



Chapter 1 Exercises

Self-Check Questions

1. What is scarcity? Can you think of two causes of scarcity?
2. Residents of the town of Smithfield like to consume hams, but each ham requires 10 people to produce it and takes a month. If the town has a total of 100 people, what is the maximum amount of ham the residents can consume in a month?
3. A consultant works for \$200 per hour. She likes to eat vegetables but is not very good at growing them. Why does it make more economic sense for her to spend her time at the consulting job and shop for her vegetables?
4. A computer systems engineer could paint his house, but it makes more sense for him to hire a painter to do it. Explain why.
5. What would be another example of a system in the real world that could serve as a metaphor for micro and macroeconomics?
6. Suppose we extend the circular flow model to add imports and exports. Copy the circular flow diagram onto a sheet of paper and then add a foreign country as a third agent. Draw the flows of imports, exports, and the payments for each on your diagram.
7. What is an example of a problem in the world today, not mentioned in the chapter, that has an economic dimension?
8. The chapter defines private enterprise as a characteristic of market-oriented economies. What would public enterprise be? (*Hint: it is a characteristic of command economies.*)
9. Why might Belgium, France, Italy, and Sweden have a higher export-to-GDP ratio than the United States?

Review Questions

10. Give the three reasons that explain why the division of labor increases an economy's level of production.
11. What are three reasons to study economics?
12. What is the difference between microeconomics and macroeconomics?
13. What are examples of individual economic agents?
14. What are the three main goals of macroeconomics?
15. How did John Maynard Keynes define economics?
16. Are households primarily buyers or sellers in the goods and services market? In the labor market?
17. Are firms primarily buyers or sellers in the goods and services market? In the labor market?
18. What are the three ways that societies can organize themselves economically?
19. What is globalization? How do you think it might have affected the economy over the past decade?

Critical Thinking Questions

20. Suppose you have a team of two workers: one is a baker and one is a chef. Explain why the kitchen can produce more meals in a given period of time if each worker specializes in what they do best than if each worker tries to do everything from appetizer to dessert.
21. Why would division of labor without trade not work?
22. Can you think of any examples of free goods, that is, goods or services that are not scarce?
23. A balanced federal budget and a balance of trade are considered secondary goals of macroeconomics, while growth in the standard of living (for example) is considered a primary goal. Why do you think that is so?
24. Macroeconomics is an aggregate of what happens at the microeconomic level. Would it be possible for what happens at the macro level to differ from how economic agents would react to some stimulus at the micro level? (*Hint: think about the behavior of crowds.*)
25. Why is it unfair or meaningless to criticize a theory as unrealistic?
26. Suppose, as an economist, you are asked to analyze an issue unlike anything you have ever done before. Also, suppose you do not have a specific model for analyzing that issue. What should you do?
27. Why do you think that most modern countries' economies are a mix of command and market types?
28. Can you think of ways that globalization has helped you economically? Can you think of ways that it has not?