True/False

Indicate whether the statement is true or false.

1. The production possibilities curve shows how much profit a company can expect to earn from different production possibilities.
2. Economists build economic models to try to understand the way the economy works.
3. Entrepreneurs are people who start their own businesses.
4. In a command economy, economic decisions are made by individuals.
5. The kind of system in which the individuals own and control the factors of production is a command economy.
6. In a system of pure competition, the role of the government is to regulate prices.
7. Economic equity refers to how rapidly an economy grows.
8. Generic products are usually more expensive than brand-name products.
9. Comparison shopping helps consumers make informed decisions.
10. Disposable income is income that people spend on things they don't really need.
11. Consumers have a responsibility to act ethically toward sellers.
12. When people's income goes up, they usually consume less of a good or service.
13. According to the law of supply, producers are willing to supply more when the price of a good or service goes up.
14. The substitution effect can decrease the quantity demanded of a good.
15. If demand for a good increases and supply does not, the equilibrium price will rise.

Completion

Complete each statement.

16. All production decisions involve weighing the ____________________ of producing one product rather than another.
17. Labor, capital, raw materials, and entrepreneurship are all examples of ____________________.
18. Economists consider ____________________ as the basic problem of economics.
19. The ____________ is one measure of the material well-being of individuals, groups, or nations.
20. In a ________________ system, individuals are free to own and control the factors of production.
21. Every economic system must answer three basic questions to plan the use of its ____________.
22. In a market economy, the basic question of what should be produced is answered by ________________.
23. A pure market economy is one in which the ________________ does not intervene.
24. Many pharmacies stock ________________ products to offer customers an alternative to higher-priced items.
25. Every purchase decision involves the use of two scarce resources, ________________ and ________________.
26. Advertising that tries to convince customers that one product is better than another is an example of ________________ advertising.
27. A written statement that a manufacturer or seller will repair or replace a defective item is known as a ________________.
28. The fact that you are likely to get less satisfaction from the last third of your ice-cream cone than you did from the first third is a result of the law of ______________________________.
29. In a competitive economy, price is determined by consumers and ________________.
30. If a product has ________________ demand, producers must be cautious about raising prices.
### Matching

**Using Key Terms**
*Match each item with the correct statement below.*

<table>
<thead>
<tr>
<th>a. economics</th>
<th>f. productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. labor</td>
<td>g. entrepreneurship</td>
</tr>
<tr>
<td>c. goods</td>
<td>h. scarcity</td>
</tr>
<tr>
<td>d. capital</td>
<td>i. services</td>
</tr>
<tr>
<td>e. factors of production</td>
<td>j. economic model</td>
</tr>
</tbody>
</table>

___ 31. the amount of output that results from a given level of inputs
___ 32. a situation in which people do not have enough resources to satisfy every desire
___ 33. land, labor, capital, and entrepreneurship
___ 34. the study of how individuals, families, businesses, and societies use limited resources to fulfill their unlimited wants
___ 35. activities done for a fee
___ 36. a simplified representation of the real world
___ 37. manufactured goods used to make other goods and services
___ 38. the work people do
___ 39. the ability of individuals to start new businesses, introduce new products and processes, and improve management techniques
___ 40. tangible items that people buy

**Using Key Terms**
*Match each item with the correct statement below.*

<table>
<thead>
<tr>
<th>a. trade-off</th>
<th>d. production possibilities curve</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. hypothesis</td>
<td>e. entrepreneurship</td>
</tr>
<tr>
<td>c. economy</td>
<td>f. economic model</td>
</tr>
</tbody>
</table>

___ 41. sacrificing one good or service to purchase or produce another
___ 42. a graph showing the maximum combination of goods and services that can be produced from a fixed amount of resources
___ 43. the production and distribution of goods and services in a society
___ 44. a theory that helps explain and predict economic behavior in the real world
___ 45. the ability to develop new products and start new businesses in order to make profits
___ 46. an assumption involving two or more variables that must be tested for validity

**Using Key Terms**
*Match each item with the correct statement below.*

<table>
<thead>
<tr>
<th>a. laissez-faire</th>
<th>f. profit incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. market economy</td>
<td>g. profit</td>
</tr>
<tr>
<td>c. command economy</td>
<td>h. traditional economy</td>
</tr>
<tr>
<td>d. competition</td>
<td>i. economic equity</td>
</tr>
<tr>
<td>e. standard of living</td>
<td>j. mixed economy</td>
</tr>
</tbody>
</table>

___ 47. economic system that combines features of market economy and command economy
___ 48. economic system in which decisions are based on customs and beliefs
___ 49. desire to make money that motivates people to produce and sell goods and services
___ 50. rivalry among producers to win business
___ 51. economic system in which the government minimizes its interference in the economy
___ 52. money left over after all the costs of production have been paid
___ 53. the material well-being of an individual, group, or nation
___ 54. economic fairness and justness
___ 55. economic system in which economic decisions are made by the government

**Using Key Terms**
*Match each item with the correct statement below.*
56. expansion of the economy to produce more goods, jobs, and wealth
57. freely chosen activity between buyers and sellers of goods and services
58. whatever is owned by individuals rather than by the government
59. economic system in which individuals own the factors of production and make their own economic decisions

Using Key Terms
Match each item to the correct statement below.

<table>
<thead>
<tr>
<th>Item</th>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. surplus</td>
<td>a. economic growth</td>
</tr>
<tr>
<td>b. rationing</td>
<td>b. private property</td>
</tr>
<tr>
<td>c. shortage</td>
<td>c. market economy</td>
</tr>
<tr>
<td>d. market</td>
<td>d. market</td>
</tr>
<tr>
<td>e. utility</td>
<td>e. utility</td>
</tr>
<tr>
<td>f. price ceiling</td>
<td>f. price ceiling</td>
</tr>
<tr>
<td>g. equilibrium price</td>
<td>g. equilibrium price</td>
</tr>
</tbody>
</table>

60. price at which the amount producers are willing to supply is equal to the amount consumers are willing to buy
61. process of freely exchanging goods and services between buyers and sellers
62. situation in which quantity supplied is greater than quantity demanded
63. the distribution of goods and services based on something other than price
64. legal maximum price that may be charged for a particular good or service
65. situation in which the quantity demanded is greater than the quantity supplied

Formulating Questions
66. Formulating Questions How might you test the hypothesis that teenagers might be reluctant to purchase an item of clothing if its price is very low?

Applying Skills
Using Tables: Study the table and answer the questions below.

### Production Possibilities for the High-Fidelity Equipment Company

<table>
<thead>
<tr>
<th>Number of Digital Televisions</th>
<th>Number of Stereo Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,000</td>
<td>10,000</td>
</tr>
<tr>
<td>2,100</td>
<td>9,500</td>
</tr>
<tr>
<td>2,200</td>
<td>9,000</td>
</tr>
<tr>
<td>2,300</td>
<td>8,500</td>
</tr>
</tbody>
</table>

Table 1-1

67. How many digital television sets does High-Fidelity have to trade-off if it wants to produce another 500 stereo systems?

68. Could High-Fidelity produce 2,000 digital televisions and 9,500 stereo systems?

69. How many stereo systems can High-Fidelity produce if it produces just 2,000 digital television sets?

70. What would High-Fidelity need to do to produce 3,000 digital televisions and 12,000 stereo systems?

71. The Ferrets professional baseball team has only enough money to sign either one superstar or three young players. The superstar could help the team win the championship this year but would not be with the team long. The young players are talented but not yet ready for the major leagues.
If the Ferrets decide to sign the young players, what trade-off would they making?

72.

Twinkies were invented in 1930 by James Dewar, a bakery plant manager. It didn’t make sense to Dewar that the bakery had lots of expensive pans dedicated to a product called Little Short Cake Fingers that was baked only six weeks a year, during strawberry season. To sell the cakes year-round, he mixed up a banana-flavored cream to replace the strawberry cream filling and figured out how to inject it into the shortcake using three syringe-like injection tubes.


Describe the entrepreneurship in this passage.

73.

What trade-off is the king making in this cartoon?

74.

“In order for a country to act intelligently in adopting laws..., it is clearly necessary that its citizens understand the principles...of economics. If they do not, then it is only a question of time before that country will adopt more and more destructive laws and institutions, ultimately stopping all further economic progress....”


According to this author, how do the principles of economics relate to good government?
75. What is the scarce resource depicted in this graph?

76. **Drawing Conclusions** Which type of economic system do you think has been the most effective in promoting economic growth?

**APPLYING SKILLS**

**Using Tables:** Study the table and answer the questions below.

<table>
<thead>
<tr>
<th>Country</th>
<th>Infant Mortality Rate (per 1,000 live births)</th>
<th>Per Capita Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>34</td>
<td>$2,303</td>
</tr>
<tr>
<td>Germany</td>
<td>6</td>
<td>$26,190</td>
</tr>
<tr>
<td>United States</td>
<td>8</td>
<td>$27,550</td>
</tr>
</tbody>
</table>

**Table 2-1**

77. What conclusions might you draw from this data about the relationship between the type of economy and the standard of living?

78. Which of the three countries shown appears to have the lowest standard of living?

79. How are infant mortality and per capita income related?

80. In the diagram, what should appear in place of the question mark?

81. | Advantages | Disadvantages |
Able to adjust to change gradually

Rewards only productive resources; does not provide for people too young, too old, or too sick to work

Lack of government interference

Workers and businesses face uncertainty as a result of competition and change

Large variety of goods and services

Does not produce enough public goods such as defense, universal education, or health care

What economic system does the information in this table describe?

82. **Drawing Inferences and Conclusions** Which kind of consumers do you think are most likely to use generic products? Why?

83. **Determining Relevance** What resources are available to help consumers make purchasing decisions?

**APPLYING SKILLS**

*Using Tables: Study the following table and answer the questions below.*

**Products Recalled by the Consumer Product Safety Commission in November 1999**

<table>
<thead>
<tr>
<th>Company</th>
<th>Product</th>
<th>Reason For Recall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perfecto Manufacturing, Inc.</td>
<td>23,400 SHOlights aquarium lights</td>
<td>Sharp edges on lights could cut the insulation on the wiring. If wires become exposed, chance of shocks or electrocution. Risk of fire and overheating.</td>
</tr>
<tr>
<td>Fluke Corp.</td>
<td>58,000 model T-2 hand-held voltage and continuity testers</td>
<td>Corrosion of batteries in the tester could cause the device to lose power. Risk of shock, electrocution, and thermal burns if no power.</td>
</tr>
<tr>
<td>Montgomery Ward</td>
<td>780 boys hooded jackets and sweatshirts</td>
<td>Hood drawstrings can cause entanglement and strangulation.</td>
</tr>
</tbody>
</table>

84. Why did the CPSC ask Fluke to recall its electrical voltage and continuity testers?

85. Why did the CPSC ask Montgomery Ward to recall 780 hooded jackets and sweatshirts?

86. What are the top three categories of consumer spending in Canada?

**Introducing the 220-hp MAZDA6** Remember adrenaline? Goosebumps? Genuine exhilaration? You will when you drive the MAZDA6. It’s a genuine, purely exhilarating sports sedan. As you fire up the 220-horsepower engine, then shift through its 5-speed close-ratio gearbox, those old familiar feelings start to return. And by the time the sport-tuned double-wishbone front suspension carries you seamlessly through the first hairpin, it’s as if they never left. The 220-hp MAZDA6. Drive it. You’ll know.
87. List the facts in this advertisement.

88. **Finding the Main Idea** Describe how an increase in demand is reflected on a supply and demand graph.

**APPLYING SKILLS**

*Using Graphs:* Study the graph and answer the questions below.

89. At a price of $8 a unit, how many units are suppliers willing to provide?

90. How many units are consumers interested in purchasing at a price of $4 a unit?

91. What is the equilibrium price shown? What is true at this price and quantity?

92. At a price of $6 a unit, how many units are suppliers willing to supply?

93. How many units are consumers interested in purchasing at a price of $9 a unit?

94. What is true when the price is below the equilibrium price?

---

America’s biggest export is...its pop culture—movies, TV programs, music, books and computer software. The McDonald’s restaurants that are opening at a rate of six a day around the world, the baggy jeans and baseball caps that have become a global teenage uniform, the Barbie dolls and Hot Wheels increasingly demanded by children, are all seen as part of the same U.S. invasion.


95. Think about the passage. When Barbie dolls first started to become wildly
popular overseas, how did this new-found popularity likely affect the demand curve for Barbie dolls?

**The Demand for Compact Digital Discs**

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30</td>
<td>0</td>
</tr>
<tr>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>8</td>
</tr>
</tbody>
</table>

96. What conclusion can you draw from the slope of the demand curve in this illustration?

97. What is the equilibrium price on this graph? Explain what that means.

98. "When a boy picks blackberries for his own eating, the action of picking may itself be pleasurable for a while.... Equilibrium is reached, when at last his eagerness to play and his disinclination for the work of picking counterbalance the desire for eating. The satisfaction which he can get from picking fruit has arrived at its maximum...."


99. If you were to graph Alfred Marshall’s example, what would the “price” axis represent?

"...[A price may be] called the true equilibrium price: because if it were fixed on at the beginning, and adhered to throughout, it would exactly equate demand and supply. (i.e. the amount which buyers were willing to purchase at that price would be just equal to that for which sellers were willing to take that price)...."

In our typical market then we assume that the forces of demand and supply have free play; that there is no combination among dealers on either side; but each acts for himself, and there is much free competition...."
In the passage, how does Alfred Marshall define the quantity supplied at the equilibrium price?

<table>
<thead>
<tr>
<th>Price</th>
<th>Old Demand Curve</th>
<th>New Demand Curve</th>
</tr>
</thead>
<tbody>
<tr>
<td>$80</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>70</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>60</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>50</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>40</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>30</td>
<td>15</td>
<td>22</td>
</tr>
</tbody>
</table>

In the table, does the movement in the demand curve from the old to the new represent a change in demand or a change in quantity demanded? Explain.