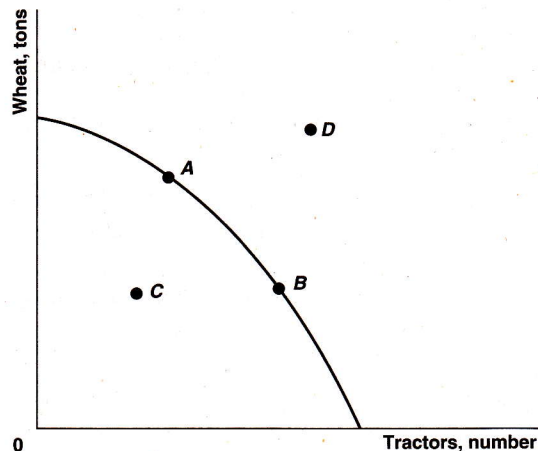


Answer Questions 20, 21, and 22 based on the following graph for an economy.



20. Unemployment and productive inefficiency would best be represented in the graph by point:

- (a) A
- (b) B
- (c) C
- (d) D

21. The choice of point B over point A as the optimal product mix for society would be based on

- (a) the state of technology
- (b) full employment of resources
- (c) the law of increasing opportunity costs
- (d) a comparison of marginal costs and benefits

22. Economic growth could be represented by

- (a) a movement from point A to point B
- (b) a movement from point B to point A
- (c) a shift in the production possibilities curve out to point C
- (d) a shift in the production possibilities curve out to point D

23. If there is an increase in the resources available within the economy,

- (a) the economy will be capable of producing fewer goods
- (b) the economy will be capable of producing more goods
- (c) the standard of living in the economy will decline
- (d) the state of technology will deteriorate

24. Which situation would be most likely to shift the production possibilities curve for a nation in an outward direction?

- (a) deterioration in product quality
- (b) reductions in the supply of resources
- (c) increases in technological advance
- (d) rising levels of unemployment

25. You observe that more education is associated with more income and conclude that more income leads to more education. This would be an example of

- (a) the post hoc fallacy
- (b) the fallacy of composition
- (c) confusing correlation and causation
- (d) using the other-things-equal assumption

PROBLEMS

1. Use the appropriate number to match the terms with the phrase.

- | | |
|-----------------------|------------------------|
| 1. economics | 4. normative economics |
| 2. macroeconomics | 5. microeconomics |
| 3. positive economics | 6. marginal analysis |

a. The attempt to establish scientific statements about economic behavior; a concern with "what is" rather than "what ought to be."

b. Part of economics that involves value judgments about what the economy should be like or the way the economic world should be.

c. Social science that studies how individuals, institutions, and society make optimal choices under conditions of scarcity.

d. Part of economics concerned with the whole economy or its major sectors.

e. The comparison of additional benefits and additional costs.

f. Part of economics concerned with the economic behavior of individual units such as households, firms, and industries (particular markets).

2. **News report:** "The worldwide demand for wheat from the United States increased and caused the price of wheat in the United States to rise." This is a *specific* instance of a more *general* economic principle. Of which economic *generalization* is this a particular example?

3. Following is a list of economic statements. Indicate in the space to the right of each statement whether it is positive (P) or normative (N). Then, in the last four lines below, write two of your own examples of positive economic statements and two examples of normative economic statements.

a. New York City should control the rental price of apartments.

b. Consumer prices rose at an annual rate of 2% last year.

c. Most people who are unemployed are just too lazy to work.

d. Generally, if you lower the price of a product, people will buy more of that product.

e. The profits of drug companies are too large and ought to be used to conduct research on new medicines.

f. Government should do more to help the poor.

g. _____ P

h. _____ P

i. _____ N

j. _____ N

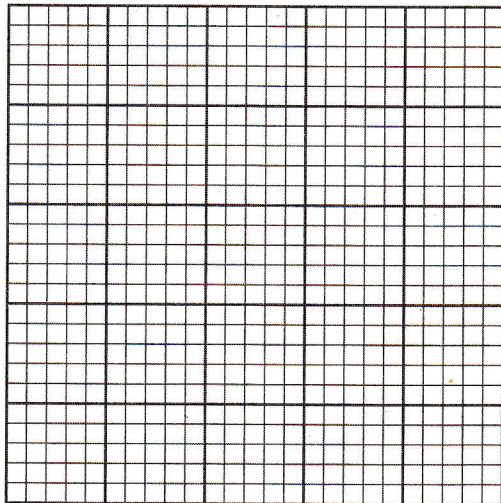
4. Following is a list of resources. Indicate in the space to the right of each whether the resource is land (LD), labor (LR), capital (C), entrepreneurial ability (EA), or some combination of these resources.

- a. Fishing grounds in the North Atlantic _____
- b. A computer in a retail store _____
- c. Uranium deposits in Canada _____
- d. An irrigation ditch in Nebraska _____
- e. Bill Gates in his work in starting Microsoft _____
- f. The oxygen breathed by human beings _____
- g. An IBM plant in Rochester, Minnesota _____
- h. The food on the shelf of a grocery store _____
- i. A machine in an auto plant _____
- j. A person who creates new computer software and uses it to start a successful business _____
- k. A carpenter building a house _____

5. Following is a production possibilities table for two products: corn and cars. The table is constructed using the usual assumptions. Corn is measured in units of 100,000 bushels, and cars in units of 100,000.

Combination	Corn	Cars
A	0	7
B	7	6
C	13	5
D	18	4
E	22	3
F	25	2
G	27	1
H	28	0

- a. Follow the general rules for making graphs (see the appendix to Chapter 1); plot the data from the table on the graph below to obtain a production possibilities curve. Place corn on the vertical axis and cars on the horizontal axis.



b. Fill in the following table, showing the opportunity cost per unit of producing the 1st through the 7th car unit in terms of corn units.

Cars	Cost of production
1st	_____
2nd	_____
3rd	_____
4th	_____
5th	_____
6th	_____
7th	_____

- c. What is the *marginal* opportunity cost of the 3rd car unit in terms of units of corn? _____
- d. What is the *total* opportunity cost of producing 6 car units in terms of units of corn? _____

■ SHORT ANSWER AND ESSAY QUESTIONS

- What are the three interrelated features of the economic perspective?
- What is the economic meaning of the statement "there is no such thing as a free lunch"?
- What are the differences and similarities between hypotheses, theories, principles, laws, and models?
- Why do economists use the "other-things-equal" assumption?
- Why are economic principles necessarily generalized and abstract?
- Explain the difference between macroeconomics and microeconomics.
- What are some current examples of positive economic statements and normative economic statements?
- Explain what the term "economizing problem" means for an individual and for society.
- What is a budget line for an individual? How can it be used to illustrate tradeoffs and opportunity costs?
- What are the four economic resources? How is each resource defined?
- What four assumptions are made in drawing a production possibilities curve or schedule?
- What is the law of increasing opportunity costs? Why do costs increase?
- What determines the optimal product mix for society's production possibilities?
- How can unemployment be illustrated with the production possibilities curve?
- What will be the effect of increasing resource supplies on production possibilities?

10 CHAPTER 1

16. Describe how technological advances will affect the production possibilities curve.
17. Explain the tradeoff between goods for the present and goods for the future and the effect of this tradeoff on economic growth.
18. What qualification does international specialization and trade make for the interpretation of production possibilities?
19. Explain how the production possibilities curve can be used to explain the economics of war.
20. Explain each of the five pitfalls to sound economic reasoning.