Exploring Macroeconomics 8th edition Sexton Test Bank

SKU: 9781544337722-TEST-BANK

Chapter 1: The Role and Method of Economics

Test Bank

Multiple Choice

1. Which of the following is an accurate definition of a resource?
a. an export of goods and services
b. an import of goods and services
c. an input used to produce goods and services
d. an output made from the production of goods and services
Ans: C
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Knowledge
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Easy

2. Robert uses his drawing skill to create medical illustrations for a company that makes medical equipment. Robert's drawing skill is an example of _____.
a. scarcity
b. a resource
c. an output
d. an aggregate
Ans: B
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Comprehension
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

3. The situation that exists because our unlimited wants exceed our limited resources is called _____.
a. a correlation
b. an input
c. a shortage
d. scarcity
Ans: D
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Knowledge
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Easy

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4. Which of the following are three key components of the economic problem?
a. scarcity; choice; giving up valuable opportunities
b. surplus; choice; competing opportunities
c. scarcity; competing opportunities; income
d. surplus; income; giving up valuable opportunities
Ans: A
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Comprehension
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

5. Economics is sometimes called the study of choice. This means we all make choices because of _____.
a. income
b. opportunities
c. scarcity
d. surplus
Ans: C
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Comprehension
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

6. Which of the following examples best shows scarcity?
a. Clara buys a dress for a bargain price.
b. Juan decides to save 20 percent of his limited income.
c. Sosuke finds a quarter on the sidewalk.
d. Lucia runs out of dishwashing liquid right before a big party.
Ans: B
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Application
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

7. Which of the following is the unifying issue of economics?
a. income
b. opportunities
c. resources
d. choices
Ans: D
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.

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REF: Cognitive Domain: Knowledge
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Easy

8. Which of the following is an accurate statement about economics?
a. It helps us understand the consequences of our choices.
b. It tells us when to choose.
c. It tells us how to choose.
d. It is an objective guide of what to choose.
Ans: A
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Comprehension
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

9. In modern culture, which of the following has probably become the most precious resource?
a. water
b. time
c. oil
d. mathematics
Ans: B
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Knowledge
Answer Location: Economics Is All Around Us
Difficulty Level: Medium

10. Thomas decides to study late into the night. However, as a result, he doesn't get enough sleep and is tired the next day. This example shows the scarcity of _____.
a. discipline
b. relaxation
c. time
d. ambition
Ans: C
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Application
Answer Location: Economics Is All Around Us
Difficulty Level: Medium

11. George Bernard Shaw stated, "Economy is the art of making the most of life." Which of the following is the most accurate paraphrase of this quotation?
a. Economy is about earning enough money.
b. Economy is about making enough relaxation time.

c. Economy is about living for today.
d. Economy is about making the best choices.
Ans: D
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Analysis
Answer Location: Economics Is All Around Us
Difficulty Level: Hard

12. Why have social scientists accused economists of being imperialistic?
a. Economists in general are better paid than other scholars.
b. The tools of economists are used in many different fields.
c. Economists tend to have a superior attitude about their field.
d. Politicians view economists as being more important than other scholars.
Ans: B
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Comprehension
Answer Location: Economics Is All Around Us
Difficulty Level: Medium

13. Which of the following statements accurately shows the relationship between scarcity and resources?
a. There are enough inputs.
b. There is a limited amount of inputs.
c. There are enough outputs.
d. There is a limited amount of outputs.
Ans: B
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Analysis
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Hard

14. Robots are used to produce automobiles. The robots would be considered to be _____.
a. causation
b. an output
c. a resource
d. a tax deduction
Ans: C
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Application
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

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15. The word *economics* is derived from the Greek word *Oeconomicus*, which refers to the management of _____.
a. household affairs
b. money
c. resources
d. political affairs
Ans: A
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Knowledge
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Easy

16. Which of the following statements presents the most complete view of economics?
a. It is about studying the stock market.
b. It is about making choices given limited resources.
c. It is about forecasting business decisions.
d. It is about using money wisely.
Ans: B
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Comprehension
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

17. Which of the following examples shows a resource being used?
a. Japan exports cameras.
b. Wilson produces tennis racquets.
c. Jessica earns $50 dollars.
d. Adam adds vanilla to the cookie dough.
Ans: D
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Application
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

18. Economists assume that most individuals respond in _____ ways to changing circumstances.
a. creative
b. unusual
c. predictable
d. distinctive
Ans: C
KEY: Learning Objective: 1.2: Describe what economists mean when they say that

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people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: Self-Interest
Difficulty Level: Medium

19. According to economists, which of the following is a good predictor of human behavior in most situations?
a. obligation
b. altruism
c. selfishness
d. self-interest
Ans: D
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Knowledge
Answer Location: Self-Interest
Difficulty Level: Easy

20. Linnea applied for a new job because it pays more than her current job. According to economists, Linnea is most likely motivated by _____.
a. self-interest
b. greed
c. selfishness
d. competitiveness
Ans: A
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Application
Answer Location: Self-Interest
Difficulty Level: Medium

21. Which of the following is an accurate statement about people's choices?
a. They choose, knowing for sure which choice is best.
b. They choose, expecting the best outcome from their choice.
c. They choose, doubting their choice will have a good outcome.
d. They choose, having no idea what choice is a good one.
Ans: B
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: Self-Interest
Difficulty Level: Medium

22. Economists believe that most people act to increase their expected _____.
a. personal satisfaction
b. personal income

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c. power
d. control
Ans: A
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Knowledge
Answer Location: Self-Interest
Difficulty Level: Easy

23. Bandile gives $100 to his favorite charity. According to economists, why did Bandile mostly likely do this?
a. from disregard for his own self-interests
b. for entirely non-personal motives
c. to selfishly use the charity as a tax deduction
d. to have the satisfaction of helping others
Ans: D
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Application
Answer Location: Self-Interest
Difficulty Level: Hard

24. Economists use the term self-interest to indicate that people _____.
a. mostly act for material gain
b. are basically selfish
c. make choices for personal satisfaction
d. want to become wealthy
Ans: C
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: Self-Interest
Difficulty Level: Medium

25. Which of the following examples is most likely done out of self-interest instead of selfishness?
a. approving a cheap manufacturing method for personal profit even though it severely harms the environment
b. choosing one charity over another because it offers a larger tax deduction
c. stockpiling millions of dollars for security and refusing to give any to charity
d. reducing the pay for low-level employees to increase personal profit
Ans: B
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Application
Answer Location: Self-Interest

Difficulty Level: Hard

26. Which of the following examples is motivated by nonmonetary self-interest?
a. updating factory equipment to improve efficiency
b. giving to the boss's favorite charity with the hope of getting a raise
c. increasing employee pay to improve motivation to make sales
d. giving donations to help victims of an earthquake
Ans: D
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Application
Answer Location: Self-Interest
Difficulty Level: Hard

27. Considering the concept of rational behavior, which of the following requests will likely get the most help?
a. Could you call me at your convenience to give me tips about investing?
b. Could you meet with me right away to give me investment advice?
c. Could you provide me with a detailed list of investment advice as soon as possible?
d. Could you drive 20 miles to my house to give me investment advice?
Ans: A
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Application
Answer Location: Self-Interest
Difficulty Level: Medium

28. Which of the following consumer choices is most likely made from non-selfish motives?
a. buying two cartons of diet Coke because you are addicted to the drink
b. buying clothes on sale even though the manufacturer uses sweat shops
c. buying a more expensive washing machine because it is environmentally friendly
d. buying the cheapest cell phone because you cannot afford to pay more
Ans: C
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Application
Answer Location: Self-Interest
Difficulty Level: Medium

29. _____ behavior means that people do the best they can, based on their values and information, under current and anticipated future circumstances.
a. Creative
b. Charitable
c. Rational
d. Logical

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Ans: C
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Knowledge
Answer Location: What Is Rational Behavior?
Difficulty Level: Easy

30. Which of the following is an accurate statement about rationality?
a. Rationality is the same for all people.
b. Rationality is subjective.
c. Rationality yields mostly satisfying results.
d. Rationality uses complex formulas.
Ans: B
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: What Is Rational Behavior?
Difficulty Level: Medium

31. Which of the following is the opposite of rational behavior?
a. purposeful behavior
b. logical behavior
c. chaotic behavior
d. spontaneous behavior
Ans: C
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: What Is Rational Behavior?
Difficulty Level: Medium

32. Which of the following components are involved in decisions made according to rational self-interest?
a. reminiscence; drawbacks; supply
b. reminiscence; benefits; supply
c. expectations; drawbacks; costs
d. expectations; benefits; costs
Ans: D
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Analysis
Answer Location: What Is Rational Behavior?
Difficulty Level: Hard

33. Rational behavior often involves _____.
a. anticipating the future

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b. reflecting on the past
c. random acts
d. a disregard of values
Ans: A
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: What Is Rational Behavior?
Difficulty Level: Medium

34. Who determines rationality?
a. the person observing the choice
b. the person making the choice
c. the person providing the choice
d. the person affected by the choice
Ans: B
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: What Is Rational Behavior?
Difficulty Level: Medium

35. Why do we seldom see people asking to have their own wages reduced?
a. People are usually narrow-minded.
b. People usually overestimate themselves.
c. People usually look out for their own self-interest.
d. People are usually selfish.
Ans: C
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: Self-Interest
Difficulty Level: Medium

36. Which of the following is an important aspect of rational self-interest?
a. considering future costs
b. considering past costs
c. considering future causes
d. considering past causes
Ans: A
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: What Is Rational Behavior?
Difficulty Level: Medium

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37. How do rational behavior and self-interest relate?
a. Self-interest rarely motivates people to use rational behavior to make decisions.
b. Self-interest is rational when it is selfless, but not selfish.
c. Self-interest usually motivates people to use rational behavior to make decisions.
d. Self-interest is rational when it is selfish, but not when it is selfless.
Ans: C
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Analysis
Answer Location: What Is Rational Behavior?
Difficulty Level: Hard

38. _____ and _____ are explanations of how things work that help us understand and predict how and why economic agents such as consumers, producers, firms, government, and so on behave the way they do.
a. Correlations; models
b. Theories; models
c. Theories; aggregates
d. Correlations; aggregates
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Economic Theories and Models
Difficulty Level: Easy

39. Adam Smith believed that through division of labor and specialization, producers could significantly increase their output. This is an example of a(n) _____.
a. aggregate
b. resource
c. correlation
d. theory
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Economic Theories and Models
Difficulty Level: Medium

40. A good economic theory or model weeds out unimportant facts from important ones. This process is called _____.
a. abstraction
b. reflection
c. correlation
d. specialization
Ans: A
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension

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Answer Location: Abstraction Is Important
Difficulty Level: Medium

41. Why must a good economic theory use abstraction?
a. It makes theories more complicated and thus more accurate.
b. It summarizes, thereby making theories easy for lay people to understand.
c. The world is too complex to analyze without it.
d. Economics is too unpredictable to analyze without it.
Ans: C
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Abstraction Is Important
Difficulty Level: Medium

42. Which of the following is the best example of an abstraction that would be used in an economic theory?
a. U.S. companies export thousands of various goods.
b. Throughout the world, there are 42 companies producing cell phones.
c. There are two companies producing tennis rackets.
d. In Illinois, 62,201 people offer legal services.
Ans: C
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: Abstraction Is Important
Difficulty Level: Hard

43. Why do economists make assumptions?
a. to create and thereby make economics more interesting
b. to reflect and thereby make the past more understandable
c. to complicate and thereby reflect the world more accurately
d. to simplify and thereby make the world more understandable
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Abstraction Is Important
Difficulty Level: Medium

44. Which example is most likely an economic assumption?
a. Ninety percent of people act out of self-interest.
b. All people act out of self-interest.
c. Ninety-five percent of companies decide to maximize profits.
d. Ninety-five out of 100 companies decide to maximize profits.
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: Abstraction Is Important

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Difficulty Level: Medium

45. How are economic theories like a road map?
a. They both ignore irrelevant details.
b. They both are constantly used by economists.
c. They both refer to important geographic locations.
d. They both reflect the world precisely.
Ans: A
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Abstraction Is Important
Difficulty Level: Medium

46. How are economic abstractions similar to economic assumptions?
a. They both deal with specifics.
b. They both simplify.
c. They both reflect the real world precisely.
d. They both involve detailed facts.
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Analysis
Answer Location: Abstraction Is Important
Difficulty Level: Hard

47. Which of the following is an accurate statement about economic models?
a. Economists use only three models.
b. Models should include as many detailed facts as possible.
c. There is one correct model that should be used for all economic tests.
d. Models should vary depending on how they will be used.
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Abstraction Is Important
Difficulty Level: Medium

48. A _____ is a testable proposition that makes some type of prediction about behavior in response to certain changes in conditions based on our assumptions.
a. correlation
b. principle
c. hypothesis
d. resource
Ans: C
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Developing a Testable Proposition
Difficulty Level: Easy

49. Which of the following is the best example of a hypothesis?
a. When the price of bananas decreased last year, the sales of bananas rose significantly.
b. If the price of bananas decreases, the sales of bananas will increase.
c. If the price of bananas increases, no one can predict how banana sales will change.
d. When the price of bananas increased, the supply of bananas also increased.
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: Developing a Testable Proposition
Difficulty Level: Medium

50. If the price of roses decreases, the supply of roses will also decrease. This statement is an example of a(n) _____.
a. fallacy
b. hypothesis
c. aggregate
d. *ceteris paribus*
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Developing a Testable Proposition
Difficulty Level: Medium

51. Which of the following components are necessary parts of an economic hypothesis?
a. predictable; testable; changing circumstances
b. reflection; historical accuracy; constant circumstances
c. predictable; testable; constant circumstances
d. reflection; historical accuracy; changing circumstances
Ans: A
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Analysis
Answer Location: Developing a Testable Proposition
Difficulty Level: Hard

52. When is a hypothesis accepted?
a. if it uses plausible abstractions
b. if it uses general assumptions
c. if it fits well with the facts.
d. if it reflects a complex view
Ans: C
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Using Empirical Analysis
Difficulty Level: Medium

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53. Why is determining whether a hypothesis is acceptable more difficult in economics than in the natural sciences?
a. Unlike natural scientists, economists have to use laboratory settings for their tests.
b. Unlike natural scientists, economists cannot make broad assumptions about human behavior.
c. Unlike natural scientists, economists cannot easily control the variables that affect their subjects.
d. Unlike natural scientists, economists have to make abstractions more connected to reality.
Ans: C
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Using Empirical Analysis
Difficulty Level: Medium

54. Economists would most likely use which of the following to test a hypothesis?
a. using an exact control of variables to determine buying preferences
b. observing human behavior in a laboratory setting
c. using surveys to ask people about their buying preferences
d. observing human behavior in a retail store
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: Using Empirical Analysis
Difficulty Level: Medium

55. What is the difference between an economic hypothesis and an economic theory?
a. A hypothesis is simplified; a theory is more complex.
b. A hypothesis has yet to be tested; a theory has been tested and accepted.
c. A hypothesis uses broad assumptions; a theory uses more specific assumptions.
d. A hypothesis uses abstractions; a theory uses models.
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Analysis
Answer Location: From Hypothesis to Theory
Difficulty Level: Hard

56. Which of the following is an accurate statement about a theory?
a. It is accepted as being true for all time.
b. It has a broader scope than a hypothesis.
c. It has little relation with the real world.
d. It is tentatively accepted as being accurate.
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension

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Answer Location: From Hypothesis to Theory
Difficulty Level: Medium

57. Albert's idea about the buying preferences of low-income people in Chicago has been tested and accepted for the time being as accurate. It has become a(n) _____.
a. theory
b. hypothesis
c. correlation
d. assumption
Ans: A
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: From Hypothesis to Theory
Difficulty Level: Medium

58. Which of the following is an accurate rough translation of *ceteris paribus*?
a. "supporting the same idea"
b. "making everything else different"
c. "holding everything else constant"
d. "challenging the same idea"
Ans: C
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: The *Ceteris Paribus* Assumption
Difficulty Level: Medium

59. Economists use the *ceteris paribus* assumption to see how _____.
a. long variables can be kept constant
b. one variable influences another without interference from other variables
c. several variables interact similarly to a real-world setting
d. outside variables affect the two variable being studied
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: The *Ceteris Paribus* Assumption
Difficulty Level: Medium

60. Which of the following examples uses *ceteris paribus*?
a. Sarah tests the influence of the price of grapefruit on the demand for the product while eliminating other variables.
b. Bernard tests how the supply of zinc changes depending on the price and the expectation of future prices.
c. Ghena tests the influence of the number of consumers and product quality on the demand for a sports drink.
d. Diego tests how input prices, prices of related goods, and technology together change the supply of electric toothbrushes.

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Ans: A
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: The *Ceteris Paribus* Assumption
Difficulty Level: Hard

61. Which of the following examples would most likely involve an economist?
a. studying chimpanzees in a natural habitat
b. studying chimpanzees in a laboratory
c. studying people in a controlled environment
d. studying people in a mall
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: Why Are Observation and Prediction Harder in the Social Sciences?
Difficulty Level: Medium

62. Economists are concerned with _____ behavior.
a. industrial
b. human
c. chemical
d. government
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Why Are Observation and Prediction Harder in the Social Sciences?
Difficulty Level: Easy

63. Why are observation and prediction more difficult for an economist than for a chemist?
a. Economists lack the scientific training that chemists have.
b. Human behavior is more variable than the behavior of chemicals in a lab.
c. Economists fails to use *ceteris paribus* as often as chemists do.
d. Human behavior is basically irrational; chemicals behave as expected.
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Why Are Observation and Prediction Harder in the Social Sciences?
Difficulty Level: Medium

64. Which of the following cause-effect statements predicts an outcome that is uncertain?
a. If a car travels 62 miles in an hour, it will reach a city 58 miles away in less than an hour.
b. If the comet continues at its current speed, it will reach the earth's atmosphere in two days.

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c. If I write every day, I will become a best-selling novelist.
d. If I heat an ice cube, I'll create water.
Ans: C
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: Why Are Observation and Prediction Harder in the Social Sciences?
Difficulty Level: Hard

65. Why do economists avoid basing theories on the responses of a few individuals?
a. Individual responses are often incomplete.
b. Individuals hate being tested.
c. Individuals rarely know what they want.
d. Individual responses are unpredictable.
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: What Does Individual Behavior Tell Us?
Difficulty Level: Medium

66. Which of the following statements accurately contrasts individual behavior and group behavior?
a. Group behavior is more predictable than individual behavior.
b. Group behavior is more dishonest than individual behavior.
c. Group behavior is more varied than individual behavior.
d. Group behavior is more objective than individual behavior.
Ans: A
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Analysis
Answer Location: What Does Group Behavior Tell Us?
Difficulty Level: Hard

67. Which of the following can an economist predict with the most accuracy?
a. how Gwen will respond to an increase in the price of down jackets
b. how Larry, Terry, and Mateo will respond to a decrease in the price of orange juice
c. how a group of ten will respond to an increase in the price of motorcycles
d. how a group of 100 will respond to a decrease in the price of cell phones
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: What Does Group Behavior Tell Us?
Difficulty Level: Hard

68. Economists avoid using surveys because people often _____.
a. get confused when filling out surveys
b. mislead when filling out surveys
c. forget to answer certain questions

d. don't have the time to answer all the questions
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Economists and Survey Data
Difficulty Level: Easy

69. Macroeconomic always deals with _____ economy.
a. aggregate
b. international
c. personal
d. government
Ans: A
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: The Two Branches of Economics: Microeconomics and Macroeconomics
Difficulty Level: Easy

70. Which of the following components are involved in microeconomics?
a. aggregate economy; firms; agricultural subsidies
b. aggregate economy; households; inflation
c. smaller economic units; households; income distribution
d. smaller economic units; firms; business cycles
Ans: C
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Analysis
Answer Location: The Two Branches of Economics: Microeconomics and Macroeconomics
Difficulty Level: Hard

71. How do *ceteris paribus* and hypothesis relate in the field of economics?
a. Economists use *ceteris paribus* to declare that a hypothesis is not constant enough to be a theory.
b. Economists use *ceteris paribus* to declare that a hypothesis has been accepted as a theory.
c. Economists use *ceteris paribus* to test a hypothesis only if the two variables are intangible.
d. Economists use *ceteris paribus* to test a hypothesis with two variables while keeping other variables constant.
Ans: D
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Analysis
Answer Location: The *Ceteris Paribus* Assumption
Difficulty Level: Medium

72. Empirical analysis uses _____ to test a hypothesis.
a. subjectivity
b. data
c. rationality
d. correlation
Ans: B
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Using Empirical Analysis
Difficulty Level: Easy

73. Which of the following is an accurate definition of correlation?
a. an event that has no effect on another event
b. two events that occur separately
c. two events that occur together
d. an event that causes another event
Ans: C
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Knowledge
Answer Location: Confusing Correlation and Causation
Difficulty Level: Easy

74. Which of the following is an example of correlation?
a. Estella put on the new shoes, and then she walked around to see how they fit.
b. As Henrietta turned on the stove, the clock chimed.
c. After Estella paid $40 for the shoes, the clerk gave her a receipt.
d. Henrietta turned on a burner under a tea kettle, and the fire came on.
Ans: B
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Application
Answer Location: Confusing Correlation and Causation
Difficulty Level: Medium

75. Which of the following examples shows causation?
a. When Terence found out he won the lottery, he jumped up and down with joy.
b. When Yuki sat in a chair, he heard an ambulance siren.
c. When Terence called a friend to tell him he won the lottery, a bird began to sing merrily outside.
d. As the ambulance went by Yuki's house, he drank his coffee.
Ans: A
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Application
Answer Location: Confusing Correlation and Causation

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Difficulty Level: Medium

76. As Javier hit a baseball with his bat, the bat cracked. This example shows _____.
a. composition, but not causation
b. causation, but not correlation
c. correlation and composition
d. correlation and causation
Ans: D
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Application
Answer Location: Confusing Correlation and Causation
Difficulty Level: Medium

77. A groundhog seeing his shadow before six weeks of wintry weather shows _____.
a. *ceteris paribus*
b. composition
c. correlation
d. causation
Ans: C
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Comprehension
Answer Location: Confusing Correlation and Causation
Difficulty Level: Medium

78. Which of the following pairs would most likely be confused for each other?
a. causation and hypothesis
b. composition and hypothesis
c. correlation and composition
d. causation and correlation
Ans: D
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Comprehension
Answer Location: Confusing Correlation and Causation
Difficulty Level: Medium

79. The increase of ice cream sales and property crime rates at the same time shows which of the following?
a. one variable causing another variable
b. two variables being caused by a third variable
c. three variables having no connection between them
d. two variables being caused by two other variables
Ans: B
KEY: Learning Objective: 1.4: Describe the difference between correlation and

causation.
REF: Cognitive Domain: Comprehension
Answer Location: Why Is the Correlation between Ice Cream Sales and Property Crime Positive?
Difficulty Level: Medium

80. Which of the following is the most direct cause of lung cancer?
a. smoking cigarettes
b. buying lighters
c. giving a packet of cigarettes to someone
d. watching actors on TV smoking cigarettes
Ans: A
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Comprehension
Answer Location: Why Is the Correlation between Ice Cream Sales and Property Crime Positive?
Difficulty Level: Medium

81. Which of the following is an example of a third variable causing two other variables?
a. During a theatrical performance, the wind and flying kites both increased.
b. During a thunderstorm, felled trees and the sale of oranges both increased.
c. During a harsh winter, car accidents and heating bills both increased.
d. During an exciting Super Bowl game, heart attacks and snowfall both increased.
Ans: C
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Application
Answer Location: Why Is the Correlation between Ice Cream Sales and Property Crime Positive?
Difficulty Level: Medium

82. Kevin decided to buy a ticket for a baseball game four months early to make sure he could get it. However, when he tried to buy the ticket online, the game was already sold out. Which of the following is the best explanation?
a. the fallacy of composition
b. *ceteris paribus*
c. causation
d. correlation
Ans: A
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Application
Answer Location: The Fallacy of Composition
Difficulty Level: Medium

83. Which of the following is an accurate statement about the fallacy of composition?
a. Group plans are often thwarted by individual behavior.
b. Individual behavior is easier to predict than group behavior.
c. The motivation for individuals changes when they become part of a group.
d. Individual truth and group truth are often different.
Ans: D
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Comprehension
Answer Location: The Fallacy of Composition
Difficulty Level: Medium

84. The fallacy of composition is the incorrect view that what is true for _____.
a. the group is always true for the individual.
b. the individual is always true for the group
c. three people will remain true when another person joins the group.
d. a small group will remain true for a larger group
Ans: B
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Knowledge
Answer Location: The Fallacy of Composition
Difficulty Level: Easy

85. The fallacy of composition deals with problems associated with _____.
a. aggregation
b. causation
c. correlation
d. scarcity
Ans: A
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Knowledge
Answer Location: The Fallacy of Composition
Difficulty Level: Easy

86. Complete this sentence in a way that shows causation. When Nathan ran up a steep hill, _____.
a. a car pasted him by
b. the sun rose over the horizon
c. he pulled a leg muscle
d. a plane flew over head
Ans: C
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Application

Answer Location: Confusing Correlations and Causation
Difficulty Level: Medium

87. Read the following two sentences:
A: Ten seconds after Nella waved her hand, her friend responded by saying hello.
B: As Nella waved her hand, a gust of wind blew.
Which of the following is the correct comparison of A and B?
a. A shows correlation; B shows causation.
b. A and B both show correlation
c. A shows causation; B shows correlation.
d. A and B both show causation.
Ans: C
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Analysis
Answer Location: Confusing Correlations and Causation
Difficulty Level: Hard

88. What pitfall is linked with adding up individual behaviors?
a. rationality
b. the fallacy of composition
c. correlation and causation confusion
d. the economic problem
Ans: B
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Comprehension
Answer Location: The Fallacy of Composition
Difficulty Level: Medium

89. Read the following two sentences:
A: As the conductor approached the podium, all the orchestra members stood to show respect.
B: As the man stood to get a better view of the concert, all the other people in the audience also stood, blocking his view.
Which of the following is the correct comparison of A and B?
a. A and B both show causation.
b. A shows the fallacy of composition; B shows causation.
c. A and B both show the fallacy of composition.
d. A shows causation; B shows the fallacy of composition
Ans: D
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Analysis
Answer Location: Confusing Correlations and Causation; The Fallacy of Composition
Difficulty Level: Hard

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90. A(n) _____ statement is an objective, testable statement that describes what happens and why it happens
a. positive
b. normative
c. negative
d. analytical
Ans: A
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Knowledge
Answer Location: Positive Statement
Difficulty Level: Easy

91. Positive analysis in a(n) _____ approach.
a. objective
b. subjective
c. biased
d. ethical
Ans: A
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Positive Statement
Difficulty Level: Medium

92. Which of the following is used to test a hypothesis?
a. an aggregate statement
b. a rational statement
c. a positive statement
d. a normative statement
Ans: C
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Knowledge
Answer Location: Positive Statement
Difficulty Level: Easy

93. Which of the following is an example of a positive statement?
a. If drug prices increase, the government should offer free drugs to seniors.
b. If income taxes increase, the government should offer rebates.
c. If the price of apples increases, stores should put them on sale.
d. If the price of movie tickets increases, theatrical attendance will decrease.
Ans: D
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.

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REF: Cognitive Domain: Application
Answer Location: Positive Statement
Difficulty Level: Medium

94. If the price of vitamin C increases, the supply of vitamin C will also increase. This is an example of a(n) _____ statement.
a. normative
b. positive
c. subjective
d. irrational
Ans: B
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Positive Statement
Difficulty Level: Medium

95. Which of the following is an accurate statement about economists?
a. Economists emphasize all evidence to the same degree.
b. Economists who try to be objective usually have some bias in their studies.
c. Economists who try to be objective can be value free.
d. Economists often base their conclusions on conjecture.
Ans: B
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Positive Statement
Difficulty Level: Medium

96. Which of the following are necessary components of a positive statement?
a. objective; testable
b. subjective; testable
c. objective; ethical
d. subjective; ethical
Ans: A
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Analysis
Answer Location: Positive Statement
Difficulty Level: Hard

97. How does empirical analysis relate to positive statements?
a. Positive statements are testable; empirical analysis is contestable.
b. Both empirical analysis and positive statements collect data.
c. Positive statements prove the validity of empirical analysis.
d. Empirical analysis tests positive statements by collecting data.

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Ans: D
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Analysis
Answer Location: Positive Statement
Difficulty Level: Hard

98. A(n) _____ statement is a subjective, contestable statement that attempts to describe what should be done.
a. objective
b. positive
c. normative
d. negative
Ans: C
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Knowledge
Answer Location: Normative Statement
Difficulty Level: Easy

99. Which of the following is an example of a normative question?
a. When will the government increase spending on education?
b. What effect will the government's increased spending on education have?
c. How much will the government increase spending for education?
d. Should the government increase spending for education?
Ans: D
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Normative Statement
Difficulty Level: Medium

100. Normative analysis in a(n) _____ approach.
a. objective
b. subjective
c. positive
d. empirical
Ans: B
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Knowledge
Answer Location: Normative Statement
Difficulty Level: Medium

101. Normative analysis is concerned with how things _____.
a. should be

b. are
c. will be
d. can be
Ans: A
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Normative Statement
Difficulty Level: Medium

102. Which of the following is an example of a normative statement?
a. If the price of CDs drops significantly, BlankCD, Inc. will declare bankruptcy.
b. If the price of CDs drops significantly, the demand for CDs will increase.
c. If the price of CDs drops significantly, the CEO should sell BlankCD, Inc.
d. If the price of CDs drops significantly, the supply of CDs will also drop.
Ans: C
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Normative Statement
Difficulty Level: Medium

103. To avoid increasing the national debit, the federal government should increase income taxes. This is an example of a _____.
a. normative statement
b. positive statement
c. hypothesis
d. theory
Ans: A
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Normative Statement
Difficulty Level: Medium

104. Which of the following are necessary components of a normative statement?
a. objective; testable
b. subjective; contestable
c. objective; contestable
d. subjective; testable
Ans: B
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Analysis
Answer Location: Normative Statement
Difficulty Level: Hard

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105. What is the difference between a positive statement and a normative statement?
a. A positive statement is contestable; a normative statement is testable.
b. A positive statement is subjective; a normative statement is contestable.
c. A positive statement is testable; a normative statement is objective.
d. A positive statement is objective; a normative statement is contestable.
Ans: D
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Analysis
Answer Location: Positive Statements and Normative Statements
Difficulty Level: Hard

106. Which of the following questions would require normative analysis?
a. What will be the effect of a 3 percent increase in the price of cucumbers?
b. How many cucumbers should be supplied if the price increases by 3 percent?
c. Will the sale of cucumbers decrease significantly?
d. How will the sale of organic and non-organic cucumbers compare next month?
Ans: B
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Positive versus Normative Analysis
Difficulty Level: Medium

107. Which of the following questions would require positive analysis?
a. If the price of cotton increases by 5 percent, should we buy a new harvester?
b. If the price of cotton increases by 5 percent, how much cotton should we farm?
c. If the price of cotton decreases by 6 percent, what effect will this have on demand?
d. If the price of cotton decreases by 6 percent, should we plant more wheat?
Ans: C
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Positive versus Normative Analysis
Difficulty Level: Medium

108. Economists become policy makers when they deal with _____.
a. objective analysis
b. empirical analysis
c. positive analysis
d. normative analysis
Ans: D
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension

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Answer Location: Positive versus Normative Analysis
Difficulty Level: Medium

109. Economists become scientists when they deal with _____.
a. contestable analysis
b. normative analysis
c. positive analysis
d. subjective analysis
Ans: C
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Positive versus Normative Analysis
Difficulty Level: Medium

110. Which of the following would most likely tell an economist if a policy is efficient?
a. positive analysis
b. normative analysis
c. subjective analysis
d. correlation analysis
Ans: A
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Positive versus Normative Analysis
Difficulty Level: Medium

111. Suppose that unemployment increased last year in the United States by 5 percent. Which of the following questions would a positive analysis answer?
a. Should minimum wage be decreased to encourage employers to hire more?
b. How should hiring practices change to deal with this problem?
c. Will the causes of the unemployment continue to affect the economy?
d. Should the government expand its welfare program?
Ans: C
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Positive versus Normative Analysis
Difficulty Level: Medium

112. Suppose that the demand for digital streaming devices increases significantly. Which of the following questions would a normative analysis answer?
a. Will a change in price affect the increase in demand?
b. Will the increase in demand continue?
c. How much should we increase our supply of these devices?
d. What will be the likely percent increase in demand next month?

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Ans: C
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Positive versus Normative Analysis
Difficulty Level: Medium

113. Which of the following can a positive analysis accomplish?
a. It can tell an advertising executive what type of ads she ought to order.
b. It can tell us how much the demand for a product will increase.
c. It can tell us if one policy is better than another.
d. It can tell a policy maker what is the best course of action.
Ans: B
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Positive versus Normative Analysis
Difficulty Level: Hard

114. The executives of a firm want to find out how much the demand for their product will change in the next six months and how they should adjust their supply to deal with this. This example shows _____.
a. both normative and positive concerns
b. positive concerns, but not normative concerns
c. neither normative or positive concerns
d. normative concerns, but not positive concerns
Ans: A
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Positive versus Normative Analysis
Difficulty Level: Hard

115. How are positive analysis and normative analysis similar?
a. Both use testable statements.
b. Both deal with future concerns.
c. Both use ethical values.
d. Both deal with past events.
Ans: B
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Analysis
Answer Location: Positive versus Normative Analysis
Difficulty Level: Hard

116. Which of the following is an accurate statement about economists?

a. Economists disagree on almost all important policy issues.
b. Economists rarely disagree about economic policy.
c. Economists differ from natural scientists in that economists have disagreements.
d. Economists agree more than the media lead people to believe.
Ans: D
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Disagreement Is Common in Most Disciplines
Difficulty Level: Medium

117. Most economic disagreements are about _____ issues.
a. normative
b. cognitive
c. positive
d. objective
Ans: A
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Knowledge
Answer Location: Disagreement Is Common in Most Disciplines
Difficulty Level: Easy

118. Which of the following questions would economists most likely disagree about?
a. What will be the effect of the new minimum wage on the sales of a product?
b. How much should a company increase the price of a product?
c. How much will demand increase for a product if the price decreases by 2 percent?
d. What will be the increase in production with new technology in place?
Ans: B
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Disagreement Is Common in Most Disciplines
Difficulty Level: Hard

119. Which of the following examples would an economist concerned about individual freedom and liberty most likely support?
a. increasing government oversight of education
b. hiring more government employees
c. more government involvement in the environment
d. less government involvement in business
Ans: D
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Disagreement Is Common in Most Disciplines

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Difficulty Level: Hard

120. Which of the following shows a contrast between Economist A, who is concerned with individual liberty, and Economist B, who is concerned with an unfair distribution of power?
a. Economist A wants more government programs; Economist B wants to hire fewer government employees.
b. Economist A wants more government programs; Economist B want less government involvement.
c. Economist A wants to hire more government employees; Economist B want to lower taxes.
d. Economist A wants less government involvement; Economist B wants more government programs.
Ans: D
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Analysis
Answer Location: Disagreement Is Common in Most Disciplines
Difficulty Level: Hard

True/False

1. Economics is the study of the choices we make among our many wants and desires given our limited resources.
Ans: T
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Knowledge
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Easy

2. The main economic problem is that surplus causes us to choose from so many competing options that it is difficult to make the correct choice.
Ans: F
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Comprehension
Answer Location: Economics—A Word with Many Different Meanings
Difficulty Level: Medium

3. Every society, whether it is capitalistic, socialistic, and totalitarian, faces economic problems.
Ans: T
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.

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REF: Cognitive Domain: Knowledge
Answer Location: Economics Is All Around Us
Difficulty Level: Easy

4. Economists assume that most individuals act as if they are motivated by an interest in making money.
Ans: F
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Knowledge
Answer Location: Self-Interest
Difficulty Level: Easy

5. Economists mostly observe and study what people think, not what they do.
Ans: F
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Knowledge
Answer Location: Self-Interest
Difficulty Level: Easy

6. Our charitable actions for others are influenced by our assessment of our own benefits and costs.
Ans: T
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Comprehension
Answer Location: Self-Interest
Difficulty Level: Medium

7. Rational self-interest means that individuals try to weigh the expected marginal benefits and marginal costs of their decisions.
Ans: T
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Knowledge
Answer Location: What Is Rational Behavior?
Difficulty Level: Easy

8. Theories and models are more complex versions of the real world used to explain and predict behavior.
Ans: F
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Economic Theories and Models
Difficulty Level: Easy

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9. Theories and models make unrealistic assumptions.
Ans: T
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Abstraction Is Important
Difficulty Level: Easy

10. An economic hypothesis makes a summary of behavior.
Ans: F
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Developing a Testable Proposition
Difficulty Level: Easy

11. Empirical analysis is the use of data to test a hypothesis.
Ans: T
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: Using Empirical Analysis
Difficulty Level: Easy

12. Looking at the behaviors of a large group allows economists to discern general patterns of actions.
Ans: T
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Comprehension
Answer Location: Why Do Economists Predict on a Group Level?
Difficulty Level: Easy

13. Microeconomics is the study of the whole economy, including topics of inflation and economic growth.
Ans: F
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Knowledge
Answer Location: The Two Branches of Economics: Microeconomics and Macroeconomics
Difficulty Level: Easy

14. Causation occurs when two events occur together.
Ans: F
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Knowledge
Answer Location: Confusing Correlation and Causation
Difficulty Level: Easy

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15. The fallacy of composition states that even if something is true for an individual, it is not necessarily true for many individuals combined in a group.
Ans: T
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Knowledge
Answer Location: The Fallacy of Composition
Difficulty Level: Easy

16. In the role of scientist, the economist is concerned about the ethics of human behavior.
Ans: F
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Positive Statement
Difficulty Level: Medium

17. Economist rarely have opinions or make value judgments.
Ans: F
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Comprehension
Answer Location: Normative Statement
Difficulty Level: Medium

18. Many controversies in economics revolve around policy considerations that contain both positive analysis and normative analysis.
Ans: T
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Knowledge
Answer Location: Positive versus Normative Analysis
Difficulty Level: Easy

19. Positive analysis can tell us whether a policy should be implemented.
Ans: F
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Knowledge
Answer Location: Positive versus Normative Analysis
Difficulty Level: Easy

20. Disagreements happen much more often in economics than in other fields.
Ans: F

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KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Knowledge
Answer Location: Disagreement Is Common in Most Disciplines
Difficulty Level: Easy

Short Answer

1. Give an example of how economics can be used in either a marriage, politics, or education.
Ans: Examples will vary, but should show a thorough understanding of how economics can be used in one of these areas. For example, in a marriage, a couple could create a budget that helps them make choices to deal with scarcity: the fact that their income cannot cover all the things they want. For politics, politicians need to determine state and federal budgets and policy decisions such as how much to tax. For education, school leaders also deal with scarcity by having to make budgetary choices because they don't have enough funds for all the classes and programs that students and parents want.
KEY: Learning Objective: 1.1: Define and describe what is meant by the term *economics*.
REF: Cognitive Domain: Application
Answer Location: Economics Is All Around Us
Difficulty Level: Medium

2. Explain the difference between self-interest and selfishness.
Ans: Acting out of selfishness means having no concern about what benefits others or society as a whole. A selfish person is mainly concerned with his or her own personal profit or pleasure. By self-interest, economists simply mean that people try to improve their own situation (as they see it, not necessarily as others see it). Acting out of self-interest can often include acts that help others. For example, a person can give money to a charity to get the satisfaction of benefiting those in need. Thus, self-interest is not the same as selfishness.
KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Analysis
Answer Location: Self-Interest
Difficulty Level: Hard

3. Explain at least three ways that self-interest can motivate a selfless act.
Ans: The examples can vary, but all should be thoroughly thought out. First, a person could act kindly to someone with the hope that he or she will be shown kindness in return. Also, a person could act selflessly to develop a reputation for honesty, which could help in both personal and business relations. In addition, a person could act selflessly because his or her religious belief or ethical code expects it. In such a case, the act gives the person the satisfaction of doing his or her duty.

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KEY: Learning Objective: 1.2: Describe what economists mean when they say that people engage in rational behavior and respond to incentives in predictable ways.
REF: Cognitive Domain: Analysis
Answer Location: Self-Interest
Difficulty Level: Hard

4. Create an example of an economic theory that uses *ceteris paribus*. Then give an example of how the theory would become inaccurate if *ceteris paribus* wasn't used.
Ans: Examples will vary, but should show a thorough understanding of how *ceteris paribus* affects economic theories. For example, a theory could state that when the price of compact automobiles is expected to decrease in the future, producers will supply more compact automobiles now, *ceteris paribus* (if all other factors are constant). However, if *ceteris paribus* is removed, then other factors are allowed to affect this theory. Let's say some compact automobiles have a defect that make them unsafe to drive. As a result, suppliers would halt production of these cars now to avoid endangering drivers and having liability for accidents.
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Application
Answer Location: The *Ceteris Paribus* Assumption
Difficulty Level: Hard

5. The price of peanuts drops from 50 cents to 25 cents per pound. How and why might an individual and a group of 1,000 people respond to this price drop very differently?
Ans: A group of 1,000 people would most likely show a significant increase in the buying of peanuts in response to the price drop. Although not everyone in this group would increase their buying of peanuts, enough would to show this increase. However, an individual could very well not buy any peanuts despite the price drop. The individual might not like the taste of peanuts or might be allergic to peanuts.
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Analysis
Answer Location: Why Do Economists Predict on a Group Level?
Difficulty Level: Hard

6. Explain how microeconomics is different from macroeconomics.
Ans: Microeconomics deals with the smaller units within the economy, such as firms and households. It attempts to understand the decision-making behavior of these units and their interaction in markets for particular goods or services. As a result, microeconomics deals with things like health care, the price of everyday items, and the distribution of income. On the other hand, macroeconomics deals with the total economy. It looks at how economic problems affect the whole of society. Subjects covered in macroeconomics include inflation, unemployment, and business cycles.
KEY: Learning Objective: 1.3: Define and explain economic theories and models.
REF: Cognitive Domain: Analysis
Answer Location: The Two Branches of Economics: Microeconomics and Macroeconomics
Difficulty Level: Medium

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7. Explain the difference between correlation and causation. Give an example of each.
Ans: Examples will vary, but should show a thorough understanding of correlation and causation. Correlation is when two events occur together. However, this does not necessarily mean that one event caused the other. For example, a wolf could begin to howl just as a cloud covers the moon. The wolf howling did not cause the cloud to cover the moon. On the other hand, causation means one event brings about another event. These events may happen at the same time, but not necessarily. For example, there could be a fierce thunderstorm in the mountains. Ten hours after the storm, there is a landslide. The storm caused the landslide by loosening the soil. But the storm and the landslide did not happen at the same time.
KEY: Learning Objective: 1.4: Describe the difference between correlation and causation.
REF: Cognitive Domain: Analysis
Answer Location: Confusing Correlation and Causation
Difficulty Level: Hard

8. Explain how an economist is like an engineer. Give an example.
Ans: Examples will vary, but should show a thorough understanding of basic role of an economist. Like an engineer, economists try to figure out how things work and then describe what would happen if you changed something. For example, an economist might do a study that compares the buying habits of consumers in urban and rural areas. The study shows that urban and rural consumers have different favorite brands of coffee. Then the economist would ask: “If price of the favorite coffee in rural areas increased significantly, how would rural consumers respond?” The economist hypothesizes that in such a situation, most rural consumers would switch to the favorite urban coffee, instead of switching to another beverage, such as tea.
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Positive Statement
Difficulty Level: Hard

9. Give an example of a scenario that combines positive analysis and normative analysis.
Ans: Examples will vary, but should show a thorough understanding of both positive analysis and normative analysis. For example, suppose that domestic theatrical attendance for movies decreased significantly last year. The head of a studio wants to gather as much data as possible. She wants to find out the following: At current prices, will attendance continue to decrease? What age groups will have the most decrease? How will the attendance for various genres and MPAA ratings fare? She uses positive analysis to answer these questions. After gathering the data, she wants to figure out how to best handle the issue. So she asks: How should our slate of movies change to increase attendance? Should we decrease ticket prices? How can advertising be more effective? She uses normative analysis to answer these questions.
KEY: Learning Objective: 1.5: Define and explain the distinction between positive

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statements and normative statements.
REF: Cognitive Domain: Application
Answer Location: Positive versus Normative Analysis
Difficulty Level: Hard

10. Explain how and why economists might hold different opinions about using a national sales tax.
Ans: Answer will vary, but should show a thorough understanding of how and why economists differ. Some economists might claim the sales tax would fall disproportionately on the poor and middle classes. As a result, it would not be fair. Other economists might claim that the tax would be fair because everyone would pay their fair share, based on what they spend rather than what they earn. Economists might also disagree about the model used. Some economists may think that the model should focus on collection costs. Others might believe the model should focus on the policy's potential to increase savings and economic growth.
KEY: Learning Objective: 1.5: Define and explain the distinction between positive statements and normative statements.
REF: Cognitive Domain: Analysis
Answer Location: Disagreement Is Common in Most Disciplines
Difficulty Level: Hard

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