

TEST BANK FOR

Economics Private & Public Choice 17th Edition by James D. Gwartney, Richard L. Stroup, Russell S. Sobel, David A. Macpherson Copyright 2022

Chapter 1-28

Macroeconomics Chapter 1—The Economic Approach

MULTIPLE CHOICE

1. What do economists mean when they state that a good is scarce?
 - a. There is a shortage or insufficient supply of the good at the existing price.
 - b. It is impossible to expand the availability of the good beyond the current amount.
 - c. People will want to buy more of the good regardless of the price of the good.
 - d. The amount of the good that people would like exceeds the supply freely available from nature.

ANS: D PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost TOP: What is Economics About?
KEY: Bloom's: Comprehension MSC: Suggested Quiz

2. Economic choice and competitive behavior are the result of
 - a. basic human greed.
 - b. poverty.
 - c. private ownership of resources.
 - d. scarcity.

ANS: D PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost TOP: What is Economics About?
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3. Joe and Ed go to a diner that sells hamburgers for \$5 and hot dogs for \$3. They agree to split the lunch bill evenly. Ed chooses a hot dog. The marginal cost to Joe then of ordering a hamburger instead of a hot dog is
 - a. \$1.
 - b. \$2.
 - c. \$2.50.
 - d. \$3.

ANS: A PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Marginal costs & benefits TOP: The Economic Way of Thinking
KEY: Bloom's: Application MSC: Suggested Quiz

4. The expression, "There's no such thing as a free lunch," implies that
 - a. everyone has to pay for his own lunch.
 - b. the person consuming a good must always pay for it.
 - c. opportunity costs are incurred when resources are used to produce goods and services.
 - d. no one has time for a good lunch anymore.

ANS: C PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost
TOP: The Economic Way of Thinking KEY: Bloom's: Comprehension
MSC: Suggested Quiz

5. Which one of the following states a central element of the economic way of thinking?
- Scarce goods are priceless.
 - Incentives matter--human choice is influenced in predictable ways by changes in personal costs and benefits.
 - The realism of the assumptions is the best test of an economic theory.
 - When deciding how to allocate time, the concept of opportunity cost is meaningless.

ANS: B PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
 STA: DISC: The role of incentives TOP: The Economic Way of Thinking
 KEY: Bloom's: Comprehension MSC: Suggested Quiz

6. Which of the following is most clearly consistent with the basic postulate of economics regarding the reaction of people to a change in incentives.
- Farmers produce fewer bushels of wheat in response to an increase in the price of wheat.
 - People will buy more milk at a price of \$2 per gallon than at \$1 per gallon.
 - People will buy less gas if the price of gas increases by \$.20 per gallon.
 - People will consume more beef if the price increases from \$1 to \$2 per pound.

ANS: C PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
 STA: DISC: The role of incentives TOP: The Economic Way of Thinking
 KEY: Bloom's: Application MSC: Suggested Quiz

7. Which one of the following is a positive economic statement?
- An increase in the minimum wage will reduce employment.
 - The minimum wage should be increased.
 - Social justice will be served by increasing the minimum wage.
 - Thoughtful people oppose an increase in the minimum wage.

ANS: A PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
 STA: DISC: Scarcity, tradeoffs, and opportunity cost
 TOP: Positive and Normative Economics KEY: Bloom's: Comprehension
 MSC: Suggested Quiz

8. The basic difference between macroeconomics and microeconomics is that
- macroeconomics is concerned with the forest (aggregate markets), while microeconomics is concerned with the individual trees (subcomponents).
 - macroeconomics is concerned with policy decisions, while microeconomics applies only to theory.
 - microeconomics is concerned with the forest (aggregate markets), while macroeconomics is concerned with the trees (subcomponents).
 - opportunity cost is applicable to macroeconomics, and the fallacy of composition relates to microeconomics.

ANS: A PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
 STA: DISC: Scarcity, tradeoffs, and opportunity cost
 TOP: Pitfalls to Avoid in Economic Thinking KEY: Bloom's: Comprehension
 MSC: Suggested Quiz

9. Economic analysis assumes that
- individuals act only out of selfish motives.
 - although individuals are at times selfish and at times unselfish, only their selfish actions may be predicted.
 - people are basically humanitarian, and their actions are, therefore, impossible to predict.
 - changes in the personal benefits and costs associated with a choice will exert a predictable

influence on human behavior.

ANS: D PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Utility and consumer choice TOP: What is Economics About?
KEY: Bloom's: Comprehension MSC: Suggested Quiz

10. While waiting in line to buy two tacos at 75 cents each, and a medium drink for 80 cents, Jordan notices that the restaurant has a value meal containing three tacos and a medium drink all for \$2.50. For Jordan, the marginal cost of purchasing the third taco would be
- zero.
 - 20 cents.
 - 75 cents.
 - 80 cents.

ANS: B PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Marginal costs & benefits TOP: The Economic Way of Thinking
KEY: Bloom's: Application MSC: Suggested Quiz

11. Adam Smith believed that if people were free to pursue their own interests,
- public interest would be served quite well.
 - less would be produced than if altruism were the guiding principle.
 - they would generally apply their talents to unproductive activities that would generate little value to society.
 - they would have little incentive to undertake productive activities.

ANS: A PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost
TOP: Outstanding Economist: The Importance of Adam Smith, the Father of Economic Science
KEY: Bloom's: Knowledge

12. Modern economics as a field of study is usually thought to have begun with
- Adam Smith and the writing of *The Wealth of Nations*.
 - David Ricardo and the writing of *The Principles of Political Economy and Taxation*.
 - Aristotle and the writing of *Politics and Ethics*.
 - Moses and the Ten Commandments.

ANS: A PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost
TOP: Outstanding Economist: The Importance of Adam Smith, the Father of Economic Science
KEY: Bloom's: Knowledge

13. According to Adam Smith, individual self-interest
- is a powerful force for economic progress when it is directed by competitive markets.
 - is a powerful force for economic progress when individuals are wisely directed by a strong central government.
 - is a major factor in retarding the economic progress of humankind.
 - could be either a positive or negative force for economic progress, depending on the moral influences of political leaders.

ANS: A PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost
TOP: Outstanding Economist: The Importance of Adam Smith, the Father of Economic Science
KEY: Bloom's: Knowledge

14. The basic ingredients in any economic decision are

- a. scarcity and choice.
- b. surpluses and shortages.
- c. market prices and the use of efficient production methods.
- d. needs and wants.

ANS: A PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost TOP: What is Economics About?
KEY: Bloom's: Knowledge

15. Economic choice and competitive behavior are the result of
- a. scarcity.
 - b. poverty.
 - c. public ownership of resources.
 - d. private ownership of resources.

ANS: A PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost TOP: What is Economics About?
KEY: Bloom's: Knowledge

16. For the typical student, taking an introductory course in economics should
- a. turn the student into an economist.
 - b. teach the student solutions to most social problems.
 - c. teach the student how to answer complex social questions.
 - d. help the student learn to rationally analyze social problems.
 - e. All of the above are correct.

ANS: D PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost TOP: What is Economics About?
KEY: Bloom's: Comprehension

17. When a society cannot produce all the goods and services people wish to have, it is said that the economy is experiencing
- a. scarcity.
 - b. shortages.
 - c. inefficiencies.
 - d. inequities.

ANS: A PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost TOP: What is Economics About?
KEY: Bloom's: Knowledge

18. By scientific method we mean
- a. the use of modern electronic testing equipment to understand the world.
 - b. the dispassionate development and testing of theories about how the world works.
 - c. the use of controlled laboratory experiments to understand the way the world works.
 - d. finding evidence to support preconceived theories about how the world works.

ANS: B PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Scarcity, tradeoffs, and opportunity cost
TOP: The Economic Way of Thinking KEY: Bloom's: Comprehension

19. Economists make assumptions in order to
- a. mimic the methodologies employed by other scientists.
 - b. minimize the number of experiments that yield no useful data.
 - c. minimize the likelihood that some aspect of the problem at hand is being overlooked.