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Chapter 1

Introduction

Answers to End-of-Chapter Problems

1.

Q: Economic activity around the world is mainly organized by:
a) internet connections.
b) family connections.
c) informal arrangements.
d) market transactions.
A: d) market for transactions.
Explanation: Today the vast majority of economic activity worldwide is organized by **market transactions**, which are activities that produce and exchange goods and services that other people are willing to pay for. From poor rice farmers in Cambodia to multi-millionaire investment bankers on Wall Street, the market rules.

2.

The COVID-19 viral outbreak was declared a pandemic in March 2020. The immediate response of the labor market was (LO1-1)
a) a decline in unemployment.
b) a rise in the number of jobs.
c) a sharp rise in the number of unemployed workers.

Correct answer: c. Explanation: On March 11, 2020, the fast-moving COVID-19 viral outbreak was officially declared a global pandemic. Over the next several months, the United States and most other countries saw a sharp drop in economic activity as many businesses and schools closed to reduce the spread of the virus. People shifted to remote work and education, but not everyone had the capability to do that. The number of unemployed Americans rose from 6 million before the pandemic to 23 million a month later. At the same time, the unemployment rate—the share of the labor force without a job—rose to almost 15 percent.

3.

Q: Technological change
a) moves faster in some industries than others.
b) is found equally in all parts of the economy.
c) moves fastest in the energy sector.
d) never benefits the economy.
A: a) moves faster in some industries than others.

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Explanation: Technological change is uneven, moving much faster in some industries than others. Although information technology has evolved rapidly in recent decades, the pace of change in energy technologies has been much slower.

4.

Q: One benefit of globalization is
a) higher prices for most consumers.
b) lower prices for most consumers.
c) less international communication between businesses.
d) a lower standard of living for most people.
A: b) lower prices for most consumers.
Explanation: For a rich country like the United States, a big benefit of foreign trade is access to cheaper goods and services.

5.

Q: Many people have mixed feelings about financial markets because financial markets
a) can experience violent swings.
b) can work only in a centrally planned economy.
c) only hurt the economy.
d) always go down.
A: a) can experience violent swings.
Explanation: Most people justifiably have mixed feelings about financial markets, which can experience violent swings. For Americans who have a lot of their retirement money in the stock market, these downturns can seem devastating. Over the long run— say, 20 years—the stock market has historically almost always gone up. But in the short run it is subject to wide swings that can create large fortunes or steal hard-earned investments.

6.

Q: For each of the following, indicate whether it is more likely to be the result of economic competition or government intervention.
a) Protection against unsafe drugs.
b) Rapid innovation.
c) Help for poor families.
d) Strong economic growth.
A: a) government intervention; b) economic competition; c) government intervention; d) economic competition
Explanation:
a) Government intervention represents the actions taken by government to affect the economy.
b) Economic competition is the effort by people and businesses to achieve a desirable outcome given what everyone else is doing.
c) Government intervention represents the actions taken by government to affect the economy.
d) Economic competition provides stimulus for cost-savings, new efficiencies, and innovation that results in economic growth.

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7.
Q: At its extreme, a laissez-faire approach to the economy means no government regulation at all. Let's suppose we got rid of the rule that you need a medical degree to practice medicine. One disadvantage of such a change would be
a) more time spent in waiting rooms.
b) fewer doctors.
c) a higher price for most medical care.
d) a lower quality for most medical care.
A: d) a lower quality for most medical care.
Explanation: Without a medical degree and its associated education and training, there would be no assurance of the quality of medical services delivered. Consumers would have to determine skill through trial and error, which could result in increased fatalities.

8.
Q: One indicator of prosperity is gross domestic product. Gross domestic product measures the economy by
a) adding up annual household income.
b) looking only at household consumption.
c) counting the dollar value of the total output of a national economy over a year.
d) measuring annual wages and benefits.
A: c) counting the dollar value of the total output of a national economy over a year.
Explanation: There are plenty of ways to measure an economy. One key indicator is known as the gross domestic product (GDP), which is the dollar value of the total output of a national economy over a year.

9.
Q: If the government safety net were to disappear, which of the following outcomes would be likely to occur?
a) Elderly Americans would live longer.
b) Poor families would be able to buy less food.
c) The income and wealth gap between rich and poor would narrow.
d) The U.S. government would spend less on health care.
A: b and d.
Explanation:
The safety net makes an enormous difference in the well-being of low-income households. The food stamp program, for example, provided low-cost food to roughly 42 million Americans in 2021, with the average person getting $2,600 in benefits. About 82 million low-income Americans were enrolled in the Medicaid program in June 2022, receiving help with medical costs.
10.
Q: Disagreements among economists are
a) unusual.
b) limited to health care and education.
c) frequent when considering the appropriate degree of government intervention.
d) rare when considering new technologies.
A: c) frequent when considering the appropriate degree of government intervention.

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Explanation: In some areas of economics there is little disagreement. However, plenty of important policy questions divide economists when it comes to the right amount of government intervention in the economy.

11.
Q: Is the following statement true or false? Reputable economists agree that the response to the COVID-19 pandemic was the appropriate level of intervention. (LO1-5)
A: False.
Explanation: Reputable economists the appropriate level of pandemic relief is an issue of continuing controversy. Some economists believed that the U.S. government could have done more to control the pandemic, while others were concerned that the federal government spent too much and took on too much debt, leading to higher inflation.There is debate over how big the government's role should be in health, education, and retirement. Likewise, there is no consensus among economists — or anyone else, for that matter—about how best to improve the educational system. An important ongoing controversy concerns the right level of federal taxes.

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Chapter 1

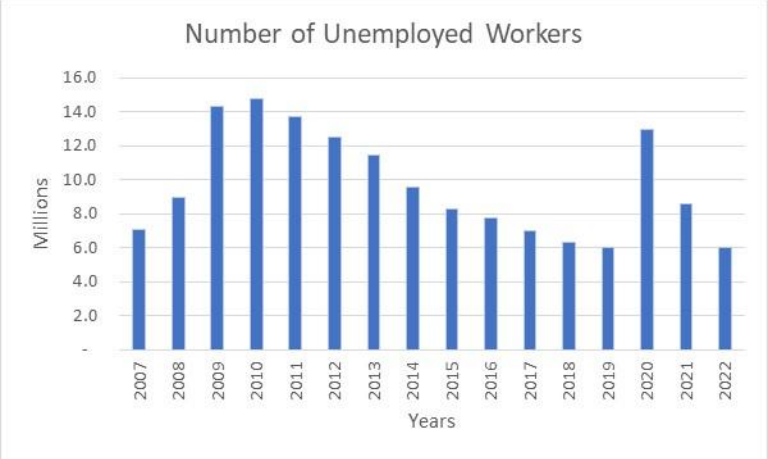
Introduction

Answers to APPENDIX Problems

1.

Q: The following graph plots the number of unemployed workers in the United States from 2007 to 2022. What is the approximate number of unemployed workers in 2011?

a) 15 million
b) 10 million
c) 6 million
d) 14 million



A: d) 14 million

Explanation: Reviewing the graph, and focusing on 2011, the bar is very close to the height of 14 million.

2.

Q: Which year in the graph shows the largest number of unemployed workers? Which year shows the lowest number of unemployed workers?

A: 2010; 2022.

Explanation: Reviewing the graph and comparing the bars, the bar for the year 2022 is the lowest of these, and the bar for the year 2010 is the highest. There were 6 million unemployed workers in the year 2022 and 14.8 million unemployed workers in 2010.

3.

Q: The following table reports on the average price of a gallon of unleaded gasoline in the United States, rounded to the nearest 10 cents.

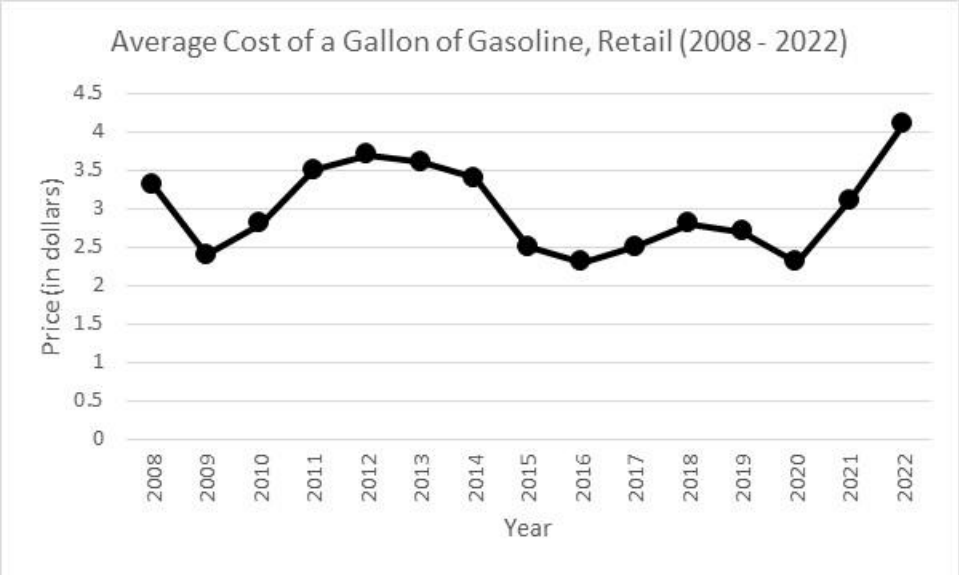
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Average Price of a Gallon of Retail Gasoline (To the nearest 10 cents)	
2008	3.30
2009	2.40
2010	2.80
2011	3.50
2012	3.7
2013	3.6
2014	3.4
2015	2.5
2016	2.3
2017	2.5
2018	2.8
2019	2.7
2020	2.3
2021	3.1
2022	4.1

a) Plot the points to make a line graph.
b) From 2020 to 2022, is the line upward-sloping or downward-sloping?
c) From 2014 to 2016, is the line upward-sloping or downward-sloping?
d) In what year is the price of gasoline the highest?

A:



a)
b) Upward-sloping
c) downward sloping
d) 2022

Explanation:
From 2020 to 2022, the line is upward-sloping.
From 2014 to 2016, the line is downward-sloping.

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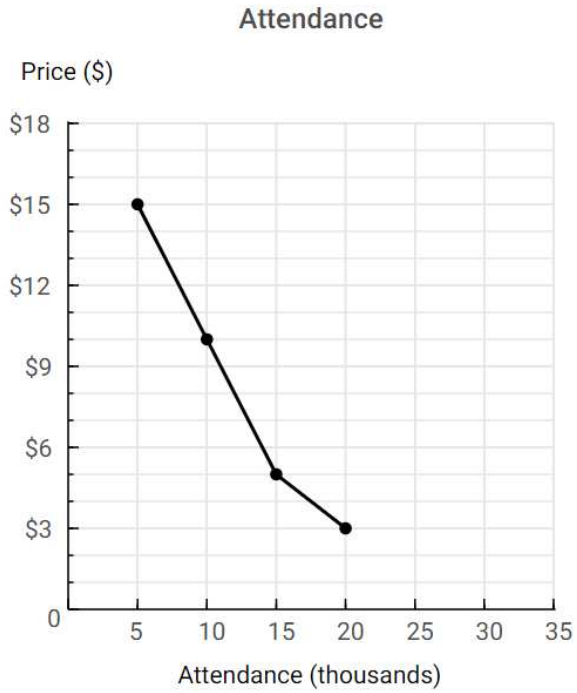
2022 was the highest price of gasoline.

4.

Q: At a (hypothetical) minor league baseball stadium, the team owner has tried four different prices for tickets and has found that attendance per game varies, according to the table shown at right. Graph this data, with attendance on the horizontal axis and ticket price on the vertical axis. Is this graph upward- or downward-sloping?

Attendance per Gam (in Thousands)	Ticket Price
5	$15
10	10
15	5
20	3

A: The graph is downward-sloping.



Explanation: There is an inverse relationship between the price per ticket and attendance. This graph is downward-sloping.

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Chapter 1

Introduction

Chapter Outline

- The Big Picture
- Key Forces Shaping Today's Economy
  - Technological Change
  - Globalization
  - The Evolution of Financial Markets
- The Role of Government
  - Economic Competition
  - Government Intervention
  - Your Economic Life: Finding the Right Role for Government
- The Definition of Economics
  - Indicators of Prosperity
  - The Safety Net
- Disagreements in Economics

Alternate Lecture Outline

- The Big Picture
- The Definition of Economics
  - Indicators of Prosperity
  - The Safety Net
- The Role of Government
  - Economic Competition
  - Government Intervention
  - Your Economic Life: Finding the Right Role for Government
- Disagreements in Economics
- Key Forces Shaping Today's Economy
  - Technological Change
  - Globalization
  - The Evolution of Financial Markets

Potential Stumbling Blocks

Many students may have a prejudice against globalization. Indeed, many may be coming into the course believing that the only good kind of trade is *exporting*, a myth that ignores the wider selection of goods and lower prices that Americans enjoy as a result of trade. It may be helpful to speak of trade as a voluntary action that is taken by both sides, who independently believe they can benefit from it. It may be helpful to develop the idea that it is the *distribution of the benefits of trade* that is most subject to criticism.

There is so much misinformation ("fake news") floating around online that your students might well believe that economists are split on most issues, and that therefore economists are not a reliable source of guidance when it comes to public policy, trade policy, etc. You may want to cover some of the things that economists have the most agreement on. See the IGM Economic Expert Panel linked in the Additional Resources below.

Additional Resources

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At the time of the publication of the new edition of this textbook, there is (perhaps surprisingly) growing support for the notion, rejected by most economists, that trade wars are worth fighting and that tariffs can benefit an economy. The article below, written by Donald Bourdreaux and Nita Ghei of the Mercatus Center at George Mason University, addresses some of the misunderstandings students may have.
The Benefits of Free Trade: Addressing Key Myths

While discussing the sources of disagreements among economists, it may be fruitful to point students to specific issues where there is a great deal of consensus and to other issues where there is a lack of consensus. The IGM Economic Experts Panel explores the extent to which economists agree or disagree on major public policy issues. Click on any entry at the page below to see the distribution of responses from top economists.
IGM Economic Experts Panel

Changes to the Fifth Edition

Many examples have been updated, especially about the COVID-19 pandemic.

Spotlight Questions

Spotlight: The Chinese Economy

1. Forty-five years ago in the United States, goods produced in China were
   A. more common than they are today.
   B. more costly than they are today.
   C. almost impossible to find.
   D. just as common as American goods.

2. China is an economic success story largely due to
   A. markets and trade.
   B. U.S. foreign aid.
   C. government interventions.
   D. its large population and military strength.

Spotlight Questions Answer Key

1: C, 2: A

Chapter Quiz Answer Key

1: C, 2: A, 3: B, 4: B, 5: C, 6: D, 7: A, 8: C, 9: C, 10: A

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Chapter 1 Quiz

Name: _____ Date: _____

1. Which of the following is NOT true of a transaction in a market economy?
   A. Participation is voluntary
   B. It can involve goods or services
   C. There is always a winner and a loser
   D. It usually involves money

2. The creation of the animated feature film by Walt Disney is given as an example of which of the following?
   A. Technology leading to creativity in entertainment
   B. Globalization allowing people to buy less expensive goods from around the world
   C. Financial markets allowing firms to borrow money to invest in new ideas
   D. An unusual use of the assembly line

3. How does *information* technology compare to *energy* technology?
   A. The rate of technological change in both information and energy has been about equal in recent years.
   B. Technological change in information has occurred more rapidly in recent years.
   C. Technological change in energy has occurred more rapidly in recent years.
   D. In recent years, neither has experienced technological change.

4. The textbook does NOT provide examples of which of the following?
   A. Goods that are imported by the United States from other countries
   B. Successful economies that are shut off from the rest of the world and do not trade
   C. Negative effects of globalization
   D. Poor countries that have benefited from trading with richer countries

5. Since 1995, the price of clothing:
   A. has remained the same.
   B. has increased by 6 percent.
   C. has decreased by 6 percent.
   D. has been controlled by the government.

6. Which of the following activities is NOT facilitated by the financial markets, as discussed in the textbook?
   A. Borrowing money
   B. Investing money
   C. Transferring money
   D. Printing money

7. In a centrally-planned economy:
   A. the government makes all decisions about economic activity.
   B. the most productive plants are located in the center of the economy and the least productive are located on the outskirts.
   C. the government establishes a laissez-faire structure for the economy.
   D. individuals have eliminated government interference and now make decisions on their own, without regulations or laws.

8. Government intervention in the U.S. economy includes all of the following EXCEPT:
   A. establishing automotive safety regulations.
   B. issuing money.
   C. setting the inflation rate.
   D. approving new drugs.

9. Individuals, businesses, and governments:
   A. differ in that individuals and businesses face trade-offs, but government does not.
   B. differ in that businesses and government own resources, and households do not.
   C. are alike in that they all must make trade-offs in the face of scarce resources.
   D. are alike in that they all seek to own all of society's scarce resources.

10. Which of the following is true about GDP?
    A. It includes the value of services provided by federal, state, and local governments.
    B. It is calculated by the Federal Reserve.
    C. It was approximately $59,800 in 2015.
    D. It does not include money spent on cell phone service because this is not an actual good.

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Appendix to Chapter 1

The Basics of Graphs

Chapter Outline

- The Basics of Graphs
  - Reading Data from Graphs
  - Plotting Graphs from Data

Alternate Lecture Outline

- The Basics of Graphs
  - Plotting Graphs from Data
  - Reading Data from Graphs

Potential Stumbling Blocks

The use and presentation of data in economics are often unfamiliar to students in a basic economics class. To help those students who feel out of their element working with data and graphs, this appendix ("The Basics of Graphs") that covers graphing basics follows Chapter 1. You may decide to teach the material in class if you feel most of your students could use the extra help. At the very least, you should be prepared to direct those students who need help developing these skills to this appendix. This is a great opportunity to remove a potential stumbling block early.

Additional Resources

For students who need extra practice, you can point them to these Khan Academy lessons on bar graphs and line graphs.
Creating a bar graph
Constructing a scatter plot

Changes to the Fifth Edition

The numbers and the associated graphs for all of the examples have been updated.

Chapter Quiz Answer Key

1: A, 2: B, 3: D, 4: C, 5: A, 6: A, 7: B, 8: D

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Chapter 1 Appendix Quiz

Name: _____ Date: _____

1. On a graph, the horizontal axis is called the _____; the vertical axis is called the _____.
   A. *x*-axis; *y*-axis
   B. *y*-axis; *z*-axis
   C. *y*-axis; x-axis
   D. *h*-axis; *v*-axis

2. A graph that conveys information using vertical bars of varying heights is known as:
   A. a line graph.
   B. a bar graph.
   C. a height graph.
   D. a scatterplot.

3. If you wanted to use a line graph to determine the population of a country in a given year, how would you do that, assuming the line graph has the data you need?
   A. Find the bar that corresponds to the year in question and then look to the horizontal axis to see what level of population the bar indicates
   B. Find the year on the vertical axis, then trace over until you hit the line, then look down to horizontal axis at that height to find the population
   C. Find the bar that corresponds to the year in question and then calculate the area of that bar
   D. Find the year on the horizontal axis, then trace straight up until you hit the line, then look to vertical axis at that height to find the population

4. In studying and practicing economics, which task(s) will you be asked to perform?
   A. Reading data from graphs only
   B. Plotting graphs from data only
   C. Both reading data from graphs and plotting graphs from data
   D. Neither reading data from graphs nor plotting graphs from data

5. Households headed by a person in which age group tend to spend the least on entertainment in a given year?
   A. Under 25 years old
   B. 25 - 34 years old
   C. 35 - 44 years old
   D. 45 - 54 years old

6. In the graph of entertainment spending by age of head of household, the line is downward-sloping to the right of the age group *35 - 44 years old*. This means that:
   A. for heads of households aged 35 or older, entertainment spending falls as age rises
   B. for heads of households aged 35 or older, entertainment spending rises as age rises
   C. for heads of households aged 35 or younger, entertainment spending falls as age rises
   D. for heads of households aged 35 or younger, entertainment spending rises as age rises

7. If the data for the population of City Z was given in a table with two columns, one labeled "Year" and one labeled "Population," how would you use this data to construct a graph?
   A. Plot the year on the vertical axis and the population on the horizontal axis
   B. Plot the year on the horizontal axis and the population on the vertical axis
   C. Plot both the population and the year on the vertical axis
   D. Plot both the population and the year on the horizontal axis

8. If the data for the population of City Z over time was plotted as a line that appeared to go up as you looked from left to right, this would mean that the line was _____ and that the population of City Z is _____.
   A. downward-sloping; decreasing
   B. downward-sloping; increasing
   C. upward-sloping; decreasing
   D. upward-sloping; increasing

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