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Ch 02: MC Algo

1. How are economists *not* like mathematicians, physicists, and biologists?
   a. Economists do not apply the scientific method.
   b. Economists do not try to address their subject with a scientist's objectivity.
   c. Economists do not devise theories and collect and analyze data in an attempt to verify or refute their theories.
   d. Economists cannot run lab experiments in the same way that other scientists can.

ANSWER: d

2. Which of the following steps does an economist *not* take when studying the economy?
   a. Devise theories
   b. Collect data
   c. Analyze data
   d. Model the economy without any assumptions

ANSWER: d

3. Suppose an economist develops a theory that higher electronics prices arise from higher electricity prices. According to the scientific method, which of the following is the economist's next step?
   a. Collect and analyze data
   b. Go to a laboratory and generate data to test the theory
   c. Publish the theory without testing it
   d. Consult with other economists to see if they agree with the theory

ANSWER: a

4. The use of theory and observation is more difficult in economics than in sciences such as chemistry due to the difficulty in
   a. conducting laboratory experiments.
   b. applying mathematical methods to economic analysis.
   c. analyzing available data.
   d. being objective.

ANSWER: a

5. Instead of conducting laboratory experiments to generate data to test their theories, economists often
   a. ask winners of the Nobel Prize in Economics to evaluate their theories.
   b. do without data.
   c. use whatever data the world gives them.
   d. assume that data would support their theories.

ANSWER: c

6. Economists make assumptions to
   a. minimize the likelihood that some aspect of the problem at hand is being overlooked.
   b. teach economics to people who have never before studied economics.
   c. provide issues for political discussion.
   d. focus their thinking on the essence of the problem at hand.

ANSWER: d

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7. The art in scientific thinking—whether in physics, economics, or engineering—is
   a. finding the right problem to study.
   b. the ability to make an abstract subject easy to understand.
   c. deciding which assumptions to make.
   d. being able to mathematically model natural phenomena.

ANSWER: c

8. Which of the following statements about models is correct?
   a. The more details a model includes, the better the model.
   b. Because economic models omit many details, they allow us to see what is truly important.
   c. Economic models are useful, but they should not be used for the purpose of improving public policies.
   d. Economic models complicate reality.

ANSWER: b

9. A circular-flow diagram is a model that
   a. helps to explain how consumers and the government interact with one another.
   b. explains how countries trade with each other.
   c. incorporates all aspects of the real economy.
   d. helps to explain how the economy is organized.

ANSWER: d

10. In the simple circular-flow diagram, the participants in the economy are
    a. firms and government.
    b. households and firms.
    c. households and government.
    d. households, firms, and government.

ANSWER: b

11. In the circular-flow diagram, which of the following is *not* a factor of production?
    a. Labor
    b. Land
    c. Capital
    d. Output

ANSWER: d

12. Another term for goods and services is
    a. output.
    b. inputs.
    c. factors of production.
    d. resources.

ANSWER: a

13. Which of the following is an example of a capital input?
    a. A computer

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b. A share of stock
c. An hour of a worker's time
d. The money households use to purchase firms' output

ANSWER: a

14. In the simple circular-flow diagram, which of the following is *not* true?
a. Households buy all the goods and services that firms produce.
b. Firms sell goods and services to households.
c. Goods and services flow from firms to households.
d. Households are buyers of inputs.

ANSWER: d

15. In the circular-flow diagram, in the markets for
a. goods and services, households and firms are both sellers.
b. the factors of production, households are sellers and firms are buyers.
c. goods and services, households are sellers and firms are buyers.
d. the factors of production, households and firms are both sellers.

ANSWER: b

16. In the markets for goods and services in the circular-flow diagram,
a. households provide firms with savings for investment.
b. households provide firms with labor, land, and capital.
c. firms provide households with output.
d. firms provide households with profit.

ANSWER: c

17. Which of the following transactions does *not* take place in the markets for factors of production in the circular-flow diagram?
a. A construction company rents trucks for its business.
b. A farmer hires a teenager to help with harvest.
c. Anthony receives a salary for his work as an analyst for an investment firm.
d. Nia buys two business suits to wear to her job as a Chief Information Officer.

ANSWER: d

18. The outer loop of the circular-flow diagram represents the flow of dollars in the economy. Which of the following is *not* measured in dollars and therefore does *not* appear on the outer loop?
a. Wages
b. Income
c. Capital
d. Rent

ANSWER: c

19. In the circular-flow diagram,
a. factors of production flow from government to firms.

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b. labor flows from households to firms.
c. goods and services flow from households to firms.
d. inputs and outputs flow from in the same direction as the flow of dollars, from firms to households.

ANSWER: b

20. In the circular-flow diagram, which of the following items flows from households to firms through the markets for the factors of production?
a. Goods and services
b. Dollars spent on goods and services
c. Land, labor, and capital
d. Wages, rent, and profit

ANSWER: c

21. In the simple-circular flow diagram, the flow of money from the firms to the markets for factors of production is called
a. spending.
b. revenue.
c. income.
d. wages, rent, and profit.

ANSWER: d

22. According to the circular-flow diagram, if Dontrell is a worker who delivers flowers for Happy Day Flower Company, he participates
a. in the markets for factors of production exchanging labor for income.
b. in the markets for factors of production exchanging flowers for revenue.
c. in the markets for goods and services exchanging flowers for wages, rent, and profit.
d. in the markets for goods and services exchanging labor for income.

ANSWER: a

Figure 1

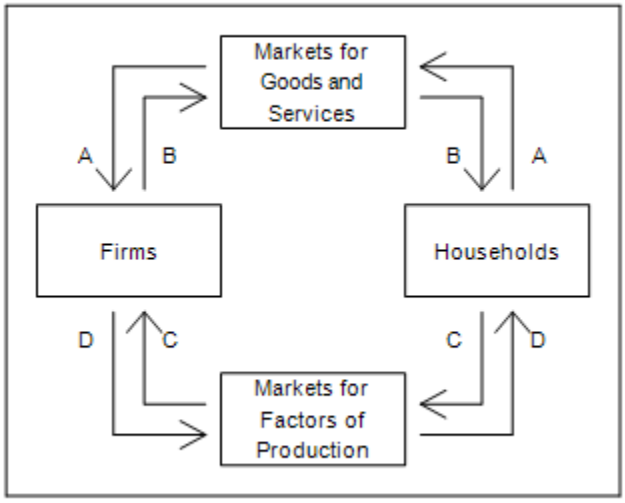
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23. **Refer to Figure 1**. Which arrow represents the flow of spending by households?
    a. B
    b. A
    c. C
    d. D

ANSWER: b

24. **Refer to Figure 1.** Makena buys a freezer for her new home. To which of the arrows does this transaction directly contribute?
    a. A only
    b. A and B
    c. C only
    d. C and D

ANSWER: b

Figure 2-2

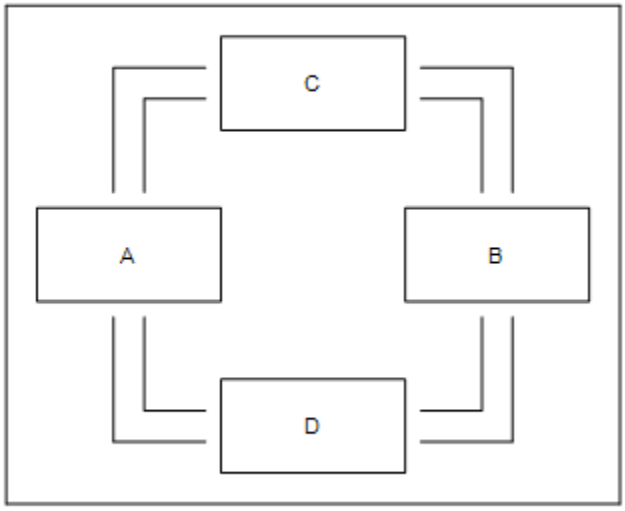
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25. **Refer to Figure 2-2**. If the owners of land, labor, and capital are represented by Box B of this circular-flow diagram, then
   a. households are represented by Box A.
   b. firms are represented by Box C.
   c. firms are sellers in Box B.
   d. firms are represented by Box A.

ANSWER: d

26. **Refer to Figure 2-2**. Diamond works as an attorney for a corporation and is paid a salary in exchange for the legal services she performs. If Diamond's income is represented by a flow of dollars from Box D to Box B of this circular-flow diagram, then the revenue earned by a firm selling its product is represented by a flow of dollars
   a. from Box A to Box C.
   b. from Box C to Box A.
   c. from Box B to Box C.
   d. from Box C to Box B.

ANSWER: b

27. When constructing a production possibilities frontier, which of the following assumptions is *not* made?
   a. The economy produces only two goods or two types of goods.
   b. The amount of available resources does not change.
   c. The technology available to firms is given.
   d. The quantities of the factors of production that are available are increasing over the relevant time period.

ANSWER: d

28. Where can an economy *not* produce?
   a. Inside its production possibilities frontier
   b. On its production possibilities frontier
   c. Outside its production possibilities frontier

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d. At the endpoints of its production possibilities frontier

ANSWER: c

29. An economy's production of two goods is efficient if
a. all members of society consume equal portions of the goods.
b. the economy is producing at a point inside the production possibilities frontier.
c. the economy is producing at a point on the production possibilities frontier.
d. it is possible to produce more of both goods without increasing the quantities of inputs that are being used.

ANSWER: c

30. The production possibilities frontier provides an illustration of the principle that
a. trade can make everyone better off.
b. governments can sometimes improve market outcomes.
c. people face trade-offs.
d. people respond to incentives.

ANSWER: c

31. Suppose a nation is currently producing at a point inside its production possibilities frontier. We know that
a. the nation is producing beyond its capacity, so inflation will occur.
b. the nation is not using all available resources or is using inferior technology or both.
c. the nation is producing an efficient combination of goods.
d. there will be a large opportunity cost if the nation tries to increase production of any good.

ANSWER: b

32. The bowed-outward shape of the production possibilities frontier can be explained by the fact that
a. all resources are scarce.
b. economic growth is always occurring.
c. the opportunity cost of one good in terms of the other depends on how much of each good the economy is producing.
d. the only way to get more of one good is to get less of the other.

ANSWER: c

Table 2-1

Production Possibilities	
Tennis Rackets	**Tennis Balls**
150	8,000
300	6,700
450	?

33. **Refer to Table 2-1.** If the production possibilities frontier is bowed outward, then which of the following could be the maximum number of tennis balls produced when 300 tennis rackets are produced?
a. 6,700.

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b. 6,900.
c. 6,000.
d. 5,100.

ANSWER: d

34. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 1,000 units of food and 47 machines. This year, it experienced a technological advance in its machine-making industry. As a result, this year, the society wants to produce 1,050 units of food and 47 machines. Which of the following statements is correct?

a. Because the technological advance occurred in the machine-making industry, it will not be possible to increase food production without reducing machine production below 47.
b. Because the technological advance occurred in the machine-making industry, increases in output can only occur in the machine industry.
c. In order to increase food production in these circumstances without reducing machine production, the economy must reduce inefficiencies.
d. The technological advance reduced the amount of resources needed to produce 47 machines, so these resources could be used to produce more food.

ANSWER: d

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Table 2-2

Ecoville's Production Possibilities	
Socks	**Glasses**
800	0
600	600
400	1,100
200	1,500
0	1,800

35. **Refer to Table 2-2.** What is the opportunity cost to Ecoville of increasing the production of socks from 400 to 600?

a. 600 glasses
b. 500 glasses
c. 400 glasses
d. 300 glasses

ANSWER: b

36. **Refer to Table 2-2.** Which of the following statements is correct?

a. The opportunity cost of an additional 200 socks is constant at 200 glasses.
b. The opportunity cost of an additional 200 socks is constant at 600 glasses.
c. Ecoville's production possibilities frontier is a straight, downward-sloping line.
d. The opportunity cost of an additional 200 socks increases as more socks are produced.

ANSWER: d

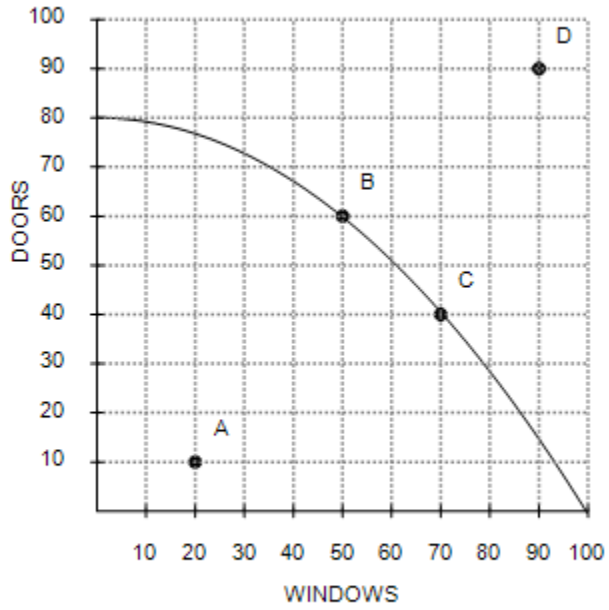
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Figure 2-3



37. **Refer to Figure 2-3.** If this economy devotes all of its resources to the production of windows, then it will produce
    a. 80 doors and 0 windows.
    b. 50 doors and 40 windows.
    c. 0 doors and 100 windows.
    d. 60 doors and 70 windows.

ANSWER: c

38. **Refer to Figure 2-3.** It is *not* possible for this economy to produce at point
    a. B.
    b. C.
    c. D.
    d. A.

ANSWER: c

39. **Refer to Figure 2-3**. This economy cannot currently produce 60 windows and 80 doors because
    a. it is not using all of its resources.
    b. it is not using the most efficient production process.
    c. it does not have the resources and technology to produce that level of output.
    d. consumers don't want that many windows and doors.

ANSWER: c

40. **Refer to Figure 2-3.** Suppose this economy is producing at point A. Which of the following statements would best

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explain this situation?

a. The economy has insufficient resources to produce at a more desirable point.
b. The economy's available technology prevents it from producing at a more desirable point.
c. There is widespread unemployment in the economy.
d. The economy is experiencing economic growth.

ANSWER: c

41. **Refer to Figure 2-3**. Efficient production is represented by which point(s)?

a. B, C
b. A
c. B, C, and A
d. B, C, and D

ANSWER: a

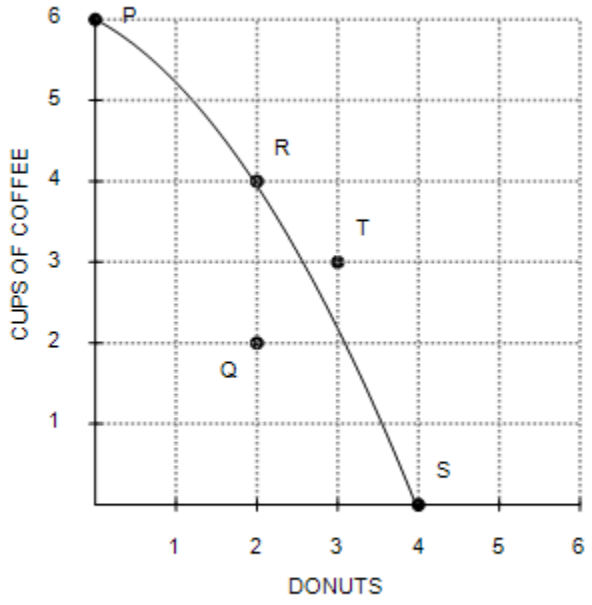
42. **Refer to Figure 2-3**. The opportunity cost of this economy moving from point C to point B is

a. 60 doors.
b. 20 doors.
c. 20 windows and 20 doors.
d. 20 windows.

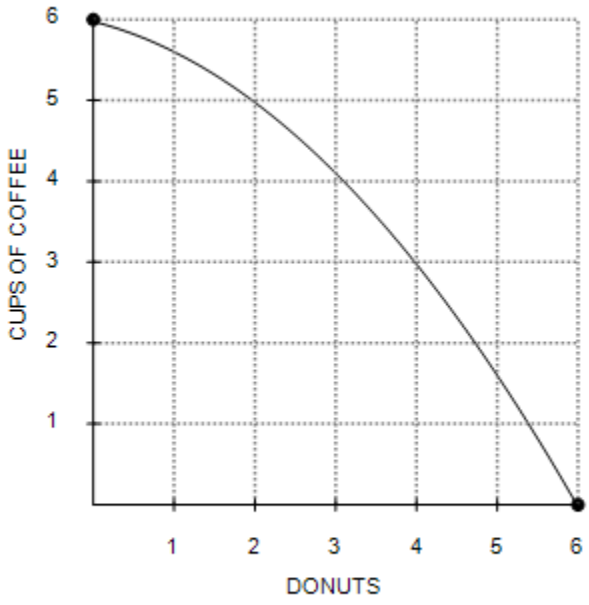
ANSWER: d

Figure 2

Graph (a)



Graph (b)



43. **Refer to Figure 2, Graph (a).** Production at point Q is

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a. possible and efficient.
b. possible but inefficient.
c. impossible but efficient.
d. impossible and inefficient.

ANSWER: b

44. **Refer to Figure 2, Graph (a).** Production is
a. possible at points P, Q, R, and S, but efficient only at points P, R, and S.
b. possible at points P, Q, R, and S, but efficient only at point Q.
c. possible at points P, R, S, and T, but efficient only at points P, R, and S.
d. possible at points P, R, S, and T, but efficient only at point T.

ANSWER: a

45. **Refer to Figure 2-4, Graph (a).** The opportunity cost of moving from point P to point R is
a. 2 donuts.
b. 2 cups of coffee and 2 donuts.
c. 2 cups of coffee.
d. 6 cups of coffee.

ANSWER: c

46. **Refer to Figure 2-4, Graph (a) and Graph (b).** A shift of the economy's production possibilities frontier from Graph (a) to Graph (b) could be caused by
a. unemployment.
b. an improvement in donut production technology.
c. an improvement in coffee production technology.
d. an improvement in both donut and coffee production technology.

ANSWER: b

47. **Refer to Figure 2-4, Graph (a) and Graph (b).** Which of the following is *not* a result of the shift of the economy's production possibilities frontier from Graph (a) to Graph (b)?
a. The trade-off between the production of donuts and cups of coffee changes.
b. The opportunity cost of a cup of coffee is higher at all levels of coffee production.
c. Production of 3 donuts and 3 cups of coffee becomes possible.
d. Production of 2 donuts and 2 cups of coffee becomes efficient.

ANSWER: d

Figure 2-5

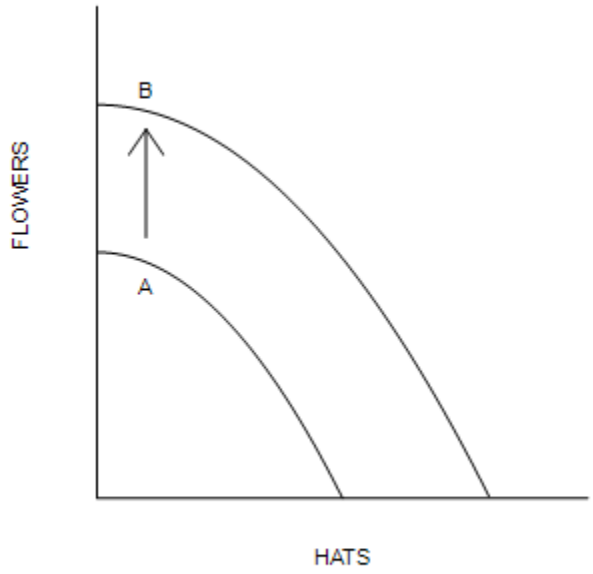
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48. **Refer to Figure 2-5.** Which of the following events would explain the shift of the production possibilities frontier from A to B?

a. A decrease in unemployment

b. A general technological advance

c. A technological advance in the hat industry

d. An improvement in the allocation of resources

ANSWER: b

Table 1

Production Possibilities	
Corn (Bushels)	**Barley (Bushels)**
2,000	0
1,600	700
1,200	1,100
800	1,400
400	1,600
0	1,700

49. **Refer to Table 1.** What is the opportunity cost of increasing the production of barley from 700 bushels to 1100 bushels?

a. 200 bushels of corn

b. 400 bushels of corn

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c. 600 bushels of corn
d. 800 bushels of corn

ANSWER: b

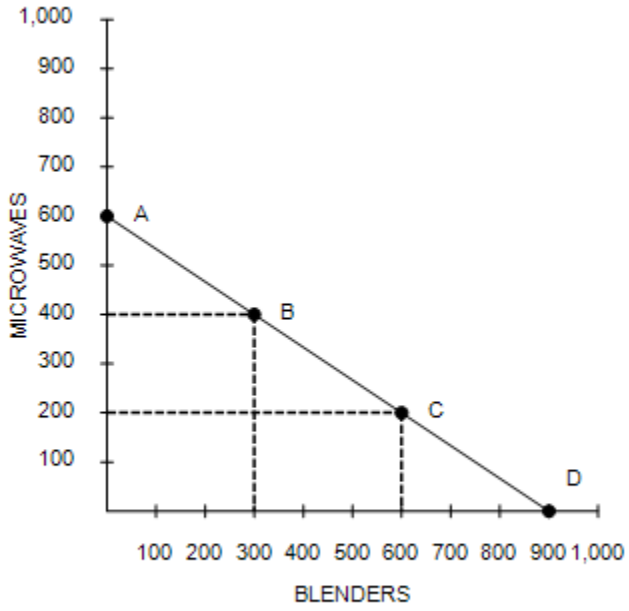
50. **Refer to Table 1.** Based on the values in the table, the production possibilities frontier is
a. bowed outward indicating increasing opportunity costs.
b. bowed outward indicating decreasing opportunity costs.
c. a straight line indicating constant opportunity costs.
d. bowed inward indicating increasing opportunity costs.

ANSWER: a

51. **Refer to Table 2-3.** Which of the following combinations of corn and barley is *not* currently attainable but would be attainable if there was an improvement in overall production technology?
a. 1,600 bushels of corn and 500 bushels of barley
b. 1,200 bushels of corn and 800 bushels of barley
c. 1,000 bushels of corn and 1,500 bushels of barley
d. 400 bushels of corn and 1,500 bushels of barley

ANSWER: c

Figure 3



52. **Refer to Figure 2-6**. Consider the production possibilities frontier for an economy that produces only cars and sofas. The opportunity cost of each car is

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a. the slope of the production possibilities frontier, or $\frac{1}{2}$ of a sofa.

b. the reciprocal of the slope of the production possibilities frontier, or 2 sofas.

c. the reciprocal of the slope of the production possibilities frontier, or $\frac{1}{2}$ of a sofa.

d. the slope of the production possibilities frontier, or 2 sofas.

ANSWER: d

53. **Refer to Figure 3**. Consider the production possibilities frontier for an economy that produces only sofas and cars. When society moves from point A to point B,

a. the opportunity cost is the same as when society moves from point B to point C.

b. it is giving up cars to get sofas.

c. the opportunity cost is increasing.

d. it moves from an inefficient point to an efficient point.

ANSWER: a

54. Microeconomics is the study of

a. how money affects the economy.

b. how individual households and firms make decisions.

c. how government affects the economy.

d. how the economy as a whole works.

ANSWER: b

55. Which of the following would likely be studied by a microeconomist rather than a macroeconomist?

a. The growth rate of production in the economy

b. The effect of a sales tax on the cigarette industry

c. A comparison of alternative tax policies and their respective impacts on the rate of the nation's economic growth

d. The effect of foreign direct investment on economic growth

ANSWER: b

56. Which of the following would likely be studied by a macroeconomist rather than a microeconomist?

a. The effect of an increase in the gas tax on fuel consumption

b. The effect of rent control on housing in New York City

c. How tariffs on shoes affect the shoe industry

d. The effect on the economy of changes in the nation's unemployment rate

ANSWER: d

57. Which of the following statements is correct about the roles of economists?

a. When economists are trying to explain the world, they are in the realm of microeconomics rather than macroeconomics.

b. When economists are trying to improve the world, they are in the realm of positive economics rather than normative economics.

c. Economists are best viewed as scientists.

d. In trying to improve the world, economists are policy advisers.

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ANSWER: d

58. Positive statements are
a. prescriptive.
b. claims about how the world should be.
c. claims about how the world is.
d. claims about how variables in the economy normally behave.

ANSWER: c

59. When recommending specific policies to undertake, economists make
a. positive statements.
b. claims about how the world is.
c. claims about how the world should be.
d. descriptive statements.

ANSWER: c

60. Which of the following is an example of a positive, as opposed to a normative, statement?
a. When public policies are evaluated, the benefits to the economy of improved equality should be considered more important than the costs of reduced efficiency.
b. The income tax rate should be increased to offset the budget deficit.
c. The United States Department of Justice sued AT&T to block its merger with T-Mobile.
d. Antitrust laws should be used to prevent further concentration in the wireless telephone service market.

ANSWER: c

61. Which of the following is an example of a normative, as opposed to a positive, statement?
a. Universal healthcare would be good for U.S. citizens.
b. A decrease in the minimum wage would decrease unemployment.
c. If the national saving rate were to increase, so would the rate of economic growth.
d. In response to the most recent recession, the federal government extended the duration of unemployment benefits.

ANSWER: a

62. Duties of the Council of Economic Advisers include
a. advising the president and writing the annual *Economic Report of the President*.
b. implementing the president's tax policies.
c. managing of the nation's money supply.
d. managing the Social Security program.

ANSWER: a

63. Economists at which of the following government offices help formulate spending plans and regulatory policies?
a. Office of Management and Budget
b. Department of the Treasury
c. Congressional Budget Office

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d. The Federal Reserve

ANSWER: a

64. The design of tax policy is one of the responsibilities of economists who work at the
a. Federal Reserve.
b. Council of Economic Advisers.
c. Congressional Budget Office.
d. Department of the Treasury.

ANSWER: d

65. Analysis of data on workers and those looking for work is conducted by economists at the
a. Office of Management and Budget.
b. Department of Labor.
c. Congressional Budget Office.
d. Department of the Treasury.

ANSWER: b

66. Economists at the Department of Justice
a. track the behavior of the nation's money supply.
b. advise Congress on economic matters.
c. help enforce the nation's antitrust laws.
d. prepare the federal budget.

ANSWER: c

67. From which of the following agencies does the President not receive economic policy advice from economists?
a. The Council of Economic Advisers
b. The Department of the Treasury
c. The Congressional Budget Office
d. The Department of Labor

ANSWER: c

68. Economists sometimes give conflicting advice because
a. graduate students in economics are encouraged to argue with each other.
b. economists have different values and scientific judgments.
c. economists acting as scientists do not like to agree with economists acting as policy advisers.
d. economics is more of a belief system than a science.

ANSWER: b

69. Sometimes economists disagree because their scientific judgments differ. Which of the following instances best reflects this source of disagreement?
a. One economist believes everyone should pay the same percentage of their income in taxes; another economist believes that wealthier citizens should pay a higher percentage of their income in taxes.
b. One economist believes that manufacturing firms should face greater regulation to preserve the environment; another economist believes the government should not intervene in free markets.

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c. One economist believes that equality should be valued over efficiency in policy decisions; another economist believes that efficiency should be valued over equality in policy decisions.
d. One economist believes the government should tax a household's income; another economist believes the government should tax a household's consumption because it will cause households to save more.

ANSWER: d

70. Kevin and Laila are economists. Kevin thinks that the wealthiest 10 percent of the U.S. population should be taxed a rate higher than the rest of society because they can better afford it. Laila thinks that everyone should be taxed at the same rate because that is the fairest scenario and the wealthy should not be penalized for their success. In this example, Kevin and Laila
a. disagree about the validity of a positive theory.
b. have different normative views about tax policy.
c. must both be incorrect because tax policy is never that simple.
d. disagree because they have access to contradicting positive statements.

ANSWER: b

71. Kennedy wants to create a graph containing the prices of baseball tickets and the corresponding quantities of baseball tickets demanded by customers. She should use a
a. pie chart.
b. bar graph.
c. time-series graph.
d. coordinate system.

ANSWER: d

72. The first number in any ordered pair is
a. the y-coordinate.
b. the vertical location of the point.
c. the x-coordinate.
d. the slope.

ANSWER: c

73. In the ordered pair (20, 29), 29 is the
a. the *x*-coordinate and the vertical location of the point.
b. the *y*-coordinate and the horizontal location of the point.
c. the *x*-coordinate and the horizontal location of the point.
d. the *y*-coordinate and the vertical location of the point.

ANSWER: d

74. The point where both *x* and *y* are zero is known as the
a. origin.
b. null.
c. zero coordinate.
d. center.

ANSWER: a

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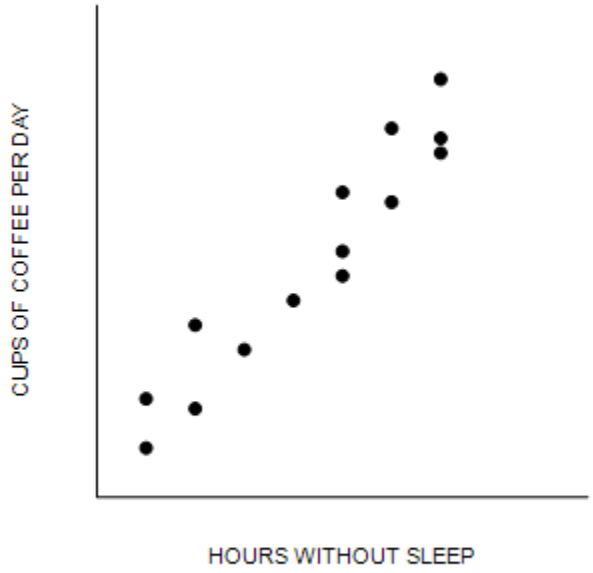
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75. When two variables have a negative correlation,
   a. if the x-variable decreases, the y-variable decreases.
   b. if the x-variable increases, the y-variable decreases.
   c. one variable will move while the other remains constant.
   d. the variables' values are never positive.

ANSWER: b

Figure 2-7



76. **Refer to Figure 2-7**. The graph shown is known as a
   a. time-series graph.
   b. bar graph.
   c. scatterplot.
   d. pie chart.

ANSWER: c

77. **Refer to Figure 2-7**. Taking cause and effect into account, which of the following interpretations would be most reasonable regarding the relationship between coffee and hours without sleep?
   a. The less coffee a person drinks per day, the more time he can go without sleep.
   b. There is no relationship between how much coffee per day a person drinks and how long he can go without sleep.
   c. The more coffee a person drinks per day, the more time he can go without sleep.
   d. The more coffee a person drinks per day, the less time he can go without sleep.

ANSWER: c

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78. When two variables move in the same direction, the curve relating them is
    a. downward sloping, and we say the variables are negatively related.
    b. upward sloping, and we say the variables are negatively related.
    c. downward sloping, and we say the variables are positively related.
    d. upward sloping, and we say the variables are positively related.

ANSWER: d

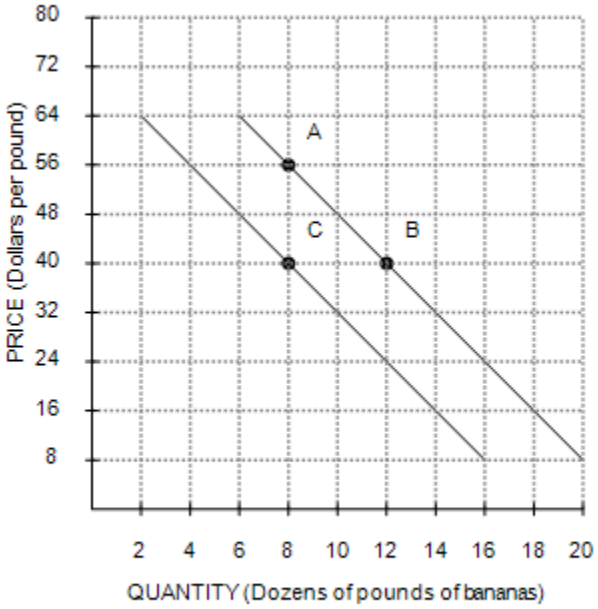
79. When a relevant variable that is *not* named on either axis changes,
    a. there will be a movement along the curve.
    b. the curve will rotate clockwise.
    c. the curve will be unaffected since only the variables on the axis affect the curve.
    d. the curve will shift.

ANSWER: d

80. Suppose the interest rate is measured along the vertical axis on a graph. When the interest rate changes, there will be a
    a. rotation of the curve.
    b. shift of the curve.
    c. movement along the curve.
    d. change in the slope of the curve.

ANSWER: c

Figure 2-8



81. **Refer to Figure 2-8**. The movement from point B to point C is
    a. a movement along the demand curve.

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b. an indication that the price of bananas has changed.
c. a shift of the demand curve.
d. an indication that the costs incurred by firms that produce bananas have changed.

ANSWER: c

82. **Refer to Figure 2-8**. The slope of the curve between points A and B is
a. –4.
b. 4.
c. $-\frac{1}{4}$.
d. $\frac{1}{4}$.

ANSWER: a

83. Which of the following is correct?
a. The slope of a line will be zero for a vertical line.
b. The slope of a fairly flat upward-sloping line will be a large positive number.
c. The slope of a line will be infinite for a vertical line.
d. The slope of a steep upward-sloping line will be a small negative number.

ANSWER: c

84. The slope of a line that passes through the points (30, 30) and (40, 25) is
a. $\frac{1}{2}$.
b. $-\frac{1}{2}$.
c. –2.
d. 2.

ANSWER: b

85. In the early 19th century, the Russian government sent doctors to southern Russian villages to provide assistance during a cholera epidemic. The villagers noticed that wherever doctors appeared, people died. Therefore, many doctors were chased away from villages, and some were even killed. This reaction to the correlation between doctors and deaths is most likely a problem of
a. omitted variables.
b. bias.
c. reverse causality.
d. government propaganda.

ANSWER: c

Figure 2-9

Commuter Rail Passengers by Frequency of Service

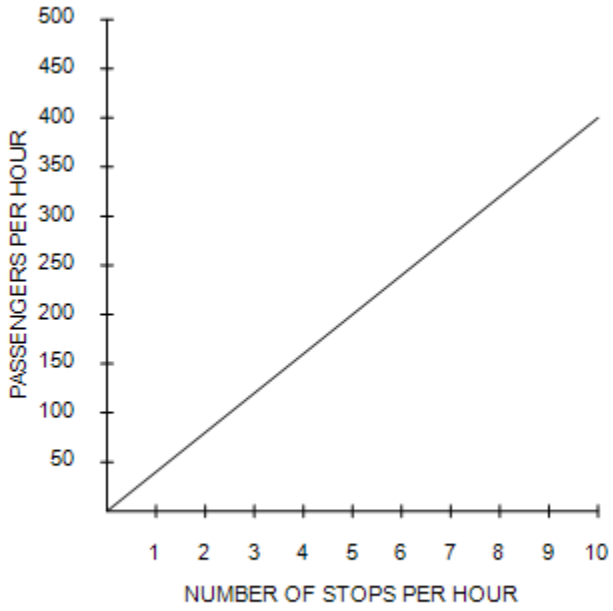
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86. **Refer to Figure 2-9.** Which of the following conclusions should *not* be drawn from observing this graph?
a. There is a positive correlation between the frequency of service and the number of passengers.
b. When there are two stops per hour, there are approximately 80 passengers.
c. More stops per hour is associated with more passengers per hour.
d. No other factors besides the frequency of service affect the number of passengers.

ANSWER: d

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1. Economists try to address their subject with a scientist's objectivity.
   a. True
   b. False
ANSWER: True

2. Economists devise theories, collect data, and then analyze these data in an attempt to verify or refute their theories.
   a. True
   b. False
ANSWER: True

3. The scientific method is the dispassionate development and testing of theories about how the world works.
   a. True
   b. False
ANSWER: True

4. The scientific method can be applied to the study of economics.
   a. True
   b. False
ANSWER: True

5. While the scientific method is applicable to studying natural sciences, it is not applicable to studying a nation's economy.
   a. True
   b. False
ANSWER: False

6. For economists, conducting experiments is often difficult and sometimes impossible.
   a. True
   b. False
ANSWER: True

7. Economists usually have to make do with whatever data the world happens to give them.
   a. True
   b. False
ANSWER: True

8. It is difficult for economists to make observations and develop theories, but it is easy for economists to run experiments to generate data to test their theories.
   a. True
   b. False
ANSWER: False

9. Since economists cannot use natural experiments offered by history, they must use carefully constructed laboratory experiments instead.
   a. True

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b. False

ANSWER: False

10. Historical episodes are not valuable to economists.
a. True
b. False

ANSWER: False

11. Historical episodes allow economists to illustrate and evaluate current economic theories.
a. True
b. False

ANSWER: True

12. Good assumptions simplify a problem without substantially affecting the answer.
a. True
b. False

ANSWER: True

13. Assumptions can simplify the complex world and make it easier to understand.
a. True
b. False

ANSWER: True

14. Economists often find it worthwhile to make assumptions that do not necessarily describe the real world.
a. True
b. False

ANSWER: True

15. Economists use one standard set of assumptions to answer all economic questions.
a. True
b. False

ANSWER: False

16. Economic models are most often composed of diagrams and equations.
a. True
b. False

ANSWER: True

17. Economic models omit many details to allow us to see what is truly important.
a. True
b. False

ANSWER: True

18. An economic model can accurately explain how the economy is organized because it is designed to include, to the extent possible, all features of the real world.

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a. True
b. False

ANSWER: False

19. All scientific models, including economic models, simplify reality in order to improve our understanding of it.
a. True
b. False

ANSWER: True

20. The circular-flow diagram explains, in general terms, how the economy is organized and how participants in the economy interact with one another.
a. True
b. False

ANSWER: True

21. A circular-flow diagram is a visual model of the economy.
a. True
b. False

ANSWER: True

22. The circular flow model is not used anymore because it fails to perfectly replicate real world situations.
a. True
b. False

ANSWER: False

23. In the circular-flow diagram, households and firms are the decision makers.
a. True
b. False

ANSWER: True

24. In the circular-flow diagram, firms produce goods and services using the factors of production.
a. True
b. False

ANSWER: True

25. In the circular-flow diagram, factors of production are the goods and services produced by firms.
a. True
b. False

ANSWER: False

26. In the circular-flow diagram, factors of production include land, labor, and capital.
a. True
b. False

ANSWER: True

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27. In the circular-flow diagram, firms own the factors of production and use them to produce goods and services.
    a. True
    b. False
ANSWER: False

28. In the circular-flow diagram, the two types of markets in which households and firms interact are the markets for goods and services and the markets for factors of production.
    a. True
    b. False
ANSWER: True

29. In the markets for goods and services in the circular-flow diagram, households are buyers and firms are sellers.
    a. True
    b. False
ANSWER: True

30. In the markets for the factors of production in the circular-flow diagram, households are buyers and firms are sellers.
    a. True
    b. False
ANSWER: False

31. In the circular-flow diagram, one loop represents the flow of goods, services, and factors of production, and the other loop represents the corresponding flow of dollars.
    a. True
    b. False
ANSWER: True

32. In the circular-flow diagram, one loop represents the flow of goods and services, and the other loop represents the flow of factors of production.
    a. True
    b. False
ANSWER: False

33. In the circular-flow diagram, payments for labor, land, and capital flow from firms to households through the markets for the factors of production.
    a. True
    b. False
ANSWER: True

34. The production possibilities frontier is a graph that shows the various combinations of outputs that the economy can possibly produce given the available factors of production and the available production technology.
    a. True
    b. False
ANSWER: True

Figure 2-10

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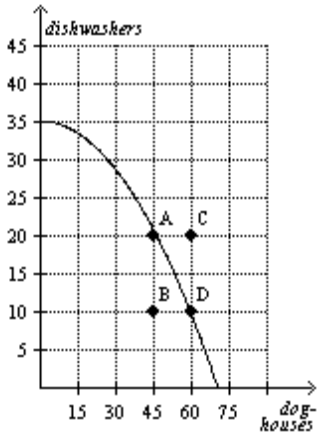
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35. **Refer to Figure 2-10**. If this economy uses all its resources in the dishwasher industry, it produces 35 dishwashers and no doghouses.
    a. True
    b. False

ANSWER: True

36. **Refer to Figure 2-10**. It is possible for this economy to produce 75 doghouses.
    a. True
    b. False

ANSWER: False

37. **Refer to Figure 2-10**. It is possible for this economy to produce 30 doghouses and 20 dishwashers.
    a. True
    b. False

ANSWER: True

38. **Refer to Figure 2-10**. It is possible for this economy to produce 45 doghouses and 30 dishwashers.
    a. True
    b. False

ANSWER: False

39. **Refer to Figure 2-10**. When this economy produces 30 doghouses and 25 dishwashers there is full employment.
    a. True
    b. False

ANSWER: False

40. **Refer to Figure 2-10**. This economy fully employs its resources when it produces 35 dishwashers and zero doghouses.
    a. True
    b. False

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Ch 02: True False Short Answer and Essay

ANSWER: True

41. **Refer to Figure 2-10**. Given the technology available for manufacturing doghouses and dishwashers, this economy does not have enough of the factors of production to support the level of output represented by point C.
    a. True
    b. False
ANSWER: True

42. **Refer to Figure 2-10**. Points A, B, and D represent feasible outcomes for this economy.
    a. True
    b. False
ANSWER: True

43. **Refer to Figure 2-10**. Points B and C represent infeasible outcomes for this economy.
    a. True
    b. False
ANSWER: False

44. **Refer to Figure 2-10**. Points A, B, and D represent efficient outcomes for this economy.
    a. True
    b. False
ANSWER: False

45. **Refer to Figure 2-10**. Point B represents an inefficient outcome for this economy.
    a. True
    b. False
ANSWER: True

46. **Refer to Figure 2-10**. Unemployment could cause this economy to produce at point B.
    a. True
    b. False
ANSWER: True

47. **Refer to Figure 2-10**. The opportunity cost of moving from point A to point D is 10 dishwashers.
    a. True
    b. False
ANSWER: True

48. **Refer to Figure 2-10**. The opportunity cost of moving from point B to point D is 15 doghouses.
    a. True
    b. False
ANSWER: False

49. **Refer to Figure 2-10**. The opportunity cost of moving from point B to point A is zero.
    a. True

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b. False

ANSWER: True

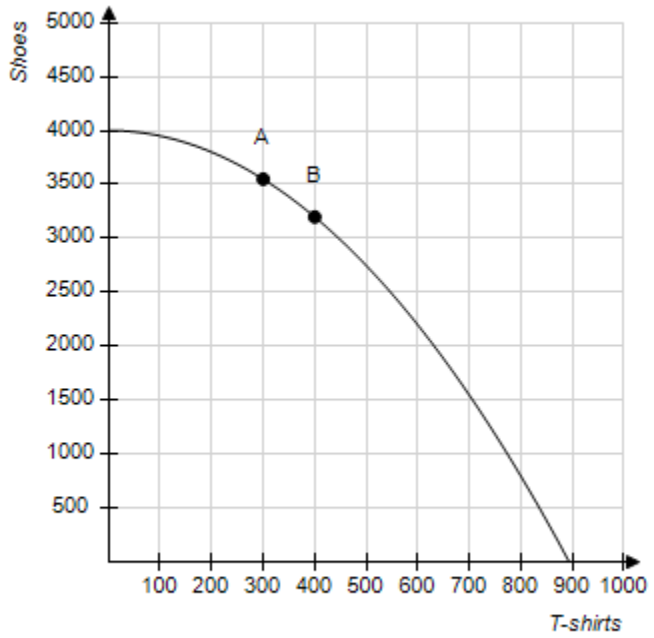
50. **Refer to Figure 2-10**. When producing on the production possibilities frontier, the opportunity cost of an additional doghouse increases as more doghouses are produced.

a. True

b. False

ANSWER: True

Figure 2-11



51. **Refer to Figure 2-11**. Point B represents an inefficient outcome for this economy.

a. True

b. False

ANSWER: False

52. **Refer to Figure 2-11**. The opportunity cost of moving from point A to point B is zero.

a. True

b. False

ANSWER: False

53. **Refer to Figure 2-11**. When on the production possibilities frontier, the opportunity cost of producing an additional pair of shoes increases as more shoes are produced.

a. True

b. False

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ANSWER: True

54. **Refer to Figure 2-11**. This economy fully employs its resources when it produces 4000 shoes and zero t-shirts.
a. True
b. False
ANSWER: True

55. **Refer to Figure 2-11**. It is possible for this economy to produce 1000 shoes.
a. True
b. False
ANSWER: True

56. With the resources it has, an economy can produce at any point on or outside the production possibilities frontier, but it cannot produce at points inside the frontier.
a. True
b. False
ANSWER: False

57. Points inside the production possibilities frontier represent feasible levels of production.
a. True
b. False
ANSWER: True

58. Points inside the production possibilities frontier represent inefficient levels of production.
a. True
b. False
ANSWER: True

59. Points on the production possibilities frontier represent efficient levels of production.
a. True
b. False
ANSWER: True

60. Points outside the production possibilities frontier represent infeasible levels of production.
a. True
b. False
ANSWER: True

61. An outcome is said to be efficient if an economy is getting all it can from the scarce resources it has available.
a. True
b. False
ANSWER: True

62. An outcome is said to be efficient if an economy is conserving the largest possible quantity of its scarce resources while still meeting the basic needs of society.

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a. True
b. False

ANSWER: False

63. A production point is said to be efficient if there is no way for the economy to produce more of one good without producing less of another.
a. True
b. False

ANSWER: True

64. If an economy can produce more of one good without giving up any of another good, then the economy's current production point is inefficient.
a. True
b. False

ANSWER: True

65. Unemployment causes production levels to be inefficient.
a. True
b. False

ANSWER: True

66. The opportunity cost of something is what you give up to get it.
a. True
b. False

ANSWER: True

67. The production possibilities frontier shows the opportunity cost of one good as measured in terms of the other good.
a. True
b. False

ANSWER: True

68. When a production possibilities frontier is bowed outward, the opportunity cost of one good in terms of the other is constant.
a. True
b. False

ANSWER: False

69. When a production possibilities frontier is bowed outward, the opportunity cost of one good in terms of the other depends on how much of each good is being produced.
a. True
b. False

ANSWER: True

70. When a production possibilities frontier is bowed outward, the opportunity cost of the first good in terms of the second good increases as more of the second good is produced.

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a. True
b. False

ANSWER: False

71. When a production possibilities frontier is bowed outward, the opportunity cost of the second good in terms of the first good increases as more of the second good is produced.
a. True
b. False

ANSWER: True

72. A production possibilities frontier has a bowed shape if the opportunity cost is constant at all levels of output.
a. True
b. False

ANSWER: False

73. Economists believe that production possibilities frontiers rarely have a bowed shape.
a. True
b. False

ANSWER: False

74. A production possibilities frontier will be bowed outward if some of the economy's resources are better suited to producing one good than another.
a. True
b. False

ANSWER: True

75. The trade-off between the production of one good and the production of another good can change over time because of technological advances.
a. True
b. False

ANSWER: True

76. While the production possibilities frontier is a useful model, it cannot be used to illustrate economic growth.
a. True
b. False

ANSWER: False

77. Economic growth causes a production possibilities frontier to shift outward in at least one direction.
a. True
b. False

ANSWER: True

78. If new government regulations designed to protect wetlands remove very productive farmland from production, then the production possibilities frontier will shift inward.
a. True

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b. False

ANSWER: True

79. Production possibilities frontiers can be used to illustrate scarcity, trade-offs, opportunity cost, efficiency, unemployment, technological advances, and economic growth.

a. True

b. False

ANSWER: True

80. Microeconomics is the study of how households and firms make decisions and how they interact in specific markets.

a. True

b. False

ANSWER: True

81. Macroeconomics is the study of economy-wide phenomena.

a. True

b. False

ANSWER: True

82. The effects of borrowing by the federal government would be studied by a microeconomist rather than a macroeconomist.

a. True

b. False

ANSWER: False

83. The effects of foreign competition on the U.S. textile industry would be studied by a microeconomist rather than a macroeconomist.

a. True

b. False

ANSWER: True

84. A macroeconomist, rather than a microeconomist, would study the effects on a market from two firms merging.

a. True

b. False

ANSWER: False

85. Microeconomics and macroeconomics are closely intertwined.

a. True

b. False

ANSWER: True

86. Economists acting as scientists make positive statements, while economists acting as policy advisers make normative statements.

a. True

b. False

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ANSWER: True

87. Normative statements describe how the world is, while positive statements prescribe how the world should be.
a. True
b. False
ANSWER: False

88. Positive statements are descriptive, while normative statements are prescriptive.
a. True
b. False
ANSWER: True

89. Positive statements can be evaluated using data alone, but normative statements cannot.
a. True
b. False
ANSWER: True

90. Evaluating normative statements involves values as well as facts.
a. True
b. False
ANSWER: True

91. "Society would be better off if the welfare system were abolished" is a normative statement, not a positive statement.
a. True
b. False
ANSWER: True

92. "Other things equal, an increase in supply causes a decrease in price" is a normative statement, not a positive statement.
a. True
b. False
ANSWER: False

93. "Minimum wage laws result in unemployment" is a normative statement, while "the minimum wage should be higher" is a positive statement.
a. True
b. False
ANSWER: False

94. "The US should not restrict employers from outsourcing work to foreign countries" is a normative statement.
a. True
b. False
ANSWER: True

95. Trade-offs are involved in most policy decisions.

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a. True
b. False
ANSWER: True

96. Since 1946, the president of the United States has received guidance from the Council of Economic Advisers.
a. True
b. False
ANSWER: True

97. The duties of the Council of Economic Advisers are to advise the president of the United States and to determine U.S. monetary policy.
a. True
b. False
ANSWER: False

98. The Council of Economic Advisers' *Economic Report of the President* discusses recent developments in the economy and presents the council's analysis of current policy issues.
a. True
b. False
ANSWER: True

99. The President counts among his economic advisors the Congressional Budget Office.
a. True
b. False
ANSWER: False

100. Economists at the U.S. Department of the Treasury help design U.S. coins and paper money.
a. True
b. False
ANSWER: False

101. Economists at the U.S. Department of Justice help enforce the nation's antitrust laws.
a. True
b. False
ANSWER: True

102. Economists work both inside and outside the administrative branch of the U.S. government.
a. True
b. False
ANSWER: True

103. The Congressional Budget Office, which is staffed by economists, provides Congress with independent evaluations of policy proposals.
a. True
b. False

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ANSWER: True

104. There is only one explanation for why economists give conflicting advice on policy issues, and it is that they have different values about what policy should try to accomplish.
a. True
b. False
ANSWER: False

105. Economists may disagree about the validity of alternative positive theories about how the world works.
a. True
b. False
ANSWER: True

106. Different values are not a reason for disagreement among economists.
a. True
b. False
ANSWER: False

107. Because almost all economists oppose policies that restrict trade among nations, policymakers do not restrict imports of certain goods.
a. True
b. False
ANSWER: False

108. According to John Maynard Keynes, an economist must possess a rare combination of skills including being a mathematician, historian, statesman, and philosopher.
a. True
b. False
ANSWER: True

109. In economics, graphs serve two purposes: they offer a way to visually express ideas, and they provide a way of finding and interpreting patterns when analyzing economic data.
a. True
b. False
ANSWER: True

110. Examples of graphs of a single variable include pie charts, bar graphs, and time-series graphs.
a. True
b. False
ANSWER: True

111. In the ordered pair (10,30), 10 is the y-coordinate and 30 is the z-coordinate.
a. True
b. False
ANSWER: False

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112. In the ordered pair (10,30), 10 is the horizontal location of the point and 30 is the vertical location of the point.
a. True
b. False
ANSWER: True

113. Two variables that have a positive correlation move in the same direction.
a. True
b. False
ANSWER: True

114. Two variables that have a negative correlation move in opposite directions.
a. True
b. False
ANSWER: True

115. When a variable that is named on an axis of a graph changes, the curve shifts.
a. True
b. False
ANSWER: False

116. A change in a variable that is neither labeled on the horizontal nor vertical axis for a graph can be interpreted as a movement along the curve.
a. True
b. False
ANSWER: False

117. The concept of slope can be used to answer questions about how much one variable responds to changes in another variable.
a. True
b. False
ANSWER: True

118. The slope of a line is equal to the change in the x-variable divided by the change in the y-variable.
a. True
b. False
ANSWER: False

119. The slope of an upward-sloping line is positive, and the slope of a downward-sloping line is negative.
a. True
b. False
ANSWER: True

120. The slope of a horizontal line is infinite, and the slope of a vertical line is zero.
a. True
b. False

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ANSWER: False

121. The slope of a line is the ratio of the vertical distance covered to the horizontal distance covered along the line.
a. True
b. False
ANSWER: True

122. If a line passes through the points (20,5) and (10,10), then the slope of the line is 1/2.
a. True
b. False
ANSWER: False

123. If a line passes through the points (20,5) and (10,10), then the slope of the line is -2.
a. True
b. False
ANSWER: False

124. Changes in one variable on a graph might be caused by the other variable on the graph or by a third omitted variable.
a. True
b. False
ANSWER: True

125. Deciding that A causes B when in fact B causes A is a mistake called omitted variable bias.
a. True
b. False
ANSWER: False

126. The broken window fallacy states that when a window breaks and someone spends money to repair it, they have created new economic activity that would not have otherwise taken place.
a. True
b. False
ANSWER: True

127. Like biologists and physicists, economists use the dispassionate development and testing of how the world works known as the
ANSWER: scientific method.

128. As a substitute for laboratory experiments, economists use evidence available through history's
ANSWER: natural experiments.

Figure 2-12

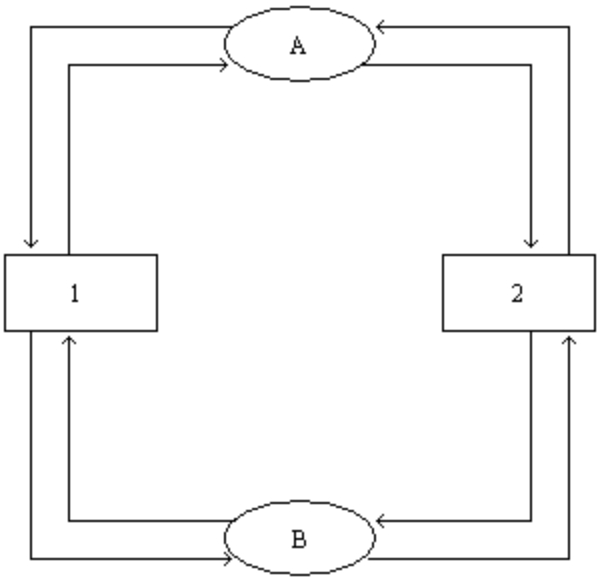
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129. **Refer to Figure 2-12.** What is the name of the model depicted in the figure?
ANSWER: Circular Flow Model

130. **Refer to Figure 2-12.** What do the ovals represent in the figure?
ANSWER: Market for Goods and Services
Market for Factors of Production

131. **Refer to Figure 2-12.** What do the rectangles represent in the figure?
ANSWER: Firms
Households

132. **Refer to Figure 2-12.** What do the outer arrows represent in the figure?
ANSWER: flow of dollars

133. **Refer to Figure 2-12.** What do the inner arrows represent in the figure?
ANSWER: flow of inputs and outputs

134. **Refer to Figure 2-12.** What does the arrow going from oval A to rectangle 2 represent in the figure?
ANSWER: goods and services bought

135. **Refer to Figure 2-12.** What does the arrow going from oval B to rectangle 2 represent in the figure?
ANSWER: income

136. **Refer to Figure 2-12.** What are two elements not included in this figure that could be included in a more complex model?
ANSWER: government
international trade

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

138. Just like other scientific models, economic models simplify reality using
ANSWER: assumptions.

139. The three main factors of production, or categories of inputs, used by firms to produce goods and services are
ANSWER: land, labor, and capital.

140. In the circular flow diagram, who owns the factors of production and consumes all of the goods and services produced?
ANSWER: households

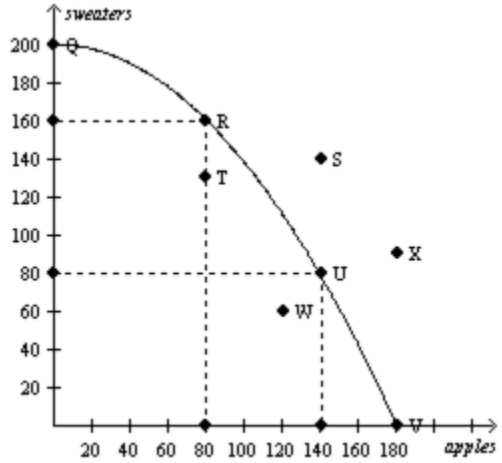
141. In the circular flow diagram, when Brian provides labor through the markets for factors of production to ABC Company, the flow of money Brian receives in exchange is called
ANSWER: income.

142. In the markets for goods and services in the circular flow diagram, households act as
ANSWER: buyers.

143. In the circular flow diagram, when Daphne purchases a new mobile phone, Daphne participates in the markets for
ANSWER: goods and services.

144. What you must give up to get something else is called the
ANSWER: opportunity cost.

Figure 2-13



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

145. **Refer to Figure 2-13.** The bowed outward shape of the production possibilities curve indicates that opportunity cost

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of apples in terms of sweaters is
ANSWER: increasing.

146. **Refer to Figure 2-13.** Which point(s) on the graph is(are) efficient production possibilities?
ANSWER: Q, R, U, and V

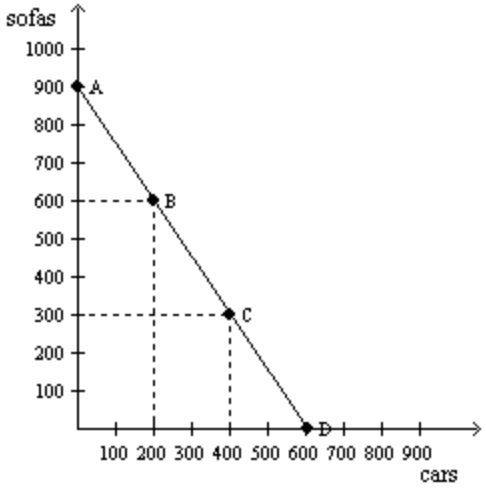
147. **Refer to Figure 2-13.** Which point(s) on the graph show unemployment of resources?
ANSWER: T and W

148. **Refer to Figure 2-13.** Which point(s) on the graph is(are) unattainable given current resources and technology?
ANSWER: S and X

149. **Refer to Figure 2-13.** What is the opportunity cost of moving from point T to point R?
ANSWER: zero

150. **Refer to Figure 2-13.** What is the opportunity cost of moving from point R to point Q?
ANSWER: 80 bushels of apples

Figure 2-14



151. **Refer to Figure 2-14.** Consider the production possibilities frontier for an economy that produces only sofas and cars. As the economy moves from point A to point D, is the opportunity cost of cars increasing, constant, or decreasing?
ANSWER: constant

152. **Refer to Figure 2-14.** Consider the production possibilities frontier for an economy that produces only sofas and cars. The opportunity cost of one sofa is
ANSWER: 2/3 of a car.

153. **Refer to Figure 2-14.** Consider the production possibilities frontier for an economy that produces only sofas and cars. The opportunity cost of one car is
ANSWER: 3/2 sofas.

Table 2-4

T B E X A M . C O M

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

154. **Refer to Table 2-4.** Consider the production possibilities table for an economy that produces only mobile phones and pizzas. What is the opportunity cost of increasing production of mobile phones from 200 to 500?
ANSWER: 2,000 pizzas.

155. **Refer to Table 2-4.** Consider the production possibilities table for an economy that produces only mobile phones and pizzas. What is the opportunity cost of increasing production of pizzas from 4,000 to 6,000?
ANSWER: 400 mobile phones.

156. **Refer to Table 2-4.** Consider the production possibilities table for an economy that produces only mobile phones and pizzas. Describe the shape of the production possibilities frontier.
ANSWER: bowed outward

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

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

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

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

161. When economists are trying to explain the world, they are scientists. When they are trying to improve it, they are
ANSWER: policy advisers.

162. What type of statement is a descriptive statement about how the world is?
ANSWER: positive statement

163. What type of statement is a prescriptive statement about how the world ought to be?
ANSWER: normative statement

164. Which type of statement - positive or normative - can be evaluated by analyzing data alone?
ANSWER: positive

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

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Ch 02: True False Short Answer and Essay

wages.
ANSWER: positive

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

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

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

169. Since 1946, the president of the United States has received guidance from a group comprised of three members and a staff of a few dozen economists known as the
ANSWER: Council of Economic Advisers

170. Economists at which administrative department help formulate spending plans and regulatory policies?
ANSWER: Office of Management and Budget

171. Economists at which administrative department help design tax policy?
ANSWER: Department of the Treasury

172. Economists at which administrative department analyze data on workers and those looking for work to help formulate labor-market policies?
ANSWER: Department of Labor

173. Economists at which administrative department help enforce the nation's antitrust laws?
ANSWER: Department of Justice

174. The institution that sets the nation's monetary policy is called the
ANSWER: Federal Reserve.

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

176. When economists disagree about whether a policy is fair, they are expressing a difference in
ANSWER: values.

177. Most economists agree that a large federal budget deficit has what type of effect on the economy?
ANSWER: adverse

Figure 2-15

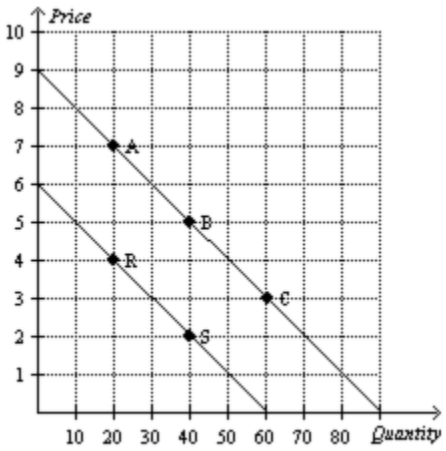
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178. **Refer to Figure 2-15.** What are the coordinates of point C?
ANSWER: (60,3)

179. **Refer to Figure 2-15.** What is the x-coordinate of point R?
ANSWER: 20

180. **Refer to Figure 2-15.** How are price and quantity related in this graph?
ANSWER: negatively correlated

181. **Refer to Figure 2-15.** What is the slope of the line with points A, B, and C?
ANSWER: -0.1

182. **Refer to Figure 2-15.** Is a move from point A to point B considered a shift of the curve or a movement along the curve?
ANSWER: movement along the curve

183. **Refer to Figure 2-15.** Is a move from point A to point R considered a shift of the curve or a movement along the curve?
ANSWER: shift of the curve

184. **Refer to Figure 2-15.** Given that price is measured on the vertical axis, quantity is measured on the horizontal axis, and that the curves are downward-sloping, what type of curves are depicted here?
ANSWER: demand curves

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

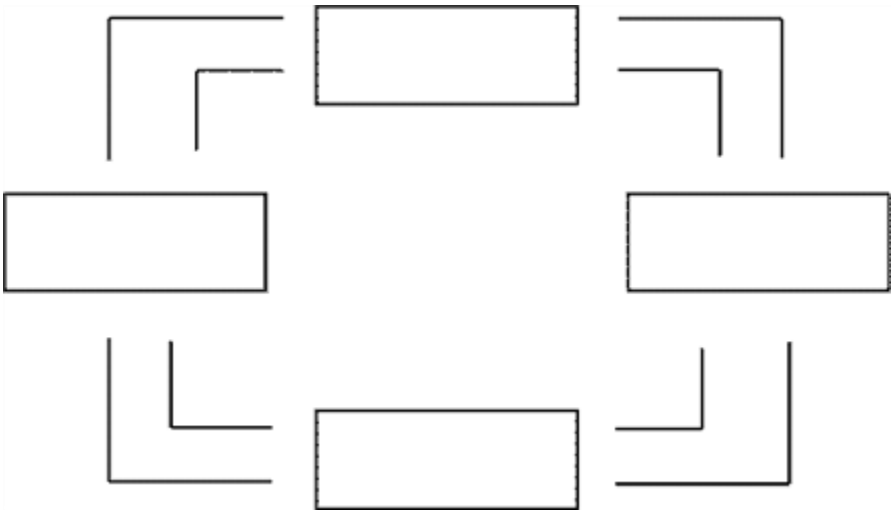
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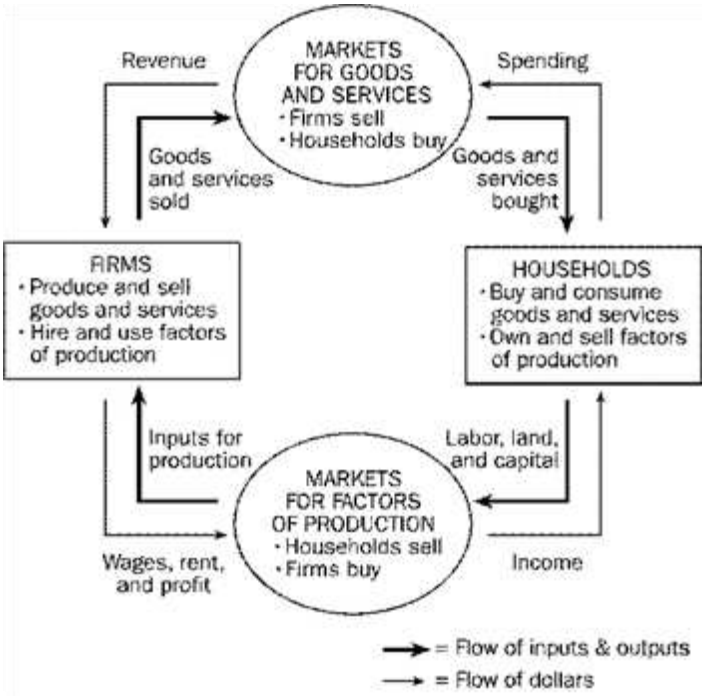
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ANSWER:



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

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

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

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possibilities frontier in each of the following situations:

a. The outcome is efficient, with ranchers choosing to produce equal numbers of cattle and prairie dogs.

b. As a protest against the government introducing the gray wolf back into the wild in their state, ranchers decide to withhold 25 percent of the available grassland for grazing.

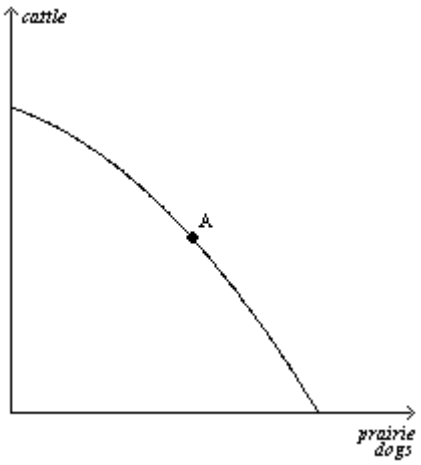
c. The price of prairie dogs increases to $200 each, so ranchers decide to allot additional land for prairie dogs.

d. The government grants new leases to ranchers, giving them 10,000 new acres of grassland each for grazing.

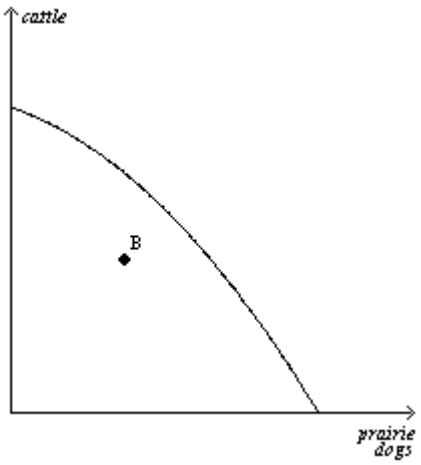
e. A drought destroys most of the available grass for grazing of cattle, but not for prairie dogs since they also eat plant roots.

ANSWER:

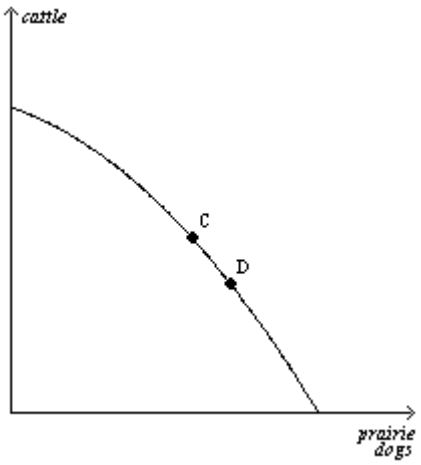
(a)



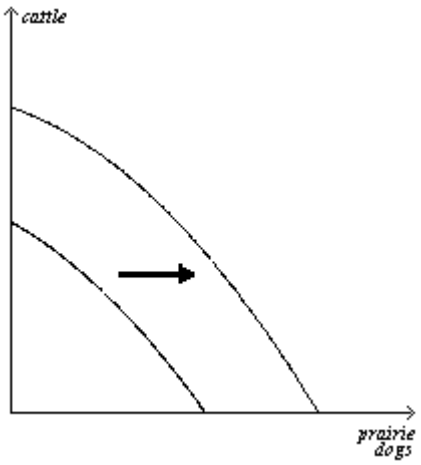
(b)



(c)



(d)



(e)

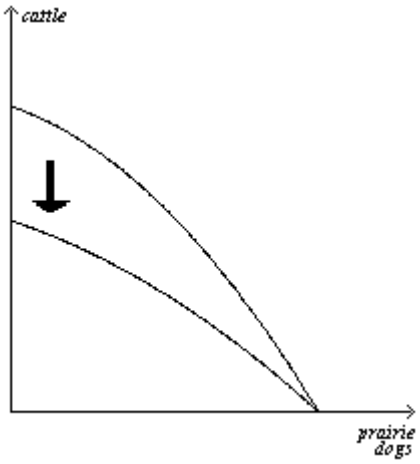
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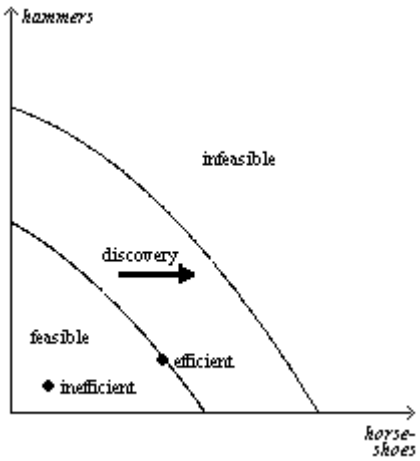
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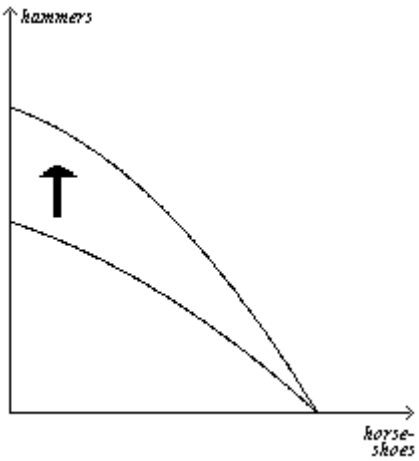
187. Draw a production possibilities frontier showing increasing opportunity cost of hammers in terms of horseshoes.
a. On the graph, identify the area of feasible outcomes and the area of infeasible outcomes.
b. On the graph, label a point that is efficient and a point that is inefficient.
c. On the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

ANSWER:

(a-c)



(d)



188. Identify each of the following topics as being part of microeconomics or macroeconomics:
a. the impact of a change in consumer income on the purchase of luxury automobiles
b. the effect of a change in the price of Coke on the purchase of Pepsi
c. the impact of a war in the Middle East on the rate of inflation in the United States
d. factors influencing the rate of economic growth
e. factors influencing the demand for tractors
f. the impact of tax policy on national saving

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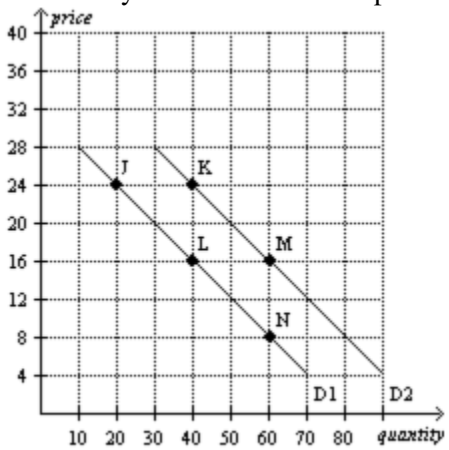
g. the effect of pollution taxes on the U.S. copper industry
h. the degree of competition in the cable television industry
i. the effect of a balanced-budget amendment on economic stability
j. the impact of deregulation on the savings and loan industry

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

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

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

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



ANSWER: a. (20,24)
b. a demand curve
c. a negative correlation between price and quantity
d. -8/20 or -2/5

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Name:_____ Class:_____ Date:_____

Ch 02: True False Short Answer and Essay

e. -2/5; because the slope of a straight line is constant
f. an increase in demand.
g. because the 2 lines are parallel

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