1.3 Economic Models

1) Economic models do all of the following except
A) answer economic questions.
B) portray reality in all its minute details.
C) make economic ideas explicit and concrete for use by decision makers.
D) simplify some aspect of economic life.
Answer: B
Diff: 1 Page Ref: 12/12
Topic: Economic Models
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

2) All of the following are part of an economic model except
A) assumptions.
B) hypotheses.
C) data.
D) opinions.
Answer: D
Diff: 1 Page Ref: 12/12
Topic: Economic Models
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

3) Which of the following statements about positive economic analysis is false?
A) Positive analysis uses an economic model to estimate the costs and benefits of different course of actions.
B) There is much more disagreement among economists over normative economic analysis than over positive economic analysis.
C) There is much more disagreement among economists over positive economic analysis than over normative economic analysis.
D) Unlike normative economic analysis, positive economic analysis can be tested.
Answer: C
Diff: 2 Page Ref: 14/14
Topic: Normative and Positive Analysis
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
4) Which of the following is a positive economic statement?
A) The standard of living in the United States should be higher.
B) If the price of iPhones falls, a larger quantity of iPhones will be purchased.
C) The government should revamp the health care system.
D) The U.S. government should not have bailed out U.S. auto manufacturers.
Answer: B
Diff: 2 Page Ref: 14/14
Topic: Normative and Positive Analysis
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

5) Which of the following is a positive economic statement?
A) People should not buy SUVs.
B) The government should mandate electric automobiles.
C) Scarcity necessitates that people make trade-offs.
D) Foreign workers should not be allowed to work for lower wages than the citizens of a country.
Answer: C
Diff: 2 Page Ref: 14/14
Topic: Normative and Positive Analysis
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

6) Which of the following is a normative economic statement?
A) Rising global demand for coal has led to increases in the price of coal.
B) With rising mortgage rates and rising unemployment rates, the number of unsold homes has increased.
C) The state of Texas is considering increasing funds for light-rail development to promote the use of public transportation.
D) Pharmaceutical manufacturers should not be allowed to patent their products so prescription drugs would be more affordable.
Answer: D
Diff: 2 Page Ref: 14/14
Topic: Normative and Positive Analysis
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking

Special Feature: None
7) Which of the following is a normative economic statement?
A) The price of gasoline is too high.
B) The current high price of gasoline is the result of strong worldwide demand.
C) When the price of gasoline rises, the quantity of gasoline purchased falls.
D) When the price of gasoline rises, transportation costs rise.
Answer: A
Diff: 2 Page Ref: 14/14
Topic: Normative and Positive Analysis
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

8) Which of the following questions or statements regarding medical school is normative?
A) How do changes in expected future incomes affect the decisions of medical students about which specialty to choose?
B) Medical students who enter specialized fields make a larger contribution to society than do student who enter primary care.
C) What role does tuition play in a student's decision about whether to attend medical school?
D) Have tuition increases had a large effect or a small effect on the number of applications to medical school?
Answer: B
Diff: 2 Page Ref: 15-16/15-16
Topic: Normative and Positive Analysis
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: Making the Connection: Should Medical School Be Free?
9) The economic analysis of minimum wage involves both normative and positive analysis. Consider the following consequences of a minimum wage:
   a. The minimum wage law causes unemployment.
   b. A minimum wage law benefits some groups and hurts others.
   c. In some cities such as San Francisco and New York, it would be impossible for low-skilled workers to live in the city without minimum wage laws.
   d. The gains to winners of a minimum wage law should be valued more highly than the losses to losers because the latter primarily comprises businesses.

Which of the consequences above are positive statements and which are normative statements?
   A) a, b, and c are positive statements and d is a normative statement.
   B) a and b are positive statements, c and d are normative statement.
   C) Only a is a positive statement, b, c and d are normative statements.
   D) a and c are positive statements, b and d are normative statements.

   Answer: B

Diff: 2 Page Ref: 15/15
Topic: Normative and Positive Analysis
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytic Skills
Special Feature: Don't Let This Happen to YOU!: Don't Confuse Positive Analysis with Normative Analysis

10) "An increase in the price of gasoline will increase the demand for hybrid vehicles." This statement is an example of a positive economic statement.

   Answer: TRUE

Diff: 1 Page Ref: 14/14
Topic: Normative and Positive Analysis
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

11) "The distribution of income should be left to the market" is an example of a positive economic statement.

   Answer: FALSE

Diff: 1 Page Ref: 14/14
Topic: Normative and Positive Analysis
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None
12) Positive analysis is concerned with "what ought to be", while normative analysis is concerned with "what is."

Answer: FALSE

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

13) What is the difference between positive economic analysis and normative economic analysis? Give one example each of a positive and normative economic issue or question or statement.

Answer: Positive economic analysis is concerned with what is. Positive economic analysis reaches conclusions based on verifiable statements. Normative economic analysis, on the other hand, is concerned with what ought to be. Normative analysis reaches conclusions based on opinions. (Students will give many different examples.)

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

14) Explain why economics is considered a social science.

Answer: Economics is a social science because it studies the actions of individuals. As a social science, economics considers human behavior, particularly decision-making behavior, in every context.

Diff: 2 Page Ref: 14/14

Topic: Economics as a Social Science

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None
1.4 Microeconomics and Macroeconomics

1) Which of the following is a microeconomics question?
A) How much will be saved and how much will be produced in the entire economy?
B) What will the level of economic growth be in the entire economy?
C) What factors determine the price of carrots?
D) What determines the average price level and inflation?
Answer: C

2) Microeconomics is the study of
A) how households and firms make choices.
B) the economy as a whole.
C) the global economy.
D) topics such as unemployment, inflation, and economic growth.
Answer: A

3) Which of the following is a macroeconomics question?
A) What determines the inflation rate?
B) What determines the production of DVDs?
C) What factors determine the price of carrots?
D) What determines the wage of auto workers?
Answer: A
4) Macroeconomics is the study of
A) how households make choices.
B) how firms make choices.
C) how households and firms make choices.
D) the economy as a whole.
Answer: D
Diff: 1 Page Ref: 17/17
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro 1: Define macroeconomics and identify its basic concerns
AACSB: Reflective Thinking
Special Feature: None

5) Examining the conditions that could lead to a recession in an economy is an example of macroeconomics topic.
Answer: TRUE
Diff: 1 Page Ref: 17/17
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro 1: Define macroeconomics and identify its basic concerns
AACSB: Reflective Thinking
Special Feature: None

6) The decisions Apple makes in determining production levels for its iPhone is an example of a microeconomics topic.
Answer: TRUE
Diff: 1 Page Ref: 17/17
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None
7) Which of the following are primarily macroeconomic topics and which are primarily microeconomic topics?

a. gasoline prices
b. unemployment
c. inflation
d. health care costs
e. air pollution
f. economic growth
Answer:  b, c, and f are primarily macroeconomic topics.
a, d, and e are primarily microeconomic topics.
Diff: 2 Page Ref: 17/17
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

1.5 A Preview of Important Economic Terms

1) Which of the following statements is true about profit?
A) Profit refers to the revenue received from the sale of a quantity of goods.
B) Profit is calculated by multiplying price and quantity sold.
C) The terms "accounting profit" and "economic profit" can be used interchangeably.
D) Profit is the difference between revenue and cost.
Answer: D
Diff: 2 Page Ref: 18/18
Topic: Profit
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None
2) In economics, the accumulated skills and training that workers have is known as
A) human capital.
B) entrepreneurship.
C) physical capital.
D) innovation.
Answer: A
Diff: 1 Page Ref: 18/18
Topic: Human Capital
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

3) Which of the following is an example of an activity undertaken by an entrepreneur?
A) designing your landscaping for your new home
B) holding a position as the president of a liberal arts college
C) running for the president of the United States
D) starting your own pet sitting business
Answer: D
Diff: 1 Page Ref: 17/17
Topic: Entrepreneur
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

4) The machines workers have to work with are considered
A) human capital.
B) physical capital.
C) entrepreneurship.
D) financial capital.
Answer: B
Diff: 2 Page Ref: 18/18
Topic: Capital
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None
5) Technology is defined as  
A) the process of developing and revising models.  
B) new innovations and creations.  
C) the processes used to produce goods and services.  
D) the process of recycling products.  
Answer: C  
Diff: 1 Page Ref: 17/17  
Topic: Technology  
*: Recurring  
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist  
AACSB: Reflective Thinking  
Special Feature: None

6) Which of the following statements about economic resources is true?  
A) Economic resources include financial capital and money.  
B) Economic resources are also called factors of production.  
C) Economic resources are used only by businesses.  
D) All economic resources are man-made.  
Answer: B  
Diff: 1 Page Ref: 18/18  
Topic: Resources  
*: Recurring  
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist  
AACSB: Reflective Thinking  
Special Feature: None

7) The U.S. Health Resources and Services Administration (HRSA) forecasts that in 2020  
A) there will be a shortage of doctors in the United States.  
B) the number of doctors in the United States will decrease and the number of doctors needed will increase.  
C) the number of doctors in the United States will increase and the number of doctors needed will decrease.  
D) there will be a surplus of doctors in the United States.  
Answer: A  
Diff: 1 Page Ref: 18/18  
Topic: Human Capital  
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist  
Special Feature: Economics in Your Life: Will There Be Plenty of Jobs Available in the Health Care Industry?
8) According to census figures, between 1970 and 2007 the number of doctors who described themselves as self-employed
A) fell by more than 50 percent.
B) more than doubled.
C) has remained fairly constant.
D) fell to almost zero before rising back to its original level.
Answer: A  
Diff: 2 Page Ref: 20-21/20-21  
Topic: Human Capital  
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist  
Special Feature: An Inside LOOK: Fewer Doctors Choosing Private Practice

9) In the market for factors of production, firms earn income by selling goods and services to households.
Answer: FALSE  
Diff: 1 Page Ref: 18/18  
Topic: Resources  
*: Recurring  
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist  
AACSBB: Reflective Thinking  
Special Feature: None

10) One example of human capital is the amount of skills that you have.
Answer: TRUE  
Diff: 1 Page Ref: 18/18  
Topic: Human Capital  
*: Recurring  
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist  
AACSBB: Reflective Thinking  
Special Feature: None

11) List the five main factors of production.
Answer: The five main factors of production are labor, capital, human capital, natural resources, and entrepreneurial ability.  
Diff: 1 Page Ref: 18/18  
Topic: Resources  
*: Recurring  
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist  
AACSBB: Reflective Thinking  
Special Feature: None
12) What is the difference between an invention and an innovation?
Answer: An invention is the development of a new good or a new process for making a good. An innovation is the practical application of an invention. Innovation could also refer to any significant improvement in a good or in the means of producing a good.
Diff: 1 Page Ref: 17/17
Topic: Innovation
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

13) Explain the difference between a firm's revenue and its profit.
Answer: A firm's revenue is the total amount received for selling a good or service. It is calculated by multiplying the price per unit by the number of units sold. A firm's profit is the difference between its revenue and its costs.
Diff: 1 Page Ref: 18/18
Topic: Revenue
*: Recurring
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: None

14) What are some of the reasons given for the the decline in the number of physicians choosing to enter private practices?
Answer: The reasons include lower insurance reimbursement rates, inflexible schedules, lower incomes, high medical school debt loads, longer work hours, and provisions of the new health care law.
Diff: 2 Page Ref: 20-21/20-21
Topic: Human Capital
Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Reflective Thinking
Special Feature: An Inside LOOK: Fewer Doctors Choosing Private Practice