

## *Principles of Microeconomics, 10e (Case/Fair/Oster)*

### Chapter 1 The Scope and Method of Economics

#### 1.1 Why Study Economics?

##### 1 Multiple Choice

1) The reasons to study economics include which of the following?

- A) to be an informed voter
- B) to understand society and global affairs
- C) to learn a way of thinking
- D) all of the above

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Fact

2) Marginalism is

- A) the best alternative that we forego when making a decision.
- B) the study of how societies choose to use scarce resources.
- C) a market situation in which profit opportunities are eliminated almost instantaneously.
- D) the process of analyzing the additional costs or benefits arising from a decision.

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Definition

3) Economics is best defined as the study of

- A) financial decision-making.
- B) how consumers make purchasing decisions.
- C) choices made by people faced with scarcity.
- D) inflation, unemployment, and economic growth.

Answer: C

Diff: 2

Topic: Why Study Economics?

Skill: Definition

4) The Industrial Revolution refers to the rise of the modern factory system in \_\_\_\_\_ during the late eighteenth and early nineteenth centuries.

- A) the United States
- B) England
- C) France
- D) Germany

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

5) Which of the following statements is correct?

- A) Economics is a natural science.
- B) In large measure, economics is the study of how people make choices.
- C) If poverty was eliminated there would be no reason to study economics.
- D) Economic analysis can be used to explain how societies, but not individuals, make decisions.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

6) 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.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Definition

7) Costs that cannot be avoided, because they have already been incurred are known as

- A) differential costs.
- B) marginal costs.
- C) opportunity costs.
- D) sunk costs.

Answer: D

Diff: 2

Topic: Why Study Economics?

Skill: Definition

8) Suppose that two weeks ago you purchased a ticket to the symphony for \$40. Last week someone invited you to go camping on the same night as the symphony concert. You would much rather go camping than go to the symphony. You have tried unsuccessfully to sell the symphony concert ticket. Which of the following statements regarding this situation is correct?

- A) The \$40 symphony ticket should be irrelevant in your decision making, because it represents the marginal cost of going camping.
- B) The \$40 you paid for the symphony ticket should be irrelevant in your decision making, because it is a sunk cost.
- C) The \$40 you paid for the symphony ticket is relevant to the decision, as this represents the opportunity cost of going camping.
- D) You should base your decision on whether or not going camping will provide you with more than \$40 in satisfaction.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 9) You have decided that you want to attend a renaissance fair as King Henry VIII. You estimate that it will cost \$80 to assemble your costume. After spending \$80 on the costume, you realize that the additional pieces you need will cost you \$20 more. The marginal cost of completing the costume is

A) \$20.  
B) \$60.  
C) \$80.  
D) \$100.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

- 10) The concept of opportunity cost can be applied to the analysis of \_\_\_\_\_ decision-making processes.

A) only economy-wide  
B) only global  
C) only-small-scale  
D) any

Answer: D

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 11) That which we forgo, or give up, when we make a choice or a decision is known as

A) equity.  
B) causation.  
C) correlation.  
D) opportunity cost.

Answer: D

Diff: 2

Topic: Why Study Economics?

Skill: Definition

- 12) Scarce resources give rise to the concept of

A) efficient markets.  
B) opportunity costs.  
C) laissez-faire.  
D) positive economics.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

- 13) Which of the following is an opportunity cost of attending college?
- A) the cost of your apartment or dorm
  - B) the income you could have earned if you didn't attend college
  - C) the cost of the food that you consume while you are attending college
  - D) the education you gain from attending college.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 14) If your tuition is \$2,000 this semester, your books cost \$400, you can only work 10 rather than 40 hours per week during the 15 weeks you are taking classes and you make \$12 per hour, and your room and board is \$4,000 this semester, then your opportunity cost of attending college this semester is
- A) \$2,400.
  - B) \$2,760.
  - C) \$7,800.
  - D) \$11,800.

Answer: C

Diff: 3

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

- 15) If your tuition is \$20,000 this semester, your books cost \$2,000, you can only work 10 rather than 40 hours per week during the 15 weeks you are taking classes and you make \$15 per hour, and your room and board is \$8,000 this semester, then your opportunity cost of attending college this semester is
- A) \$22,000.
  - B) \$22,150.
  - C) \$28,750.
  - D) \$36,750.

Answer: C

Diff: 3

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

- 16) If you own a condo and you decide to lease it to your cousin
- A) there is no opportunity cost of leasing the condo because you own it.
  - B) there is an opportunity cost of leasing the condo because you could have chosen to live in it.
  - C) there is no opportunity cost of leasing the condo because you collect rent from your cousin.
  - D) the only cost relevant to this decision is the price you paid for the condo.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 17) You own *The Wedding Crasher* on DVD. The opportunity cost of watching this DVD for the fourth time
- A) is zero, since you own it.
  - B) is one-fourth the cost of the DVD, as this is the fourth time you have watched it.
  - C) is the value of the alternative use of the time you spend watching the DVD.
  - D) must be the same as the opportunity cost of watching it the first time.

Answer: C

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 18) Opportunity cost is

- A) what we give up to get something else.
- B) marginal cost divided by sunk cost.
- C) the same as real cost.
- D) all of the above

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

- 19) Sunk costs

- A) are costs which have been incurred.
- B) are costs which cannot be avoided but have yet to be incurred.
- C) the sum of all marginal costs.
- D) the sum of all opportunity costs.

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

20) If you can download 10 ring tones for your cell phone for \$10 or you could download 11 ring tones for your cell phone for \$10.50, then the marginal cost of the eleventh ring tone is

- A) \$0.50.
- B) \$10.00.
- C) \$10.50.
- D) \$20.50.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

21) If you eat at a Las Vegas casino that charges \$12 for its all you can eat buffet, then the marginal cost of your third trip to the buffet is

- A) zero.
- B) \$4.
- C) \$12.
- D) \$36.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

22) An efficient market is a market

- A) that deals in unlimited resources.
- B) in which long-term profits are guaranteed.
- C) in which profit opportunities are eliminated almost instantaneously.
- D) in which there are no opportunity costs.

Answer: C

Diff: 2

Topic: Why Study Economics?

Skill: Definition

23) If information is more costly and less easily available, then usually this

- A) makes markets more efficient.
- B) makes markets less efficient.
- C) decreases profit opportunities.
- D) decreases the opportunity cost of acquiring more information.

Answer: B

Diff: 3

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 24) The common way of expressing the efficient market concept is
- A) "the only true market is a profitable market."
  - B) "there's no such thing as a free lunch."
  - C) "only without government interference can a market survive."
  - D) "once an efficient market, always an efficient market."

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 25) Related to the *Economics in Practice* on p. 6: An example of a sunk cost to Apple in its production of the iPod is
- A) the \$73 cost of the Toshiba hard drive.
  - B) the cost of conception and design of the iPod.
  - C) the \$80 value-added received by Apple.
  - D) the cost of all of the 451 components needed to produce the iPod.

Answer: B

Diff: 2

Topic: Why Study Economics?: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

- 26) Related to the *Economics in Practice* on p. 6: The opportunity cost to Apple of having its 30-gigabyte video iPod assembled in China is
- A) the low wages paid to Chinese workers.
  - B) the \$4 per unit cost of assembly in China.
  - C) having the iPod assembled in the next best available location.
  - D) the value-added received by Apple.

Answer: C

Diff: 2

Topic: Why Study Economics?: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

## 2 True/False

- 1) Resources are limited in both wealthy and poor societies.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Fact

- 2) The value of the best alternative foregone is the sunk cost of making a decision.

Answer: FALSE

Diff: 1

Topic: Why Study Economics?

Skill: Fact

3) Opportunity costs arise because resources are limited.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

4) Sunk costs affect marginal decision making.

Answer: FALSE

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

5) Sunk costs are those that cannot be recaptured.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Fact

## 1.2 The Scope of Economics

### 1 Multiple Choice

1) 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.

Answer: A

Diff: 2

Topic: The Scope of Economics

Skill: Definition

2) 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.

Answer: C

Diff: 2

Topic: The Scope of Economics

Skill: Definition



- 3) Which of the following is a microeconomics question?
- A) Is it sensible for a government to subsidize tobacco production?
  - B) Why do some countries grow faster than others?
  - C) Should Congress and the president take action to reduce global warming?
  - D) Should the government attempt to influence the interest rate to lower inflation?

Answer: A

Diff: 2

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 4) Which of the following is a macroeconomics question?
- A) Should we have a constitutional amendment to balance the federal budget?
  - B) Why does a firm decide to enter a particular market?
  - C) Should the government prevent the merger of two large firms?
  - D) Should the government put a tax on alcohol in an attempt to reduce highway fatalities?

Answer: A

Diff: 1

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 5) 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.

Answer: D

Diff: 1

Topic: The Scope of Economics

Skill: Fact

## 2 True/False

- 1) The rate of unemployment is a topic of microeconomics.

Answer: FALSE

Diff: 1

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 2) The rate of inflation is a topic of macroeconomics.

Answer: TRUE

Diff: 2

Topic: The Scope of Economics

Skill: Conceptual

AACSB: Reflective Thinking

## 1.3 The Method of Economics

### 1 Multiple Choice

- 1) Which of the following is an example of a normative question?
- A) How will an increase in the price of diesel fuel affect truck drivers?
  - B) What fraction of an income-tax rebate check will be spent on consumer goods?
  - C) Should the government provide free prescription drugs to lower-income citizens?
  - D) How will an increase in the minimum wage affect migrant workers?

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 2) The compilation of data that describe phenomena and facts is referred to as
- A) an economic model.
  - B) Marxist ideology.
  - C) a normative statement.
  - D) descriptive economics.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 3) The amount of exercise that one gets is an important factor in the determination of his general state of health. This is best described as
- A) a positive statement.
  - B) Marxist ideology.
  - C) a normative statement.
  - D) descriptive economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 4) Opportunity cost is
- A) the additional cost incurred from the consumption of one more unit of output.
  - B) the cost involved when choosing between alternatives.
  - C) the cost of production which cannot be recaptured.
  - D) the total cost incurred from the consumption of additional output.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

5) An approach to economics that applies statistical techniques and data to economic problems is called

- A) Ockham's razor.
- B) laissez-faire economics.
- C) positive economics.
- D) normative economics.

Answer: C

Diff: 1

Topic: The Method of Economics

Skill: Fact

6) 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?"

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Fact

7) Which of the following is a question answered with normative economic reasoning?

- A) If the college offers free parking for students, will more students drive to campus?
- B) If the college provided more financial aid assistance, would more students benefit?
- C) If the college increased tuition, would class size decline?
- D) Should the college cut tuition to stimulate enrollment?

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

8) Which of the following is a question answered with positive economic analysis?

- A) Should the college offers free parking for students?
- B) Should the college provide more financial aid assistance?
- C) If the college increased tuition, will class size decline?
- D) Should the college cut tuition to stimulate enrollment?

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 9) The reoccurrence of contagious diseases should be significantly lower in a technically advanced nation such as the United States. This statement is best described as
- A) a normative statement.
  - B) a positive statement.
  - C) a descriptive economics statement.
  - D) an implication of an efficient market.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 10) There is great concern over the fact that global warming is causing permanent damage to the global environment. A study of the costs and benefits of purchasing carbon offsets to combat global warming is an example of
- A) labor economics.
  - B) normative economics.
  - C) positive economics.
  - D) laissez-faire economics.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 11) The compilation of data that describe phenomena and facts refers to
- A) descriptive economics.
  - B) normative economics.
  - C) laissez-faire economics.
  - D) collective economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 12) An economist collecting data on the employment benefits and salaries in the chemical engineering industry is an example of
- A) descriptive economics.
  - B) the fallacy of composition.
  - C) the post hoc fallacy.
  - D) ceteris paribus.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

*Refer to Scenario 1.1 below to answer the questions that follow.*

SCENARIO 1.1: A scientist wants to understand the relationship between automobile emissions and the level of global warming. The scientist collects data on the volume of automobile emissions and the levels of global warming over time. The scientist concludes that a 1% increase in automobile emissions causes a 0.0003% increase in average global temperatures. From this information he concludes that the automobile emissions are harmful to the environment and should be reduced to stop the increase in global temperatures.

- 13) Refer to Scenario 1.1. The statement that a 1% increase in the automobile emissions causes a 0.0003% increase in average global temperatures is an example of
- A) positive economics.
  - B) descriptive economics.
  - C) normative economics.
  - D) Marxist economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 14) Refer to Scenario 1.1. The statement, "automobile emissions are harmful to the environment and should be reduced to stop the increase in global temperatures," is an example of
- A) positive economics.
  - B) descriptive economics.
  - C) normative economics.
  - D) Marxist economics.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 15) Refer to Scenario 1.1. The process of collecting data on automobile emissions and global warming levels is an example of
- A) law and economics.
  - B) economic history.
  - C) econometrics.
  - D) descriptive economics.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 16) Refer to Scenario 1.1. The statement that an increase in automobile emissions causes an increase in global warming is an example of
- A) an economic theory.
  - B) descriptive reasoning.
  - C) deductive reasoning.
  - D) normative economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 17) Refer to Scenario 1.1. A graph of the volume of automobile emissions on one axis and the level of average global temperatures on the other axis is an example of
- A) an economic model.
  - B) an economic theory.
  - C) a variable theory.
  - D) inductive reasoning.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 18) By invoking the assumption of *ceteris paribus*, economists
- A) consider the impact of all relevant factors.
  - B) hold all variables constant when analyzing a model.
  - C) isolate the impact of one single variable while holding all other variables constant.
  - D) exclude irrelevant detail when analyzing a model.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 19) Ockham's razor is the principle that states
- A) supply creates its own demand.
  - B) we must forego something when making a decision.
  - C) costs which have been incurred cannot be avoided.
  - D) irrelevant detail should not be included in a model.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 20) The phrase *ceteris paribus* means
- A) "scarcity is a fact of life."
  - B) "all else equal."
  - C) "there is no such thing as a free lunch."
  - D) "everything affects everything else."

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 21) 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.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 22) Isabel noted that whenever she wore her green contact lenses, the Chicago White Sox would win that evening. Based on this observation, she developed the "green-eyes-for-White-Sox" theory of winning. It is most likely true that Isabel
- A) showed good reasoning for the reason the White Sox would win.
  - B) committed the *ceteris paribus* error.
  - C) committed the fallacy of composition.
  - D) was too quick to conclude that correlation implies causation.

Answer: D

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 23) Whenever a former governor is elected president, the unemployment rate decreases; whenever a former congressman is elected president, the inflation rate increases. This statement is an example of
- A) fallacy of composition.
  - B) *post hoc, ergo propter hoc* fallacy.
  - C) *ceteris paribus* fallacy.
  - D) fallacy of inductive reasoning.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 24) The erroneous belief that what is true for a part is necessarily true for the whole is referred to as the
- A) fallacy of composition.
  - B) *post hoc, ergo propter hoc* fallacy.
  - C) *ceteris paribus* fallacy.
  - D) fallacy of inductive reasoning.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 25) The unemployment rate was falling during all of the years that I was a student, but as soon as I graduated, the unemployment rate started to rise. Therefore, the job market was waiting until I started looking for employment to start to go bad. This statement is an example of
- A) fallacy of composition.
  - B) *post hoc, ergo propter hoc* fallacy.
  - C) *ceteris paribus* fallacy.
  - D) fallacy of inductive reasoning.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 26) Research conducted in border states suggests that speaking a second language increases the prospects for employment. Therefore, we should require all citizens to speak a second language. This statement is an example of
- A) fallacy of composition.
  - B) *ceteris paribus* fallacy.
  - C) fallacy of inductive reasoning.
  - D) *post hoc, ergo propter hoc* fallacy.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 27) Salary caps are imposed when league officials believe some football team owners are taking advantage of their deep pockets and buying more quality players than the other owners can afford to buy. Which of the following criteria are they using to guide their actions?
- A) growth
  - B) stability
  - C) efficiency
  - D) equity

Answer: D

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking



28) A government policy that tries to minimize inflation and unemployment can best be described as trying to achieve economic

- A) growth.
- B) stability.
- C) profitability.
- D) equity.

Answer: B

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

29) The concept of equity would explain the redistribution from the rich to the poor which is achieved from a tax system that requires taxes to

- A) fall when income rises.
- B) rise when income rises.
- C) remain stable when income rises.
- D) be unrelated to income.

Answer: B

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

30) You know that the school parking lot gets very congested about 8:30 a.m. To avoid this congestion, you start arriving at school at 8:00 a.m. However many other students make the same decision, and now the parking lot becomes very congested at 8:00 a.m. This is an example of the

- A) fallacy of composition.
- B) *ceteris paribus* fallacy.
- C) fallacy of division.
- D) *post hoc, ergo propter hoc* fallacy.

Answer: A

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 31) You always have math problems to work in class whenever you forget to bring your calculator to school. Concluding that forgetting your calculator causes your professor to assign math problems is an example of the
- A) fallacy of composition.
  - B) fallacy of inductive reasoning.
  - C) *ceteris paribus* conditions.
  - D) *post hoc, ergo prompter hoc* fallacy.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 32) At a NASCAR race, you stand up to see better. Everyone else stands up, as well. This is an example of
- A) the fallacy of composition.
  - B) the *post hoc, ergo prompter hoc* fallacy.
  - C) *ceteris paribus*.
  - D) Ockham's razor.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 33) You have observed that every time you get a new tattoo the day before you take an exam you get an A. You therefore conclude that to get an A on an exam, all you have to do is get a new tattoo the day before. You have committed the
- A) fallacy of division.
  - B) fallacy of inductive reasoning.
  - C) *post hoc, ergo prompter hoc* fallacy.
  - D) fallacy of composition.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 34) If you observe that Kelly Clarkson won American Idol 3 years before Carrie Underwood won, and you conclude that Kelly Clarkson winning caused Carrie Underwood to win 3 years later, you would be guilty of an error called the
- A) fallacy of inductive reasoning.
  - B) fallacy of *ceteris paribus*.
  - C) fallacy of composition.
  - D) *post hoc, ergo propter hoc* fallacy.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 35) Two variables are said to be correlated if
- A) one variable changes when the other variable changes.
  - B) the first variable changes when the second variable does not change.
  - C) the first variable does not change when the second variable changes.
  - D) the variables share no relation with each other.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 36) The belief that what is true for a part is necessarily true for the whole describes the
- A) fallacy of composition.
  - B) *post hoc, ergo propter hoc* fallacy.
  - C) fallacy of division.
  - D) fallacy of inductive reasoning.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 37) Empirical economics refers to the
- A) exclusion of irrelevant data when analyzing a model.
  - B) collection and use of data to test economic theories.
  - C) model of economics used prior to the Industrial Revolution.
  - D) belief that what is true for a part is necessarily true for the whole.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

38) A change in economic output is potentially efficient if the value of the resulting gains \_\_\_\_\_ the value of the resulting losses.

- A) exceeds
- B) is less than
- C) is equal to
- D) is unrelated to

Answer: A

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

39) An efficient economy is an economy that produces what \_\_\_\_\_ demand and does so at the \_\_\_\_\_ possible cost.

- A) consumers; highest
- B) consumers; least
- C) the government; highest
- D) the government; least

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

40) An efficient market is characterized by the fact that profit opportunities are

- A) guaranteed to everyone.
- B) eliminated almost instantaneously.
- C) only provided to government-subsidized producers.
- D) available only to the most efficient producers.

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Fact

41) The four criteria that are frequently used in judging the outcome of economic policy are efficiency, stability, economic growth, and

- A) equity.
- B) equality.
- C) profitability.
- D) resolution.

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Fact

- 42) You have noticed that there is an increase in the number of homeless people in your city and at the same time you observe that there are a number of vacant apartments. You believe that if landlords were required to rent their apartments for less than they are currently charging, the government could reduce the number of homeless people. This policy recommendation would be motivated by concerns over

- A) economic growth.
- B) stability.
- C) profitability.
- D) equity.

Answer: D

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 43) Many economists argue that items such as food and clothing should be exempt from sales tax because low-income people spend a greater percentage of their income on these goods than do high-income individuals. This argument is motivated by concerns over

- A) economic stability.
- B) economic growth.
- C) equity.
- D) efficiency.

Answer: C

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 44) The statement "people should pollute as little as possible" is an example of a

- A) positive statement.
- B) normative statement.
- C) factual statement.
- D) non-judgmental statement.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 45) The statement "the unemployment rate is 5.1%" is an example of a

- A) positive statement.
- B) value judgement.
- C) normative statement.
- D) non-verifiable statement.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

## 2 True/False

- 1) Positive economics questions "What ought to be?" Normative economics predicts the consequences of alternative actions, answering the questions "What is?" or "What will be?"  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition
- 2) Normative economics questions "What ought to be?" Positive economics predicts the consequences of alternative actions, answering the questions "What is?" or "What will be?"  
Answer: TRUE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition
- 3) An efficient economy is one that produces what the government demands and does so at the least possible cost.  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition
- 4) "Post hoc, ergo propter hoc" literally translated means, "all else equal."  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition
- 5) Normative economics seeks to understand behavior, but not make judgments.  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Conceptual  
AACSB: Reflective Thinking
- 6) Stability implies a steady rate of economic growth regardless of the inflation rate.  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Conceptual  
AACSB: Reflective Thinking
- 7) The compilation of data to describe phenomena and facts is known as empirical economics.  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition

## 1.4 Appendix: How to Read and Understand Graphs

### 1 Multiple Choice

Refer to the information provided in Figure 1.1 below to answer the questions that follow.

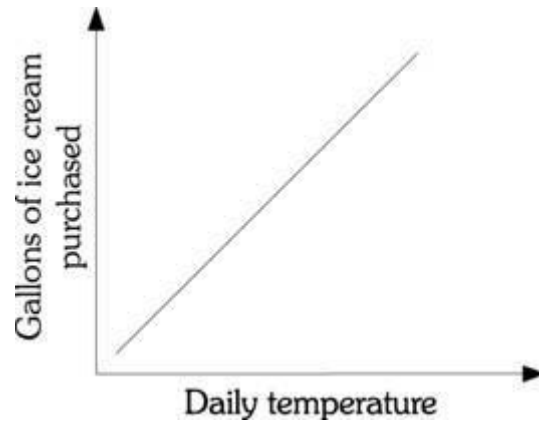


Figure 1.1

- 1) Refer to Figure 1.1. The relationship between the daily temperature and the number of gallons of ice cream purchased demonstrates
- A) an infinite slope.
  - B) a negative slope.
  - C) a positive slope.
  - D) a zero slope.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 1.2 below to answer the questions that follow.

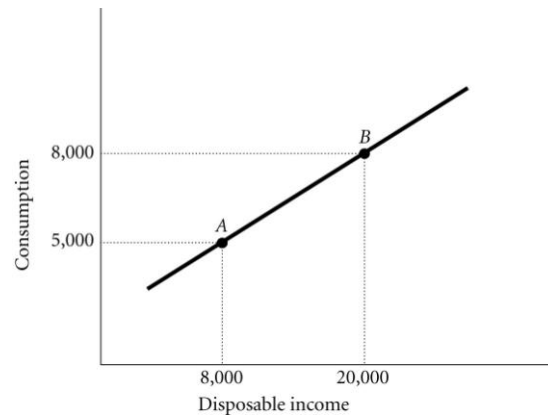


Figure 1.2

2) Refer to Figure 1.2. The slope of the line between Points A and B is

- A) positive and increasing.
- B) positive and constant.
- C) negative and decreasing.
- D) negative and constant.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

3) Refer to Figure 1.2. If the slope of a straight line is -2, and if X (the variable on the horizontal axis) decreases by 8, then Y (the variable on the vertical axis) will

- A) increase by 4.
- B) decrease by 4.
- C) increase by 16.
- D) decrease by 16.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills



- 4) Refer to Figure 1.2. The slope of the line between Points *A* and *B* is
- A) 0.25.
  - B) 4.
  - C) -0.25.
  - D) -4.

Answer: A

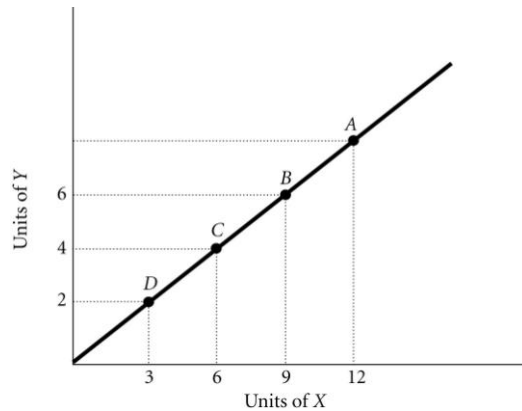
Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 1.3 below to answer the questions that follow.



[www.yufoe.weebly.com](http://www.yufoe.weebly.com)  
**Figure 1.3**

- 5) Refer to Figure 1.3. The slope of the line is
- A) negative.
  - B) increasing at a decreasing rate.
  - C) decreasing at an increasing rate.
  - D) positive
- 6) Refer to Figure 1.3. The slope of the line between Points *D* and *B* is
- A) 1.5.
  - B) -0.67.
  - C) -1.5.
  - D) 0.67.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

7) Refer to Figure 1.3. The slope of the line between Points *A* and *B* is

- A) 1.5.
- B) -0.67.
- C) -1.5.
- D) 0.67.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

8) Refer to Figure 1.3. If a 45 degree line were also graphed, it would \_\_\_\_\_ the line shown on the graph.

- A) lie above
- B) lie below
- C) cross
- D) indeterminate from this information

Answer: A

Diff: 3

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

9) Refer to Figure 1.3. At Point *C*, what is the value of *Y*?

- A) 2
- B) 4
- C) 6
- D) indeterminate from this information

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

10) Refer to Figure 1.3. At Point *A* the slope of the line is 0.67, so at Point *C* the slope would be

- A) greater than 0.67.
- B) less than 0.67.
- C) equal to 0.67.
- D) indeterminate from this information.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 1.4 below to answer the questions that follow.

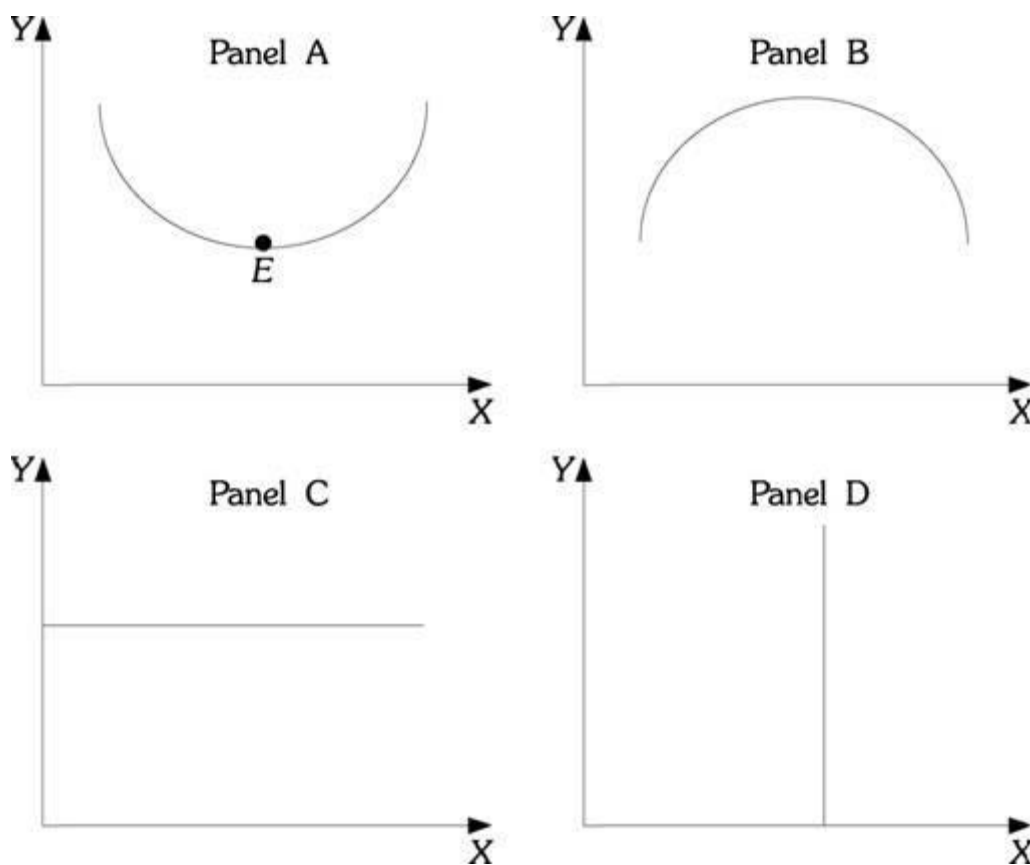


Figure 1.4

11) Refer to Figure 1.4. Panel A shows a curve which has a slope that is

- A) first positive, then zero, and then negative.
- B) first negative, then zero, and then positive.
- C) infinite throughout.
- D) zero throughout.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 12) Refer to Figure 1.4. Panel B shows a curve which has a slope that is
- A) first positive and then negative.
  - B) first negative and then positive.
  - C) infinite throughout.
  - D) zero throughout.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 13) Refer to Figure 1.4. Panel C shows a curve which has a slope that is
- A) first positive and then negative.
  - B) first negative and then positive.
  - C) infinite throughout.
  - D) zero throughout.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 14) Refer to Figure 1.4. Panel D shows a curve which has a slope that is
- A) first positive and then negative.
  - B) first negative and then positive.
  - C) infinite throughout.
  - D) zero throughout.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 15) Refer to Figure 1.4. At Point E in panel A, the slope is
- A) infinite.
  - B) zero.
  - C) negative.
  - D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 16) The slope of a straight line
- A) is always positive.
  - B) must first increase then decrease.
  - C) is not constant.
  - D) is constant.

Answer: D

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

- 17) The slope of a vertical line is
- A) negative.
  - B) zero.
  - C) continually changing.
  - D) infinite.

Answer: D

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

- 18) If the slope of a straight line is 5 and if X (the variable on the horizontal axis) increases by 4, then Y (the variable on the vertical axis) will
- A) decrease by 0.8.
  - B) decrease by 20.
  - C) increase by 0.8.
  - D) increase by 20.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 19) If the slope of a straight line is 6 and if Y (the variable on the vertical axis) decreases by 60, then X (the variable on the horizontal axis)
- A) increases by 10.
  - B) decreases by 10.
  - C) increases by 600.
  - D) decreases by 600.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

20) The slope of a horizontal line is

- A) zero.
- B) infinite.
- C) continually changing.
- D) negative.

Answer: A

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

Refer to the information provided in Figure 1.5 below to answer the questions that follow.

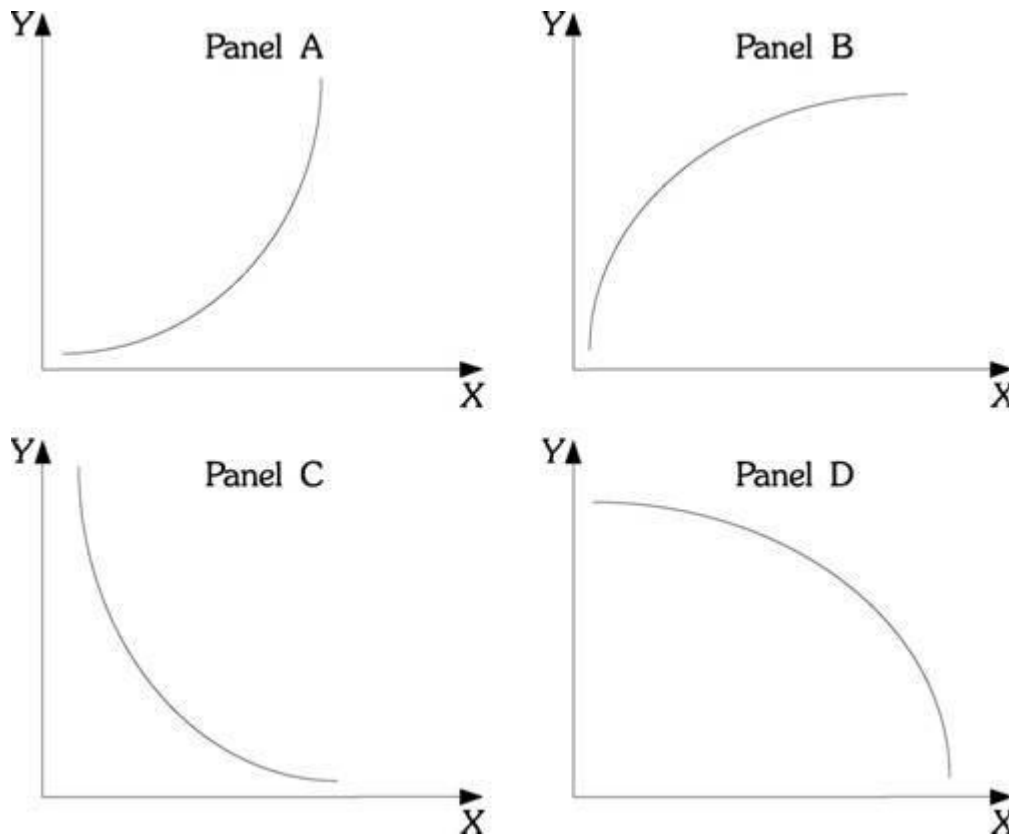


Figure 1.5

21) Refer to Figure 1.5. Panel A shows a curve with a slope that is

- A) positive and increasing.
- B) positive and decreasing.
- C) negative and increasing.
- D) negative and decreasing.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

22) Refer to Figure 1.5. Panel B shows a curve with a slope that is

- A) positive and increasing.
- B) positive and decreasing.
- C) negative and increasing.
- D) negative and decreasing.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

23) Refer to Figure 1.5. As income decreases, consumption decreases by a decreasing amount. If consumption is graphed on the vertical axis and income is graphed on the horizontal axis, the relationship between consumption and income would look like which of the following panels?

- A) A
- B) B
- C) C
- D) D

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

24) Refer to Figure 1.5. As firms produce additional units, average costs declines by a smaller and smaller amount. If output is graphed on the horizontal axis and average costs are graphed on the vertical axis, the relationship between average costs and output would be like which of the following panels?

- A) A
- B) B
- C) C
- D) D

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

## 2 True/False

1) Dividing the change in quantity on the X axis by the change in quantity on the Y axis calculates the slope of a line.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

2) A graph illustrating how two variables change over time is a Cartesian coordinate system.

Answer: TRUE

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

3) As the variable on the Y-axis rises the variable on the X-axis rises. The relationship between x and y is said to be direct.

Answer: TRUE

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

4) As the variable on the Y-axis rises the variable on the X-axis falls. The relationship between X and Y is said to be direct.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

5) The slope of a curve is constant.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

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