

Macroeconomics, 2e (Acemoglu)

Chapter 1 The Principles and Practice of Economics

1.1 The Scope of Economics

1) Which of the following statements is true?

- A) All economic agents are necessarily individuals.
- B) A worker who shirks work is not an economic agent.
- C) A government is an example of an economic agent.
- D) A street gang is not an economic agent.

Answer: C

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Economic Agents and Economic Resources

2) Which of the following best describes scarce resources?

- A) Resources that most people cannot afford to buy
- B) Resources that can only be distributed efficiently by the government
- C) Resources for which the quantity demanded is the same for all economic agents
- D) Resources for which the quantity that people want exceeds the quantity that is freely available

Answer: D

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Economic Agents and Economic Resources

3) Which of the following is NOT a scarce resource?

- A) Gold
- B) Pollution
- C) Petroleum
- D) iPhones

Answer: B

Difficulty: Easy

AACSB: Application of Knowledge

Topic: Economic Agents and Economic Resources

4) In economics, scarcity refers to the situation of _____.

- A) making the best use of limited information
- B) having more wants than the amount of available resources
- C) the government rationing available goods and services
- D) sellers setting the prices of their products too high for people to be able to afford them

Answer: B

Difficulty: Medium

AACSB: Analytical Thinking

Topic: Economic Agents and Economic Resources

5) Which of the following statements is true?

- A) Gold is not a scarce resource.
- B) Both life-saving drugs and ice cream are examples of scarce goods.
- C) If a scarce resource is given away for free, everyone will be able to consume it.
- D) Scarcity means that there is an imbalance between unlimited resources and limited wants.

Answer: B

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Economic Agents and Economic Resources

6) What are scarce resources? Why are economic agents concerned with the allocation of these resources?

Answer: Scarce resources are resources for which the quantity that agents want exceeds the quantity that is freely available. Economic agents need to satisfy their unlimited wants in a world of limited resources. This makes it important for them to understand how these scarce resources are to be used and distributed in order to optimize allocation.

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Economic Agents and Economic Resources

7) Define economics. Who are economic agents?

Answer: Economics is the study of how agents choose to allocate scarce resources and how these choices affect society. An economic agent is an individual or a group that makes choices.

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Economic Agents and Economic Resources

8) Economics is primarily the study of _____.

- A) the mental functions and behavior of individuals and groups
- B) the state, nation, government, and politics and policies of governments
- C) the problems related to the existence and evolution of society
- D) how agents choose to allocate scarce resources and how these choices affect society

Answer: D

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Definition of Economics

9) Economics is primarily the study of _____.

- A) the relationship between matter and its motion
- B) agents' choices and their impact on society
- C) events of the past and how these events affect present human behavior
- D) the different types of governments and the impact of their policies on a nation

Answer: B

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Definition of Economics

10) _____ is analysis that generates objective descriptions or predictions about the world that can be verified with data.

- A) Positive economics
- B) Negative economics
- C) Microeconomics
- D) Normative economics

Answer: A

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Positive Economics and Normative Economics

11) Which of the following is an example of a positive economic statement?

- A) The pricing policies followed in single-producer markets should be strictly supervised.
- B) Unemployment is more harmful than inflation.
- C) Higher interest rates will encourage more savings.
- D) Pollution is one of the most serious economic problems.

Answer: C

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Positive Economics and Normative Economics

12) Which of the following is an example of a positive economic statement?

- A) The government should ideally work as a welfare state.
- B) An increase in income causes an increase in savings.
- C) Economics is the most useful social science.
- D) Eliminating poverty is more important than reducing inflation.

Answer: B

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Positive Economics and Normative Economics

13) _____ economics prescribes what an individual or society ought to do.

- A) Positive
- B) Negative
- C) Behavioral
- D) Normative

Answer: D

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Positive Economics and Normative Economics

14) Which of the following is an example of a normative economic statement?

- A) A cut in the tax rate will lead to an increase in consumption.
- B) Relaxation of import duties will encourage imports.
- C) An increase in subsidies to farmers will boost agricultural production.
- D) An increase in social security benefits will increase the welfare of all economic agents.

Answer: D

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Positive Economics and Normative Economics

15) Which of the following is an example of a normative economic statement?

- A) An increase in government expenditure will lead to an increase in well-being.
- B) An increase in the money supply will lead to an increase in the inflation rate.
- C) An increase in income is accompanied by an increase in savings.
- D) An increase in income is accompanied by an increase in consumption.

Answer: A

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Positive Economics and Normative Economics

16) Which of the following statements is true?

- A) Positive economics deals with issues that are subjective.
- B) Normative statements depend on personal preferences.
- C) Positive economics recommends what people ought to do.
- D) Normative economic statements can be confirmed or disproven.

Answer: B

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Positive Economics and Normative Economics

17) Which of the following statements correctly differentiates between positive and normative economics?

- A) Positive economics is descriptive, whereas normative economics is advisory.
- B) Positive economics describes what people ought to do, whereas normative economics describes what people actually do.
- C) Positive economics is based on judgments, whereas normative economics is not.
- D) Positive economics can only be applied to microeconomics, whereas normative economics can be applied to both microeconomics and macroeconomics.

Answer: A

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Positive Economics and Normative Economics

18) Positive economics is descriptive because _____.

- A) it is based on ethical judgments.
- B) its predictions cannot be verified with data.
- C) it prescribes what an individual or society ought to do.
- D) it explains what has happened or predicts what will happen.

Answer: D

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Positive Economics and Normative Economics

19) Which of the following statements is true?

- A) Positive economics describes what people ought to do.
- B) Normative economics describes what people actually do.
- C) Positive economics generates objective descriptions that can be verified with data.
- D) Normative economics is free from the value judgments, tastes, and preferences of economic agents.

Answer: C

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Positive Economics and Normative Economics

20) Differentiate between positive and normative economics using examples.

Answer: Positive economics is analysis that generates objective descriptions or predictions about the world that can be verified with data. It is analysis that describes what people actually do. "A 5 percent fall in the unemployment rate will lead to a 2 percent increase in the inflation rate" is an example of a positive economic statement. In contrast, normative economics is analysis that prescribes what an individual or society ought to do. It is subjective and depends on personal preferences, tastes, attitudes, feelings, or ethical judgments. "Pollution in developing countries is one of the biggest global environmental problems" is an example of a normative economic statement.

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Positive Economics and Normative Economics

21) Robert and Janet are discussing the unemployment and inflation in their country. Robert, on the basis of a recent newspaper report, claims that a 5 percent reduction in unemployment will lead to a 2 percent rise in inflation. In contrast, Janet insists that inflation is a far bigger problem than unemployment and should be considered as of prime importance. Classify Robert's and Janet's statements as descriptive or advisory. Explain your answer.

Answer: Robert claims that a 5 percent reduction in unemployment will lead to a 2 percent increase in inflation. This statement represents predictions that can be verified with data. Therefore, Robert's approach is positive, which means it is an analysis of things as they are. Positive economics describes what has happened or predicts what will happen. The conclusion of his statement can be verified with data and is not subject to tastes and preferences.

Janet claims that inflation is a far bigger problem than unemployment and should be addressed as an issue of prime importance. Janet's statement is normative. Normative economics is analysis that recommends what people ought to do. Unlike Robert's statement, Janet's belief that inflation is a bigger problem than unemployment is based on her values or ethical judgments. Therefore, while Robert's statement is descriptive in nature, Janet's statement is advisory.

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Positive Economics and Normative Economics

- 22) Classify the following as positive economics statements or normative economics statements.
- a) An increase in an individual's income increases consumption, but by an amount less than the increase in income.
 - b) The government should undertake the responsibility of providing healthcare to all its citizens.
 - c) The government should fund infrastructure projects to foster economic development.
 - d) An increase in net exports has a positive effect on a country's national income.
 - e) The gross domestic product of India is increasing at 5 percent annually.

Answer: a) Positive economic statement

b) Normative economic statement

c) Normative economic statement

d) Positive economic statement

e) Positive economic statement

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Positive Economics and Normative Economics

23) _____ is the study of how individuals, households, governments, and firms make choices and how those choices affect prices, the allocation of resources, and the well-being of other agents.

A) Cost-benefit analysis

B) Microeconomics

C) Macroeconomics

D) Empiricism

Answer: B

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Microeconomics and Macroeconomics

24) Which of the following is a topic studied by microeconomists?

A) National income calculations

B) Price determination by a firm

C) Measures to combat inflation

D) Interest rate determination

Answer: B

Difficulty: Easy

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

25) Which of the following is a topic studied by microeconomists?

A) Energy consumption by a firm

B) Nationwide inflation rate

C) Economic growth as a means to alleviate poverty

D) Aggregate demand and aggregate supply in an economy

Answer: A

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

26) _____ is the study of an economy as a whole.

- A) Microeconomics
- B) Cost-benefit analysis
- C) Behavioral economics
- D) Macroeconomics

Answer: D

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Microeconomics and Macroeconomics

27) Which of the following is a topic studied by macroeconomists?

- A) Aggregate demand in an economy
- B) Price determination by a firm
- C) The consumption choice of a single household
- D) The production decision of a firm

Answer: A

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

28) Which of the following is a topic studied by macroeconomists?

- A) The savings of a single household
- B) The productivity of an agricultural farm
- C) The total output of an economy
- D) Price determination in a market

Answer: C

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

29) Which of the following statements is true?

- A) Microeconomics is the study of an economy as a whole.
- B) Macroeconomics studies how individuals make choices.
- C) The study of the inflation rate is covered under microeconomics.
- D) The study of the unemployment rate is covered under macroeconomics.

Answer: D

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

30) Which of the following statements correctly highlights the difference between microeconomics and macroeconomics?

- A) Microeconomics is descriptive, whereas macroeconomics is advisory.
- B) Microeconomics primarily deals with positive analysis, whereas macroeconomics primarily deals with normative analysis.
- C) Microeconomics deals with a small part of the economy, whereas macroeconomics deals with aggregate economic performance.
- D) Microeconomics describes what economic agents actually do, whereas macroeconomics describes what economic agents ought to do.

Answer: C

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Microeconomics and Macroeconomics

31) Why an economy contracts during slowdowns and the analysis of appropriate policies is studied under _____.

- A) macroeconomics
- B) microeconomics
- C) agricultural economics
- D) international economics

Answer: A

Difficulty: Easy

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

32) The impact of carbon taxes on the energy usage of individual households and firms is studied under _____.

- A) microeconomics
- B) macroeconomics
- C) normative economics
- D) positive economics

Answer: A

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

33) The relationship between the unemployment rate and inflation is studied under _____.

- A) microeconomics
- B) macroeconomics
- C) behavioral economics
- D) international economics

Answer: B

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

34) The relationship between a firm's advertising expenditure and its profit is studied under _____.

- A) microeconomics
- B) macroeconomics
- C) behavioral economics
- D) international economics

Answer: A

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

35) How does microeconomics differ from macroeconomics?

Answer: Microeconomics is the study of how individuals, households, firms, and governments make choices, and how those choices affect prices, the allocation of resources, and the well-being of other agents. In contrast, macroeconomics is the study of the economy as a whole. The scope of macroeconomics extends to the study of economy-wide phenomena, like the growth rate of an economy, the national unemployment rate, or the inflation rate.

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Microeconomics and Macroeconomics

36) A recent news report stated that the unemployment rate in the country of Lithasia had increased from 10.2 percent to 18.2 percent between 2003 and 2013 and that the government has adopted strict fiscal measures to expand employment. Would this report be considered microeconomic or macroeconomic analysis?

Answer: This report pertains to macroeconomics. Macroeconomics refers to the study of an economy as a whole. Macroeconomics covers economy-wide phenomena, like the growth rate of a country's total economic output, the inflation rate, or the unemployment rate.

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

37) Students in a class are discussing how a firm that does not face any competition in a market should decide how many units of output to supply in the market. Would this discussion be considered microeconomic or macroeconomic analysis?

Answer: Microeconomics is the study of how individuals, households, firms, and governments make choices. The students are discussing how a firm should make its output decision. This is a discussion about an individual entity and so is considered microeconomic analysis.

Difficulty: Medium

AACSB: Application of Knowledge

Topic: Microeconomics and Macroeconomics

1.2 Three Principles of Economics

1) Which of the following correctly defines the term "equilibrium"?

- A) It refers to a situation in which data are used to arrive at conclusions.
- B) It refers to a situation in which all economic agents are simultaneously optimizing.
- C) It refers to a situation in which an optimizing decision is made by an individual economic agent.
- D) It refers to a situation in which government intervention efficiently allocates scarce resources.

Answer: B

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Three Principles of Economics

2) Which of the following best describes equilibrium?

- A) A situation where the government intervenes to allocate resources
- B) A situation where only one individual or firm makes an optimal decision
- C) A situation where no economic agent would benefit by changing his or her behavior
- D) A situation where economic agents do not optimize as they do not have perfect information

Answer: C

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Three Principles of Economics

3) Empiricism is analysis that uses _____ to test theories.

- A) data
- B) illustrations
- C) philosophy
- D) value judgments

Answer: A

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Three Principles of Economics

4) Which of the following is NOT a key principle of economics?

- A) Optimization
- B) Equilibrium
- C) Empiricism
- D) Substitution

Answer: D

Difficulty: Easy

AACSB: Analytical Thinking

Topic: Three Principles of Economics