a large fine for failure to pay income taxes is an example of
A) the excessive power of the Internal Revenue Service.
B) the ineffectiveness of incentives to get people to pay their taxes.
C) a negative incentive to get all people to pay taxes.
D) people failing to consider all the benefits the government provides them.
Answer: C
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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33) A politician says that the government should tax behavior they want less of and subsidize behavior they want more of. This is an example of
A) cynical behavior in modern democracies.
B) failing to consider the alternatives available to the government.
C) a concern that people are not rational when they make decisions.
D) using incentives to alter behavior.
Answer: D
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

34) Which of the following ways to recruit soldiers utilizes incentives?
A) a draft
B) universal service
C) higher salaries
D) waging a war on another country
Answer: C
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) Self-interest
A) implies that a person must try to increase wealth at all times.
B) implies that people will not give away wealth.
C) is consistent with many goals that people pursue, including betterment of others.
D) applies only to people in market settings.
Answer: C
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

36) Self-interest
A) relates strictly to material well-being, such as a person's stock of wealth at a point in time.
B) is measured entirely based on an individual's income, whether earned from labor or inherited.
C) is inconsistent with economic analysis, which suggests that self-interest is irrational.
D) can involve any action that makes a person feel better off, such as charitable contributions.
Answer: D
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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37) Kelly's mother gives her a laptop for her graduation from high school, but Kelly wants a smartphone. This implies that
A) Kelly's mother is not acting out of self-interest because she knows that Kelly really wants a smartphone.
B) Kelly's mother is acting out of self-interest because she wants to give Kelly something more expensive.
C) Kelly is not acting out of her self-interest by wanting something different from what her mother gives her.
D) Kelly is not rational by asking for a smartphone instead of a laptop.
Answer: B
Diff: 3
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

38) Charitable donations to the Red Cross
A) can be explained by the rational ignorance theory.
B) can be explained by the rational self-interest theory.
C) cannot be explained by the rational self-interest theory.
D) prove that there is no scarcity in the United States.
Answer: B
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

39) A five-cent deposit on soda bottles
A) provides a positive incentive because it rewards people for recycling.
B) provides a negative incentive because it punishes people who do not recycle.
C) is an irrational policy, because it adds to the prices of soda.
D) is an irrational policy, because it fails to take into account self-interest.
Answer: A
Diff: 3
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

40) If a teacher tells a student that those who attend the study session typically score higher on the final exam,
A) the student has a positive incentive to attend the study session because she may get a higher grade.
B) the student has a negative incentive to attend the study session because she will be punished if she does not go.
C) the student has no greater incentive to attend because there is no guarantee she will get a higher grade on the exam.
D) a "C" student will be making an irrational decision if she decides to skip the study session since she has plenty of time to go.
Answer: A
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

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41) Consider the case of a teacher who tells students that those who miss more than three classes for any reason will automatically receive a lower grade.
A) This is an example of a positive incentive for students to attend class.
B) This is an example of a negative incentive for students to attend class.
C) The teacher is assuming that students are irrational, and she must force them to attend class.
D) Students who miss more than three classes are irrational.
Answer: B
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

42) If the government offers to reduce your property taxes by 10 percent if you install solar heating for your home, this would be an example of
A) a violation of the rational assumption.
B) incentives.
C) disincentives.
D) *ceteris paribus*.
Answer: B
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

43) Economists assume that people are motivated by
A) a desire to please others.
B) the interests of the community at large.
C) self-interest.
D) morally correct behavior.
Answer: C
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

44) When we say that an individual behaves according to "rational self-interest," we mean that this individual
A) is motivated by greed.
B) will always buy the most fashionable items available.
C) never considers the well-being of any other individual.
D) is making choices that he or she believes will leave him or her better off.
Answer: D
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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45) Rational behavior for an economist means that individuals
A) are motivated by self-interest.
B) never change their minds.
C) always value societal needs more than their own needs.
D) are self-sacrificing.
Answer: A
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

46) According to economists, when two people make exactly the opposite decision
A) one of them is acting irrationally.
B) each person evaluates the situation according to his/her individual self-interest.
C) one of them is acting out of spite.
D) one of them should compromise.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

47) It is assumed in economics that people make decisions based upon
A) altruism.
B) rational self-interest.
C) tradition.
D) perfect information about every aspect of the world.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

48) An incentive is a
A) need.
B) want.
C) reward for desired behavior.
D) concept that does not actually affect people's behavior.
Answer: C
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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49) The assumption that individuals do NOT intentionally make decisions that would leave them worse off is referred to as
A) the premium assumption.
B) the law of comparative advantage.
C) the rationality assumption.
D) a *ceteris paribus* assumption.
Answer: C
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

50) The author of the book *An Inquiry into the Nature and Causes of the Wealth of Nations* is
A) Thorstein Veblen.
B) Adam Smith.
C) Donald Trump.
D) Janet Yellen.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

51) Rational self-interest means
A) always increasing your wealth.
B) pursuing what makes you better off.
C) pursuing activities that maximize income.
D) always pursuing activities that are consistent with your faith.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

52) The rationality assumption states that
A) all actions taken by consumers are based on what is good for society.
B) people make decisions regardless of how the outcome will affect them.
C) people make decisions to buy only those goods that they need rather than goods that they want.
D) people do not intentionally make decisions that would leave them worse off.
Answer: D
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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53) Economic theory predicts that people make choices in a manner that
A) makes them well liked by others.
B) makes them better off.
C) reflects the fact that resources are unlimited.
D) shows that they do not respond to monetary incentives.
Answer: B
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

54) How could Adam Smith's comment about the butcher, the brewer, and the baker be accurately rephrased in modern terms?
A) The butcher, the brewer, and the baker give us our dinner because they want to be well liked in the community.
B) The butcher, the brewer, and the baker give us our dinner because they will be sued if they don't do so.
C) The butcher, the brewer, and the baker give us our dinner because they each earn a living by doing so.
D) The butcher, the brewer, and the baker give us our dinner because they view doing so as a public service.
Answer: C
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

55) According to economic theory, how do people make decisions?
A) They make decisions in the same manner as their parents did.
B) They make decisions by looking at what others have done in the same situation and then doing the opposite.
C) They make decisions by looking at what others have done in the same situation and then doing the same.
D) They make decisions based on their own self-interest.
Answer: D
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

56) The assumption underlying economic theory is that
A) people respond only to negative incentives, not to positive ones.
B) choices are affected by incentives.
C) value judgments do not play a role in the economic decisions people make.
D) money is the only incentive that matters.
Answer: B
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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57) High gasoline prices give people all of the following incentives EXCEPT
A) to drive less.
B) to car pool.
C) to buy a hybrid car.
D) to take vacations that require driving more miles.
Answer: D
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

58) The idea that people will not consciously make decisions that make them worse off is known as
A) the rationality assumption.
B) the decision duality.
C) Adam Smith's doctrine.
D) the incentive assumption.
Answer: A
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

59) Explain what economists mean when they apply the rationality assumption.
Answer: The rationality assumption means that people do not intentionally make themselves worse off. It does not deal with the interior reasoning of a person or the psychology of a person. Instead, rationality applies to the way people actually behave in a world of scarcity.
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

60) "Economists assume people are selfish." Do you agree with this statement or not? Explain.
Answer: Economists do not assume people are selfish, although clearly some people are. Self-interest does not necessarily mean selfishness. People have many goals, some of which may be self-centered and some of which may be more altruistic. Charity is consistent with self-interested behavior.
Diff: 2
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

61) "Rational, self-interested people would never end up worse off by any decision they make. Obviously, people often make mistakes or have regrets. Therefore, people do not act rationally or out of self-interest." Do you agree with these statements? Why or why not?
Answer: No. People may make mistakes because they often do not have enough information to make the best decision or because they are wrong about the effect of their actions. When they make a decision, given their circumstances and the information they have, they make the best choice for themselves.
Diff: 3
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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62) What assumption about human motivation is made in economics? Explain.
Answer: Economists assume that people act as if motivated by self-interest. People respond predictably to opportunities for gain. That is, people look out for their own self-interest and do so in a rational manner.
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

63) What is meant by the term "incentives," and why are they important?
Answer: Incentives are rewards for engaging in particular activities. Much of human behavior can be explained in terms of incentives. For example, grades in school are an incentive, as are paychecks for work. Incentives are important because rational human beings seeking to promote their own welfare will respond to incentives in predictable ways.
Diff: 1
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

64) During the Middle Ages, heretics were often burned at the stake. Were the heretics violating the assumption of rational self-interest? Explain.
Answer: For someone today, or even many people living at that time, it would seem the heretics' behavior was irrational and not in their own self-interest. But, in their own eyes, they may have been acting rationally and with self-interest. Given their goals, dying rather than recanting their views was in their self-interest, especially if they believed such a death guaranteed them eternal life. They believed they would have been worse off had they recanted their views. The benefit of dying for their cause was greater to them than the cost of dying.
Diff: 3
Topic: 1.3 The Economic Approach: Systematic Decisions
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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1.4 Economics as a Science

1) Another term for "economic models" is
A) economic systems.
B) economic theories.
C) economic science.
D) economic institutions.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) A simplified representation of the real world that is used to explain economic phenomena is a(n)
A) viewpoint.
B) model.
C) assumption.
D) implication.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Economics is an empirical science, which means that economists
A) must use laboratory experiments to test their theories.
B) evaluate a model or theory by whether its assumptions are consistent with the real world.
C) try to prove their models are true by referring to logic.
D) look for evidence to determine whether the model is useful or not.
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) Both the social sciences and the natural sciences employ _____ to help them understand the world around them.
A) models
B) experiments
C) traditional thinking
D) implications
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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5) Which is NOT true about the use of economic models?
A) Economic models are simplified representations of the real world.
B) Economists do not typically use experiments in science laboratories to test their theories.
C) Economists use what has already happened in the real world to test their theories.
D) Economists are employed to explain economic phenomena but are never used to predict what might happen next.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) Which of the following statements is FALSE?
A) Economists empirically test their models.
B) Economic models are not used to make predictions.
C) An economic model should capture only the key relationships that are sufficient to analyze the particular problem being studied.
D) Economic models relate to behavior rather than to individual thought processes.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Economists develop models to
A) capture every detail of the real world.
B) make their arguments more realistic.
C) justify the assumptions they make about people's behavior.
D) help us understand economic phenomena in the real world.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) Which of the following statements concerning economic models is FALSE?
A) Economic models must provide usable predictions.
B) Economic models are based on data alone and no assumptions.
C) Economic models are tested empirically.
D) Economic models relate to how people behave.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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9) Which of the following statements about economic models is TRUE?
A) Economic models are not empirically testable.
B) The predictive power of models is not as important as serving the preferences of economists.
C) Economic models are designed so that every detail of the real world can be analyzed.
D) Every economic model is based on a set of assumptions.
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) Economic models
A) are used to explain how people think.
B) are used to explain how people behave.
C) are essential representations of the real world.
D) are used to explore the thought processes of individuals or groups.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) One reason why economists often use models in their analysis is that
A) a model helps us to understand, explain, and predict economic phenomena in the real world.
B) a model accurately pictures every detail of the real world economy.
C) a model relates to individual thought processes rather than behavior.
D) it is relatively easy to perfectly specify a model.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

12) An economic model should capture
A) the essential relationships that help to analyze the problem.
B) all possible variables that apply to the problem.
C) variables that are not related.
D) all information in the world.
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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13) One problem with constructing a perfectly complete realistic economic model is that
A) it would be too simplistic to have any value.
B) it would be far too complicated to analyze.
C) it would not serve the needs of economists who build the model.
D) None of these is true.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

14) Which of the following statements is TRUE?
A) No economic model captures every detail that affects a problem.
B) Economic models always make accurate predictions about behaviors.
C) Economic models must fully reflect reality.
D) Economic models use economists' opinions with no use of data.
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

15) A map is an example of a model because a map
A) realistically describes an area.
B) is always as complex as space will permit.
C) is two-dimensional.
D) is a simplified representation of reality.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) Holding all variables constant but one and assessing the impact of the one variable that has changed is an example of using
A) the *ceteris paribus* assumption.
B) an economic model based on unrealistic assumptions.
C) a flawed economic model.
D) an untestable proposition.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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17) The term *ceteris paribus* means
A) the greatest good for all.
B) the study of scarcity and choice.
C) all other things remaining constant or equal.
D) value-free and testable.
Answer: C
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

18) In order to study how changing price affects consumer decisions, we must assume all other factors, such as income and the prices of other goods are constant. This assumption is best know as
A) rationality.
B) *ceteris paribus*.
C) normative economics.
D) behavioral economics.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) Which of the following is an example of an application of the *ceteris paribus* assumption?
A) an analysis of how price changes affect how much of a good people will purchase when all other factors are held constant
B) an analysis of how people purchase more goods when prices decline and income increases
C) After reading an article on the dangers of high-fat diets, an individual buys less red meat when prices increase.
D) an analysis of how worker productivity increases when a firm invests in new machines and training programs
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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20) *Ceteris paribus* means
A) making all the necessary changes.
B) other things constant.
C) the assumption of rational behavior.
D) as realistic as it can be.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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21) The *ceteris paribus* assumption is important in economics because
A) all empirical data are equal.
B) it would be impossible to relate the changes in one variable to another variable without holding other variables constant.
C) economic data move very slowly over time and so they can always be considered constant.
D) models are always complex and require as many variables as possible.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) The assumption that "other things are constant" is also known as the
A) *ceteris paribus* assumption.
B) rational self-interest assumption.
C) distinguishing characteristic of economics as a science.
D) relationships assumption.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) Mary says she plans to return to college next semester assuming her car keeps running, tuition fees don't go up, and she will still have a student loan. An economist would say that Mary plans to return to college next semester
A) *caveat emptor.*
B) *ceteris paribus.*
C) *laissez faire.*
D) *post hoc ergo propter hoc.*
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

24) Professor's economics students are constructing models for how gasoline prices change. Maria's model has very realistic assumptions and is quite complex. Anna's model is less complicated and less realistic. Maria's model correctly predicts gas price increases 5% of the time. Anna's model predicts correctly 15% of the time. On the basis of usefulness or "goodness," Professor will give which student's model the higher grade and why?
A) Maria's model gets the higher grade because it is more complex.
B) Anna's model gets the higher grade because it is simpler.
C) Maria's model gets the higher grade because it is more realistic.
D) Anna's model gets the higher grade because it predicts accurately more often.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

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25) Why is economics called an *empirical* science?
A) because economics has been used to both create and destroy empires
B) because economics uses math to evaluate the usefulness of its models
C) because economics relies on real-world data to determine the usefulness of a model
D) because economics utilizes only assumptions to evaluate how accurate a model is
Answer: C
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) An appropriate test of the effectiveness of an economic model is
A) the number of variables contained within the model.
B) the model's ability to predict future economic activity.
C) the number of economists who have worked on the model.
D) the number of assumptions which the economist has made.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

27) A useful economic model
A) utilizes only the two most important factors to analyze the problem under consideration.
B) generates statements that are incapable of refutation.
C) represents every detail of the real world.
D) yields usable predictions and implications for the real world.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

28) The usefulness of a model is determined by
A) whether it helps to explain or predict real world phenomena.
B) whether it possesses realistic assumptions.
C) how well it uses the *ceteris paribus* assumption.
D) how many of the possible relationships that exist are included in the model.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
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29) The use of data in economic models is important because
A) the models' predictive value rests on supportive evidence from real-world data.
B) the models are always complex in nature.
C) models must analyze every possible angle of the problem.
D) social problems analyzed by economists require long streams of data.
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

30) If two competing models are offered to explain a certain economic phenomenon, the better model is the one
A) that is the newest since newer models are better than old models.
B) with the fewest unrealistic assumptions.
C) that predicts most accurately.
D) that is not subject to empirical verification.
Answer: C
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

31) To be useful, a model must
A) predict accurately all of the time.
B) predict more accurately than other models that have been developed.
C) have assumptions that have been verified by empirical testing.
D) predict the behavior of every individual.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

32) Economics is called an empirical science because
A) economists study real-world evidence to test their models.
B) economists use assumptions to test their models.
C) economic models have no predictive power.
D) economic analysis is only useful in a pure market economy.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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33) Which of these social sciences deals most with models of behavior rather than with thought processes?
A) psychology
B) sociology
C) political science
D) economics
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

34) Which of the following best describes how economists test the empirical predictions of economic models?
A) Economists survey individuals to learn about how people think through decisions about how much to purchase or to produce.
B) Economists collect and analyze real-world observations of people's actions to discern if those actions match the theories' predictions.
C) Based on theories about thought processes, economists seek to determine which thought processes predominate in determining how a person decides what actions to take.
D) Recognizing that people always do what they say they will do, economists rely exclusively on information gleaned from polls and surveys conducted by poll takers and market researchers.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) When constructing economic models, economists are more concerned with
A) what people say than what they do.
B) what people think than what they need.
C) what people do than what they say.
D) what people say than how they act.
Answer: C
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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36) Behavioral economics is an approach to the study of consumer behavior
A) that emphasizes psychological limitations and complications that potentially interfere with rational decision making.
B) that emphasizes the capabilities of individuals to succeed in attaining all their unlimited wants utilizing limited resources.
C) that, in contrast to standard approaches in economics, utilizes the *ceteris paribus* assumption.
D) that, in contrast to standard approaches in economics, relies on real-world data to evaluate the usefulness of economic models.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

37) The hypothesis that people are nearly, but not fully rational, cannot possibly fully examine every available choice, and utilize simple rules of thumb in making decisions is known as the
A) irrationality hypothesis.
B) *ceteris paribus* hypothesis.
C) individual aggregation hypothesis.
D) bounded rationality hypothesis.
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

38) According to the bounded rationality hypothesis, an individual confronting a large number of complicated choices is most likely to respond by
A) using a simple rule of thumb to choose among a subset of easiest-to-evaluate options.
B) using the *ceteris paribus* assumption to assist in simplifying and examining each of the possible options.
C) utilizing readily available empirical evidence to assist in evaluating every option.
D) assessing every available choice by developing sophisticated theories regarding each option.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

39) An economic theory is also known as an economic
A) model.
B) prediction.
C) conclusion.
D) assumption.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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40) Economic models are
A) always based on laboratory methods similar to natural sciences.
B) a simplified representation of the real world.
C) used only in conducting experiments about how people behave.
D) used in macroeconomic analysis but not in microeconomic analysis.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

41) Economic models are NOT used to
A) explain economic phenomena.
B) predict economic phenomena.
C) understand economic phenomena.
D) describe all economic phenomena in finest detail.
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

42) To test their theories, economists usually have to
A) set up careful laboratory experiments with all variables controlled.
B) first examine theory and compare it with what happened in the past in the real world.
C) use only models that have a proven record of success.
D) conduct experiments that involve people who do not behave rationally.
Answer: B
Diff: 3
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

43) A difference between biology and economics is that
A) economists use models and biologists use theories.
B) biologists often use laboratory experiments and economists do less often.
C) economics explains events while biology predict events.
D) biologists use the scientific method while economists do not.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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44) Models must
A) be able to yield useable predictions.
B) be totally realistic in every detail.
C) be a complete reproduction of the real world.
D) include every relationship that exists.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

45) A good economic model
A) cannot be refuted.
B) describes the real world completely and in detail.
C) captures the essential relationships of the problem under consideration.
D) captures all relationships about the problem under consideration.
Answer: C
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

46) Which of the following statements is NOT true?
A) Economics is a social science.
B) Economics is an empirical science.
C) Economics does not use theories.
D) Economics is the study of how people allocate their limited resources to satisfy their unlimited wants.
Answer: C
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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47) A characteristic of a good model is that
A) its predictions can be tested using real-world data.
B) it is useful for making irrefutable predictions.
C) it applies to all situations.
D) it predicts perfectly.
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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48) In an economic model, assumptions
A) must be applicable to all real-world situations.
B) must be eliminated before being used to make sure the model is realistic.
C) are not important in determining the usefulness of the model.
D) define the set of circumstances in which the model is most likely to be applicable in the real world.
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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49) Because models are used to explain economic behavior,
A) the assumptions must be complex while the models themselves are simple.
B) models must be complex.
C) models must be simple.
D) models can be either simple or complex so long as it explains economic behavior.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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50) "*Ceteris paribus*" assumption means
A) the role of rational self-interest in the economy.
B) that nothing else changes except the variables under consideration.
C) relying on real-world data in evaluating the usefulness of a model.
D) analysis that is strictly limited to making purely positive statements.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

51) If economists are making the assumption that business people try to maximize profits, the best way to determine whether this assumption is useful or not is to
A) see whether it generates accurate predictions about the choices of business people.
B) ask business people whether it is true or not.
C) find out whether U.S. businesses are more profitable than European businesses.
D) take a survey of people and see if they agree with this assumption.
Answer: A
Diff: 3
Topic: 1.4 Economics as a Science
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52) The assumption that nothing changes EXCEPT the variables being studied is
A) the *ceteris paribus* assumption.
B) the rationality assumption.
C) positive economic analysis.
D) normative economic analysis.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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53) "*Ceteris paribus*" means
A) "invisible hand."
B) "other things equal."
C) "making all the necessary changes."
D) "at the aggregate level."
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
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54) A scientist who is studying earthquakes includes the impact of wind when performing some tests of damages to structures. This is an example of
A) failing to understand how to do scientific methodology.
B) irrational behavior in noneconomic situations.
C) accounting for every possible phenomena that may affect the problem under examination.
D) failing to hold all other things constant.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

55) Economics is an empirical science, which means that economists
A) look at evidence to see whether or not the model is applicable.
B) test their models by utilizing unknown variables.
C) do only laboratory experiments.
D) refuse to test their models since the usefulness of a model is determined by whether it is logical or not.
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
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56) Which expression below matches most closely the way economists go about testing their models?
A) "Consistency is the hobgoblin of small minds."
B) "Seeing the results is the only way to know if you are right."
C) "A bird in the hand is worth two in the bush."
D) "In the long run, we are all dead."
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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57) Economic models relate to
A) people's choices.
B) how people think about something.
C) choice.
D) the reasons people give for donating to charity.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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58) A poll conducted by a national firm finds that most Americans say they care more about safety when buying a car than about fuel efficiency. As a result, a car maker produces a car with many safety features, but it doesn't sell well. This behavior
A) contradicts economic theory because the people didn't do what they said they would do.
B) contradicts economic theory because it is irrational not to purchase safer cars.
C) does not contradict economic theory because economists focus on what people do rather than on what they say.
D) does not contradict economic theory because economic theory only relates to prices and not to features such as safety.
Answer: C
Diff: 3
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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59) According to proponents of behavioral economics, because every possible choice cannot be considered, instead of sorting through every single possibility, an individual will tend to fall back on methods of making decisions that are simpler, known as
A) rules of thumb.
B) rational options.
C) irrational choices.
D) normative decisions.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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60) Which of the following is NOT an alleged "unrealistic" assumption that proponents of behavioral economics suggest are commonly utilized in traditional economic models based on the rationality assumption?
A) unbounded selfishness
B) unbounded rationality
C) unbounded will power
D) unbounded resources
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

61) If psychological limitations and other complications cause people to be unable to examine and think through every possible choice available to them and rely instead on rules of thumb, then these individuals exhibit
A) completely irrational behavior.
B) normative thinking.
C) bounded rationality.
D) positive thinking.
Answer: C
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

62) A theory or a model
A) is a simplified, abstract view of reality.
B) is based on each economist's value judgments.
C) is a detailed analysis of what ought to be.
D) captures all aspects of the real world.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

63) *Ceteris paribus* means
A) "all variables are independent."
B) "other things being constant."
C) "some assumptions are unrealistic."
D) "some theories are not rational."
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
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64) The *ceteris paribus* assumption means
A) favors are returned in kind.
B) this is the proof of the matter.
C) from many, one.
D) other things are equal.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

65) In building a model the assumption that allows economists to study only the factors being analyzed is the
A) rationality assumption.
B) *ceteris paribus* assumption.
C) the self-interest assumption.
D) the scarcity assumption.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

66) *Ceteris paribus* means
A) other variables are held constant.
B) almost certainly.
C) only if everything works just right.
D) perhaps.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

67) In constructing models, economists
A) consider all factors that can change.
B) include all available information.
C) attempt to duplicate the real world.
D) make simplifying assumptions.
Answer: D
Diff: 1
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68) In building a model to analyze economic situations, one of the important assumptions is
A) *ceteris paribus.*
B) scarcity.
C) conversion abstraction.
D) cognitive dissonance.
Answer: A
Diff: 1
Topic: 1.4 Economics as a Science
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69) Assumptions are necessary to
A) make economics a social science.
B) define a set of circumstances where a model is most likely to apply.
C) define the relationship between wants and resources under all circumstances.
D) define the specific cause and effect relationship that is being explained by social sciences.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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70) *Ceteris paribus* means
A) all men are created equal.
B) wage parity between men and women is a worthy goal.
C) there are an infinite number of factors affecting each human decision and they change all the time.
D) economists isolate one or two factors that change when analyzing human decisions.
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
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71) Economic models are used to
A) simplify reality to predict outcomes.
B) exactly replicate reality.
C) predict all possible outcomes of a study.
D) determine the thoughts of individuals.
Answer: A
Diff: 2
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72) Economic models
A) must capture every detail or interrelationship that exists.
B) are simplified representations of the real world.
C) must use laboratory experiments.
D) All of these are correct.
Answer: B
Diff: 1
Topic: 1.4 Economics as a Science
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73) Economics may be referred to as a(n) _____ science, meaning that data is looked at to see whether assertions are correct.
A) empirical
B) exact
C) natural
D) soft
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
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74) The term *ceteris paribus* is an economic assumption that means
A) let the buyer beware.
B) logical common sense.
C) the detail is in the interrelationship.
D) other things being equal.
Answer: D
Diff: 1
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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75) The value of a model is determined by
A) the usefulness of its predictions in the real world.
B) the extent of the profit earned by applying it.
C) the realism of its assumptions.
D) the model's attention to real world details.
Answer: A
Diff: 2
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76) Assumptions in models tend to make
A) the model predict what the scientist wants the results to be.
B) the model more realistic.
C) the model more applicable to specific circumstances.
D) the model always predict the future accurately.
Answer: C
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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77) What would lead an economist to conclude that Theory A is superior to Theory B?
A) Theory A predicts real-world events better than does Theory B.
B) The assumptions underlying Theory A are more realistic than are the assumptions underlying Theory B.
C) Theory A explains how people think, whereas Theory B only explains what they do.
D) Theory A is based on the assumption that an individual typically cannot determine what is in his or her own best interest, whereas Theory B assumes that each person knows what is in his or her own best interest and acts accordingly.
Answer: A
Diff: 3
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

78) Why do economists test their hypotheses?
A) to see whether people are motivated by self-interest
B) to see whether their models predict the choices people will make
C) to determine whether government policies have effectively achieved their goals
D) to learn what people are thinking when they make the choices they do
Answer: B
Diff: 3
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

79) Which of the expressions below best describes the aim of economic theory?
A) to predict how people think about money
B) to understand why money motivates some people more than others
C) to predict the choices people will make
D) to learn what we can do to prevent people from having unrealistic wants
Answer: C
Diff: 3
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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80) Based on your understanding of your roommate's preferences, you predict that he will select the spaghetti for his lunch at the cafeteria, but instead he chooses the gyros. How do you describe this event in terms of economic theory?
A) Your roommate is irrational.
B) Your roommate does not know what is in his own best interests.
C) You roommate does not know his own preferences as well as you do.
D) You constructed a model that made a prediction, and the prediction was refuted.
Answer: D
Diff: 3
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

81) Which of the following statements about economic models is TRUE?
A) The best economic models must be the most complex.
B) A good model does not rely on any assumptions.
C) Every model is based on a set of assumptions.
D) Economic models are designed to explain what people need.
Answer: C
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

82) A common approach that economists use to understand, explain and predict economic phenomena is to
A) form a theory or model.
B) conduct experiments in a science lab.
C) ask what people think.
D) examine people's thought processes.
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

83) By using the *ceteris paribus* assumption in conjunction with a model, economists can
A) suspend the rationality assumption.
B) avoid having their model depend on any additional assumptions.
C) hold certain factors constant.
D) be sure that the model will predict correctly.
Answer: C
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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84) What is meant by saying that economics is an empirical science?
A) Economic theories will be tested by seeing how well they correspond to people's declared preferences.
B) Economic theories cannot be tested because there is no means of measuring economic variables with adequate precision.
C) Economic theories cannot be tested because economic variables change too quickly.
D) Economic theories will be tested by seeing how well they correspond to real-world phenomena.
Answer: D
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

85) The combination of psychology and economics to determine individual decision making is known as
A) behavioral economics.
B) psychonomics.
C) neuronomics.
D) positive analysis.
Answer: A
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

86) Behavioral economics deals with
A) the assumption that people are always selfish.
B) bounded rationality.
C) unbounded willpower.
D) only theories without justification from empirical evidence.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

87) Which of the following is a behavioral implication of bounded rationality?
A) unbounded selfishness
B) a rule of thumb
C) a rational mistake
D) a nervous breakdown
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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88) Which of the following describes that people cannot examine every possible choice available to them but instead use simple rules of thumb to sort among the alternatives that happen to occur to them?
A) self-interest
B) bounded rationality
C) *ceteris paribus*
D) normative economics
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

89) According to behavioral economists, traditional economic models assume all the following characteristics EXCEPT
A) unbounded selfishness.
B) unbounded resources.
C) unbounded willpower.
D) unbounded rationality.
Answer: B
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

90) What does it mean to say economics is an empirical science, and how is this related to the question of deciding on the usefulness of a model?
Answer: Economists examine evidence to test whether a model is useful or not. That is, real-world data are studied to see if they conform to the predictions of the model. A model is useful if it generates testable predictions and implications for the real world. A model that predicts better is generally considered a better model.
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

91) "To be useful, a model must be completely realistic." Evaluate.
Answer: This statement is incorrect. To be useful, a model must capture key real-world elements but does not have to account for every detail of the real world. The model should capture the essential relationships that enable us to analyze the problem with which we are concerned. A model is useful so long as it sheds light on the central forces at work.
Diff: 2
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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92) Suppose a survey is taken concerning car safety. According to the survey, people strongly desire safer cars and indicate they are willing to pay substantially more for safer cars. Using this information, one auto firm adds numerous safety features to its car, raising the price by several thousand dollars. Sales drop sharply, and the firm loses profits. What went wrong?
Answer: The automaker was relying on what people say rather than on what they do. An economic model would have tried to predict whether the expected gains from driving safer cars would have been great enough for consumers to pay the higher price. Economic models are models of behavior and not models about how people think or whether people's views directly affect their actions. In addition, the car manufacturer did not consider other factors (like the price of other cars, incomes of consumers, and design characteristics).
Diff: 3
Topic: 1.4 Economics as a Science
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

1.5 Positive versus Normative Economics

1) Normative economic statements
A) violate the *ceteris paribus* assumption.
B) contain value judgments.
C) are usually irrational.
D) are easily testable.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) Normative economics involves
A) a statement of fact.
B) a statement of "what should be."
C) a statement of "what is."
D) a statement that is purely descriptive.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) "If event A occurs, then event B will follow" is a
A) positive statement.
B) normative statement.
C) non-testable statement.
D) statement lacking in logic.
Answer: A
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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4) "If the United States enters a war with Iran, U.S. output will go down." This statement is an example of
A) a positive statement.
B) an irrational statement.
C) a normative statement.
D) a realistic statement.
Answer: A
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

5) Which of the following is an example of a positive economic statement?
A) In order to reduce the budget deficit, tax rates should be increased.
B) In order to increase employment, the minimum wage must be decreased.
C) If payroll taxes are raised, then the government budget will show a surplus.
D) If gas prices fall, consumers should purchase more gas.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) "No individual should have less than $20,000 income in the United States in 2024" is an example of
A) a normative statement.
B) a positive statement.
C) an illogical and refutable statement.
D) a truism.
Answer: A
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

7) Which of the following is a normative statement?
A) An increase in consumer income will lead to increased sales of beef.
B) A decrease in the rate of unemployment will lead to upward pressure on consumer prices.
C) An increase in the income tax will cause a greater reduction in savings than an increase in the sales tax.
D) An economy with high unemployment can be worse off than an economy with high inflation.
Answer: D
Diff: 1
Topic: 1.5 Positive versus Normative Economics
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8) Which of the following is a positive economic statement?
A) No individual should live in poverty.
B) The unemployment rate of males exceeds that of females.
C) Unemployment is a more serious societal problem than inflation.
D) Economic considerations are less relevant than ethical issues in deciding national policy.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

9) "The government should eliminate income inequality" is an example of
A) a positive statement.
B) a realistic argument.
C) a factual statement.
D) a normative statement.
Answer: D
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

10) When the president says that "Income inequality is a much more serious economic problem than high unemployment rates," it is an example of
A) a normative statement.
B) an empirically proven fact.
C) a positive statement.
D) an irrational argument.
Answer: A
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

11) Which of the following statements is a positive economic statement?
A) The number of families living in poverty in the United States is too high.
B) One in every five children in the United States is living in poverty.
C) Government programs to help the poor are just making problems worse.
D) The government should eliminate poverty in the country.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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12) Which of the following statements is a positive economic statement?
A) The Congress should pass the president's tax package.
B) The U.S. tax system always gives too much favor to rich people.
C) The President's budget included an increase in unemployment insurance payments.
D) None of these
Answer: C
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

13) Which of the following statements is a normative as opposed to a positive economic statement?
A) Consumer spending helps to create jobs.
B) If the price of cars goes up, people buy fewer cars.
C) Labor unions should be allowed to organize in every country.
D) When a government prints too much money, inflation tends to rise.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

14) Whenever statements embodying values are made, we enter the realm of
A) positive economics.
B) normative economics.
C) microeconomics.
D) macroeconomics.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

15) Positive economic analysis is said to be
A) true.
B) always accurate.
C) value-laden.
D) objective.
Answer: D
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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16) Positive statements contain mostly
A) opinions and conditions.
B) facts and predictions.
C) bias.
D) logical arguments mixed with statements of opinion.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

17) Normative economic analysis involves
A) positive analysis.
B) value judgments.
C) if-then statements.
D) objective descriptions of the way things are.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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18) Which of the following statements is an example of positive economic analysis?
A) The inflation rate is too high.
B) The government should worry less about inflation and more about unemployment.
C) If the government increases the rate of growth of the money supply, the inflation rate will increase, *ceteris paribus*.
D) The elderly live on a fixed income, so the government has an obligation to keep inflation rates low.
Answer: C
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

19) Which of the following is a normative economic statement?
A) An increase in corporate income taxes will cause the unemployment rate to increase.
B) The costs of medical care are increasing faster than the incomes of U.S. citizens.
C) Teenage unemployment is over 12 percent today.
D) The minimum wage is too low in the United States.
Answer: D
Diff: 2
Topic: 1.5 Positive versus Normative Economics
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20) Which of the following is an example of a normative economic statement?
A) Lower income tax rates will generate greater income tax revenue to the government.
B) Income tax rates should be lower because that will increase government revenue.
C) Lower income tax rates yield a larger federal government deficit.
D) The federal budget deficit has increased every year for the last twenty years.
Answer: B
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

21) Which of the following statements concerning the distinction between positive and normative economics is TRUE?
A) Positive statements are concerned with what is, while normative statements are concerned with what someone thinks should be.
B) Positive statements are concerned with what people think, while normative statements are concerned with what people do.
C) Positive statements are true, while normative statements are false.
D) Positive statements are concerned with what is, while normative statements are concerned with what will be.
Answer: A
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) Positive economic analysis is supposed to be
A) true.
B) free of value judgments.
C) just and fair.
D) moral and honest.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) It has been noted that when the price of a good increases, people purchase less of the good. This is an example of
A) macroeconomic analysis.
B) irrational behavior.
C) normative economic analysis.
D) positive economic analysis.
Answer: D
Diff: 2
Topic: 1.5 Positive versus Normative Economics
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24) Normative economics is
A) analysis involving value judgments about economic policies; or a statement of "what ought to be."
B) analysis that is strictly limited to making either purely descriptive statements or scientific predictions.
C) analysis of the behavior of the economy as a whole.
D) decision making undertaken by households and business firms.
Answer: A
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) Normative economic analysis involves
A) true statements of facts only.
B) testable hypotheses by scientists.
C) value judgments and opinions.
D) purely descriptive statements.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) Which of the following is an example of a positive statement?
A) It is too hot to go jogging.
B) *Ceteris paribus,* a teacher should award a higher grade if you study more hours for an economics test.
C) When the price of an item increases, people respond by reducing their consumption of the item.
D) The government should balance the budget.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

27) Which of the following is a statement with positive economic analysis?
A) Lower wages increase employment and reduce the unemployment rate.
B) Slower money growth reduces inflation.
C) A reduction in the size of the budget deficit will reduce interest rates.
D) All of these
Answer: D
Diff: 2
Topic: 1.5 Positive versus Normative Economics
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28) Which of the following is NOT a normative economic statement?
A) The minimum wage should be eliminated so unemployment can be reduced.
B) Increases in the minimum wage cause increases in unemployment.
C) The inflation rate should fall to increase individuals' well-being.
D) Taxes on cigarettes should be increased to reduce smoking.
Answer: B
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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29) Which of the following is an example of a positive economic statement?
A) The unemployment rate last month was 5.4 percent.
B) The unemployment rate last month was too high.
C) Because of the high unemployment rate last month, the government should increase government spending.
D) The unemployment rate should be measured differently because it doesn't include students who can't find jobs.
Answer: A
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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30) Normative economic analysis tends to
A) generate testable hypotheses.
B) include the way someone thinks things should be or ought to be.
C) involve descriptive statements.
D) lead to empirical testing of data.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

31) Which of the following statements is TRUE regarding the textbook used in this course?
A) The textbook presents only economic theory, so no value judgments are involved in the text.
B) The textbook does not include normative statements.
C) The microeconomic section of the book includes only positive analysis, while the macroeconomic section includes normative analysis.
D) The selection of topics included in the book involves value judgments as well as economic theory.
Answer: D
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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32) Analysis that involves value judgments about economic policies is
A) positive economics.
B) normative economics.
C) microeconomics.
D) macroeconomics.
Answer: B
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

33) Analysis that is limited to making either purely descriptive statements or scientific predictions is
A) positive economics.
B) normative economics.
C) microeconomics.
D) macroeconomics.
Answer: A
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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34) The term or phrase most likely to indicate a normative statement is
A) "*ceteris paribus*."
B) "factual" or "what is" statement.
C) "holding other things constant."
D) "should" or "ought to."
Answer: D
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) Jane is currently developing a model to explain the national unemployment rate. This is an example of
A) a microeconomic topic.
B) normative analysis.
C) positive analysis.
D) how people act in an irrational manner.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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36) How does the science of economics deal with the fact that we all have different values?
A) by assuming that values don't play a role in economic behavior
B) by seeking to discover the sources of different value systems
C) by using positive analysis
D) by surveying the public to see what the most common values are, and then incorporating those as assumptions into their models
Answer: C
Diff: 3
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

37) Which of the following is a positive statement?
A) An unemployment rate of 5.8 percent is too high.
B) The unemployment rate is 5.8 percent.
C) The unemployment rate should be below 5.8 percent.
D) The unemployment rate should never be above 5.8 percent.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

38) Which of the following is NOT a positive statement?
A) The unemployment rate is 5.8 percent.
B) The inflation rate for 2002 was 2.3 percent.
C) The national debt is too high.
D) The federal government budget for 2004 is $2.2 trillion.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

39) The difference between positive statements and normative statements is that
A) a positive statement involves a value judgment and a normative statement is a statement of fact.
B) a positive statement is a statement of fact and a normative statement involves value judgments.
C) value judgments are made in normative statements but assumed in positive statements.
D) normative statements are provable, while positive statements are not.
Answer: B
Diff: 2
Topic: 1.5 Positive versus Normative Economics
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40) Which one of the following is an example of a normative statement?
A) A smart phone costs more than a laptop computer.
B) Most smart phones sold in the United States are imported from other countries.
C) Every student in college should have a smart phone.
D) More people will buy smart phones as their prices decline.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

41) Which one of the following is an example of a normative statement?
A) A vacation in Colorado is better than a vacation in Hawaii.
B) Hotels in Colorado are more expensive than are hotels in Hawaii.
C) The hotel vacancy rate in Hawaii will increase as airfares to Hawaii increase.
D) The busiest tourist month in Colorado is July.
Answer: A
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

42) Which one of the following is an example of a positive statement?
A) Farmers need some type of government aid.
B) State governments should provide economic assistance to farmers.
C) The federal government should provide economic assistance to farmers.
D) The amount of financial assistance given to farmers is higher this year than it was 10 years ago.
Answer: D
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

43) Which one of the following is an example of a normative statement?
A) Public school teachers are not paid enough.
B) The average public school teacher earns less than the average truck driver.
C) The average public school teacher earns more than the average truck driver.
D) Students in smaller classes perform better on standardized tests.
Answer: A
Diff: 1
Topic: 1.5 Positive versus Normative Economics
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44) Normative economics
A) is never studied at the undergraduate level.
B) involves value judgments.
C) is always objective.
D) cannot be applied to all economic problems.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

45) The President's statement that "to encourage economic growth, taxes should be cut"
A) would be an example of a normative statement.
B) would be an example of a positive statement.
C) would be an example of a microeconomic statement.
D) would be a statement of mercantilist economic philosophy.
Answer: A
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

46) The headline in the local paper today is "College tuition next fall rises by 6 percent." This statement is an example of
A) a normative statement.
B) a positive statement.
C) an invalid statement.
D) *ceteris paribus*.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

47) Positive economics
A) always gives an optimistic spin to economic news.
B) is concerned with the economic policies that should be implemented.
C) is objective.
D) was not used by nineteenth century economists.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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48) Which of the following is a normative economic statement?
A) Few auto mechanics are women.
B) Men and women should earn the same salary if they perform the same job.
C) Auto mechanics typically earned more than waitresses in the United States in 2017.
D) Most wait staff are women.
Answer: B
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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49) Economics seeks to use only positive analysis to
A) provide a value-free analysis.
B) seek the best answer.
C) explain what is wrong with people.
D) provide normative values.
Answer: A
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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50) Which of the following is a positive economic statement?
A) Policymakers should strive to eliminate government budget deficits.
B) The President of the United States should promote high employment growth in the United States.
C) If the price of eggs increases, the quantity demanded of eggs will fall.
D) We should try to eliminate poverty in the United States.
Answer: C
Diff: 1
Topic: 1.5 Positive versus Normative Economics
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51) Normative economic statements
A) are statements of "what ought to be."
B) are statements of "what is."
C) are statements that may be tested by referring to facts and data.
D) do NOT involve value judgments.
Answer: A
Diff: 1
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52) Which of the following is a normative economic statement?
A) If the government increases spending, unemployment will fall.
B) The government should increase spending during times of economic recession.
C) If banks create more money, unemployment will decrease.
D) If the price of gasoline rises, car-pooling will increase.
Answer: B
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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53) "The U.S. government should not use my tax dollars to subsidize people on welfare"
A) is a positive economic statement because it simply describes one person's opinion.
B) is a normative economic statement because it involves a value judgment about an economic policy.
C) is a positive economic statement because it predicts that my tax dollars will go to welfare.
D) is a normative economic statement because it is a scientific fact.
Answer: B
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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54) All of the following are positive statements EXCEPT
A) the President of the United States in 2016 was Barack Obama.
B) California is in the United States.
C) migratory birds fly south for the winter.
D) a dog is man's best friend.
Answer: D
Diff: 1
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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55) Positive analysis can be described as
A) the study of whether people respond to positive incentives.
B) the study of whether people respond to negative incentives.
C) a value-free approach to inquiry.
D) a study that is not tested empirically.
Answer: C
Diff: 1
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56) A positive economic statement is one that
A) can be refuted.
B) is free of the *ceteris paribus* assumption.
C) is based on a value judgment.
D) asserts something about the role of moral behavior in building a strong economy.
Answer: A
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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57) Which of the following is a positive statement?
A) We need to carefully protect our borders.
B) Inflation is the most damaging thing that can occur in an economy.
C) When tax revenues are less than government spending there is a budget deficit.
D) Foreign aid should be reduced to help reduce the national debt.
Answer: C
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

58) Which of the following is a normative statement?
A) The Gross Domestic Product is the dollar value of all goods and services produced in a country in a year.
B) Fiscal policy is determined by Congress and the president.
C) Tax cuts ought to be enacted for the good of the economy.
D) Monetary policy is determined by the Federal Reserve System.
Answer: C
Diff: 2
Topic: 1.5 Positive versus Normative Economics
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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59) "A positive economic statement is always true and a normative economic statement is always false." Do you agree or disagree with this statement? Explain.
Answer: Disagree. A positive statement is one that is either descriptive or makes a prediction of the type "if A, then B." A descriptive statement can be false. For example, the statement, "It is raining today," may be either true or false. A prediction can also be false. A normative statement cannot appeal to evidence. The statement, "It shouldn't rain today," cannot be evaluated as either true or false by looking to see if is raining or not.
Diff: 2
Topic: 1.5 Positive versus Normative Economics
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1.6 Appendix A: Direct and Inverse Relationships

1) A relationship between two variables in which one variable increases at the same time as the other decreases is called
A) nonlinear.
B) constant.
C) negative.
D) direct.
Answer: C
Diff: 1
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

2) A direct relationship occurs when
A) the two variables being compared change in opposite directions, or when one goes up the other goes down.
B) a change in one of the variables causes a change in the other variable in any direction.
C) the two variables being compared change in the same direction, or when one goes up the other also goes up.
D) the two variables have no identifiable relationship with each other.
Answer: C
Diff: 2
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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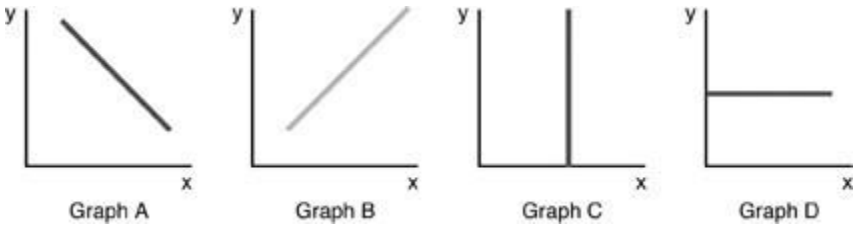
3) If an increase in one variable causes a decrease in another variable, this is
A) a direct relationship.
B) a dependent relationship.
C) an independent relationship.
D) a negative relationship.
Answer: D
Diff: 2
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

4) A relationship between two variables in which one variable increases at the same time that the other increases is called
A) nonlinear.
B) constant.
C) inverse.
D) direct.
Answer: D
Diff: 1
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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5) When two variables have an inverse relationship, the slope is
A) negative.
B) positive.
C) infinity.
D) zero.
Answer: A
Diff: 1
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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6) In the above graphs, an inverse relationship is shown by
A) Graph A.
B) Graph B.
C) Graph C.
D) Graph D.
Answer: A
Diff: 2
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

7) In the above graphs a direct relationship is shown by
A) Graph A.
B) Graph B.
C) Graph C.
D) Graph D.
Answer: B
Diff: 2
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

8) When two variables have a direct relationship, the slope is
A) negative.
B) positive.
C) zero.
D) infinity.
Answer: B
Diff: 1
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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9) An inverse relationship will be graphed as
A) a line that is upward sloping.
B) a line that is downward sloping.
C) a loop.
D) a U-shaped curve.
Answer: B
Diff: 1
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

10) In an inverse relationship,
A) one variable rises while the other falls.
B) both variables rise together.
C) both variables fall together.
D) the two variables are not related to each other.
Answer: A
Diff: 1
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

11) Which of the following is an example of an inverse relationship?
A) hours of study and test grade
B) calories eliminated from diet and weight loss
C) the number of hours working instead of studying for a test and test grade
D) amount of snowfall and profits of ski resorts
Answer: C
Diff: 1
Topic: 1.6 Appendix A: Direct and Inverse Relationships
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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1.7 Appendix A: Constructing a Graph

1) Consider the statement, "The number of hours you slept the night before a test affects your test grade." In this statement,
A) the number of hours slept is the dependent variable and test grade is the independent variable.
B) the number of hours slept is the independent variable and test grade is the dependent variable.
C) both the number of hours slept and test grade are dependent variables.
D) both the number of hours slept and test grade are independent variables.
Answer: B
Diff: 2
Topic: 1.7 Appendix A: Constructing a Graph
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Application of knowledge

2) The "paired observation" of (12, 6) means
A) x = 12, y = 6.
B) x = 6, y = 12.
C) x = any multiple of 12, y = any multiple of 6.
D) the origin is at 12 and 6.
Answer: A
Diff: 2
Topic: 1.7 Appendix A: Constructing a Graph
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

3) The "paired observation" of (-10, -6) means
A) x = -10, y = -6.
B) x = -6, y = -10.
C) that the distance between the two points will be 16.
D) the origin is at -10 and -6.
Answer: A
Diff: 2
Topic: 1.7 Appendix A: Constructing a Graph
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

4) The intersection of the *x* axis and the *y* axis is called the
A) "meeting point."
B) origin.
C) "zero" point.
D) corresponding point.
Answer: B
Diff: 1
Topic: 1.7 Appendix A: Constructing a Graph
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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1.8 Appendix A: Graphing Numbers in a Table

1) The relationship between the number of hours a student studies for an exam and the exam grade is most likely graphed as
A) a horizontal or flat line.
B) a line sloping down from upper left to lower right.
C) a line sloping up from lower left to upper right.
D) a line sloping up from lower right to upper left.
Answer: C
Diff: 2
Topic: 1.8 Appendix A: Graphing Numbers in a Table
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Application of knowledge

1.9 Appendix A: The Slope of a Line (A Linear Curve)

1) A negative slope
A) represents an inverse relationship, such as beers consumed and test score.
B) represents a direct relationship, such as snow fall and car accidents.
C) indicates that there is no relationship between two variables, such as women's wages and likelihood of sunshine.
D) means that the line crosses below the x-axis.
Answer: A
Diff: 2
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

2) The slope of a straight line
A) is the same at all points along that line.
B) cannot be defined.
C) changes from one point to the next on that line.
D) is always equal to zero.
Answer: A
Diff: 1
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

3) The slope of a nonlinear curve
A) is constant.
B) is always negative.
C) changes along the various points of the curve.
D) is always equal to 1.
Answer: C
Diff: 1
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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4) The slope of a nonlinear curve is _____ when the curve is rising, and _____ when the curve is falling.
A) negative; positive
B) negative; negative
C) positive; negative
D) positive; positive
Answer: C
Diff: 1
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

5) If a straight line crosses the y-axis at 5 and crosses the x-axis at 10, we can conclude that the slope of the line is
A) positive.
B) negative.
C) zero.
D) infinity.
Answer: B
Diff: 2
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Application of knowledge

6) The slope of a line is the
A) change in the values along the x-axis divided by the change in the values along the y-axis.
B) values on the x-axis divided by the values on the y-axis.
C) change in the values along the y-axis divided by the change in the values along the x-axis.
D) values on the y-axis divided by the values on the x-axis.
Answer: C
Diff: 2
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

7) Given a linear curve, the value on the y-axis changes from 120 to 100 when the value on the x-axis changes from 5 to 10, then the slope of that curve is
A) -20.
B) +20.
C) -4.
D) +4.
Answer: C
Diff: 2
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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8) Suppose that on average there are four more car accidents for every extra inch of snowfall in a certain region. If snowfall is graphed on the y axis and car accidents on the x axis, then if we graph this relationship, the slope of the line will be
A) 3.
B) 4.
C) 1/4.
D) 1/3.
Answer: C
Diff: 2
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Application of knowledge

9) If the slope of a curve is 1/3, we know that
A) the relationship is linear, and the line moves from lower left to upper right.
B) the relationship is non-linear, and the line moves from lower left to upper right.
C) the relationship is linear, and the line moves from upper left to lower right.
D) the relationship is non-linear, and the line moves from upper left to lower right.
Answer: A
Diff: 3
Topic: 1.9 Appendix A: The Slope of a Line (A Linear Curve)
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