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,
   a. firms are sellers in the resource market and the product market.
   b. households are sellers in the resource market.
   c. firms are buyers in the product market.
   d. spending on goods and services flow from firms to households.

___ 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
   a. 15 bikes.
   b. 10 bikes.
   c. 5 bikes.
   d. It is impossible to know the opportunity cost without knowing the cost of the resources used to produce the additional roller blades.
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?
   a. 150 pretzels
   b. 300 potato chips
   c. a and b
   d. zero

Table 2-1

<p>| Production Possibilities for Tuneland |</p>
<table>
<thead>
<tr>
<th>Cars</th>
<th>Toys</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>40</td>
<td>250</td>
</tr>
<tr>
<td>30</td>
<td>450</td>
</tr>
<tr>
<td>20</td>
<td>600</td>
</tr>
<tr>
<td>10</td>
<td>700</td>
</tr>
<tr>
<td>0</td>
<td>750</td>
</tr>
</tbody>
</table>

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?
   a. 200 toys
   b. 250 toys
   c. 450 toys
   d. 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?
   a. the impact of agricultural price support programs in the cotton industry
   b. the effect on U.S. steel producers of an import quota imposed on foreign steel
   c. the effect of an increase in the price of imported oil on the U.S. inflation rate
   d. the effect of an increase in the price of imported coffee beans on the U.S. coffee industry
9. For economists, positive statements are
   a. descriptive, making a claim about how the world is.
   b. optimistic, putting the best possible interpretation on things.
   c. affirmative, justifying existing economic policy.
   d. prescriptive, making a claim about how the world ought to be.

10. 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 normative statements.

11. In addition to advising the president, one duty of the Council of Economic Advisors is to
    a. prepare the federal budget.
    b. write government regulations.
    c. advise Congress on economic matters.
    d. write the annual Economic Report of the President.

12. Which of the following is a correct statement about slopes?
    a. A horizontal line has an infinite slope, and a vertical line has a zero slope.
    b. A horizontal line has a slope of 1, and a vertical line has a slope of -1.
    c. A horizontal line has a zero slope, and a vertical line has an infinite slope.
    d. 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
    a. omitted variables or correlation vs. causation.
    b. reverse causality.
    c. sound logic.
    d. slope.

14. 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 experiments in understanding the way the world works.
    d. finding evidence to support preconceived theories about how the world works.

15. The two loops in the circular-flow diagram represent the flow of
    a. goods and the flow of services.
    b. dollars and the flow of financial assets.
    c. inputs and outputs and the flow of dollars.
    d. 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. a pie chart.
    b. a bar graph.
    c. a time-series graph.
    d. the coordinate system.
17. Refer to Figure 2-9. The correct designation of point A is:
   a. (6, 0)
   b. (0, 24)
   c. (6, 24)
   d. (24, 6)

18. Refer to Figure 2-9. Cups of coffee per day and the hours that someone can go without sleep have
   a. a positive correlation.
   b. a negative correlation.
   c. a random correlation.
   d. no correlation.

19. Refer to Figure 2-10. The movement from point A to point B is a
   a. shift of the curve.
   b. change in preferences.
   c. movement along the curve.
   d. 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.