

ARE 201 Spring 2009 HW #1

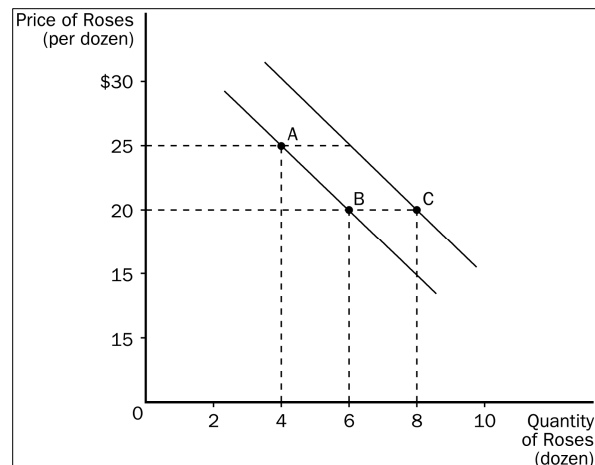
Due Date: Thursday Jan 29th, 2009 before class

MULTIPLE CHOICE

1. The word that comes from the Greek word for “one who manages a household” is
 - a. market.
 - b. consumer.
 - c. producer.
 - d. economy.
2. Households and economies have each of the following in common EXCEPT both
 - a. must allocate scarce resources.
 - b. face many decisions.
 - c. must allocate the goods and services they produce.
 - d. must have a central decision maker.
3. 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. communism.
 - c. externalities.
 - d. market failure.
4. Which product would be considered scarce?
 - a. Benz cars
 - b. Monet paintings
 - c. 1-carat diamonds
 - d. All of the above are correct.
5. The adage, “There is no such thing as a free lunch,” means
 - a. even people on welfare have to pay for food.
 - b. the cost of living is always increasing.
 - c. to get something we like, we usually have to give up another thing we like.
 - d. all costs are included in the price of a product.
6. When society requires that firms reduce pollution, there is
 - a. a tradeoff because of reduced incomes to the firms’ owners, workers, and customers.
 - b. no tradeoff, since everyone benefits from reduced pollution.
 - c. no tradeoff for society as a whole, since the cost of reducing pollution falls only on the firms affected by the requirements.
 - d. a tradeoff only if some firms are forced to close.
7. Which of the following best defines efficiency?
 - a. absolute fairness
 - b. equal distribution
 - c. minimum waste
 - d. consumer sovereignty
8. Mallory decides to spend 3 hours working overtime rather than watching a video with her friends. She earns \$8 an hour. Her opportunity cost of working is
 - a. the \$24 she earns working.

- b. the \$24 minus the enjoyment she would have received from watching the video.
 - c. the enjoyment she would have received had she watched the video.
 - d. nothing, since she would have received less than \$24 of enjoyment from the video
9. Trade can benefit a family
- a. by allowing the family to buy a greater variety of goods and services at a lower cost.
 - b. by allowing each person to specialize in the activities he or she does best.
 - c. only if the family is not in economic competition with other families.
 - d. All of the above are correct.
 - e. Both a and b are correct.
10. A market economy differs from a communist economy in that economic decisions are made by
- a. a central planner.
 - b. millions of firms and households.
 - c. primarily the government.
 - d. large corporations.
11. Which is the best statement about the way economists study the economy?
- a. They study the past, but do not try to predict the future.
 - b. They use a probabilistic approach based on correlations between economic events.
 - c. They devise theories, collect data, then analyze the data to test the theories.
 - d. They use controlled experiments much the same way a biologist or physicist does.
12. Which of the following is NOT true concerning models?
- a. Models simplify reality.
 - b. Models can explain how the economy is organized.
 - c. Models assume away irrelevant details.
 - d. Models cannot be used to make predictions.
13. Economists view positive statements as
- a. affirmative, justifying existing economic policy.
 - b. optimistic, putting the best possible interpretation on things.
 - c. descriptive, making a claim about how the world is.
 - d. prescriptive, making a claim about how the world ought to be.
14. Which of the following is an example of a normative statement?
- a. If the price of a product decreases, quantity demanded increases.
 - b. Reducing tax rates on the wealthy would be good for the country.
 - c. If the national saving rate were to increase, so would the rate of economic growth.
 - d. All of the above are correct.
15. The President of the United States receives tax policy advice from economists in the
- a. Federal Reserve.
 - b. Department of Justice.
 - c. Department of Treasury.

- d. Congressional Budget Office.
16. One way to determine the direction of causality is to
- assume the 2 variables move in the same direction.
 - assume the 2 variables move in opposite directions.
 - determine which variable moves first.
 - determine which variable moves second.
17. The 2 basic reasons why economists often appear to give conflicting advice to policymakers are differences in
- opinions and education.
 - scientific judgments and values.
 - scientific judgments and education.
 - opinions and values.
18. A survey which asked the opinion of academic, business, and government economists on ten propositions about economic policy found that
- the respondents were almost equally divided on the propositions.
 - the respondents favored the propositions by a slight margin.
 - the respondents disagreed with the propositions by a slight margin.
 - there was overwhelming endorsement of the propositions among the respondents.
19. Economists use graphs to
- find how variables are related in the real world.
 - express economic ideas that cannot be expressed with equations or words.
 - visually express ideas more clearly than might be the case if they are expressed with equations or words.
 - Both a and c are correct.
 - All of the above are correct.
20. In the graph shown, the slope of the curve between points A and B is
- $5/2$
 - $2/5$
 - $-2/5$
 - $-5/2$



TRUE/FALSE

- Scarcity means that there is less of a good or resource available than people wish to have.
- Trade allows each person to specialize in the activities he or she does best, thus increasing each individual's productivity.
- Inflation increases the value of money.

4. While the scientific method is applicable to studying natural sciences, it is not useful in studying an economic system.
5. Normative statements describe how the world is, while positive statements prescribe how the world should be.

SHORT ANSWER
APPLICATION/SCENARIO

1. Explain how an attempt by the government to lower inflation could cause unemployment to increase in the short-run.
2. Draw a production possibilities frontier showing increasing opportunity cost for hammers and horseshoes.
 - a. On a graph, identify the area of feasible outcomes and the area of infeasible outcomes.
 - b. On the graph, label a point that's efficient as point "E" and a point that is inefficient as point "I".
 - c. On a graph, illustrate the effect of the discovery of a new vein of iron ore, a resource needed to make both horseshoes and hammers, on this economy.
 - d. On a graph for hammers and horseshoes, illustrate the effect a new computerized assembly line in the production of hammers would have.