

### How well did you understand Chapter 1? Grading Key.

1. TRUE - Economic analysis can help you make good decisions in your personal life, on your job, and in the political decisions you face.
2. FALSE - Economics is the study of how people allocate their unlimited resources in an attempt to satisfy their limited wants.

Economics is the study of how people allocate **limited** resources in an attempt to satisfy their **unlimited** wants.

3. TRUE - Resources are the things that are used to satisfy people's wants.
4. TRUE- Macroeconomics studies the decision-making undertaken by individuals, households, and firms.
5. TRUE - The study of inflation, unemployment, and economic growth is part of the realm of Macroeconomics.
6. TRUE - According to Adam Smith in his book The Wealth of Nations people are motivated by rational self-interest.
7. FALSE- Economics is similar to psychology and sociology because it is a social science that focuses on individual and group thought processes.

Economics is **different** than psychology and sociology because it is a social science that focuses on individuals and group's **actions**, rather than their thought processes.

8. TRUE- People react to incentives, or rewards, by weighing costs and benefits related to a specific decision.
9. FALSE - According to your text self interest is always measured by dollars and sense.

According to your text self interest is **NOT** always measured by dollars and sense. Sometimes people are motivated by love, friendship, prestige etc.

10. TRUE - Economics is a social science that makes use of models and theories.
11. TRUE - Economic models are simplifications of reality that correctly reflect the essential relationships that occur in society.
12. TRUE - Ceteris paribus means that all other things being equal, we can predict what will happen in an economic model.
13. FALSE - We judge whether a model is valid solely by looking at its assumptions.

We judge whether a model is valid by looking at how well **it predicts what happens in the real world.**

14. FALSE - According to your text economics uses a normative, value free approach to inquiry.

According to your text economics uses a **positivist**, value free approach to inquiry.

15. TRUE- According to your text, even economics authors introduce their own values and opinions in their choice of topics and in their analysis of economic issues.