

Homework 1

Due Date: Oct-8-2018

I. Multiple Choice Questions

1. Which of the following is not a reason to study economics?
 - A) To learn how people allocate scarce resources to produce goods.
 - B) To learn how to trade off quantities of goods for quality of life.
 - C) To learn a systematic model of economic principles for comprehending reality.
 - D) To learn to avoid the fallacy of composition in analyses of public policy.
 - E) All of the above are valid reasons for studying economics.

2. If you, as a farmer, have a bumper crop this year you will make more money. If all farmers have a bumper crop this year, all farmers will make more money. What kind of fallacy does this statement exhibit?
 - A) post hoc fallacy.
 - B) failure to hold other things constant fallacy.
 - C) fallacy of composition.
 - D) fallacy of normalcy.
 - E) None of the above.

3. The subject of economics includes:
 - A) the study of activities involving money and exchange transactions among people.
 - B) the study of the allocation of scarce resources to the production and distribution of goods and services.
 - C) the study of wealth.
 - D) the study of people in ordinary business life, earning and enjoying life.
 - E) all of the above.

4. Of the following, economics may best be defined as the study of:
- A) how to stretch the family dollar.
 - B) how to make money in the stock market.
 - C) the interpretation of scarce data.
 - D) how scarce resources are used to produce various goods allocated among individuals in society.
 - E) why resources are as scarce as they are.
5. Economic analysis:
- A) involves some simplifications of reality.
 - B) is only vaguely related to reality because if it did so coincide, it would not still be theory.
 - C) is impossible, because of the impossibility of a controlled experiment.
 - D) if it is good theory, involves no simplification of reality.
 - E) involves so much distortion of reality as to be worthless.
6. The single word that best describes the fundamental essence of economics is:
- A) employment.
 - B) inflation.
 - C) prices.
 - D) trade.
 - E) scarcity.
7. What is the fundamental difference between macroeconomics and microeconomics?
- A) Macroeconomics involves studying the economy as a whole, while microeconomics involves studying the behavior of individual industries, firms, and households.
 - B) Macroeconomics concentrates on those parts of the economy involving very large amounts of money, while microeconomics concentrates on those parts of the economy involving small sums of money.

- C) Macroeconomics studies the behavior of large firms, while microeconomics studies the behavior of small firms.
- D) There is no difference, basically macroeconomics and microeconomics are one and the same.
- E) None of the above.

8. A market economy is:

- A) one in which a government makes all the important production and consumption decisions.
- B) one in which individuals and private firms make the major production and consumption decisions.
- C) one in which only one person makes all the important production and consumption decisions.
- D) none of the above.

9. The U.S. is considered to be a mixed economy:

- A) due to the combination of capital goods and consumption goods that it produces.
- B) due to the increasing diversity of members of its labor force.
- C) because of the government's involvement in the market system.
- D) for all the above reasons.
- E) none of the above.

10. The twin themes that form the basis of the definition of economics are:

- A) supply and demand.
- B) inflation and unemployment.
- C) scarcity and efficiency.
- D) inputs and outputs.
- E) price and quantity.

11. 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.
12. 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.
13. When the price of gasoline increases consumers may purchase more gasoline than before, if their incomes are rising as well. Concluding that there is a positive relationship between gasoline prices and the quantity demanded would be an example of:
- A) the *post hoc* fallacy.
 - B) the failure to hold other things constant.
 - C) the fallacy of composition.
 - D) a mixed market economy.
 - E) none of the above.
14. When Paul decides to not go to the concert, but goes to the library to study instead, he is:

- A) realizing that his time is a scarce resource that must be allocated.
- B) at least implicitly recognizing that the opportunity cost of going to the library is the concert he is giving up.
- C) making an economic decision.
- D) doing all of the above.
- E) doing choices A) and B) only.

15. 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.

II. True/False Questions

- 16. Economics may be simply defined as the study of money matters.
- 17. Unlike the chemist, the economist can rarely perform controlled experiments.
- 18. Economics includes the study of how to improve society.
- 19. One can sense the elegance of economic analysis without mastering difficult mathematical techniques.
- 20. The major purpose of studying economics is to learn how to succeed in business.
- 21. When economic theories are constructed, uncertainty is always ignored to make the analysis tractable.

22. The study of economics is best described as the study of how people and societies cope with scarcity.
23. Economists like to think of themselves as scientists because they glean most of their insight from controlled experiments.
24. If empirical testing shows that a conclusion that follows logically from economic analysis is not true, then serious doubt is cast on the validity of the theoretical approach.
25. Leisure is an example of a free good.