

Module 2**Multiple Choice**

Identify the choice that best completes the statement or answers the question.

- _____ 1. When a local factory closes, why does it spell bad news for the local restaurants?
- A. Sales taxes are likely to increase.
 - B. Unemployed factory workers have lower incomes and are less likely to dine out.
 - C. Unemployed factory workers are eligible for government unemployment benefits.
 - D. The opportunity cost of dining out has fallen.
 - E. Prices of raw materials like meat and vegetables are likely to fall.
- _____ 2. "I know when I shop at the local grocery store, I am helping my local economy." This statement best represents the economic concept of:
- A. people usually exploit opportunities to make themselves better off.
 - B. there are gains from trade.
 - C. one person's spending is another person's income.
 - D. overall spending sometimes gets out of line with the economy's productive capacity.
 - E. markets move toward equilibrium.
- _____ 3. "Owen had a typewriter business but he went out of business because no one buys typewriters anymore." This statement best represents the economic concept of:
- A. resources are scarce.
 - B. people usually exploit opportunities to make themselves better off.
 - C. markets move toward equilibrium.
 - D. one person's spending is another person's income.
 - E. overall spending sometimes gets out of line with the economy's productive capacity.
- _____ 4. "During the Great Depression, consumers and producers in the United States dramatically reduced their spending relative to the quantity of goods and services available at the time." This statement best represents the economic concept of:
- A. resources are scarce.
 - B. when markets don't achieve efficiency, government intervention can improve society's welfare.
 - C. overall spending sometimes gets out of line with the economy's productive capacity.
 - D. government policies can change spending.
 - E. people usually exploit opportunities to make themselves better off.
- _____ 5. "When people want more goods and services than are available, the economy experiences inflation." This statement best represents the economic concept of:
- A. resources are scarce.
 - B. when markets don't achieve efficiency, government intervention can improve society's welfare.
 - C. overall spending sometimes gets out of line with the economy's productive capacity.
 - D. government policies can change spending.
 - E. people usually exploit opportunities to make themselves better off.

- _____ 6. Which of the following demonstrates one of the three principles of economy-wide interactions?
- A. A student chooses to rent a movie with friends rather than study for an economics quiz.
 - B. Your roommate offers to pay for the movie tickets if you drive to the theatre.
 - C. A city builds a new public park on the grounds of an abandoned warehouse.
 - D. Fearing a recession, Congress approved a White House proposal to send tax rebates to 2007 taxpayers.
 - E. Because drivers were driving excessively fast, the city installed speed bumps in front of the elementary school.
- _____ 7. "Sometimes the government spends more or less, depending on the needs of the country." This statement best represents the economic concept of:
- A. resources should be used as efficiently as possible to achieve society's goals.
 - B. when markets don't achieve efficiency, government intervention can improve society's welfare.
 - C. overall spending sometimes gets out of line with the economy's productive capacity.
 - D. people usually exploit opportunities to make themselves better off.
 - E. government policies can change spending.
- _____ 8. A simplified representation that is used to study a real situation is called:
- A. a model.
 - B. normative analysis.
 - C. an assumption.
 - D. a trade-off.
 - E. a hypothesis.
- _____ 9. Economists use models to explain real-life situations because:
- A. such models tend to portray exactly what is occurring in the real world.
 - B. assumptions found in such models tend to make the problem more difficult.
 - C. simplifications and assumptions often yield answers that can help to explain the more difficult real-life situations.
 - D. real-life situations are not relevant to the building of models.
 - E. simplifications cannot predict what will occur in the real world.
- _____ 10. Economic models often:
- A. vary greatly in assumptions and simplifications.
 - B. are correct.
 - C. differ, but provide similar answers.
 - D. fail to explain any of the real-life scenarios they are supposed to help solve.
 - E. include graphical analysis, but rarely mathematical analysis.
- _____ 11. In macroeconomics:
- A. aggregate data such as real gross domestic product, the price level and unemployment are analyzed.
 - B. individual and firm decisions regarding utility and profit maximization are studied.
 - C. long term economic growth is not considered to be important.
 - D. government regulation of specific firms and industries is studied.
 - E. the growth and decline of specific occupations and industries are analyzed.

Name: _____

ID: A

- _____ 12. When economists measure economic growth, they often use:
- A. the inflation rate.
 - B. the unemployment rate.
 - C. nominal gross domestic product.
 - D. real gross domestic product.
 - E. the trade deficit.
- _____ 13. When an economy experiences a contraction in its business cycle, this is often:
- A. considered the long run.
 - B. considered to be a recession.
 - C. accompanied by an increase in employment.
 - D. viewed as a rarity in the business cycle.
 - E. accompanied by a sharp increase in inflation rates.
- _____ 14. When an economy is operating between the business cycle trough and the business cycle peak, this is considered to be:
- A. an expansion
 - B. a contraction
 - C. a period of rising unemployment.
 - D. the beginning of a fall in aggregate spending
 - E. a recession.
- _____ 15. When the overall price level decreases over time, this will:
- A. be referred to as inflation.
 - B. be referred to as deflation.
 - C. be referred to as long-run growth.
 - D. be the result of an increase in economic production.
 - E. decrease real wages.

Module 2
Answer Section

MULTIPLE CHOICE

- | | | | | |
|-----|------------------------|--------|--------|---------------|
| 1. | ANS: B | PTS: 1 | DIF: M | REF: Module 2 |
| | SKL: Critical Thinking | | | |
| 2. | ANS: C | PTS: 1 | DIF: M | REF: Module 2 |
| | SKL: Critical Thinking | | | |
| 3. | ANS: D | PTS: 1 | DIF: M | REF: Module 2 |
| | SKL: Critical Thinking | | | |
| 4. | ANS: C | PTS: 1 | DIF: M | REF: Module 2 |
| | SKL: Critical Thinking | | | |
| 5. | ANS: C | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Critical Thinking | | | |
| 6. | ANS: D | PTS: 1 | DIF: M | REF: Module 2 |
| | SKL: Concept-Based | | | |
| 7. | ANS: E | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Critical Thinking | | | |
| 8. | ANS: A | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Definitional | | | |
| 9. | ANS: C | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Concept-Based | | | |
| 10. | ANS: A | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Definitional | | | |
| 11. | ANS: A | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Concept-Based | | | |
| 12. | ANS: D | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Fact-Based | | | |
| 13. | ANS: B | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Fact-Based | | | |
| 14. | ANS: A | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Definitional | | | |
| 15. | ANS: B | PTS: 1 | DIF: E | REF: Module 2 |
| | SKL: Definitional | | | |