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Econ 201: Principles of Economics

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Course Guide

Independent Study in Idaho

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Economics 201
Principles of Economics

University of Idaho
3 Semester-Hour Credits

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Econ 201: Principles of Economics **3 Semester-Hour Credits: UI**

Welcome!

Whether you are a new or returning student, welcome to the Independent Study in Idaho (ISI) program. Before beginning this course, read the information provided below, including course description, prerequisites, required materials, course objectives, and information about lessons, exams, and grading.

Policies and Procedures

Important!

As you read this section, you will see the following icon:

Use this icon to direct yourself to essential ISI information. Students are responsible for following ISI's policies. Refer to ISI's website at **www.uidaho.edu/isi,** select *About ISI, Policies* for the most current policies, procedures and course information. If you have any questions or concerns, please contact the ISI office for clarification before beginning your course.

Course Description

Organization and operation of American economy; supply and demand, money and banking, macroeconomic analysis of employment, aggregate output and inflation, public finance, and economic growth. U-Idaho students: May be used as core credit in J-3-d. Econ 201 and 202 may be taken in either order. Econ 201 or 202 carry only two credits after 272 [Foundations of Economic Analysis].

Recommended: Internet access, computer with CD drive
16 graded lessons, 4 self-study lessons, 1 optional assignment, 4 self-study practice exams, 4 proctored exams

Course Materials

Required Course Materials

- McConnell and Brue. *Macroeconomics: Principles, Problems, and Policies*. 14th edition. Boston: Irwin/McGraw-Hill, 1999. ISBN 9780072898415

Independent Study in Idaho course materials are available for purchase at the VandalStore (University of Idaho bookstore). Your *Registration Confirmation Email* contains the VandalStore's contact information.

Independent Study in Idaho courses are updated and revised periodically. Ordering course materials from the VandalStore at the time of registration allows you to purchase the correct edition(s) of textbooks, course guides, and supplemental materials. Contact the VandalStore directly for questions regarding course materials that you have ordered.

If purchasing textbooks from another source, refer to the ISBN(s) for the textbook(s) listed for this course to ensure that you obtain the correct edition(s).

Course Delivery

This course is available online. An electronic course guide is accessible through BbLearn at no additional cost. Refer to your *Registration Confirmation Email* for instructions on how to access BbLearn.

Course Introduction

Welcome to the world of economics. This course examines an important branch of economics called *macroeconomics*, which studies the economy as a whole. Economists specializing in macroeconomics utilize the *aggregate approach* in their analysis. That is, a macroeconomist examines information and statistics which are tallied across numerous markets and across a virtually infinite number of decision-makers. This approach is quite different from *microeconomics*, another major branch of economics which examines the behavior of individual decision-makers and markets.

The roots of macroeconomics can be traced to before the time of Adam Smith, the founder of modern economics (who published *The Wealth of Nations* in 1776). Yet the statistical tools needed for real macroeconomic analysis has only been available since World War II. The Great Depression in the 1930s made politicians and economists painfully aware that they needed better analytic tools and more information on the macroeconomy in the United States. Since that time, the Federal Government has developed an immense database consisting of virtually every conceivable measure of economic activity. In addition, the government conducts sophisticated statistical analysis in its examination of economic activity.

The government publishes information, for example, on the following: the composition of households in the U.S., the composition of firms, output statistics on all production in the U.S., money supply statistics, measures of inflation, measures of unemployment, statistics on exports and imports, statistics on investment, etc. You will make use of many of these statistics in your analysis of economic events as you progress through this course.

Your decision to undertake an independent study course places you in a special category of student. I have found, on average, that independent study students who complete the course are more motivated and better students than those on campus. The reason is the self-motivation and discipline needed to complete a correspondence course.

Course Objectives

1) To introduce the student to basic economic thinking and analysis.

2) To acquaint the student with economic concepts, terminology, and logic.

3) To familiarize the student with the tools needed for examining important economic variables such as real output, inflation, and unemployment.

4) To introduce to the student the various economic schools of thought and how these schools influence public policy. You will examine the theories of Keynesian economists, monetarists, supply-side economists, rational expectations economists, and others.

5) To introduce to the student the various policy tools available to decision-makers for influencing the economy and the rationale of their use.

6) To familiarize the student with the growing global economy and how the economic future of the nations of the world are intertwined.

7) To introduce to the student the concepts and measures of economic growth, technological development, and human capital development.

8) To introduce to the student important topics in development economics and Third World development issues.

Lessons

Each lesson may include the following components:

- Lesson objectives
- An introductory lecture
- A reading assignment
- A written assignment, project or activity

Study Hints:

- First of all, read the textbook readings as a first pass through the material. Choose a quiet setting, perhaps with a cup of coffee or your favorite soft drink.
- The next step is to read the lesson and lecture in the study guide. Carefully consider how this information fits in with the textbook material. Review the key objectives of each lesson.
- Now do the assignments. These will help you understand the important issues in each chapter. Note the importance of graphing. Be sure to practice these graphs. It takes work to get them down cold!
- Keep a copy of every lesson submitted.
- Always remember I am only a phone call away; do not hesitate to call me if you have any questions
- You can also drop me an email or note as well.
- Set a schedule allowing for completion of the course one month prior to your desired deadline. (An *Assignment Submission Log* is provided for this purpose.)
- Each lesson consists of both multiple-choice questions (and/or true-false questions) and essay questions. ***On average***, the typical lesson will have three essay questions and ten multiple-choice questions and/or true-false questions. The composition of questions on individual lessons, however, will vary. Some lessons may have more than three essay questions, for example, while others may have one or two. Alternatively some lessons may have more or less than 10 multiple choice questions. Regardless, each lesson turned in is worth twenty points.
- Some lessons (i.e. lectures) in your study guide include supplemental materials. Most of the lectures, however, are a review and summary of the textbook material. They provide a concise overview and review of the key issues covered the text. In all cases you should read the chapter first ***before*** the lecture in the study guide. These lectures are designed to assist you in "digesting" and understanding the concepts covered in the text.

Refer to your *Registration Confirmation Email* for further details on your instructor's lesson guidelines and requirements. Also refer to the *ISI Policies and Procedures* for essential ISI policies on submitting lessons to your instructor.

Exams

- You must wait for grades and comments on lessons prior to taking each subsequent exam.
- For your instructor's exam guidelines, refer to your *Registration Confirmation Email*.

Submit all lessons preceding each exam prior to requesting it.

- There will be four examinations in the course including the final examination and each test is worth 170 points. The final examination is non-comprehensive. Each examination will have a combination of multiple-choice questions and essay questions. The number of points that each question is worth will appear on the examination. Although the examinations are intended to take only an hour to complete, you will have two full hours.
- At the end of each section of material in your study guide, there is a practice examination with answers included. These practice examinations are intended to help you prepare for the real tests. The questions on the real tests will be different, of course, from the practice examinations, but the form and content will be similar.
- Much of the material in the examinations focuses on problem solving. If a problem appears at length in the practice examination, there is a good chance it will also appear in the real test in some form.
- The exams and the chapters in the text they cover:

Examination 1: Chapters 1-6
Examination 2: Chapters 7-12
Examination 3: Chapters 13-17
Examination 4: Chapters 18-23

Practice Exams
Practice tests are provided at the end of each block of material to assist you in preparing for the exam. They will assist you in identifying the type of questions that will be on the exam (obviously the questions themselves will be different). The key to each of the four practice exam are in the back of the study guide.

See *Grading* for specific information on exams, points, and percentages.

Choosing a Proctor/Scheduling Exams
All exams require a proctor.

Refer to the *ISI Policies and Procedures* for guidelines on how to choose a proctor and schedule exams. Complete the *Proctor Information Form* and send it to the ISI office at least two weeks prior to scheduling your first exam.

Grading
The final course grade will be based upon the following considerations.

- **Lessons:** This course includes 16 graded lessons worth generally 20 points apiece, for a total of 320 points—thirty-two percent of your course grade.

- **Self-Study Lessons:** These lessons are not to be turned into your instructor. The answer key is provided at the back of your study guide. This material is fair game on the exams, however, so you need to study the lessons carefully. The self-study lessons are 4, 6, 11, and 17.

- **Web-References:** Web references are provided at the beginning of each lesson for your interest but their review is **not** a course requirement. All of them are related to economics directly or indirectly and I encourage you to become familiar to economics on the web.

- **For Your Interest:** These are interesting topics of interest that appear at the beginning of several lessons. Again they are for your interest but will not appear as test questions on the exams.

- **Lectures:** Material labeled "lecture" is included in each of the lessons. Most of these are chapter reviews in staccato format. Some lectures include new material. You should read the chapter(s) in your text first before reviewing the lectures. They will be helpful in preparing for the exams.

Grading Scale

Each examination is worth a maximum of 170 points and the total possible points for all four examinations is 680. The twenty submitted lessons are worth a combined maximum of 320 points. The total possible points in the course are 1000. A summary follows:

Examination 1	170 points
Examination 2	170 points
Examination 3	170 points
Examination 4	170 points
16 assignments	320 points
Total points	**1000 points**

The following scale applies in determining your final grade:

Minimum required for A	90 percent = 900 points
Minimum required for B	80 percent = 800 points
Minimum required for C	70 percent = 700 points
Minimum required for D	60 percent = 600 points

I retain the option of applying a grading curve to lower the minimums listed above, in order to make the Independent Study grades compatible with those of courses taught on campus. Since the minimums can be lowered but not raised, this will work to your advantage. A hypothetical example would be to lower the minimum of an "A" grade from 90 percent to 88 percent. If you have any questions on grading, drop me a note or call me.

Optional Extra Credit Paper - Lesson 1X

An extra credit paper may add a maximum of 50 points to your course total, while the downside risk is zero. Therefore, a good paper will add 35 or more points to your course total, an average paper 25 points or so, and a below average paper fewer than 20 points.

The extra credit paper requires an extra investment in time and research effort. Nonetheless, it offers potential rewards in terms of grade and knowledge enhancement. Furthermore, it allows Independent Study students the same option as offered on-campus students.

The assignment is to research and write on any aspect of poverty and the distribution of income. This is a particularly relevant topic given the political changes in the 1990s. You may examine general issues such as the appropriateness of the redistributive function of government or examine specific poverty programs. You might wish to examine the effectiveness of in-kind programs such as food stamps versus a negative income tax, which is a cash program. You may choose from a virtually endless number of topics. Feel free to call me if you need any assistance in choosing one.

The paper should be a minimum of seven pages in length, typed or computer-printed, double-spaced,

with citations and bibliography in an appropriate format. **This paper must be turned in prior to requesting the final examination.** Call or drop me a note if you have any questions.

The final course grade is issued after **all** lessons and exams have been graded.

Refer to the *ISI Policies and Procedures* for information about confidentiality of student grades, course completion, time considerations, and requesting a transcript.

About the Course Developer

Hi. I am a Research Economist and Lecturer in Economics at the University of Idaho, where I have been employed for 10 years. My teaching interests are introductory macroeconomics, microeconomics, money and banking, and intermediate macroeconomics. My research interests are regional economic development and impact analysis. I have conducted studies on the economic impacts to local Idaho communities from reductions of timber harvests on federal forests, the economic impact of colleges and universities, the economic impacts of inland ports and dam removal to save salmon, tribal gaming, and other interesting subjects. I look forward to assisting you in your exploration of economics.

Contacting Your Instructor

Instructor contact information is available in BbLearn.

Disability Support Services

Refer to the *ISI Policies and Procedures* for information on *Disability Support Services (DSS).*

Assignment Submission Log

Lesson	Chapter	Reading	Written Assignment	Date Submitted
1	1	pp. 3-19	multiple choice and essay	
2	2	pp. 22-41	multiple choice and essay	
3	3	pp. 42-59	multiple choice and essay	
4	4-5	pp. 61-99	*Self-Study (**do not turn in)***	
5	6	pp. 100-121	multiple choice and essay	
It is time to make arrangements with your proctor to take Exam 1.				
6	7	pp. 124-147	*Self-Study **(do not turn in)***	
7	8	pp. 148-171	multiple choice and essay	
8	9	pp. 172-198	multiple choice and essay	
9	10	pp. 199-220	multiple choice and essay	
10	11-12	pp. 221-263	multiple choice and essay	
It is time to make arrangements with your proctor to take Exam 2.				
11	13	pp. 264-286	*Self-Study **(do not turn in)***	
12	14	pp. 287-304	multiple choice and essay	
13	15	pp. 305-329	multiple choice and essay	
14	16	pp. 330-349	multiple choice and essay	
15	17	pp. 350-367	multiple choice and essay	
It is time to make arrangements with your proctor to take Exam 3.				
16	18	pp. 368-385	multiple choice and essay	
17	19	pp. 386-403	*Self-Study **(do not turn in)***	
18	20	pp. 404-428	multiple choice and essay	
19	21	pp. 429-451	multiple choice and essay	
20	22-23	pp. 452-489	multiple choice and essay	
It is time to make arrangements with your proctor to take the Final Exam.				

Lesson 1
Economic Thinking

Humor in Economics

Economics is the painful elaboration of the obvious.

Source: http://www.etla.fi/pkm/JokEc.html

For your interest

Famous People who Majored in Economics in College

Dick Armey: US Congressman
Steve Balmer: Executive VP, Microsoft
William F. Buckley: Journalist
US Congress/Baseball Hall of Fame
Former US President
Sandra Day-O'Connor: US Supreme Court
John Elway: Former NFL quarterback
Phil Gramm: US Senator
William Isaac: Former Chairman of FDIC
Jagger: Rolling Stones
Keaton: TV sitcom character
Young M.C.: Singer

Bernie Kosar: NFL quarterback
Mike Mussina: MLB Pitcher
Merlin Olson: Actor/Former NFL player Jim Bunning:
Ronald Reagan: Former US President George Bush:
Roy Romer: Gov. of Colorado
Lionel Ritchie: Singer/Songwriter
George Schultz: Former US Secretary of State
Arnold Schwarzenegger: Actor
Richard Trumka: Pres. United Mine Workers Mick
Ted Turner: CNN, Atlanta Braves/Hawks Alex
Mario Van Peebles: Actor/Director
Lenny Wilkens: NBA Coach

Source: http://web.centre.edu/~econed/Subpages/famous.htm

Web-links

A link to biographies of famous economists and their birthdays: http://www.cpm.ll.ehime-u.ac.jp/AkamacHomePage/Akamac_E-text_Links/Akamac_E-text_Links.html#A

Technology News: http://www.redherring.com/home.html

Business News—US News and World Report: http://www.usnews.com/usnews/home.htm

Lesson Objectives

When you have finished this lesson, you should be able to discuss:

1) the economic problem and its sub-parts.
2) economic methodology.
3) the concept of opportunity cost.
4) the pitfalls to positive thinking.
5) marginal analysis and why it is important to economics.

Reading Assignments

McConnell and Brue, Chapters 1, pp 3-19.

Important Terms

economics	induction	positive economics
economic perspective	deduction	normative economics
marginal analysis	ceteris paribus	fallacy of composition
theoretical economics	policy economics	macroeconomics vs. microeconomics

Lecture

Introduction

The economics profession is a pie that can be sliced in many ways…

Economics is a discipline that examines the allocation of scarce resources to consumers with unlimited wants and desires. The two key focal points of economics are the facts that all economic resources are scarce and that consumer wants and desires are unlimited (i.e. there are competing uses). These points create a conflict, a tension between the unlimited wants and desires by consumers and the scarcity of goods and services. Thus, as noted in your text: *scarcity forces choice.*

Usually, when someone thinks of economics (and economists), he or she thinks of money and/or the stock market. In fact, only a small minority of economists specialize in finance or securities. The principal focus of economics is on human welfare. The quest to improve the human condition leads economics into virtually all aspects of peoples' lives and into virtually every profession. In fact, John T. Wenders, an economist at the University of Idaho, has labeled economics an *imperial science*, frequently invading
(i.e., offering analysis and insight to) many other professions. Economics as a discipline is perhaps second only to the granddaddy of them all—philosophy—in its scope.

Economics is a way of thinking, a method of analysis. Economics offers a unique viewpoint of the essential elements of the human condition.

Economics is part science. That is, it is based on some fundamental, predictable elements of human behavior. One such assumption, for example, is that people seek to maximize their own utility or welfare. Science also plays an important role in economics where the human world and the physical world come together, such as in the production of goods and services, resource development, technological improvement, and production efficiency. Economics is also subject to the unpredictable elements of human behavior, however, which distinguishes it from professions such as chemistry or physics. Economics is therefore a social science.

Economic Methodology

Economists utilize a process called the ***scientific method*** wherever possible. This process begins with the creation of a ***theory***, which can be defined as "a formulation of underlying relationships in an attempt to explain a certain phenomena." To evaluate a theory, economists develop a ***hypothesis*** to test a theory formally. A hypothesis is a proposition of how one variable or event affects one or more other variables. Evidence must be gathered and the proper statistical techniques utilized (usually ***econometrics***) to test a hypothesis properly. Economists often develop models to represent their theories or hypothesis. ***Models*** are simplified versions of reality usually mathematical in nature.

The ***scientific method*** is thus defined "as the development of theories and the gathering of evidence (data) to determine whether those theories are consistent with the [available] evidence." The scientific method is a tool of analysis that examines a theory or hypothesis one variable at a time while holding all other variables constant. The process of holding other variables or events constant is called ***ceteris paribus***. The isolated variable (often called the ***independent variable*** in statistical terms) is probed and manipulated to determine its impact or influence upon another variable called the ***dependent variable***. Unfortunately, with human activity, this is difficult to accomplish. Economists are often unable to hold all other variables constant (thus they are always faced with a moving target). This is especially true in the branch of economics called ***macroeconomics*****,** which examines the economy as a whole. It is often impossible to establish ***correlation*** or ***causation*** of important economic events. Correlation identifies a relationship between two variables—but it does not tell us the nature of that relationship. Causation, on the other hand, tells us how one variable affects another. Obviously, causation is much more difficult to establish than correlation.

The Two Basic Divisions of Economics

Macroeconomics studies "the big picture." It focuses on the economy as a whole. Macroeconomic analysis aggregates across many markets and over a large number of decision-makers. Frequently, a distinction between macroeconomics and microeconomics is the role that money plays. Macroeconomics must usually deal with the impact of money (and monetary systems) in their analysis, whereas microeconomics usually (but not always) ignores or holds constant their effects. Given the size of the U.S. economy and its extremely complex nature, there is far more uncertainty among macroeconomists as to proper policy actions than found among microeconomists. Macroeconomists are sometimes derided as
akin to old country doctors, pretending to know more than they really do, and ultimately depending on the long-run vitality of the economy (rather than corrective policy actions) to solve the nation's economic problems. Yet macroeconomists have played an important role in many of the policy decisions that facilitated the long-run growth and stability of the U.S. economy since the 1940s. Many of these issues will be explored in detail in this course.

Microeconomics focuses on individual markets and/or decision-makers. The scientific method has been more successfully used in analyzing many more microeconomic issues than with macroeconomic issues. Economists have reached many important, generally-agreed-upon conclusions regarding policy issues in microeconomics. Some of these issues will be explored in the beginning of this course.

Normative Versus Positive Economics

Normative statements are value judgments—subjective individual preferences. Normative statements usually include qualifiers such as "should be" or "ought to be." The statement: "We should cut taxes to improve productivity and growth in the economy" is a normative statement. ***Positive economics***, on the other hand, deals with facts. The statement: "The national debt is approximately 5 trillion dollars" is a positive statement.

University Institutional Divisions

Economics, Agricultural Economics, Natural Resource Economics (in the College of Forestry), Home Economics, Economics for Primary and Secondary Schools, Economics in the Fields of Geology, Geography, Engineering, etc. are some of the divisions of economics.

At the University of Idaho, the Economics Department is located in the College of Business and

Economics. Agricultural Economics, on the other hand, is located in the College of Agriculture. The combined two departments hold most (but not all) of the economists at this university. Other economic courses are taught in Forestry, Education, Geology, Geography, Engineering, and other colleges.

Specialized Fields within Economics

	Macroeconomics	Elements of Both	Microeconomics
1	Money and Banking		
2		International Economics	
3			Regional and Urban Econ.
4			Public-Choice Economics
5			Labor Economics
6			Industrial Economics
7		Development Economics	
8		Econometrics	
9		History of Economic Thought	
10		American Economic Development	
11			Environmental Economics
12		Comparative Economic Systems	
13		Marxism	
14		Public Finance	

General Economics Concepts and Terms

Economics can be defined as a discipline that examines the allocation of scarce resources to consumers with unlimited wants and desires (competing uses).

***The Economic Problem*:** How to allocate scarce resources to consumers with unlimited wants and desires. This can be subdivided into five parts which are common to all economic systems. These are listed below. The last two generally vary from textbook to textbook. I have chosen the last two from Lipsey and Steiner.

A) What (goods) should be produced?

B) How should these goods be produced? Which process should be utilized to manufacture goods (i.e. the least costly method)?

C) For whom should these goods be produced? What individuals or groups in society will receive the goods?

D) How do you address the problem of productivity and future growth of the economy? How do you expand the capital stock in an economy? How do you support research and product development, the development of human capital, scientific progress, and other factors that promote the future expansion of the economy?

E) How do you address the problem of short-run adjustments in the economy? That is, how do you deal with the unemployment and/or inflation that result when structural adjustments occur in the economy? This is a critical issue and in many cases the very survival of an economic system stands on the ability of policy-makers to deal effectively with this issue.

There are three basic answers to the economic problem: command economy, pure capitalism, and mixed economy. In a ***command economy***, such as we once found in China, the economic problem was solved by the government (although many of these countries are currently adopting free-market reforms). The government answers the question of what to produce, how to produce it, and for whom it shall be produced. The government owns all of the economic resources and the means of production. It directs resources.

In ***pure capitalism***, private citizens own resources and the means of production. Prices direct resources. Markets and prices determine what is to be produced, how it is to be produced, and for whom. In capitalism, decision-making is ***decentralized*** in the hands of small producers and consumers. In a command economy, decision-making is ***centralized***. These decisions are made by the government. Our economy in the USA is a ***mixed economy***. Markets play the dominant role in our country, but the government also plays an important role in resource allocation.

An ***economic good*** is, by definition, a scarce resource. **All** economic resources are scarce. A ***free good***, on the other hand, is a good of which you can consume all that you could possibly want at zero cost and plenty would remain for everybody else in the world. Sunlight and air are considered examples in many economics textbooks. Can you think of reasons why these examples may not be appropriate?

Ceteris paribus is another important concept in economics. It is a Latin phrase meaning "other things being equal." Thus, when examining the relationship of one economic variable to another, all other factors must be held constant.

Written Assignment

Essay Questions:

1) Explain in detail the interrelationships between economic facts, theory, and policy. Critically evaluate this statement: "The trouble with economic theory is that it is not practical. It is detached from the real world."

2) Identify each of the following as either a positive or a normative statement:
   - A) The high temperature today was 89 degrees.
   - B) It was too hot today.
   - C) The general price level rose by 4.4 percent last year.
   - D) Inflation eroded living standards last year and should be reduced by government policies.

3) Use the economic perspective to explain why someone who is normally a light eater at a standard restaurant may become somewhat of a glutton at a buffet-style restaurant which charges a single price for all you can eat.

Multiple Choice Questions:

1) The study of economics is primarily concerned with:
   A) keeping private businesses from losing money.
   B) demonstrating that capitalistic economies are superior to socialistic economies.
   C) choices which are made in seeking to use scarce resources efficiently.
   D) determining the most equitable distribution of society's output.

2) The "economic perspective" refers to:
   A) macroeconomic phenomena, but not microeconomic phenomena.
   B) microeconomic phenomena, but not macroeconomic phenomena.
   C) the making of rational decisions in a context of marginal costs and marginal benefits.
   D) unlimited resources in a context of limited material wants.

3) Rational behavior suggests that:
   A) everyone will make identical choices.
   B) resource availability exceeds material wants.
   C) individuals will make different choices because their information and constraints differ.
   D) an individual's economic goals cannot involve tradeoffs.

4) Economics involves "marginal analysis" because:
   A) most decisions involve changes in the status quo.
   B) marginal benefits always exceed marginal costs.
   C) marginal costs always exceed marginal.
   D) much economic behavior is irrational.

5) You should decide to go to a movie:
   A) if the marginal cost of the movie exceeds its marginal benefit.
   B) if the marginal benefit of the movie exceeds its marginal cost.
   C) if your income will allow you to buy a ticket.
   D) because movies are inherently good products.

6) The assertion that "There is no free lunch" means that:
   A) there are always tradeoffs between economic goals.
   B) all production involves the use of scarce resources and thus the sacrifice of alternative goods.
   C) marginal analysis is not used in economic reasoning.
   D) choices need not be made if behavior is rational.

7) Generally speaking, the inductive method:
   A) begins with hypotheses which are then tested against real-world facts.
   B) confuses correlation with cause and effect.
   C) moves from facts to generalizations or theory.
   D) D) cannot be applied in economic analysis.

8) The deductive method:
   A) begins with hypotheses which are then tested against real-world facts.
   B) confuses correlation with cause and effect.
   C) begins with facts and moves to generalizations or theory.
   D) applies to the physical sciences, but not to social sciences.

9) Economic models:
   A) are of limited use because they cannot be tested empirically.
   B) are limited to variables which are directly related to one another.
   C) emphasize basic economic relationships by abstracting from the complexities of the real world.
   D) are unrealistic and therefore of no practical consequence.

10) The term "ceteris paribus" means:
   A) that if event A precedes event B, A has caused B.
   B) that economics deals with facts, not values.
   C) other things equal.
   D) prosperity inevitably follows recession.

11) With respect to the basic economic goals of society, for example, economic growth, full employment, economic efficiency, price level stability, economic freedom, distributional equity, and economic security, it can be said that:
   A) all are accepted and assigned similar priorities in every industrialized society.
   B) all are precisely measurable.
   C) some goals are complementary and others are conflicting.
   D) all are conflicting goals.

12) Which of the following statements pertains to macroeconomics?
   A) Because the minimum wage was raised, Mrs. Beepath decided to enter the labor force.
   B) A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.
   C) The national productivity rate grew by 1.4 percent last year.
   D) The Pumpkin Center State Bank increased its interest rate on consumer loans by 1 percent.

13) Which of the following is a normative statement?
   A) The temperature is high today.
   B) The humidity is high today.
   C) It is too hot to play tennis today.
   D) It will cool off later this evening.

14) The "fallacy of composition" states that:
   A) because economic systems are comprised of so many diverse economic units economic laws are necessarily inexact.
   B) the anticipation of a particular event can affect the nature or composition of that event when it occurs.
   C) what is true for the individual must necessarily be true for the group.
   D) because event A precedes event B, A is necessarily the cause of B.

15) If variables *X* and *Y* are positively correlated, this means that:
   A) *X* is the cause of *Y*.
   B) *Y* is the cause of *X*.
   C) causation necessarily exists, but we don't know whether *X* or *Y* is the cause.
   D) causation may or may not exist between *X* and *Y*.