

***Microeconomic: Theory & Apps w/ Calculus, 5e (Perloff)***  
**Chapter 1 Introduction**

1.1 Microeconomics: The Allocation of Scarce Resources

1) Microeconomics studies the allocation of

- A) decision makers.
- B) scarce resources.
- C) models.
- D) unlimited resources.

Answer: B

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Analytical thinking

Status: Old

2) Microeconomics is often called

- A) price theory.
- B) decision science.
- C) scarcity.
- D) resource theory.

Answer: A

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Analytical thinking

Status: Old

3) Society faces trade-offs because of

- A) government regulations.
- B) greedy corporations.
- C) faceless bureaucrats.
- D) scarcity.

Answer: D

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Analytical thinking

Status: Old

4) A market

- A) always involves the personal exchange of goods for money.
- B) allows interactions between consumers and firms.
- C) always takes place at a physical location.
- D) has no influence on prices.

Answer: B

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Analytical thinking

Status: Old

5) What links the decisions of consumers and firms in a market?

- A) the government
- B) prices
- C) coordination officials
- D) microeconomics

Answer: B

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Analytical thinking

Status: Old

6) The price of a good is

- A) always equal to the cost of producing the good.
- B) never affected by the number of buyers and sellers.
- C) usually determined in a market.
- D) None of the above.

Answer: C

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Analytical thinking

Status: Old

7) The twinkie tax example in Section 1.1 of the textbook is an example of how policies may affect

- A) which goods are produced.
- B) how goods are produced.
- C) who gets these goods.
- D) All of the above.

Answer: D

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Application of knowledge

Status: New

8) Who or what is responsible for the allocation of scarce resources into the production of most goods in the U.S.?

- A) the American government
- B) the UN
- C) the Federal Reserve Bank
- D) markets and prices

Answer: D

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Application of knowledge

Status: Old

9) Which one of the following is **not** a key trade-off a society faces?

- A) Who gets the goods and services
- B) Who produces the goods and services
- C) Which goods and services to produce
- D) How to produce

Answer: B

Topic: Trade-Offs

Skill: Analytical thinking

Status: Old

10) An automobile manufacturer is trying to make decisions about using more workers or more equipment. This belongs to the trade-off

- A) Which goods and services to produce.
- B) How to produce.
- C) Who gets the goods and services.
- D) Who produces the goods and services.

Answer: B

Topic: Trade-Offs

Skill: Application of knowledge

Status: Old

11) Income tax on the wealthy to finance the welfare for the poor causes income redistribution. This is an example for the trade-off

- A) Which goods and services to produce.
- B) How to produce.
- C) Who gets the goods and services.
- D) Who produces the goods and services.

Answer: C

Topic: Trade-Offs

Skill: Application of knowledge

Status: Old

12) In year 2008, 1334 million lbs of milk was produced and sold in U.S. This is

- A) the decision of the U.S. department of agriculture.
- B) quantity determined by the interactions in the market.
- C) the maximum amount the producers could produce.
- D) what consumers needed.

Answer: B

Topic: Who Makes the Decisions

Skill: Application of knowledge

Status: Old

*For the following, please answer "True" or "False" and explain why.*

13) Under most circumstances, the application of taxes on goods will only affect who gets the goods.

Answer: False. Taxes will affect which goods are produced, how goods are produced, and who gets the goods.

Topic: Microeconomics: The Allocation of Scarce Resources

Skill: Application of knowledge

Status: Old

14) Most modern financial centers use computers to match buyers and sellers. This absence of personal contact contradicts the definition of a market.

Answer: False. Buyers and sellers need not meet during a market transaction since a market is not tied to a particular location.

Topic: How Prices Determine Allocations

Skill: Application of knowledge

Status: Old

15) Explain how a market helps determine which goods and services will be produced, how to produce them, and who gets them.

Answer: A market promotes interaction between consumers and firms. This interaction will result in prices that influence the decisions of consumers and firms.

Topic: How Prices Determine Allocations

Skill: Written and oral communication

Status: Old

## 1.2 Models

1) The purpose of making assumptions in economic model building is to

- A) force the model to yield the correct answer.
- B) minimize the amount of work an economist must do.
- C) simplify the model while keeping important details.
- D) express the relationship mathematically.

Answer: C

Topic: Simplifications by Assumptions

Skill: Analytical thinking

Status: Old

2) Einstein was quoted saying "Everything should be made as simple as possible, but not simpler." When it comes to economic models this means that

- A) models shouldn't be too complex.
- B) models shouldn't be too simple.
- C) models should have a level of abstraction appropriate to the topic investigated.
- D) All of the above.

Answer: D

Topic: Models

Skill: Analytical thinking

Status: Old

3) If a model's predictions are correct, then

- A) its assumptions must have been correct.
- B) it is proven to be correct.
- C) Both A and B above.
- D) None of the above.

Answer: D

Topic: Models

Skill: Analytical thinking

Status: Old

4) Economists tend to judge a model based upon

- A) the reality of its assumptions.
- B) the accuracy of its predictions.
- C) its simplicity.
- D) its complexity.

Answer: B

Topic: Testing Theories

Skill: Analytical thinking

Status: Old

- 5) Which of the following is an example of a normative statement?
- A) A higher price for a good causes people to want to buy less of that good.
  - B) A lower price for a good causes people to want to buy more of that good.
  - C) To make the good available to more people, a lower price should be set.
  - D) If you consume this good, you will be better off.

Answer: C

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old

- 6) Every economic model should include money as a variable. This statement is
- A) true, because every transaction in the economy uses money.
  - B) true, because the federal reserve is very important.
  - C) false, because some transactions in the economy are transacted without money.
  - D) false, because a model can get unnecessarily complex if it includes money.

Answer: D

Topic: Models

Skill: Analytical thinking

Status: Old

- 7) Which of the following is an example of a normative statement?
- A) Since this good is bad for you, you should not consume it.
  - B) This good has bad health effects.
  - C) If you consume this good, you will get sick.
  - D) People usually get sick after consuming this good.

Answer: A

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old

- 8) Which of the following is an example of a positive statement?
- A) Since this good is bad for you, you should not consume it.
  - B) If this good is bad for you, you should not consume it.
  - C) If you consume this good, you will get sick.
  - D) None of the above.

Answer: C

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old

9) A theory stating that individuals make purchasing decisions based on tastes which change randomly at random intervals is not useful because

- A) it is not possible to test the predictions of the model.
- B) tastes are not the only factor influencing behavior.
- C) the model is too simplistic.
- D) the predictions of such a model would be incorrect.

Answer: A

Topic: Testing Theories

Skill: Analytical thinking

Status: Old

10) "If fines for speeding when driving increase, fewer accidents will occur" is an example of a(n)

- A) positive statement.
- B) normative statement.
- C) negative statement.
- D) inverse statement.

Answer: A

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old

11) "Government should impose stricter regulations on oil drilling" is an example of a

- A) normative statement.
- B) positive statement.
- C) negative statement.
- D) normal statement.

Answer: A

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old

12) In the supply-demand models to analyze the wheat market, we assume that wheat sold by different sellers is largely the same. We make this assumption

- A) to test the model.
- B) to easily predict the market price.
- C) to simplify the model while keeping important details.
- D) to avoid the complexities in the real world.

Answer: C

Topic: Simplifications by Assumptions

Skill: Application of knowledge

Status: Old

13) Consumers choose their cellphone plans according to their needs and package features. This is an example of

- A) importance of information to consumers' choices.
- B) importance of making personal budget.
- C) maximizing an objective that is subject to a constraint.
- D) minimize the cost of cellphone usage.

Answer: C

Topic: Maximizing Subject to Constraints

Skill: Application of knowledge

Status: Old

14) Which of the following statements is a normative statement?

- A) Minimum wage reduces employment.
- B) Minimum wages causes surplus in labor market.
- C) Minimum wage will improve the living of junior works more than senior workers.
- D) Minimum wage should be welcomed by the low income class.

Answer: D

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old

15) Increase in price of a good will increase consumers' demand. This is a(n)

- A) positive statement.
- B) true statement.
- C) inverse statement.
- D) normative statement.

Answer: A

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old

16) Trade barriers should be removed to promote the welfare of the country. This is a(n)

- A) positive statement.
- B) negative statement.
- C) inverse statement.
- D) normative statement.

Answer: D

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old



17) Most microeconomic models assume that decision makers wish to  
A) make themselves as well off as possible.  
B) act selfishly.  
C) make others as well off as possible.  
D) None of the above.

Answer: A

Topic: Maximizing Subject to Constraints

Skill: Analytical thinking

Status: Revised

18) Which of the following is **not** an example of disruptive innovation that lead to the development of new theories?

- A) brick-and-mortar retailing.
- B) online payment system.
- C) social media.
- D) internet.

Answer: A

Topic: New Theories

Skill: Application of knowledge

Status: New

*For the following, please answer "True" or "False" and explain why.*

19) Normative analysis offers decision makers the most valuable information when choosing among alternatives.

Answer: False. Normative analysis states subjective goals but not how those goals can be achieved. To choose among alternatives, decision makers use positive analysis.

Topic: Positive Versus Normative

Skill: Analytical thinking

Status: Old

20) If a model fits reality but doesn't generate testable predictions, it is of little value to economists.

Answer: True. If the model doesn't deliver testable predictions, it cannot be tested against competing models.

Topic: Testing Theories

Skill: Analytical thinking

Status: Old

21) If actual experience supports two competing theories, then both theories are proven to be true.

Answer: False. Neither theory can be rejected, but if they are competing, then the test was inconclusive.

Topic: Testing Theories

Skill: Analytical thinking

Status: Old

22) Legislators argue that a minimum wage law is instituted to help poor people. Economists can attack the minimum wage law on two fronts. First, some argue that government should not help the poor. Second, some argue that minimum wage laws actually hurt the poor because it creates unemployment. Which argument is normative and which is positive?

Answer: An opinion about the role of government is a normative statement. An observation about the impact of a law is a positive statement.

Topic: Positive Versus Normative

Skill: Application of knowledge

Status: Old

### 1.3 Uses of Microeconomic Models in Your Life and Career

1) Economic policy of the government is often based on

A) microeconomic models.

B) educated guessing.

C) intuitive reasoning.

D) hints.

Answer: A

Topic: Uses of Microeconomic Models in Your Life and Career

Skill: Analytical thinking

Status: Old

2) Microeconomic models are used to

A) make predictions.

B) explain real-life phenomena.

C) evaluate policy alternatives.

D) All of the above.

Answer: D

Topic: Uses of Microeconomic Models in Your Life and Career

Skill: Analytical thinking

Status: Old

3) A microeconomic model **cannot** be used to

A) evaluate the impact of a price change on a firm's revenue.

B) predict the impact on a rise of the minimum wage on unemployment.

C) evaluate the fairness of the proposal to nationalize health insurance.

D) evaluate the effect of an increase in stadium size on the price of a sport team's tickets.

Answer: C

Topic: Uses of Microeconomic Models in Your Life and Career

Skill: Application of knowledge

Status: Old

4) The analysis of the competition between Apple and Samsung in the smartphone market is based on

- A) microeconomic model.
- B) educated guessing.
- C) intuitive reasoning.
- D) consumer surveys.

Answer: A

Topic: Uses of Microeconomic Models in Your Life and Career

Skill: Application of knowledge

Status: Old

*For the following, please answer "True" or "False" and explain why.*

5) Microeconomics can be used by governments to predict the impacts of a policy and suggest solutions to problems.

Answer: True. Microeconomics models can be used to examine the effects of a policy, and can provide insight into possible solutions to economics problems.

Topic: Uses of Microeconomic Models in Your Life and Career

Skill: Analytical thinking

Status: Old

6) One model in economics is the permanent income hypothesis, which basically states that a household's expenditures will not react to a change in income unless that change in income is viewed as being permanent. How would you use this model to predict the expenditure patterns over the course of a year of a real estate agent who only sells homes during the months of April through July?

Answer: The agent will not consume all of her income when it is earned. She knows that her paychecks will not be coming during August through March. As a result, some of her summer income will be saved for use during those months.

Topic: Uses of Microeconomic Models in Your Life and Career

Skill: Application of knowledge

Status: Old

7) One million automobiles have a defect that could cause the car to explode; however, only one of those cars will actually explode. Nobody knows which one car it is. When the car does explode, the victim's family will sue the automaker for \$1 million and win. The defect costs \$2 per car to repair. What does economics predict about the automaker's decision to repair the defect?

Answer: Correcting the defect will cost \$2 million. Not correcting the defect will only cost \$1 million. Economics predicts that the automaker will not correct the defect.

Topic: Uses of Microeconomic Models in Your Life and Career

Skill: Application of knowledge

Status: Old