

Multiple Choice:

1. Figure 1.1 provides information about the percent of GDP that is allocated to government consumption. Which two countries are less centralized than the United States?
 - a. France and Germany
 - b. Ireland and South Korea
 - c. Sweden and France
 - d. Canada and the United Kingdom
2. The San Jose flea market is not a market, as defined by economists, because:
 - a. Vendors at this flea market sell a variety of goods that are not substitutes.
 - b. Many of the goods sold at this flea market can also be purchased in nearby stores.
 - c. both (a) and (b)
 - d. none of the above
3. Marriage and dating patterns are important subjects for economic investigation because:
 - a. Economists are naturally inquisitive.
 - b. Economic analysis can help predict the impact of technological innovations such as the internet on social trends.
 - c. Marriage patterns have important implications for society because they impact the transmission of wealth from one generation to another.
 - d. All of the above
4. Economists proposed a set of rules to structure a new auction market for “the airwaves”. The FCC staff was concerned that the new design was untested. Economists therefore:
 - a. Designed experiments to test the impacts of the proposed rules on decisions to buy and sell.
 - b. Collected survey data to assess the public opinion.
 - c. Lobbied to create political pressure to implement the new system.
 - d. Adjusted their estimates of the benefits of the new system
5. Some politicians advocate a universal government-operated health insurance system. Replacing our current system of employer-provided insurance with a government-operated insurance system:
 - a. would represent increased decentralization of decision-making.
 - b. would represent a change in our society’s method for allocating healthcare resources.
 - c. reflects positive economic decision because this policy would be more fair than our current policy.
 - d. none of the above

6. The term “property rights” refers to:
 - a. rules for buying and selling land.
 - b. legal rules that specify ownership rights for any type of asset.
 - c. None of the above
7. The statement that “self-interest is an important motivation for decision-making” is
 - a. a positive statement
 - b. a normative statement
8. The recent U.S. policy mandating the use of ethanol fuel is:
 - a. a centralized decision that will reduce the cost of transportation
 - b. a centralized decision that is designed to change How transportation is produced
 - c. a decentralized decision that will impact What is produced
 - d. a decentralized decision that will impact How transportation is produced
9. The market for textbooks used to be well-defined at many universities: textbooks were bought and sold in the university book store. Internet sales are complicating the definition of this market because:
 - a. Internet sales blur the geographic boundaries.
 - b. The Internet increases interactions among potential buyers and potential sellers of used textbooks.
 - c. Some internet sites have developed rules that create a framework for orderly buying and selling (to prevent sellers from simply cashing checks without mailing any books).
 - d. All of the above
10. Models are an essential component of economic analysis. To be useful, a model must:
 - a. have realistic assumptions
 - b. produce predictions that are 100% accurate
 - c. address all aspects of the situation
 - d. none of the above

Answers to Multiple Choice

1b, 2c, 3d, 4a, 5b, 6b, 7a, 8b, 9d, 10d

Essay Questions

See end-of-chapter 1 exercises :
1.2, 1.5,

Answers

1.2

- a. *Normative*. This statement is prescriptive in nature. Words like “should” or “ought” are good indicators of a normative statement.
- b. *Positive*. This is a testable hypothesis; one could scientifically investigate the relationship between time worked and the existence of an income tax.
- c. *Normative*. Positive statements can be confirmed or denied without having to rely on a set of values. Confirming or denying this statement would require establishing what improves well-being, which undoubtedly requires an appeal to a set of values.
- d. *Positive*. This statement represents a testable hypothesis. Although one might typically hear this sort of statement from someone who endorses exercise, this statement itself does not.
- e. *Normative*. This statement is clearly stating a value judgment. What one believes to be *good* or *bad* depends on one’s values.
- f. *Positive*. This statement is a testable hypothesis. It makes a claim about what *is*, *was*, or *will be* true.
- g. *Normative*. This statement is stating a value judgment; we could not test this statement without first agreeing on what it means to be *better off*.

1.5

A model is a simplified representation of how some part of the world works. Statement A is a model of weather at sea. Because statement C attempts to describe a simplification of a cause-and-effect relationship, it can be considered a model. Statement E likewise paints a picture of a simplified cause-and-effect relationship, making it a model. All three of these statements are of the type “when one thing happens, another thing follows from it,” which is similar to economic reasoning of this sort: “when a good’s price falls, consumers buy more of it.” The other statements (B & D) do not make an attempt at representing how things work.