

## Chapter 2 Practice Test

### True/False

Indicate whether the sentence or statement is true or false.

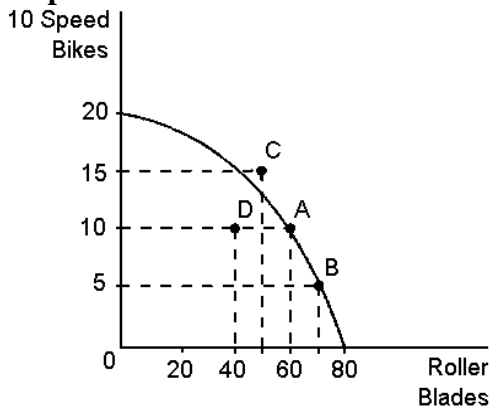
- \_\_\_ 1. The art in scientific thinking is in deciding which assumptions to make.
- \_\_\_ 2. Whereas the President of the United States receives advice on economic matters from the Council of Economic Advisors, the Congress of the United States does not have a group of economists on which it can rely for advice.
- \_\_\_ 3. In a survey, over 80 percent of economists opposed such ideas as rent control, tariffs and quotas and large federal budget deficits.

### Multiple Choice

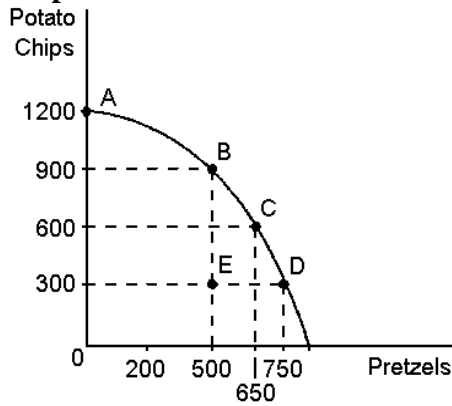
Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_ 4. In the circular-flow diagram,
- firms are sellers in the resource market and the product market.
  - households are sellers in the resource market.
  - firms are buyers in the product market.
  - spending on goods and services flow from firms to households.

**Graph 2-3**



- \_\_\_ 5. Refer to Graph 2-3. On the production possibilities frontier shown, the opportunity cost to the economy of getting 10 additional roller blades by moving from point A to point B is
- 15 bikes.
  - 10 bikes.
  - 5 bikes.
  - It is impossible to know the opportunity cost without knowing the cost of the resources used to produce the additional roller blades.

**Graph 2-6**

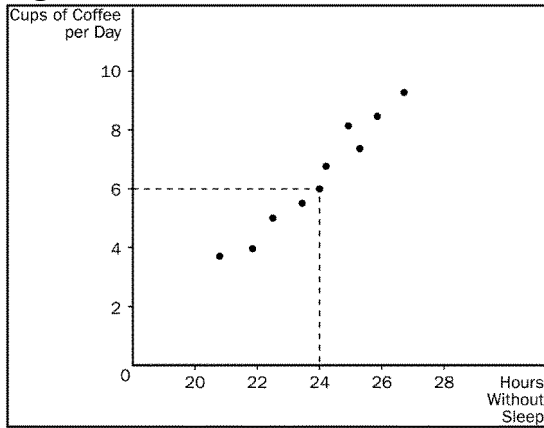
6. Refer to Graph 2-6. In the production possibilities frontier shown, what is society giving up by moving from point C to point E?
- 150 pretzels
  - 300 potato chips
  - a and b
  - zero

**Table 2-1**

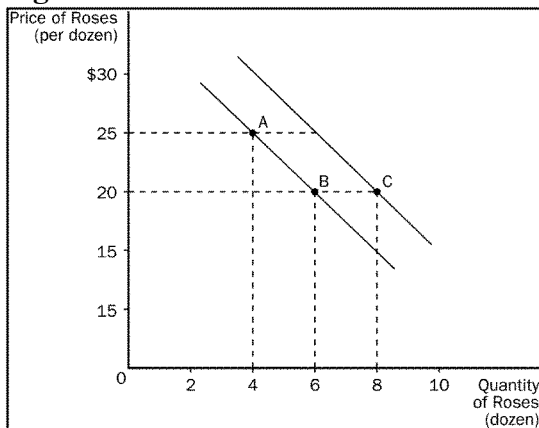
| Production Possibilities<br>for Tuneland |      |
|--|------|
| Cars                                     | Toys |
| 50                                       | 0    |
| 40                                       | 250  |
| 30                                       | 450  |
| 20                                       | 600  |
| 10                                       | 700  |
| 0  | 750  |

7. Refer to Table 2-1. The reference table shows the production possibilities for Tuneland. What is the opportunity cost to Tuneland of increasing the production of cars from 30 to 40?
- 200 toys
  - 250 toys
  - 450 toys
  - It is impossible to tell what the opportunity cost is without knowing production costs for cars and toys.
8. Which of the following would be considered a topic of study in macroeconomics?
- the impact of agricultural price support programs in the cotton industry
  - the effect on U.S. steel producers of an import quota imposed on foreign steel
  - the effect of an increase in the price of imported oil on the U.S. inflation rate
  - the effect of an increase in the price of imported coffee beans on the U.S. coffee industry

- \_\_\_\_\_ 9. For economists, positive statements are
- descriptive, making a claim about how the world is.
  - optimistic, putting the best possible interpretation on things.
  - affirmative, justifying existing economic policy.
  - prescriptive, making a claim about how the world ought to be.
- \_\_\_\_\_ 10. Which of the following is an example of a normative statement?
- If the price of a product decreases, quantity demanded increases.
  - Reducing tax rates on the wealthy would be good for the country.
  - If the national saving rate were to increase, so would the rate of economic growth.
  - All of the above are normative statements.
- \_\_\_\_\_ 11. In addition to advising the president, one duty of the Council of Economic Advisors is to
- prepare the federal budget.
  - write government regulations.
  - advise Congress on economic matters.
  - write the annual Economic Report of the President.
- \_\_\_\_\_ 12. Which of the following is a correct statement about slopes?
- A horizontal line has an infinite slope, and a vertical line has a zero slope.
  - A horizontal line has a slope of 1, and a vertical line has a slope of -1.
  - A horizontal line has a zero slope, and a vertical line has an infinite slope.
  - None of the above statements is correct.
- \_\_\_\_\_ 13. Making the argument that empty alcohol containers are found at many accidents, therefore containers cause accidents, is an example of
- omitted variables or correlation vs. causation.
  - reverse causality.
  - sound logic.
  - slope.
- \_\_\_\_\_ 14. By scientific method we mean
- the use of modern electronic testing equipment to understand the world.
  - the dispassionate development and testing of theories about how the world works.
  - the use of controlled experiments in understanding the way the world works.
  - finding evidence to support preconceived theories about how the world works.
- \_\_\_\_\_ 15. The two loops in the circular-flow diagram represent the flow of
- goods and the flow of services.
  - dollars and the flow of financial assets.
  - inputs and outputs and the flow of dollars.
  - capital goods and the flow of consumer goods.
- \_\_\_\_\_ 16. A type of graph that can be used to display the relationship between two variables is
- a pie chart.
  - a bar graph.
  - a time-series graph.
  - the coordinate system.

**Figure 2-9**

- \_\_\_\_\_ 17. Refer to Figure 2-9. The correct designation of point A is:
- (6, 0)
  - (0, 24)
  - (6, 24)
  - (24, 6)
- \_\_\_\_\_ 18. Refer to Figure 2-9. Cups of coffee per day and the hours that someone can go without sleep have
- a positive correlation.
  - a negative correlation.
  - a random correlation.
  - no correlation.

**Figure 2-10**

- \_\_\_\_\_ 19. Refer to Figure 2-10. The movement from point A to point B is a
- shift of the curve.
  - change in preferences.
  - movement along the curve.
  - All of the above are correct.

- \_\_\_\_\_ 20. Refer to Figure 2-10. The movement from point B to point C is a
- a. shift of the curve.
  - b. change in price.
  - c. movement along the curve.
  - d. change in costs to the firm.
- \_\_\_\_\_ 21. The slope of a line is calculated by
- a. change in  $x$ /change in  $y$ .
  - b. change in  $y$ /change in  $x$ .
  - c.  $x/y$ .
  - d.  $x + y$ .