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Name:_____ Class:_____ Date:_____

Ch 1 Two Basic Economic Models

1. The problem of scarcity
   a. arises only in poor countries.
   b. exists because the price of goods is too high.
   c. exists because of limited resources.
   d. will eventually be solved by better planning.

ANSWER: c

2. If society is producing a combination of goods on its production possibility frontier,
   a. it must be employing all available resources.
   b. it must be growing.
   c. it is using all the available natural resources but may not be using all available labor resources.
   d. it must be producing a combination of goods people want.

ANSWER: a

3. The slope of the production possibility frontier shows
   a. how inputs must be changed to keep them fully employed.
   b. the technically efficient combinations of the two goods.
   c. how demanders are willing to trade one good for another.
   d. the opportunity cost of one good in terms of the other.

ANSWER: d

4. An increase in the technology used in the production of only one of the two goods in a society will
   a. eliminate scarcity.
   b. move the production possibility frontier out in all directions.
   c. move the production possibility frontier in all directions.
   d. leave one intercept of the production possibility frontier fixed and swing out from the other.

ANSWER: d

5. A typical production possibility frontier is
   a. convex because opportunity costs are increasing.
   b. convex because opportunity costs are decreasing.
   c. concave because opportunity costs are increasing.
   d. concave because opportunity costs are decreasing.

ANSWER: c

6. If the prevailing price of shirts is $10 and at this price demanders demand 100 shirts while suppliers are willing to supply 110 shirts, there is
   a. a shortage at the $10 price.
   b. a surplus at the $10 price.
   c. an equilibrium in this market.
   d. a shortage if price were to rise above $10.

ANSWER: b

7. The Ricardian notion of diminishing returns implies that

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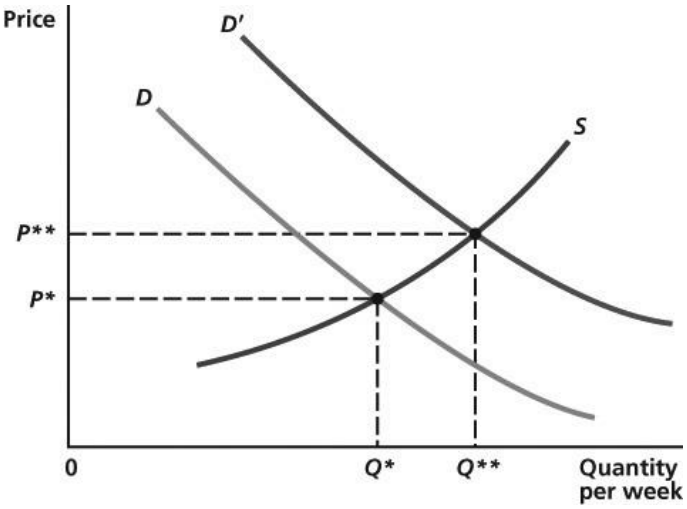
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a. as more input is used more output will be made.
b. as more input is used less output will be made.
c. as more input is used the increase in output will increase.
d. as more input is used the increase in output will decrease.

ANSWER: d

Figure 1-1

In the following figure, demand has shifted outward from *D* to *D′* and price has risen from *P** to *P***.



8. **Refer to Figure 1-1.** According to the original demand curve (*D*), how much will be demanded at the new price of *P***?
a. More than *Q***
b. Between *Q** and *Q***
c. Less than *Q**
d. An answer cannot be determined from the graph.

ANSWER: c

9. **Refer to Figure 1-1.** At the old price (*P**), how much will be demanded according to the demand curve *D′*?
a. More than *Q***
b. Between *Q** and *Q***
c. Less than *Q**
d. An answer cannot be determined from the graph.

ANSWER: a

10. **Refer to Figure 1-1.** If price had stayed at *P** when demand shifted outward from *D* to *D′*, there would have been
a. a surplus of *Q*** – *Q**,
b. a shortage of *Q*** – *Q**,
c. a surplus of more than *Q*** – *Q**,
d. a shortage of more than *Q*** – *Q**.

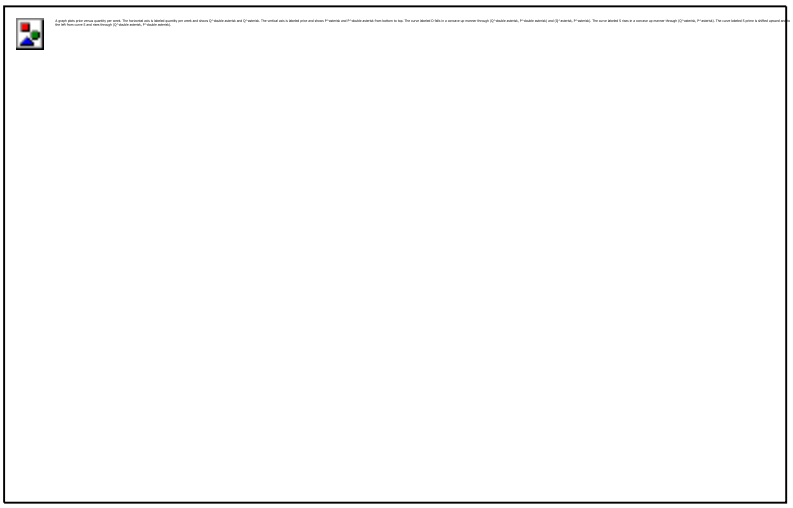
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ANSWER: d

Figure 1-2

In the following figure, supply has shifted inward from *S* to *S′*, causing price to rise from *P** to *P***.



11. **Refer to Figure 1-2.** If price had remained at *P**, what quantity would have been supplied according to the new supply curve?
    a. More than *Q**
    b. Between *Q** and *Q***
    c. Less than *Q**
    d. The amount cannot be determined from the graph.

ANSWER: c

12. **Refer to Figure 1-2.** If price had remained at *P** when supply shifted inward from *S* to *S′*, there would have been
    a. a surplus of *Q** – *Q***.
    b. a shortage *Q** – *Q***.
    c. a shortage of less than *Q** – *Q***.
    d. a shortage of more than *Q** – *Q***.

ANSWER: d

13. The reason a honeybee does not extract the last drop of nectar from a flower is because
    a. the marginal costs of extraction are rising.
    b. the bee cannot find the nectar.
    c. the last drop does not have as much potential honey in it.
    d. the bee may be trapped inside the flower.

ANSWER: a

14. The person generally considered to be the first true economist was
    a. John Stuart Mill.
    b. Plato.

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c. Augustin Cournot.
d. Adam Smith.

ANSWER: d

15. Positive economic analysis
a. involves the study of firms with positive profits.
b. involves how resources are actually used in an economy.
c. involves judgments on how resources should be used in an economy.
d. is usually thought to be a waste of time.

ANSWER: b

16. Normative economic analysis
a. involves the study of what comprises a normal firm.
b. involves how resources are actually used in an economy.
c. involves judgments on how resources should be used in an economy.
d. is usually thought to be a waste of time.

ANSWER: c

17. A major problem that may occur with models that predict the values of economic variables in the future is that
a. researchers are pessimistic about the future.
b. the model may fail to acknowledge that economic actors will change their behavior in response to changing situations.
c. the model may make predictions that conflict with widely held opinions.
d. no one cares about these predictions.

ANSWER: b

18. Economists typically use ____ analysis, whereas moral philosophers typically use ____ analysis.
a. positive; positive
b. normative; normative
c. positive; normative
d. normative; positive

ANSWER: c

19. All of the following are important difficulties in trying to verify an economic model by testing its assumptions **except**:
a. People may disagree about the assumptions.
b. Data on the assumptions may be difficult to interpret.
c. The assumptions may be simple.
d. Real world data may be consistent with many different assumptions.

ANSWER: c

20. Milton Friedman's "pool player analogy" is useful in explaining the role of economic models because
a. studying economics is like playing pool.
b. a theoretical model of pool playing may predict the player's shots.
c. pool, like economics, is subject to uncertainties.

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d. pool players, like firms, seek maximum profits.

ANSWER: b

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