

# Chapter 1

## Economics: Foundations and Models

### 1.1 Three Key Economic Ideas

- 1) Recent changes occurring within the U.S. health care system, including lower insurance reimbursement rates, have resulted in
- A) a growing number of doctors choosing to open private practices.
  - B) more medical practices being owned by hospitals than by individual doctors.
  - C) a majority of hospitals closing routine medical practices in order to focus only on emergency care facilities.
  - D) a majority of doctors working directly for insurance companies.

Answer: B

Diff: 2 Page Ref: 3/3

Topic: Scarcity

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 2) In economics, choices must be made because we live in a world of
- A) unemployment.
  - B) scarcity.
  - C) greed.
  - D) unlimited resources.

Answer: B

Diff: 1 Page Ref: 4/4

Topic: Scarcity

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 3) Which of the following statements is true about scarcity?
- A) Scarcity refers to the situation in which unlimited wants exceed limited resources.
  - B) Scarcity is not a problem for the wealthy.
  - C) Scarcity is only a problem when a country has too large a population.
  - D) Scarcity arises when there is a wide disparity in income distribution.

Answer: A

Diff: 1 Page Ref: 4/4

Topic: Scarcity

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 4) The basic economic problem of \_\_\_\_\_ has always existed and will continue to exist.
- A) scarcity
  - B) efficiency
  - C) inflation
  - D) recession

Answer: A

Diff: 1 Page Ref: 4/4

Topic: Scarcity

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 5) By definition, economics is the study of
- A) how to make money in the stock market.
  - B) how to make money in a market economy.
  - C) the choices people make to attain their goals, given their scarce resources.
  - D) supply and demand.

Answer: C

Diff: 1 Page Ref: 4/4

Topic: Scarcity

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- 6) An economic \_\_\_\_\_ is a simplified version of some aspect of economic life used to analyze an economic issue.
- A) market
  - B) trade-off
  - C) variable
  - D) model

Answer: D

Diff: 1 Page Ref: 4/4

Topic: Economic Models

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 7) Where do economic agents such as individuals, firms and nations, interact with each other?
- A) in public locations monitored by the government
  - B) in any arena that brings together buyers and sellers
  - C) in any physical location where people can physically get together for selling goods, such as shopping malls
  - D) in any location where transactions can be monitored by consumer groups and taxed by the government

Answer: B

Diff: 1 Page Ref: 4/4

Topic: Markets

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 8) The term \_\_\_\_\_ in economics refers to a group of buyers and sellers of a product and the arrangement by which they come together to trade.
- A) collective
  - B) cooperative
  - C) market
  - D) trade-off

Answer: C

Diff: 1 Page Ref: 4/4

Topic: Markets

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 9) Economists assume that individuals
- A) behave in unpredictable ways.
  - B) will never take actions to help others.
  - C) prefer to live in a society that values fairness above all else.
  - D) are rational and respond to incentives.

Answer: D

Diff: 1 Page Ref: 5/5

Topic: People Are Rational

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 10) Economists assume that rational behavior is useful in explaining choices people make
- A) because irrational people do not make economic choices.
  - B) even though people may not behave rationally all the time.
  - C) because individuals act rationally all the time in all circumstances.
  - D) even though people rarely, if ever, behave in a rational manner.

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 11) Economists assume that rational people do all of the following *except*
- A) use all available information as they act to achieve their goals.
  - B) undertake activities that benefit others and hurt themselves.
  - C) weigh the benefits and costs of all possible alternative actions.
  - D) respond to economic incentives.

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 12) Economics does not study correct or incorrect behaviors, but rather it assumes that economic agents behave \_\_\_\_\_, meaning they make the best decisions given their knowledge of the costs and benefits.
- A) equitably
  - B) rationally
  - C) emotionally
  - D) selfishly

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 13) Consider the following statements:
- a. Car owners purchase more gasoline from a gas station that sells gasoline at a lower price than other rival gas stations in the area.
  - b. Banks do not take steps to increase security since they believe it is less costly to allow some bank robberies than to install expensive security monitoring equipment.
  - c. Firms produce more of a particular DVD when its selling price rises.

Which of the above statements demonstrates that economic agents respond to incentives?

- A) a only
- B) b only
- C) c only
- D) a and b
- E) a, b, and c

Answer: E

Diff: 3 Page Ref: 5/5

Topic: People Respond to Economic Incentives

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 14) Suppose that some teachers have decided that economic and financial uncertainty have made the prospect of retiring more risky, and therefore carry a higher cost than not retiring. By using all available information as they act to achieve their goals, these teachers are exemplifying the economic idea that
- A) people are rational.
  - B) people respond to economic incentives.
  - C) optimal decisions are made at the margin.
  - D) equity is more important than efficiency.

Answer: A

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 15) Suppose that some investors have decided that economic and financial uncertainty have made the prospect of investing in domestic stock markets more risky than investing in foreign stock markets, and therefore choose to invest in foreign markets. By using all available information as they act to achieve their goals, these investors are exemplifying the economic idea that
- A) people are rational.
  - B) people respond to economic incentives.
  - C) optimal decisions are made at the margin.
  - D) equity is more important than efficiency.

Answer: A

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 16) Suppose the U.S. government encouraged new medical school graduates to take over existing practices from doctors wishing to retire by paying both the new and retiring doctors \$100,000. These doctors would be exemplifying the economic idea that
- A) people are rational.
  - B) people respond to economic incentives.
  - C) optimal decisions are made at the margin.
  - D) equity is more important than efficiency.

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Respond to Economic Incentives

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic thinking

- 17) Suppose the U.S. government encouraged consumers to trade in their old automobiles for more efficient, new models by paying up to \$5,000 for the old automobiles. These consumers would be exemplifying the economic idea that
- A) people are rational.
  - B) people respond to economic incentives.
  - C) optimal decisions are made at the margin.
  - D) equity is more important than efficiency.

Answer: B