

Study Questions – Chapter 1

These questions are to facilitate your discussion groups and/or tutoring sessions. Answers are listed at the end of this file. Since our class time is limited to introducing new topics, we do not have time to review these questions in class; please use your discussion group and/or tutoring session to review these questions.

1. For economists, the word "utility" means:
 - A) versatility and flexibility.
 - B) rationality.
 - C) pleasure and satisfaction.
 - D) purposefulness.

2. In economics, the pleasure, happiness, or satisfaction received from a product is called:
 - A) marginal cost.
 - B) rational outcome.
 - C) status fulfillment.
 - D) utility.

3. According to economists, economic self-interest:
 - A) is a reality that underlies economic behavior.
 - B) has the same meaning as selfishness.
 - C) is more characteristic of men than of women.
 - D) is usually self-defeating.

4. When entering a building, Sam diverts his path to go through an open door rather than make the physical effort to open the closed door that is directly in his path. This is an example of:
 - A) irrational behavior.
 - B) a lazy person.
 - C) marginal benefit-marginal cost analysis.
 - D) programmed learning.

5. Economics may best be defined as the:
 - A) interaction between macro and micro considerations.
 - B) social science concerned with the efficient use of scarce resources to achieve maximum satisfaction of economic wants.
 - C) empirical testing of value judgments through the use of logic.
 - D) use of policy to refute facts and hypotheses.

6. The study of economics is primarily concerned with:
 - A) keeping private businesses from losing money.
 - B) demonstrating that capitalistic economies are superior to socialistic economies.
 - C) choices that are made in seeking to use scarce resources efficiently.
 - D) determining the most equitable distribution of society's output.

7. The economic perspective refers to:
 - A) macroeconomic phenomena, but not microeconomic phenomena.
 - B) microeconomic phenomena, but not macroeconomic phenomena.
 - C) the making of rational decisions in a context of marginal costs and marginal benefits.
 - D) unlimited resources in a context of limited economic wants.

8. The economic perspective entails:
 - A) irrational behavior by individuals and institutions.
 - B) a comparison of marginal benefits and marginal costs in decision making.
 - C) short-term but not long-term thinking.
 - D) rejection of the scientific method.

9. Rational behavior suggests that:
 - A) everyone will make identical choices.
 - B) resource availability exceeds economic wants.
 - C) individuals will make different choices because their preferences and circumstances differ.
 - D) an individual's economic goals cannot involve tradeoffs.

10. Economics involves marginal analysis because:
 - A) most decisions involve changes from the present situation.
 - B) marginal benefits always exceed marginal costs.
 - C) marginal costs always exceed marginal benefits.
 - D) much economic behavior is irrational.

11. You should decide to go to a movie:
 - A) if the marginal cost of the movie exceeds its marginal benefit.
 - B) if the marginal benefit of the movie exceeds its marginal cost.
 - C) if your income will allow you to buy a ticket.
 - D) because movies are enjoyable.

12. The assertion that "There is no free lunch" means that:
 - A) there are always tradeoffs between economic goals.
 - B) all production involves the use of scarce resources and thus the sacrifice of alternative goods.
 - C) marginal analysis is not used in economic reasoning.
 - D) choices need not be made if behavior is rational.

13. Consumers spend their incomes to get the maximum benefit or satisfaction from the goods and services they purchase. This is a reflection of:
- A) resource scarcity and the necessity of choice.
 - B) rational behavior.
 - C) marginal costs that exceed marginal benefits.
 - D) the tradeoff problem that exists between competing goals.
14. Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact:
- A) is an example of irrational behavior.
 - B) implies that reading should be taught through phonics rather than the whole language method.
 - C) contradicts the economic perspective.
 - D) implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.
15. Learning economics:
- A) is detrimental to good citizenship because economics emphasizes individualism.
 - B) is helpful to employers, but not to workers and consumers.
 - C) is important because economics is the science of earning money.
 - D) helps students improve analytical skills that are in great demand in the workplace.
16. The study of economics:
- A) is similar to management, marketing, and finance since it emphasizes how to make money.
 - B) is helpful to businesses, but not particularly helpful in making personal buying decisions.
 - C) is mainly an academic, not a vocational subject.
 - D) looks at the economy from the viewpoint of one's own pocketbook, not from the standpoint of society's interest.
17. An economic hypothesis:
- A) has the same meaning as an economic principal or economic law.
 - B) is usually a normative statement.
 - C) is a possible explanation of cause and effect.
 - D) is a stronger generalization than an economic law.
18. Which of the following terms implies the *least* degree of confidence in an economic generalization?
- A) a hypothesis
 - B) a theory
 - C) a principle
 - D) a law

19. Which of the following terms implies the *greatest* degree of confidence in an economic generalization?
- A) a hypothesis
 - B) a theory
 - C) a principle
 - D) an anomaly
20. A well-tested economic theory is often called:
- A) a hypothesis.
 - B) a prototype.
 - C) a principle.
 - D) an anomaly.
21. Economists:
- A) use both the economic perspective and the scientific method.
 - B) use the economic perspective but not the scientific method.
 - C) make positive economic statements, but not normative economic statements.
 - D) reject theorizing as being impractical.
22. The scientific method is:
- A) not applicable to economics, because economics deals with human beings.
 - B) also known as the economic perspective.
 - C) analysis that moves from broad generalizations called laws to theories and then to hypotheses.
 - D) used by economists and other social scientists, as well as by physical scientists and life scientists.
23. The process by which economists test hypotheses against facts to develop theories, principles, and models is called:
- A) the economic perspective.
 - B) the scientific method.
 - C) policy economics.
 - D) microeconomics.
24. Economic theories:
- A) are useless because they are not based on laboratory experimentation.
 - B) that are true for individual economic units are never true for the economy as a whole.
 - C) are generalizations based on a careful observation of facts.
 - D) are abstractions and therefore of no application to real situations.
25. Theoretical economics:
- A) is also known as policy economics.
 - B) is the process of deriving principles of economics.
 - C) is highly impractical since it does not deal with the real world.
 - D) rejects the scientific method as being inappropriate for the social sciences.

26. In constructing models, economists:
- A) make simplifying assumptions.
 - B) include all available information.
 - C) must use mathematical equations.
 - D) attempt to duplicate the real world.
27. Economic models:
- A) are of limited use because they cannot be tested empirically.
 - B) are limited to variables that are directly related to one another.
 - C) emphasize basic economic relationships by abstracting from the complexities of the real world.
 - D) are unrealistic and therefore of no practical consequence.
28. The term "ceteris paribus" means:
- A) that if event A precedes event B, A has caused B.
 - B) that economics deals with facts, not values.
 - C) other things equal.
 - D) prosperity inevitably follows recession.
29. The basic purpose of the other-things-equal assumption is to:
- A) allow one to reason about the relationship between variables X and Y without the intrusion of variable Z .
 - B) allow one to focus upon micro variables by ignoring macro variables.
 - C) allow one to focus upon macro variables by ignoring micro variables.
 - D) determine whether X causes Y or vice versa.
30. Suppose an economist says that "Other things equal, the lower the price of bananas, the greater the amount of bananas purchased." This statement indicates that:
- A) the quantity of bananas purchased determines the price of bananas.
 - B) all factors other than the price of bananas (for example, consumer tastes and incomes) are assumed to be constant.
 - C) economists can conduct controlled laboratory experiments.
 - D) one cannot generalize about the relationship between the price of bananas and the quantity purchased.

31. An hypothesis is:
- A) a fundamental truth that all economists accept.
 - B) a tentative, untested statement of possible cause and effect.
 - C) the same as a normative statement.
 - D) also known as a principle or law.
- In formulating economic policy it is important to:
- 32.
- A) use only positive economics, not normative economics.
 - B) consider the benefits and costs of the various policy options for reaching desired goals.
 - C) avoid outcomes for which marginal benefits exceed marginal costs.
 - D) use only normative economics, not positive economics.
33. The achieving of complete economic freedom is most likely to conflict with the goal of:
- A) price-level stability.
 - B) economic growth.
 - C) an equitable distribution of income.
 - D) economic efficiency.
34. If a reduction in the unemployment rate is always accompanied by a reduction in income inequality, then:
- A) full employment and greater income equality are conflicting goals.
 - B) full employment and greater income equality are compatible goals.
 - C) reduced income inequality is a more important goal than is achieving full employment.
 - D) achieving full employment is a more important goal than reducing income inequality.
35. Most of the disagreement among economists involves:
- A) the use of statistics.
 - B) the gathering of facts.
 - C) generalizing upon facts.
 - D) policy economics.

36. With respect to the basic economic goals of society, for example, economic growth, full employment, economic efficiency, price level stability, economic freedom, distributional equity, and economic security, it can be said that:
- A) all are accepted and assigned similar priorities in every industrialized society.
 - B) all are precisely measurable.
 - C) some goals are complementary and others are conflicting.
 - D) all are conflicting goals.
37. Macroeconomics approaches the study of economics from the viewpoint of:
- A) the entire economy.
 - B) governmental units.
 - C) the operation of specific product and resource markets.
 - D) individual firms.
38. Which of the following statements pertains to macroeconomics?
- A) Because the minimum wage was raised, Mrs. Olsen decided to enter the labor force.
 - B) A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.
 - C) The national productivity rate grew by 2.7 percent last year.
 - D) The Pumpkin Center State Bank increased its interest rate on consumer loans by 1 percentage point.
39. Macroeconomics can best be described as the:
- A) analysis of how a consumer tries to spend income.
 - B) study of the large aggregates of the economy or the economy as a whole.
 - C) analysis of how firms attempt to maximize their profits.
 - D) study of how supply and demand determine prices in individual markets.
40. The fallacy of composition states that:
- A) because economic systems are composed of so many diverse economic units, economic laws are necessarily inexact.
 - B) the anticipation of a particular event can affect the composition of that event when it occurs.
 - C) what is true for the individual must necessarily be true for the group.
 - D) because event A precedes event B, A is necessarily the cause of B.
41. The "after this, because of this" fallacy states that:
- A) because event A precedes event B, A is necessarily the cause of B.
 - B) the very attempt to accomplish a certain objective may create conditions that prohibit the achievement of that goal.
 - C) events may drastically alter plans; one's intentions and actual accomplishments may differ considerably.
 - D) generalizations that are accurate at the level of microeconomics may be inaccurate at the level of macroeconomics.

42. The fallacy of composition states that:
- A) generalizations relevant to microeconomics never apply to macroeconomics.
 - B) expectations give rise to self-fulfilling prophecies.
 - C) generalizations pertaining to individuals always apply to the group.
 - D) quantifiable economic goals are always incompatible with one another.
43. A caller to a radio talk show states that multinational corporations are "greedy exploiters of the poor." This is an example of:
- A) loaded terminology.
 - B) the "after this, therefore because of this fallacy."
 - C) the fallacy of composition.
 - D) the economic perspective.
44. A caller to a radio talk show states that protesters against globalization are a collection of "anarchist punks, naïve college students, and trade union radicals." This is an example of:
- A) the fallacy of composition.
 - B) the economic perspective.
 - C) loaded terminology.
 - D) marginal analysis.

Answer Key for Chapter 1 Study Questions

1. C
2. D
3. A
4. C
5. B
6. C
7. C
8. B
9. C
10. A
11. B
12. B
13. B
14. D
15. D
16. C
17. C
18. A
19. C
20. C
21. A
22. D
23. B
24. C
25. B
26. A
27. C
28. C
29. A
30. B
31. B
32. B
33. C
34. B
35. D
36. C
37. A
38. C
39. B
40. C
41. A
42. C
43. A
44. C

