

Homework 1

1. "Inflation is less of a problem, over the long term, than unemployment." is an example of:
 - A) a positive statement.
 - B) a normative statement.
 - C) a statement that could never be true.
 - D) a statement that suffers from a logical error.
 - E) none of the above.

2. If you stand up at a concert to get a better view, your view may not improve because everyone in front of you may stand up too. This situation is an example of:
 - A) the post hoc fallacy.
 - B) the failure to hold other things constant.
 - C) the fallacy of composition.
 - D) a zero-sum game.
 - E) what happens when you purchase cheap tickets.

3. The description of economics as, "cool heads in the service of warm hearts" means that:
 - A) allocating scarce resources may require painful decisions.
 - B) costs and benefits need to be weighed objectively.
 - C) the proper balance must be struck between the discipline of the market and the generosity of the welfare state.
 - D) all of the above.
 - E) none of the above.

4. Which of the following statements is an example of positive economics?
 - A) Workers in the *new economy* must be more computer literate than they were in the past.
 - B) If the food stamp program is eliminated, the poor will have difficulty feeding their families.
 - C) The elimination of tariffs on imported goods and services has increased unemployment in the United States.
 - D) All of the statements above represent examples of positive economics.
 - E) None of the statements above represent examples of positive economics.

5. Which of the following statements is an example of normative economics?
 - A) The rich are getting richer and the poor are getting poorer.
 - B) The Justice Department has ruled that Microsoft is a monopoly.
 - C) The federal government should allocate more of its budget toward education programs.
 - D) All of the statements above represent examples of normative economics.
 - E) None of the statements above represent examples of normative economics.

6. Opportunity cost:
 - A) is useful when discussing the allocation of resources.
 - B) refers to a next-best alternative that is not chosen when making decisions.

- C) can be used to measure the cost of something without using monetary prices.
- D) is all of the above.
- E) statements A) and B) only.

7. When moving along a production possibilities frontier, the opportunity cost to society of obtaining more of one of the two goods:
- A) is measured in dollar terms.
 - B) usually decreases as more of the good is produced.
 - C) is measured by the amount of the other good that must be given up.
 - D) is measured by the additional resources that must be used to produce the good.
 - E) is usually constant.
8. The production possibilities frontier between two normal goods and services is typically bowed out or concave to the origin because:
- A) society must give up one good to get more of the other.
 - B) consumers do not want too much of either good.
 - C) government restrictions place limits on the production of certain goods.
 - D) consumers want as much of both goods as possible.
 - E) the resources used to produce goods and services are not equally suited to the production of both goods.
9. These data reflect three possible combinations of food and clothing that can be produced from a given set of resources.

| | | | |
|----------|----|---|----|
| Food | 10 | 5 | 0 |
| Clothing | 0 | X | 50 |

Refer to the above data. If both clothing and food always use all inputs in the same proportion, then X must be:

- A) 25.
 - B) more than 25.
 - C) less than 25.
 - D) 50.
 - E) cannot not be determined from the data
10. The production-possibility frontier of a country can be said to shift outward as a result of the following. Which, if any, is the wrong explanation?
- A) Expenditures on new plants and equipment are constantly being made.
 - B) The population increases.
 - C) Better methods of production are developed.
 - D) New oil finds are found.
 - E) All of the above are valid explanations.
11. A market is in equilibrium when:
- A) there is a surplus of goods available for sale.
 - B) the price of the product is equal to zero.

- C) the price of the product simultaneously meets the desires of both buyers and sellers.
 - D) the government establishes a proper price for each good produced and sold.
 - E) none of the above.
12. Capital is defined by economists as:
- A) money needed to run a business.
 - B) the only primary factor in production.
 - C) produced goods used for further production.
 - D) private property.
 - E) the total value of all resources used in production.
13. The principle of the "invisible hand" claims that:
- A) the selfish pursuits of everyone's own interest will lead to the best good for all under market competition.
 - B) government must gently guide economic activity so that the best for all will be attained.
 - C) government policies work like an invisible hand, steering resources to their best use.
 - D) producers must quietly cooperate so that prices are not so low as to cause losses.
 - E) none of the above.
14. Which of the following statements is true of specialization?
- A) Specialization is inconsistent with the idea of individual freedom.
 - B) Economies that practice a division of labor are morally superior to those that do not.
 - C) In accepting specialization, a person sacrifices his or her own interests for the sake of society's interest.
 - D) While specialization has enormous advantages, the costs outweigh them.
 - E) Increased productivity is more likely to be achieved through specialization.
15. Specialization entails:
- A) interdependence.
 - B) division of labor.
 - C) need for exchange.
 - D) all of the above.
 - E) none of the above.
16. Which of the following can be compatible with imperfect competition?
- A) Monopoly power in a given market.
 - B) Excessive advertising.
 - C) An ability to set price or output in a given market.
 - D) An ability for one firm to service all of the demand in a given market.
 - E) All of the above.
17. Lighthouses are public goods because their services are:
- A) nonrival.
 - B) non-exclusive.
 - C) provided by government.
 - D) subsidized by government.
 - E) both A and B.
18. Which of the following does not indicate market failure?

- A) Existence of monopolies.
 - B) Excessive air and water pollution.
 - C) A lack of such necessities as national defense.
 - D) Insufficient levels of research and development expenditures.
 - E) Severe income inequalities.
19. Prices in factor markets are primarily determined by:
- A) government regulation.
 - B) big business collusion.
 - C) the interaction of business supply with household demand in the factor markets.
 - D) the interaction of household supply with business demand in the factor markets.
 - E) none of the above.
20. How does economics contribute to the debates about equity?
- A) It gives us all the answers.
 - B) It tells us who is right and who is wrong.
 - C) It helps to analyze the costs and benefits of different redistribution systems.
 - D) It can make the decisions about who gets what in the economy.

Chapter 1, Questions for discussion, page 16-17

Q3, Q5, Q9

Chapter 2, Questions for discussion, page 43-44

Q3, Q4, Q8