

Test bank

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) An incentive _____
A) is the opposite of a tradeoff.
B) could be a reward but could not be a penalty.
C) could be either a reward or a penalty.
D) could be a penalty but could not be a reward.
- 2) The most fundamental economic problem is _____
A) security.
B) the fact the United States buys more goods from foreigners than we sell to foreigners.
C) health.
D) scarcity.
- 3) Economics is best defined as the study of how people, businesses, governments, and societies _____
A) make choices to cope with scarcity.
B) attain wealth.
C) choose abundance over scarcity.
D) use their infinite resources.
- 4) Economists point out that scarcity confronts _____
A) the rich but not the poor.
B) the poor but not the rich.
C) both the poor and the rich.
D) neither the poor nor the rich.
- 5) Scarcity requires that people must _____
A) trade.
B) compete.
C) cooperate.
D) make choices.
- 6) As an economic concept, scarcity applies to _____
A) neither time nor money.
B) both money and time.
C) time but not money.
D) money but not time.
- 7) Which is the most accurate definition of the study of economics? Economics is the study of _____
A) the distribution of surplus goods to those in need.
B) affluence in a morally bankrupt world.
C) ways to reduce wants to eliminate the problem of scarcity.
D) the choices we make because of scarcity.
- 8) Which of the following is a macroeconomic topic? _____
A) why plumbers earn more than janitors
B) the reasons for the rise in average prices
C) whether the army should buy more tanks or more rockets
D) the reasons for a rise in the price of orange juice
- 9) Which of the following is a microeconomic topic? _____
A) the reasons for a decline in average prices
B) the reasons why Kathy buys less orange juice
C) the cause of why total employment may decrease
D) the effect of the government budget deficit on inflation

- 10) Microeconomics focuses on all of the following EXCEPT 10) _____
A) the effect of increasing the money supply on inflation.
B) the purchasing decisions that an individual consumer makes.
C) the effect of an increase in the tax on cigarettes on cigarette sales.
D) the hiring decisions that a business makes.
- 11) In broad terms the difference between microeconomics and macroeconomics is that 11) _____
A) microeconomics studies the effects of government taxes on the national unemployment rate.
B) macroeconomics studies the effects of government regulation and taxes on the price of individual goods and services whereas microeconomics does not.
C) they use different sets of tools and ideas.
D) microeconomics studies decisions of individual people and firms and macroeconomics studies the entire national economy.
- 12) Studying the determination of prices in individual markets is primarily a concern of 12) _____
A) negative economics. B) microeconomics.
C) positive economics. D) macroeconomics.
- 13) The analysis of the behavior of individual decision-making units is the definition of 13) _____
A) microeconomics. B) macroeconomics.
C) positive economics. D) normative economics.
- 14) Which of the following topics would be studied in a microeconomics course? 14) _____
A) how a tax rate increase will impact total production
B) comparing inflation rates across countries
C) how a trade agreement between the United States and Mexico affects both nations' unemployment rates
D) how rent ceilings impact the supply of apartments
- 15) Which of the following is a macroeconomic issue? 15) _____
A) how federal government budget deficits affect interest rates
B) the cause of a decline in the price of peanut butter
C) what determines the amount a firm will produce
D) how a rise in the price of sugar affects the market for sodas
- 16) Which of the following is an issue in macroeconomics? 16) _____
A) the purchasing decisions that an individual consumer makes
B) the effect of an increase in the tax on cigarettes on cigarette sales
C) the hiring decisions that a business makes
D) the effect of increasing the money supply on inflation
- 17) Macroeconomic topics include 17) _____
A) the impact of government regulation of markets.
B) total, nationwide employment.
C) studying what factors influence the price and quantity of automobiles.
D) studying the determination of wages and production costs in the software industry.
- 18) Macroeconomics is the branch of economics that studies 18) _____
A) prices of individual goods. B) important, as opposed to trivial, issues.
C) the way individual markets work. D) the economy as a whole.

- 19) When an economy produces more houses and fewer typewriters, it is answering the _____ question. 19) _____
 A) "where" B) "for whom" C) "how" D) "what"
- 20) When firms in an economy start producing more computers and fewer televisions, they are answering the _____ question. 20) _____
 A) "where" B) "when" C) "what" D) "for whom"
- 21) U.S. producers decide to produce more compact cars and fewer SUVs as the price of gasoline rises. Producers are answering the _____ question. 21) _____
 A) "what" B) "when" C) "how" D) "how many"
- 22) The question "Should movies or compact discs be produced?" is an example of the _____ question. 22) _____
 A) "how" question. B) "who" question.
 C) "where" question. D) "what" question.
- 23) Which of the following statements is correct? 23) _____
 A) The percentage of people producing goods in the United States has steadily increased over the last 60 years.
 B) The United States produces an equal amount of goods and services.
 C) The United States produces more goods than services.
 D) The United States produces more services than goods.
- 24) Which of the following is correct concerning production in the United States? 24) _____
 A) The percentage of people employed in manufacturing has increased over the last 60 years.
 B) The percentage of people employed in farming has decreased over the last 60 years.
 C) The percentage of people employed in services has decreased over the last 60 years.
 D) The percentage of people employed in construction has increased over the last 60 years.
- 25) When China builds a dam using few machines and a great deal of labor, it is answering the _____ question. 25) _____
 A) "how" B) "what" C) "where" D) "for whom"
- 26) When a textile company keeps track of its inventory using a computer and its competitor uses a spreadsheet and pencil, they are both answering the _____ question. 26) _____
 A) "where" B) "what" C) "for whom" D) "how"
- 27) Human capital is _____ 27) _____
 A) machinery that meets or exceeds federal safety standards for use by humans.
 B) all capital owned by individuals or corporations, but not by governments.
 C) the skill and knowledge of workers.
 D) all capital owned by individuals, but not by corporations or governments.
- 28) Entrepreneurs do all of the following EXCEPT _____ 28) _____
 A) bear risk from business decisions.
 B) own all the other resources.
 C) come up with new ideas about what, how, when and where to produce.
 D) organize labor, land, and capital.
- 29) To answer the "for whom" question, we study _____ 29) _____
 A) business cycles. B) technological change.
 C) the global economy. D) income differences.

- 30) The fact that people with higher incomes get to consume more goods and services addresses the _____ question. 30) _____
 A) "how" B) "where" C) "for whom" D) "when"
- 31) Which of the following is NOT a factor of production? 31) _____
 A) the water used to cool a nuclear power plant.
 B) the wages paid to workers.
 C) the effort of farmers raising cattle.
 D) the management skill of a small business owner.
- 32) Which of the following is NOT a factor of production? 32) _____
 A) a share of stock issued by a firm.
 B) a new computer used by a small business owner.
 C) a tractor used by a wheat farmer.
 D) the time worked by elementary school teachers.
- 33) An autoworker is considered _____ and earns _____. 33) _____
 A) labor; wages B) labor; rent
 C) capital; rent D) entrepreneurship; wages
- 34) Overtime worked by a JCPenney associate is considered _____ and earns _____. 34) _____
 A) entrepreneurship; profit B) labor; profit
 C) human capital; interest D) labor; wages
- 35) When a university decides to add to the football stadium instead of adding to the baseball stadium, it faces the 35) _____
 A) "what" tradeoff. B) "how" tradeoff.
 C) macroeconomic question. D) "for whom" tradeoff.
- 36) When a farmer decides to increase the amount of acreage devoted to wheat and grow fewer acres of soybeans, the farmer is facing the 36) _____
 A) "how" tradeoff. B) microeconomic question.
 C) "what" tradeoff. D) "for whom" tradeoff.
- 37) When a photographer decides to use a digital camera to take shots versus using film, the photographer is facing the 37) _____
 A) "what" tradeoff. B) microeconomic question.
 C) "for whom" tradeoff. D) "how" tradeoff.
- 38) The "how" tradeoff occurs when 38) _____
 A) a firm decides to produce refrigerators instead of dishwashers.
 B) we answer the macroeconomic question.
 C) the government increases income taxes paid by the rich.
 D) a farm uses machinery to pick oranges instead of employing migrant workers.
- 39) When the government decides to provide tax relief for small businesses while placing higher taxes on large corporations, it is facing the 39) _____
 A) "for whom" tradeoff. B) "what" tradeoff.
 C) "how" tradeoff. D) macroeconomic question.

- 40) Because we face scarcity, every choice involves 40) _____
 A) the question "what."
 B) money
 C) giving up something for nothing.
 D) an opportunity cost
- 41) The term used to emphasize that making choices in the face of scarcity involves a cost is 41) _____
 A) utility cost.
 B) opportunity cost.
 C) accounting cost.
 D) substitution cost.
- 42) The loss of the highest-valued alternative defines the concept of 42) _____
 A) entrepreneurship.
 B) scarcity.
 C) marginal benefit.
 D) opportunity cost.
- 43) Opportunity cost means 43) _____
 A) the accounting cost minus the marginal benefit.
 B) the highest-valued alternative forgone.
 C) the monetary costs of an activity.
 D) the accounting cost minus the marginal cost.
- 44) The opportunity cost of any action is 44) _____
 A) the time required but not the monetary cost.
 B) all the possible alternatives forgone.
 C) the highest-valued alternative forgone.
 D) the monetary cost but not the time required.
- 45) The opportunity cost of something you decide to get is 45) _____
 A) the amount of money you pay to get it.
 B) the highest valued alternative you give up to get it.
 C) the lowest valued alternative you give up to get it.
 D) all possible alternatives that you give up to get it.
- 46) The ultimate cost of any choice is 46) _____
 A) the dollars expended.
 B) what someone else would be willing to pay.
 C) the after-tax cost.
 D) the highest-valued alternative forgone.
- 47) During the summer you have made the decision to attend summer school, which precludes you from working at your usual summer job in which you normally earn \$6,000 for the summer. Your tuition cost is \$3,000, books and supplies cost \$300, and room and board cost \$1,000. The opportunity cost of attending summer school is 47) _____
 A) \$3,300. B) \$4,300. C) \$6,000. D) \$10,300.
- 48) On Saturday morning, you rank your choices for activities in the following order: go to the library, work out at the gym, have breakfast with friends, and sleep late. Suppose you decide to go to the library. Your opportunity cost is 48) _____
 A) working out at the gym, having breakfast with friends, and sleeping late.
 B) zero because you do not have to pay money to use the library.
 C) working out at the gym.
 D) not clear because not enough information is given.

- 49) You decide to take a vacation and the trip costs you \$2,000. While you are on vacation, you do not report to work where you could have earned \$750. The opportunity cost of the vacation is _____
A) \$2,750. B) \$2,000. C) \$750. D) \$1,250
- 50) When an action is chosen, the highest-valued alternative NOT chosen is called the _____
A) accounting cost. B) opportunity cost.
C) implicit cost. D) explicit cost.
- 51) The term "opportunity cost" points out that _____
A) there may be such a thing as a free lunch.
B) executives do not always recognize opportunities for profit as quickly as they should.
C) any decision regarding the use of a resource involves a costly choice.
D) not all individuals will make the most of life's opportunities because some will fail to achieve their goals.
- 52) During the next hour John can play basketball, watch television, or read a book. The opportunity cost of reading a book _____
A) equals how much John enjoys the book.
B) is the value of playing basketball *and* the value of watching television.
C) is the value of playing basketball if John prefers that to watching television.
D) is how much the book cost when it was purchased.
- 53) Misty has the option of purchasing one of three products: Brand A, Brand B, or Brand C. Each costs ten dollars. If she decides that Brand A meets her needs best, then the opportunity cost of this decision is _____
A) twenty dollars.
B) Brand A.
C) Brand B plus Brand C.
D) Brand B or Brand C, depending on which is considered the highest-value alternative forgone.
- 54) Which of the following is NOT an example of an opportunity cost? _____
A) Because David used all of his vacation time to paint his house, he was unable to visit the Caribbean last year.
B) By choosing to attend college, Jean was not able to continue working as an electrician; as a result, she gave up more than \$85,000 in earnings while she was in college.
C) Because Mary is now being paid a higher wage, she can afford to buy a new car even though she is moving into a bigger apartment.
D) By spending Thursday night studying for an economics exam, a student was unable to complete a homework assignment for calculus class.
- 55) From 8 to 11 p.m., Sam can either attend a basketball game, a hockey match or the symphony. Suppose that Sam decides to attend the hockey match and thinks to herself that if she did not go to the match she would go to the symphony. Then the opportunity cost of attending the hockey match is _____
A) going to the basketball game.
B) going to the symphony and the basketball game.
C) three hours of time.
D) going to the symphony.

- 56) When the government chooses to use resources to build a dam, these sources are no longer available to build a highway. This choice illustrates the concept of 56) _____
 A) a market mechanism. B) a fallacy of composition.
 C) opportunity cost. D) macroeconomics.
- 57) Marginal benefit is the benefit 57) _____
 A) that arises from the secondary effects of an activity.
 B) of an activity that exceeds its cost.
 C) that arises from an increase in an activity.
 D) that your activity provides to someone else.
- 58) The benefit that arises from an increase in an activity is called 58) _____
 A) an incentive. B) the marginal cost.
 C) the marginal benefit. D) opportunity cost.
- 59) Marginal cost is the cost 59) _____
 A) of an activity that exceeds its benefit.
 B) that arises from an increase in an activity.
 C) that your activity imposes on someone else.
 D) that arises from the secondary effects of an activity.
- 60) Laura is a manager for HP. When Laura must decide whether to produce a few additional printers, she is choosing at the margin when she compares 60) _____
 A) the total revenue from sales of printers to the total cost of producing all the printers.
 B) the extra revenue from selling a few additional printers to the extra costs of producing the printers.
 C) HP's printers to printers from competing companies, such as Lexmark.
 D) the extra revenue from selling a few additional printers to the average cost of producing the additional printers.
- 61) In economics, positive statements are about 61) _____
 A) macroeconomics, not microeconomics. B) the way things are.
 C) the way things ought to be. D) microeconomics, not macroeconomics.
- 62) A positive statement is 62) _____
 A) valid only in the context of a model with simple assumptions.
 B) the result of a model's normative assumptions.
 C) about what ought to be.
 D) about what is.
- 63) A positive statement is 63) _____
 A) always true.
 B) one that does not use the *ceteris paribus* clause.
 C) about what is.
 D) about what ought to be.
- 64) A positive statement 64) _____
 A) is an affirming statement that is strongly worded.
 B) cannot be tested by checking it against the facts.
 C) is a statement of what is.
 D) is a statement of what ought to be.

- 65) Which of the following are true regarding "positive" statements? 65) _____
 I. They describe what "ought to be."
 II. They describe what is believed about how the world appears.
 III. They can be tested as to their truthfulness.
 A) II and III B) I and II C) I and III D) I, II and III
- 66) Positive and normative statements differ in that 66) _____
 A) normative statements depict "what is" and positive statements depict "what ought to be."
 B) positive statements can be graphed, whereas normative statements cannot.
 C) normative statements can be tested, whereas positive statements cannot.
 D) positive statements can be tested, whereas normative statements cannot.
- 67) Which of the following is an example of a positive statement? 67) _____
 A) Business firms ought to contribute more to charities.
 B) Government should not redistribute income.
 C) The foreign sector should be more tightly controlled.
 D) Households are the primary source of saving.
- 68) Which of the following is an example of a positive statement? 68) _____
 A) The Federal Reserve ought to cut the interest rate.
 B) Increasing the minimum wage results in more unemployment.
 C) We should cut back on our use of carbon-based fuels such as coal and oil.
 D) Every American should have equal access to health care.
- 69) Which of the following is a positive statement? 69) _____
 A) A 10 percent increase in income leads to a 4 percent increase in the consumption of beef.
 B) My economics class should last for two terms because it is my favorite class.
 C) Given their negative impact on productivity, the government should eliminate labor unions.
 D) Taxes should be lower because then people get to keep more of what they earn, so they will work more.
- 70) When Al makes the statement, "The cost of living has increased 10 percent over the past 10 years," he is 70) _____
 A) making a normative statement. B) facing the standard of living tradeoff.
 C) testing an economic model. D) making a positive statement.
- 71) Which of the following is a positive statement? 71) _____
 A) State lotteries are good methods to use for raising revenues.
 B) Increased prison sentences are the best way to reduce the crime rate.
 C) Inflation is a more serious problem than is deflation.
 D) An increase in gas prices leads people to carpool more.
- 72) The statement "Managers with a college education earn \$18 an hour while ski instructors who did not complete college earn \$10" is 72) _____
 A) an ethical statement. B) a political statement.
 C) a normative statement. D) a positive statement.

- 73) The statement "An increase in the price of gasoline will lead to a decrease in the amount purchased" is 73) _____
 A) a political statement. B) a positive statement.
 C) a scientific statement. D) a normative statement.
- 74) Which of the following is a positive statement? 74) _____
 A) My economics class should last for two terms because it is my favorite class.
 B) The government must lower the price of a pizza so that more students can afford to buy it.
 C) The best level of taxation is zero percent because then people get to keep everything they earn.
 D) An increase in tuition will cause fewer students to apply to college.
- 75) Which of the following is a positive statement? 75) _____
 A) Low rents will restrict the supply of housing.
 B) Housing costs too much.
 C) Low rents are good because they make apartments more affordable.
 D) Owners of apartment buildings ought to be free to charge whatever rent they want.
- 76) The statement "The unemployment rate for teens is higher than that for adults" is 76) _____
 A) a normative statement. B) a political statement.
 C) an ethical statement. D) a positive statement.
- 77) The statement "Prices rise more in countries with rapid growth in the money supply" is 77) _____
 A) an ethical statement. B) a normative statement.
 C) a political statement. D) a positive statement.
- 78) Statements about what ought to be are called 78) _____
 A) normative statements. B) implications.
 C) assumptions. D) positive statements.
- 79) Normative statements are statements about 79) _____
 A) what ought to be. B) quantities.
 C) what is. D) prices.
- 80) A normative statement is 80) _____
 A) one that does not use the *ceteris paribus* clause.
 B) about what ought to be.
 C) always true.
 D) about what is.
- 81) In economics, normative statements are about 81) _____
 A) the way things ought to be. B) the way things are.
 C) marginal costs, not marginal benefits. D) marginal benefits, not marginal costs.
- 82) Which of the following is a normative statement? 82) _____
 A) The price of candy bars is \$1.25 each.
 B) Popcorn and candy are sold in movie theaters.
 C) Candy bars are more expensive than newspapers.
 D) You should eat less candy.

- 83) Which of the following is a normative statement? 83) _____
A) Forty percent of the public believes that the unemployment rate is too high.
B) The unemployment rate rose last month.
C) The unemployment rate is too high.
D) all of the above
- 84) "Government should act to reduce poverty levels." 84) _____
A) This statement is an example of the fallacy of composition.
B) This statement is an example of the *post hoc* fallacy.
C) This statement is a normative statement.
D) This statement is a positive statement.
- 85) When Susan makes the statement, "The government should spend less money to take care of national parks," she is 85) _____
A) facing the standard of living tradeoff. B) testing an economic model.
C) making a positive statement. D) making a normative statement.
- 86) "All children should have health insurance" is a 86) _____
A) *post hoc* fallacy. B) normative statement.
C) fallacy of composition. D) positive statement.
- 87) "The rich should pay higher income tax rates than the poor" is an example of a 87) _____
A) normative statement. B) theoretical statement.
C) positive statement. D) descriptive statement.
- 88) Which of the following is a normative statement? 88) _____
A) Taking extra vitamin C prevents catching a cold.
B) States should require all motorcycle riders to wear helmets to reduce the number of riders killed.
C) Studying more hours leads to an increase in your GPA.
D) An increase in tax rates means people work fewer hours.
- 89) Which of the following is a normative statement? 89) _____
A) Low rents are good because they make apartments more affordable.
B) Low rents will restrict the supply of housing.
C) Owners of apartment buildings are free to charge whatever rent they want.
D) Housing costs are rising.
- 90) Which of the following is an example of a normative statement? 90) _____
A) Government spending rose in the 1990s.
B) Household consumption is the largest component of spending.
C) Households should save more.
D) The business sector is the primary source of jobs.
- 91) Which of the following is a normative statement? 91) _____
A) The current butter surplus is the result of federal policies.
B) Next year's inflation rate will be under 4 percent.
C) The government's cuts in welfare spending impose an unfair hardship on the poor.
D) Consumers will buy more gasoline over the Christmas holiday even if the price of gas is 10 cents higher than it was during the Thanksgiving holiday.

- 92) Suppose that an economist tells you that people in the United States do not save enough out of their incomes. This is an example of _____ statement. 92) _____
 A) a *ceteris paribus* B) a positive C) a normative D) an autonomous
- 93) The task of economic science is to discover _____ that are consistent with _____. 93) _____
 A) positive statements; normative statements
 B) positive statements; what we observe
 C) normative statements; positive statements
 D) ways to make money; the law
- 94) Economic models 94) _____
 A) are essentially different from those used in other sciences.
 B) include all relevant facts.
 C) always use graphs.
 D) simplify reality.
- 95) Economic models 95) _____
 A) are better if they include most of the detail of the real economy.
 B) rely on simplification.
 C) do not address questions about the economy.
 D) make no assumptions that have not been proved.
- 96) An economic theory is 96) _____
 A) a generalization that summarizes what we understand about economic choices.
 B) a positive statement that cannot use the *ceteris paribus* clause.
 C) usually more complex than the real world.
 D) always a mathematical, or nonverbal, model.
- 97) Three steps that economists take to discover how the economic world works are 97) _____
 A) model building; speculation; and, revision.
 B) observation and measurement; model building; and, testing models.
 C) data mining; data testing; and, drawing conclusions.
 D) speculation; observation and measurement; and, drawing conclusions.
- 98) The birth of economics as an intellectual discipline can be dated fairly precisely in the eighteenth century with 98) _____
 A) the publication of the book, *The Wealth of Nations*.
 B) the opening of the London stock exchange.
 C) the development of the factory system.
 D) the introduction of paper currency.
- 99) Who wrote *The Wealth of Nations*? 99) _____
 A) Adam Smith B) Michael Parkin
 C) Thomas Jefferson D) Karl Marx
- 100) Adam Smith wrote the book 100) _____
 A) *Poverty and Progress*. B) *The Dismal Science*.
 C) *First Principles of Economics*. D) *The Wealth of Nations*.

- 101) The author of the book *The Wealth of Nations* is _____
 A) James Madison. B) Thomas Carlyle.
 C) Adam Smith. D) John Pierpont Morgan.
- 102) Allowing only one factor to vary at any given time, keeping all other factors constant, is using _____
 the technique of
 A) *post hoc*. B) compensation. C) *ceteris paribus*. D) composition.
- 103) Holding all variables except one constant and assessing the impact of the one variable which _____
 has changed is an example of using
 A) the *ceteris paribus* assumption. B) a flawed economic model.
 C) an untestable proposition. D) normative economic analysis.
- 104) *Ceteris paribus* is the Latin expression for _____
 A) a statement about the way the economic world ought to be.
 B) an expression that means "other things being equal."
 C) the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
 D) the error of reasoning that a first event causes a second event because the first event occurred before the second event.
- 105) The expression that means "other things being equal" is _____
 A) the *post hoc* fallacy. B) The fallacy of composition.
 C) normative economics. D) *ceteris paribus*.
- 106) The Latin term "*ceteris paribus*" means _____
 A) "what is true of the whole is not necessarily true of the parts."
 B) "false unless proven true."
 C) "after this, therefore because of this."
 D) "other things being equal."
- 107) "*Ceteris paribus*" means _____
 A) what is. B) that which will be.
 C) other things being equal. D) what ought to be.
- 108) The term "*ceteris paribus*" means _____
 A) using market mechanisms.
 B) the study of scarcity and choice.
 C) all other things remaining constant or equal.
 D) value free and testable.
- 109) "*Ceteris paribus*" means _____
 A) let the buyer beware. B) for certain parameters.
 C) making all the necessary changes. D) other things being equal.

- 110) When economists study the effects of unemployment insurance on the unemployment rate by comparing the United States with Canada, they assume that other conditions in the two economies do not differ significantly. This procedure is an example of _____
- A) the *post hoc* fallacy.
 - B) the fallacy of composition.
 - C) applying the *ceteris paribus* principle.
 - D) falling prey to the *post* composition fallacy.
- 111) The fallacy of composition is evident in which of the following statements? _____
- A) "What is bad for the Joneses is bad for the Smiths."
 - B) "X and Y go together, therefore X has caused Y."
 - C) "If each farmer works harder, all farmers will be richer."
 - D) "Technological progress helps everybody."
- 112) The fallacy of composition is the false belief that _____
- A) what is true for the parts is also true for the whole.
 - B) the *ceteris paribus* condition does not apply.
 - C) because event A occurred before event B, event A caused event B.
 - D) because event A occurred after event B, event A caused event B.
- 113) The fallacy of composition is the (false) statement that _____
- A) models can be positive without being normative.
 - B) theories bridge models and the real world.
 - C) what is true of the parts is true of the whole.
 - D) experiments can be designed to analyze human behavior.
- 114) The fallacy of composition is the _____
- A) use of *ceteris paribus* in order to study the impact of one factor.
 - B) claim that the timing of two events has nothing to do with which event caused the other.
 - C) claim that one event caused another because the first event came first.
 - D) assertion that what is true for the parts of the whole must be true for the whole.
- 115) A farmer grazes two cows on one acre of land. To increase total milk yield, he purchases two more cows and allows all four cows to graze on his land. Unfortunately the cows overgraze on his land and the food supply to the cows is reduced, which causes the total milk yield of the four cows to fall below that achieved when only two cows were grazed. The farmer has fallen prey to _____
- A) the *post hoc* fallacy.
 - B) the *ceteris paribus* normative fallacy.
 - C) the marginal benefit/marginal cost fallacy.
 - D) the fallacy of composition.
- 116) Because total income in the United States has increased over time, everyone's total income has increased as well. This incorrect argument is an example of _____
- A) opportunity cost.
 - B) voluntary exchange.
 - C) the *post hoc* fallacy.
 - D) the fallacy of composition.

- 117) The fallacy of composition is 117) _____
 A) an expression that means "other things being equal."
 B) the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
 C) the error of reasoning that a first event causes a second event because the first event occurred before the second event.
 D) a statement about the way the economic world ought to be.
- 118) "Hunting limits on deer help ensure a constant population. Therefore, if I only hunt to my limit, there will be sufficient deer for all." This statement is an example of a possible 118) _____
 A) *ceteris paribus* fallacy. B) *post hoc* fallacy.
 C) fallacy of composition. D) normative statement.
- 119) To better see a football game, one spectator stands. Assuming that everyone trying to get a good view of the game can also stand represents an example of the 119) _____
 A) opportunity cost fallacy. B) fallacy of truth.
 C) *post hoc* fallacy. D) fallacy of composition.
- 120) The *post hoc* fallacy is the error of reasoning 120) _____
 A) from models to predictions. B) from predictions to theories.
 C) from timing to cause and effect. D) from cause and effect to models.
- 121) You are not surprised that it has started to rain. After all, a hour ago you just finished washing your car. Your reasoning is an example of 121) _____
 A) the *ceteris paribus* assumption.
 B) the distinction between positive and normative statements.
 C) the *post hoc* fallacy.
 D) the fallacy of composition.
- 122) The *post hoc, ergo propter hoc* fallacy is 122) _____
 A) a statement about the way the economic world ought to be.
 B) the error of reasoning that a first event causes a second event because the first event occurred before the second event.
 C) an expression that means "other things being equal."
 D) the (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
- 123) A rooster crows and then the sun rises. The rooster thinks that the sun rises because he crows. And he is very proud of it. The rooster falls prey to 123) _____
 A) the fallacy of composition. B) his self interest.
 C) marginal thinking. D) the *post hoc* fallacy.
- 124) "Every time I go to a basketball game, our team wins." This statement is an example of 124) _____
 A) a normative economic statement. B) fallacy of composition.
 C) *post hoc* fallacy. D) *ceteris paribus* fallacy.

- 125) An economic expansion follows a stock market boom. A cautious economist would not claim that the stock market caused the expansion because the economist wants to avoid _____
 A) the fallacy of composition, which states that what is true of the parts is true of the whole.
 B) the *post hoc* fallacy, which states that what is true of the parts is true of the whole.
 C) the fallacy of composition, which is an error in reasoning from timing to cause and effect.
 D) the *post hoc* fallacy, which is an error in reasoning from timing to cause and effect.
- 126) Most economists agree that _____
 A) rent ceilings cut the availability of housing.
 B) tariffs and import restrictions make most people worse off.
 C) a minimum wage increases unemployment among young workers and low-skilled workers.
 D) all of the above
- 127) The fact that wants cannot be fully satisfied with available resources reflects the definition of _____
 A) scarcity. B) the big tradeoff.
 C) the what tradeoff. D) for whom to produce.
- 128) Studying the effects choices have on the individual markets within the economy is part of _____
 A) microeconomics. B) scarcity.
 C) incentives. D) macroeconomics.
- 129) Which of the following is NOT part of the first big economic question? _____
 A) How are goods and services produced?
 B) Why do incentives affect only marginal costs?
 C) What goods and services are produced?
 D) For whom are goods and services produced?
- 130) The question, "Should Taco Bell produce more tacos or more burritos?" is an example of the _____
 A) "for whom" question. B) "how" question.
 C) "what" question. D) "where" question.
- 131) The fact that KFC decides to produce chicken rather than meatloaf best reflects _____
 tradeoff.
 A) a what B) an incentive C) a for whom D) a how
- 132) From 8 p.m. to 10 p.m., Susan can attend a movie, study, or talk with friends. Suppose that Susan decides to go to the movie but thinks that, if she hadn't, she would otherwise have talked with friends. The opportunity cost of attending the movie is _____
 A) two hours of time. B) studying.
 C) talking with friends *and* studying. D) talking with friends.
- 133) When the government hires people to serve in the army, these people are no longer available to do other work. This choice illustrates the concept of _____
 A) opportunity cost. B) a social interest/private interest conflict.
 C) marginal benefit. D) an incentive.

- 134) A normative statement is _____
 A) about what is.
 B) about what ought to be.
 C) one that does not use the *ceteris paribus* clause.
 D) always true.
- 135) Which of the following is a positive statement? _____
 A) My favorite dinner is pizza and soda.
 B) The government must provide health insurance so that the poor can obtain decent medical treatment.
 C) The government should spend more on education.
 D) An increase in the price of pizza will lead fewer students to buy pizza.
- 136) An economic model includes _____
 A) only details considered essential.
 B) all known details in order to increase its accuracy.
 C) no use of *ceteris paribus*.
 D) *post hoc* statements.
- 137) The Latin term *ceteris paribus* means _____
 A) "false for the whole, false for the parts."
 B) "buyer beware."
 C) "other things the same."
 D) "true for the parts not necessarily true for the whole."
- 138) One student in a football stadium with 30,000 students can see the game better if he or she stands up. Assuming that all 30,000 students can each see the game better if they all stand is an example of the _____
 A) fallacy of large numbers.
 B) *post hoc* fallacy.
 C) fallacy of composition.
 D) fallacy of *ceteris paribus*.
- 139) The *post hoc* fallacy is the _____
 A) assertion that what is true for parts of the whole must be true for the whole.
 B) incorrect use of *ceteris paribus* in order to study the impact of one factor.
 C) claim that normative statements are less important than positive statements.
 D) claim that one event caused another because the one event came first.
- 140) Economics can be defined as the social science that explains the _____.
 A) choices that we make as we cope with scarcity
 B) choices made by households
 C) choices made by politicians
 D) choices we make when we trade in markets
- 141) Scarcity is a situation in which _____.
 A) something is being wasted
 B) long lines form at gas stations
 C) some people are poor and others are rich
 D) we are unable to satisfy all our wants

- 142) Microeconomics is the study of _____. 142) _____
A) the global economy
B) the choices that individuals and businesses make
C) the national economy
D) all aspects of scarcity
- 143) Factors of production include all of the following EXCEPT _____. 143) _____
A) machines made in past years B) money
C) an wheat field that is not irrigated D) entrepreneurship
- 144) The income earned by the people who sell the services of the factor of production _____ is called _____. 144) _____
A) entrepreneurship; profit B) entrepreneurship; wages
C) land; profit D) capital; rent
- 145) When the government chooses to spend the tax dollars that it collects on homeland security, its choice _____. 145) _____
A) illustrates that scarcity does not always exist
B) involves no tradeoff because the defense is necessary
C) involves a tradeoff of other goods and services such as education for more homeland security
D) primarily affects who gets the goods and services produced
- 146) Making a choice at the margin means _____. 146) _____
A) making a choice by comparing the total benefit and the total cost
B) deciding to do a little bit more or a little bit less of an activity
C) waiting until the last minute to make a choice
D) letting someone else choose for you
- 147) Suppose that for the past two months, you have studied economics one hour a day. You now decide to study economics two hours a day. For the past two months, _____. 147) _____
A) your marginal cost of studying economics for an hour must have exceeded its marginal benefit
B) the opportunity cost of studying economics must have risen.
C) the marginal cost of studying economics must have fallen
D) your marginal benefit from studying economics an hour must have been greater than its marginal cost
- 148) If the cost of a computer falls by a large amount, you have an incentive to _____. 148) _____
A) use your friend's computer rather than buy one yourself
B) avoid buying anew computer because it is now less valuable
C) take a shorter vacation
D) buy a new computer
- 149) The statement that _____ is a positive statement. 149) _____
A) the price of gasoline is too high
B) too many people in the United States have no health care insurance
C) the price of sugar in the United States is higher than the price in Australia
D) more students should study economics

- 150) The task of economic science is to _____. 150) _____
A) tell us what is good for us
B) help us understand how the economic world works
C) make moral choices about things like drugs
D) save the earth from the overuse of natural resources
- 151) Economists make progress by _____. 151) _____
A) asking people whether they are better off or worse off
B) concentrating on clarifying all normative statements while disregarding positive statements
C) building and testing economic models
D) discarding normative statements that do not pass extensive testing
- 152) The term *ceteris paribus* means _____. 152) _____
A) when other things all change
B) equal access to public transportation
C) other things being equal
D) for better or worse
- 153) Which statement is an example of the *post hoc* fallacy? 153) _____
A) Fans crowding into a college football stadium cause the football game to be played.
B) The reason cows are not an endangered species is because many people eat beef.
C) Hold everything constant except the price of juice.
D) There should be equal access to public transportation.
- 154) The statement that _____ is an example of the fallacy of composition. 154) _____
A) all children should have equal access to good public transportation
B) if one fan at a football can see better by standing, then all fans can see better if they all stand
C) the *ceteris paribus* fallacy cannot lead to the *post hoc* fallacy
D) end-of-the-year holiday season shopping causes the holiday season
- 155) Economists generally agree that _____. 155) _____
A) minimum wages increase the employment of low-skilled workers
B) a large budget deficit makes no significant difference
C) tariffs make people better off
D) rent ceilings cut the availability of housing

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

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- 146) B
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- 151) C
- 152) C
- 153) A
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