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Chapter 1: Introduction: What Is Economics?

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Chapter 1: Introduction: What Is Economics?

1.1   What Is Economics?

1) Economics is best defined as the study of
A) financial decision-making.
B) how consumers make purchasing decisions.
C) the choices made by people faced with scarcity.
D) inflation, unemployment, and economic growth.

2) Economics is the study of
A) how to invest in the stock market.
B) how society uses limited resources.
C) the role of money in markets.
D) how government officials decide which goods and services are produced.

3) Scarcity can best be defined as a situation in which
A) there are no buyers willing to purchase what sellers have produced.
B) there are not enough goods to satisfy all of the buyers' demand.
C) the resources we use to produce goods and services are limited.
D) there is more than enough money to satisfy consumers' wants.
4) An arrangement that allows buyers and sellers to exchange things is called
A) a contract.
B) a market.
C) money.
D) efficient.
5) Because resources are limited
A) only the very wealthy can get everything they want.
B) firms will be forced out of business.
C) the availability of goods will be limited but the availability of services will not.
D) people must make choices.

6) Tradeoff is
A) allowing the government and other organizations to choose for us.
B) sacrificing one thing for another.
C) deciding who consumes the products produced in an economy.
D) holding other variables fixed.

7) Resources are all of the following EXCEPT
A) unlimited and in abundance.
B) the things we use to produce goods and services.
C) limited in quantity and can be used in different ways.
D) scarce and therefore require choices to be made.

8) The knowledge and skills acquired by a worker through education and experience is a

description of which factor of production?
A) physical capital
B) human capital
C) labor
D) entrepreneurship
9) The physical and mental effort people use to produce goods and services is a description of which factor of production?
A) physical capital
B) human capital
C) labor
D) entrepreneurship

10) The effort used to coordinate the factors of production is a description of
A) physical capital.
B) human capital.
C) labor.
D) entrepreneurship.
11) All of the following are considered natural resources EXCEPT
A) a coral reef.
B) gold.
C) labor.
D) a redwood forest.

12) Normative economics
A) is the focus of most modern economic reasoning.
B) answers the question "What ought to be?"
C) predicts the consequences of alternative actions.
D) answers the question "What is?"
13) Which of the following is an example of a normative question?
A) How will an increase in the inheritance tax affect tax revenues?
B) What fraction of an income tax cut will be spent on imported goods?
C) Should Florida implement a state income tax to reduce its deficit?
D) How will an increase in unemployment benefits affect the unemployment rate?

14) Which of the following is a question answered with positive economic analysis?
A) Should the college reduce tuition for out-of-state residents?
B) Should the college charge higher tuition for part-time students?
C) If the college increased its eligibility requirements for enrollment, will class sizes decline?
D) Should the college eliminate its athletic program to cut its costs?

15) Which of the following is a question answered with normative economic reasoning?
A) If the college offers free textbooks for students, will more students read their textbooks?
B) If the college provided less financial aid for out-of-state students, would more in-state students benefit?
C) If the college increased its enrollment requirements, would class size decline?
D) Should the college increase tuition to fund its athletic programs?

16) The 3 key economic questions include all of the following EXCEPT
A) "what products do we produce?"
B) "how do we produce these products?"
C) "where should these products be produced?"
D) "who consumes the products?"
17) Deciding how a society's products are distributed among its citizens answers the economic question of
A) who consumes the products produced.
B) what products will be produced.
C) where will the products be consumed.
D) how will the products be produced.
18) Deciding if a company will produce automobiles by robotics or manual labor answers the economic question of
A) who consumes the products produced.
B) what products will be produced.
C) where will the products be consumed.
D) how will the products be produced.

19) Deciding if a power company will generate electricity from wind power or coal answers the economic question of
A) who consumes the products produced.
B) what products will be produced.
C) where will the products be consumed.
D) how will the products be produced.

20) An economic model is a
A) realistic version of an economic environment.
B) detailed version of an economic issue.
C) fictional representation of an entire economy.
D) simplified representation of an economic environment.
21) Economic models are used to
A) explain every detail of an economic theory.
B) explore decision making by individuals, firms and other organizations.
C) build physical renditions of government construction projects.
D) represent the complexities of economic environments.

22) Talking about alternatives is the first step in a process that helps us make better choices about how we use our resources.

23) In the past few centuries, choices have led to a substantial decline in the standards of living around the globe.

24) Scarcity is a situation in which resources are unlimited in quantity and can be used in different ways.

25) Positive economics answers the question, "What *ought* to be?" Normative economics predicts the consequences of alternative actions, answering the questions, "What *is*?" or "What *will be*?"

26) Normative economics answers the question, "What *ought* to be?" Positive economics predicts the consequences of alternative actions, answering the questions, "What *is*?" or "What *will be*?"

27) Most modern economic analysis is normative in nature, but involves questions with positive aspects.

28) Economists will always reach the same conclusion in their positive analyses.

29) One of the key economic questions is "where should products be produced?"

30) One of the key economic questions is "who consumes the products?"

31) An economic model is a detailed version of an economic environment.

32) Economic models explore decision making by individuals, firms and other organizations.

33) Would an economist consider clean air a scarce resource? Explain.

34) List and briefly describe the five factors of production.

35) Give an example of something that is scarce in your life and explain the choices you've made because of scarcity.

36) Positive economic analysis answers what question?

37) Normative economic analysis answers what question?

38) Richard runs a pizza delivery restaurant. List the three basic types of decisions studied in economics and give an example from Richard's restaurant.

1) According to the Texas Transportation Institute, the typical U.S. commuter wastes approximately how much time per year due to traffic congestion?
A) 14 hours
B) 22 hours
C) 47 hours
D) 96 hours

2) In the final two decades of the twentieth century, average per capita global income
A) increased by approximately 35%.
B) remained relatively unchanged.
C) decreased by approximately 6%.
D) increased by more than 75%.

3) In the final two decades of the twentieth century, per capita income in sub-Saharan Africa
A) increased by approximately 35%.
B) remained relatively unchanged.

C) decreased by approximately 6%.
D) increased by more than 75%.
4) Prior to the financial crisis and recession which began in 2007, credit for mortgages was
_____, creating a _____.
A) virtually unavailable; housing bubble
B) only available to borrowers with high credit scores; shortage of affordable housing
C) easily obtained; housing boom
D) unavailable to low-income borrowers; large demand for rental properties

5) The financial crisis and recession which began in 2007
A) impacted only high-income countries.
B) was only severe in the United States.
C) had a global impact.
D) impacted only low-income countries.

6) Congestion taxes tend to cause an increase in traffic volume during rush hours.

7) In the 1980s and 1990s, average per capita income increased by a greater percentage in sub-Saharan Africa than it did in the rest of the world.

1) Who is associated with the following summary of the economic way of thinking: "The theory of economics does not furnish a body of settled conclusions immediately acceptable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its processer draw correct conclusions."
A) John Maynard Keynes
B) Alfred Marshall
C) Adam Smith
D) President Harry Truman

2) To make things simpler and focus attention on what really matters, economists would
A) use assumptions.
B) ignore all variables.
C) think at the margin.
D) respond to incentives.

3) A variable measures
A) something that always has the same value.
B) something that can take on different values.
C) factors that occur with high degrees of uncertainty.
D) the degree to which something varies over time.
4) The Latin phrase *ceteris paribus* means that when a relationship between two variables is being studied,
A) both are treated as unpredictable.
B) neither of those two variables is allowed to change.
C) all other variables are held fixed.
D) we recognize that some factors are unknown.

5) To think at the margin means to consider
A) how nothing remains constant over time.
B) how a small change in one variable affects another variable.
C) how people behave in their own self-interest.
D) how people will decide what to purchase.

6) Jerome has a "C" average in his philosophy course and a "B" average in his economics course.
He decides to study an extra hour for his philosophy exam. This is an example of
A) thinking at the margin.
B) using assumptions to simplify.
C) *ceteris paribus.*
D) *caveat emptor.*
7) A small change in a variable is
A) an average change.
B) a *ceteris paribus* change.
C) an efficient change.
D) a marginal change.

8) Adam Smith
A) is considered the founder of economics.
B) introduced the concept of *ceteris paribus* to the discussion of supply and demand.
C) is responsible for refining the model of supply and demand.
D) is the author of this text.
9) When economists assume that people are rational and respond to incentives, they mean
A) people act with kindness.
B) people are altruistic.
C) people act in their own self-interest.
D) people are selfish.
10) When deciding to implement a congestion tax, economists and the government would use the
elements of the economic way of thinking to primarily determine
A) if the tax would be allocated equitably.
B) what tax amount should be charged.
C) who should be exempt from the tax.
D) how much revenue will the tax generate.

11) After the implementation of the congestion tax in London, traffic volume was reduced and
travel time for cars and buses was cut in half. This is an example of
A) responding to incentives.
B) the role of pricing in allocating resources.
C) *caveat emptor*.
D) comparative advantage.
Learning Outcome: Micro-1

12) When determining an appropriate congestion tax, economists would use which of the
following elements of the economic way of thinking?
A) thinking at the margin

B) isolating variables
C) making assumptions
D) all of the above
Recall the Application about the increase in purchases of hybrid vehicles to answer the following question(s).

13) Recall the application. One factor which was responsible for roughly one-fifth of hybrid vehicles purchased in 2007 was a federal subsidy of up to $3,400 per hybrid vehicle. The increase in sales due to this subsidy is an example of which element of the economic way of thinking?
A) responding to incentives
B) thinking at the margin
C) isolating variables
D) using assumptions to simplify

14) Recall the application. One factor which was responsible for roughly one-third of hybrid vehicles purchased in 2007 was an increase in the price of gasoline. The increase in sales due to higher gasoline prices describe the economic concept of
A) using assumptions to simplify.
B) *ceteris paribus.*
C) marginal thinking.
D) rational self interest.
15) Recall the application. The average cost of abating one ton of CO_2 emissions through the hybrid subsidy is $177, but a switch from coal to natural gas in power plants would reduce CO_2 emissions at less than one-third the cost of the hybrid subsidy. The increase in cost associated with the reduction of one ton of CO_2 emissions (assuming that each unit of CO_2 emissions is measured in tons) describes the economic concept of
A) using assumptions to simplify.
B) *ceteris paribus.*
C) marginal thinking.
D) rational self interest.
Recall the Application about unwanted commercial e-mail, or spam, to answer the following question(s).

16) Recall the application. The economic approach to spam is to
A) establish a price for commercial e-mail.
B) ignore the spam issue because it has no economic implications.
C) have it legislated on the local level since it is a microeconomic issue.
D) ban all e-mail from international servers.

17) Recall the application. The amount of e-mail spam would significantly decrease if
A) the cost of sending spam exceeded its profitability.
B) states passed laws making spam illegal.
C) e-mail filters were developed to separate spam from legitimate e-mail.
D) more people responded to spam e-mails.
18) Using assumptions to make things simpler and focus attention on what really matters is like

using a road map to plan a trip.

19) *Ceteris paribus* means "Let the buyer beware."
20) *Ceteris paribus* is the same as rise / run.
21) A small, one-unit change in value is called a marginal change.

22) A key assumption of most economic analysis is that people act rationally, meaning they respond to incentives.

23) A key assumption of most economic analysis is that people are altruistic, meaning that they act in their own self-interest.

24) Economists assume that individuals make informed decisions and act in their own self-interest.
25) The congestion tax implemented in London reduced traffic volume and cut travel time for cars and buses in half.

26) To determine an appropriate congestion tax, an economist has to assume that people respond to incentives.
Recall the Application about unwanted commercial e-mail, or spam, to answer the following question(s).

27) Recall the application. One idea to reduce the volume of e-mail spam is to charge the sender for each commercial e-mail sent.

28) What is meant by the term "marginal change"?

1) Macroeconomics is best described as the study of
A) very large issues.
B) the choices made by individual households, firms, and governments.
C) the nation's economy as a whole.
D) the relationship between inflation and wage inequality.

2) Which of the following is a macroeconomic question?
A) Should we have a constitutional amendment requiring the government to implement a national consumption tax to replace the current income tax?
B) Why did a leading computer manufacturer establish call centers in India?
C) Why does a pharmaceutical manufacturer try to lower its production costs?
D) Should the government put a tax on alcohol in an attempt to assist in the funding of support groups like Alcoholics Anonymous?
3) Which of the following is NOT a macroeconomic question?
A) Should we have a constitutional amendment requiring the federal government to balance the budget each year?
B) Should restaurants be required to list the number of calories for each product on their menus?
C) How does a fiscal stimulus package affect gross domestic product?
D) Should Congress enact tougher immigration laws to reduce unemployment?

4) We can use macroeconomic analysis to
A) learn how to balance a checkbook.
B) study the choices made by households.
C) understand marginal changes in the macroeconomy.
D) understand why economies grow.

5) Macroeconomics involves the study of the decision-making of individual firms or individuals.

6) Macroeconomics helps explain economic fluctuations, why the economy shrinks and expands and why some of the economy's resources are idle.

7) Describe the field of economics known as macroeconomics.
8) Explain three ways we can use macroeconomic analysis.

1) The study of the choices made by individual households, firms, and government is called
A) macroeconomics.
B) microeconomics.
C) managerial economics.
D) market economics.

2) Microeconomics is best described as the study of
A) the choices made by individual households, firms, and governments.
B) inflation, unemployment, gross national product, and the nation's economy as a whole.
C) how markets interact in the aggregate economy.
D) marginal changes in the economy.
3) Which of the following is a microeconomic question?
A) Should companies pay for employees' health insurance?
B) Why do some countries have higher economic growth rates than other countries?
C) Should Congress and the president take action to reduce the unemployment rate?
D) Should the Fed attempt to influence the interest rate to control potential inflation?

4) Which of the following is a microeconomic question?
A) Should the government decrease unemployment benefits to reduce the unemployment rate?
B) Why do some countries have higher inflation rates than other countries?
C) Should the government subsidize corn farmers to encourage the production of ethanol?
D) Should congress decrease taxes to help stimulate the economy?

5) Microeconomics helps explain economic fluctuations, why the economy shrinks and expands and why some of the economy's resources are idle.

6) Microeconomics is the study of aggregate behavior in the economy.

7) One example of a microeconomic question is, "How will prices in the clothing industry change if the government bans imports from China?"

8) One example of a microeconomic question is, "Should unemployment benefits be increased?"

9) Describe the field of economics known as microeconomics.

10) Explain three ways we can use microeconomic analysis.

1) There is a positive relationship between two variables if
A) they move in opposite directions.
B) they move in the same direction.
C) one variable changes and the other does not.
D) neither variable moves.
2) There is a negative relationship between two variables if
A) they move in opposite directions.
B) they move in the same direction.
C) one variable changes and the other does not.
D) neither variable moves.

3) The slope of a curve measures
A) the change in one variable in response to the change in the other variable.
B) the length of the curve.
C) only the change in the horizontal variable.
D) only the change in the vertical variable.
4) Slope is calculated as the
A) change in the vertical variable divided by the change in the horizontal variable.
B) change in the horizontal variable divided by the change in the vertical variable.
C) the vertical axis divided by the horizontal axis.
D) change in the vertical variable.

5) The slope of a straight line
A) is constant.
B) is negative.
C) is zero.
D) changes along the curve.
6) If the variable on the vertical axis increases by 20 and the variable on the horizontal axis increases by 5, the slope of the line is
A) 0.25.
B) 4.
C) 15.
D) 100.

7) If the variable on the vertical axis increases by 24 and the variable on the horizontal axis decreases by 3, the slope of the line is
A) -24.
B) -8.
C) 3.
D) 72.

8) Refer to Figure 1A.1. If the hours worked per week is 20, the income per week is
A) 50.
B) 100.
C) 150.
D) 200.
9) Refer to Figure 1A.1. If the hours worked per week is 30, the income per week is
A) 50.
B) 100.
C) 150.
D) 200.

10) Refer to Figure 1A.1. The slope of the line between the points where income equals 50 and income equals 200 is
A) 0.2.
B) 5.
C) 10.
D) 50.
11) Refer to Figure 1A.1. The slope of the line between the points where hours worked per week are 20 and hours worked per week are 30 is
A) 0.2.
B) 5.
C) 10.
D) 50.

12) Refer to Figure 1A.2. If this consumer rents zero DVDs, how many movie tickets will she purchase?
A) 0
B) 5
C) 10
D) 15
13) Refer to Figure 1A.2. If this consumer rents 60 DVDs, how many movie tickets will she purchase?
A) 0
B) 5
C) 10
D) 15

14) Refer to Figure 1A.2. The slope of the curve
A) is negative.
B) is positive.
C) is zero.
D) changes along the curve.
15) Refer to Figure 1A.2. The slope between points *a* and *c* is
A) -5.
B) -6.
C) 10.
D) 30.

16) The slope of a nonlinear curve
A) is constant.
B) is negative.
C) is zero.
D) changes along the curve.
17) If the price of monthly satellite TV service increases from $40 to $50, the percentage change is
A) 5%.
B) 20%.
C) 25%.
D) 45%.

18) If the price of a 32GB memory card decreases from $25 to $20, the percentage change is
A) -20%.
B) -33%.
C) -50%.
D) -60%.

Recall the Application about the government of Mexico City repainting highway lane lines to transform a 4-lane highway into a 6-lane highway to answer the following question(s).

19) Recall the application. When the government converted the highway from 4 lanes into 6 lanes, they claimed the capacity had increased by 50%. When the government switched the highway back from 6 lanes to 4 lanes, they claimed the capacity had been decreased by 33%. Had the government used the midpoint method, the percentage increase would have been _____% and the percentage decrease would have been _____%.
A) 33; 50
B) 33; 33
C) 40; 40
D) 50; 50
20) Recall the application. When computing percentage changes, using the simple approach results in increases and decreases which are
A) identical.
B) symmetric.
C) not symmetric.
D) more accurate than using the midpoint method.

21) If you work 4 extra hours, and the slope of the curve showing the relationship between your income and work hours is 8, your income will increase by
A) $2.
B) $4.
C) $12.
D) $32.
22) To increase income by $120 when the slope of the curve showing the relationship between your income and work hours is 8, how many extra hours will you need to work?
A) 8
B) 15
C) 112
D) 960

23) The origin of a graph is the intersection of the two axes, where the value of both variables is zero.
24) Positive relationships are also referred to as inverse relationships.

25) Negative relationships are also referred to as inverse relationships.

26) Slope is calculated as rise / run.
27) Slope is calculated as a change in the variable on the horizontal axis divided by a change in the variable on the vertical axis.

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