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| 1. One of the aims of *positive economics* is to rank policies under consideration from most desirable to least desirable.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | False |
| *RATIONALE:* | Positive economics aims to predict the consequences of policies, not to evaluate them as more or less desirable. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 2. *Positive economics* can tell us which policies are efficient and which are not.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *RATIONALE:* | Efficiency is an objectively defined concept: A situation is efficient if there is no way to make some people better off without making others worse off. To say that one situation is more efficient than another is not a *normative* statement --- even if often people think it is the same as saying that one situation is *better* than another. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 3. When economists say that policy A is *more efficient* than policy B, they mean policy A is better than policy B.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | False |
| *RATIONALE:* | To say that policy A is more efficient than policy B is only to say that, at least in principle, it is possible to make everyone better off (or at least as well off) under policy A than policy B. This is not the same as making a *normative* judgment about which policy is better. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 4. Economists talk about *trade-offs* a lot because they have come to understand that whenever there is a winner from a policy or transaction, there must also be a loser.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | False |
| *RATIONALE:* | One of the fundamental lessons of economics is that there are many situations when everyone can win.  In a willing trade (i.e., I pay $2 for a cappuccino to the coffee shop owner), no one is hurt, and both of us are better off. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 5. A *spontaneous order* emerges from individual decisions that cause something to “work” without anyone planning for it to “work”.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *RATIONALE:* | A spontaneous order is an order that is unplanned but simply arises from individuals doing the best they can given their circumstances. One example of this is the provision of complex goods and services in the market where thousands of individuals participate in the creation of something without most of them being aware that this is what they are doing. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 6. When economists assume that people are *rational*, they are assuming that people generally agree what is good for human beings.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | False |
| *RATIONALE:* | When economists assume people are rational, they are assuming that people are goal-oriented --- that they have in mind something they are trying to achieve and then do the best they can to achieve it. This is not the same as saying that people agree what is good for human beings --- only that individuals think they know what is good for themselves and then act accordingly. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 7. If medical patients are *rational* (in the way economists think of the term), they will do what medical experts believe is best for them.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *RATIONALE:* | A *rational* patient’s view of what is “best” may differ from a medical expert’s view --- and thus the patient may rationally violate the expert’s advice. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 8. Suppose two economic models give the same predictions --- but one is simplistic and unrealistic in its assumptions while the other is rich in detail and resembles the real world more closely. If the sole goal of the economist is to *predict*, then the economist should use the simple and unrealistic model.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | True |
| *RATIONALE:* | If two models predict equally well, then it makes more sense to use the simple model that’s easy to use, even if the assumptions are unrealistic. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 9. To say that one policy is better than another because it is more efficient is a *normative*, not a *positive,* statement.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *RATIONALE:* | It is a positive statement to say that one policy is more efficient than another --- but judging the policy as “better” involves value judgments that make the statement a *normative* one. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 10. If two individuals voluntarily agree to a transaction that only affects them (and no one else), it must be that the transaction is efficient.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *RATIONALE:* | If the two individuals agree voluntarily, then they must both believe the transaction makes them better off (or at least no worse off). If the transaction furthermore affects no one else, it means that the transaction has improved some people’s (perceived) welfare without making anyone worse off. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 11. In order to predict behavior, economic models must be realistic.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *RATIONALE:* | Economic models do not have to be realistic. Models that make certain assumptions may help us to predict behavior. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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| 12. ​Each economic model can be applied to many different real-world problems.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *RATIONALE:* | Once you become really comfortable with the way economists model behavior, it all really boils down to one single model, or at least one single conceptual approach. |
| *POINTS:* | 1 |
| *DIFFICULTY:* | A & B-Section Material |
| *QUESTION TYPE:* | True / False |
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