

What Is Economics?

Multiple Choice

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

- _____ 1. Economics may best be defined as a
 - a. scientific study of supply and demand.
 - b. study of efforts to satisfy seemingly unlimited wants with scarce resources.
 - c. limited description of economic activities.
 - d. branch of sociology.
- _____ 2. A basic requirement for survival is a(n)
 - a. need.
 - b. want.
 - c. opportunity cost.
 - d. paradox of value.
- _____ 3. The purchase and use of goods and services to impress others is called
 - a. trade-offs.
 - b. factor markets.
 - c. conspicuous consumption.
 - d. circular flow of money.
- _____ 4. Employment in service occupations refers to
 - a. workers on the assembly line.
 - b. the manufacture of durable goods.
 - c. private ownership of the factors of production.
 - d. people who perform work for other people.
- _____ 5. Productivity goes up whenever
 - a. more resources are discovered.
 - b. the same output is produced with fewer inputs.
 - c. there is a movement along the production possibilities frontier.
 - d. a product gains additional utility.
- _____ 6. Productive inputs doing whatever task they are able to do best is called
 - a. suppliers production.
 - b. gifts of nature.
 - c. paradox of value.
 - d. specialization.
- _____ 7. In a market economy, the decision of WHAT to produce is often determined by
 - a. government regulations.
 - b. consumer demands.
 - c. corporate leadership.
 - d. labor unions.
- _____ 8. To arrive at an economic decision, a decision-making grid may be used to evaluate
 - a. alternative choices of action.
 - b. productivity.
 - c. only durable goods.
 - d. only capital goods.

- ___ 9. The production possibilities frontier can be used to illustrate all of the following EXCEPT
- total output when all resources are fully employed.
 - trade-offs.
 - opportunity costs of unemployment.
 - specialization and the division of labor.
- ___ 10. Manufactured goods needed to produce other goods and services are called
- nondurable goods.
 - payroll expenses.
 - capital goods.
 - consumer goods.
- ___ 11. For a consumer, the most important reason for a purchase is its
- durability.
 - color.
 - entertainment value.
 - utility.
- ___ 12. Actions in one part of the country or world that have an economic impact on what happens elsewhere are examples of
- opportunity costs.
 - specialization.
 - trade-offs.
 - economic interdependence.
- ___ 13. A popular model used to illustrate the concept of opportunity cost is called
- the production possibilities frontier.
 - laissez-faire.
 - entrepreneurship.
 - factors of production.
- ___ 14. Land, labor, capital, and entrepreneurship are the
- results of supply and demand.
 - basis of employment.
 - result of production.
 - factors of production.
- ___ 15. An economy at its production possibility frontier is operating
- with minimum growth.
 - at full potential.
 - on quota-filling production.
 - with high unemployment.
- ___ 16. A risk-taker in search of profits is called a(n)
- entrepreneur.
 - capitalist.
 - economist.
 - conspicuous consumer.
- ___ 17. Durable goods intended for final use by individuals are called
- heavy equipment.
 - payroll expenses.
 - capital goods.
 - consumer goods.

Matching

Match each item with the correct statement below.

- | | |
|--------------------|------------------|
| a. trade-offs | f. factor market |
| b. gifts of nature | g. value |
| c. entrepreneur | h. scarcity |
| d. productivity | i. wealth |
| e. TINSTAAFL | j. labor |

- _____ 18. labor is hired for wages and salary
- _____ 19. sum of those economic products that are tangible, scarce, useful, and transferable
- _____ 20. efficient use of productive resources
- _____ 21. condition of limited resources combined with unlimited wants
- _____ 22. people with all their efforts, abilities, and skills
- _____ 23. alternative choices made by consumers in the marketplace
- _____ 24. a risk-taker in search of profits
- _____ 25. having a worth that can be expressed in dollars and cents
- _____ 26. term used to describe natural resources
- _____ 27. acronym for the idea that everything has a cost

Short Answer

Answer the following questions based on the Circular Flow Chart.

28. **Critical Thinking** Explain how economic interdependence can be illustrated with the help of the circular flow diagram.
29. **Critical Thinking** Describe the circular flow of economic activity.
30. **Critical Thinking** Describe the difference between a factor market and a product market and explain how these markets are dependent on each other.

**What Is Economics?
Answer Section**

MULTIPLE CHOICE

1. B
2. A
3. C
4. D
5. B
6. D
7. B
8. A
9. D
10. C
11. D
12. D
13. A
14. D
15. B
16. A
17. D

MATCHING

18. F
19. I
20. D
21. H
22. J
23. A
24. C
25. G
26. B
27. E

SHORT ANSWER

28. The circular flow diagram shows money flowing in one direction, while goods, services, and the factors of production flow in the opposite direction. See page 25 of text for diagram.
29. Individuals earn their income in factor markets and spend their income in product markets. In the same way, businesses receive payments in product markets when they sell goods to individuals. This pays for the land, labor, and capital bought in the factor markets. These resources are then used to manufacture additional products that are sold in the product markets.

Name: _____

ID: A

30. A factor market is where productive resources are bought and sold. Product markets are where producers offer goods and services for sale. Both of these markets are necessary for the circular flow of economic activity to exist.