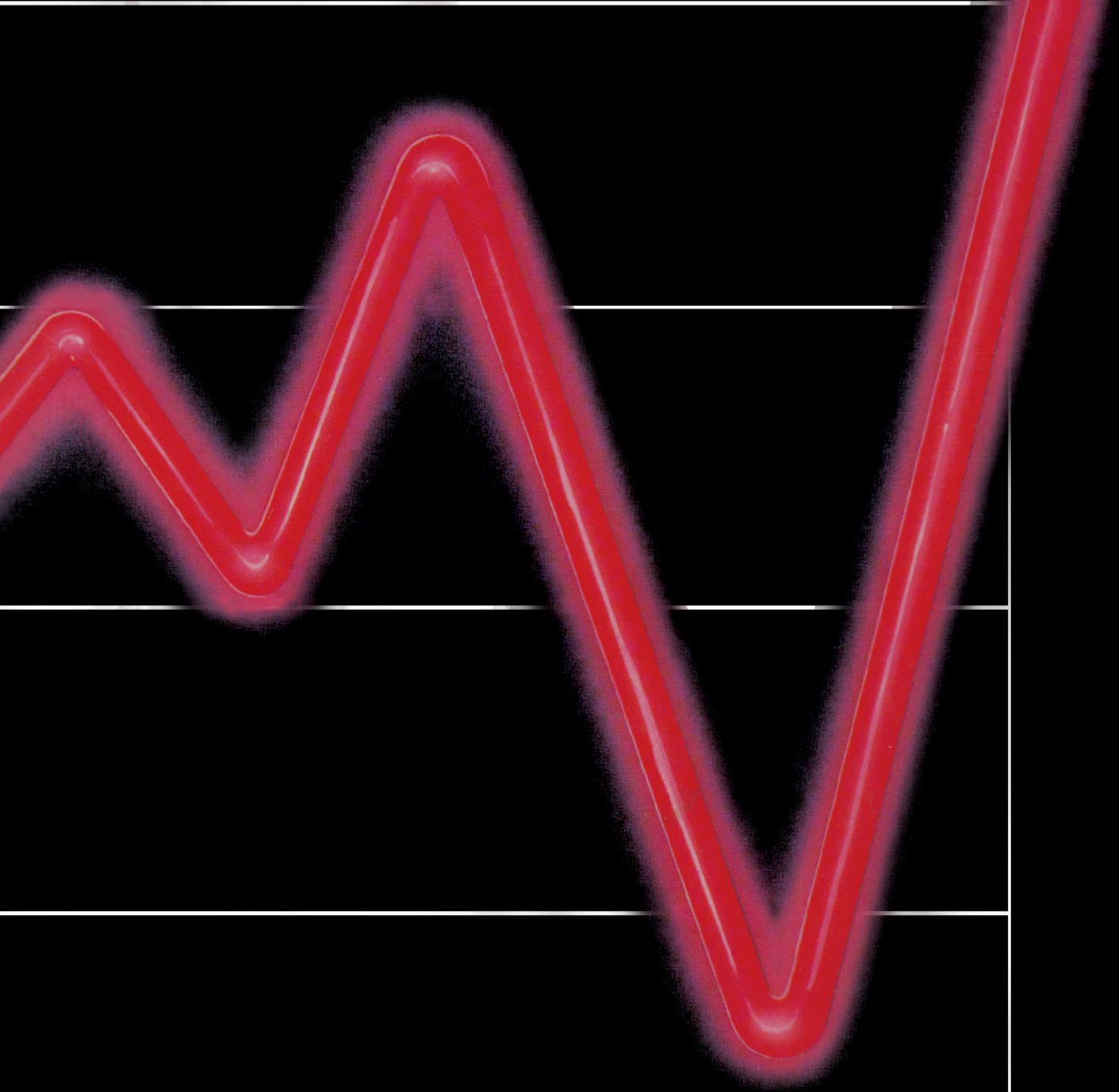


**STUDY GUIDE  
FOR**

**ESSENTIALS OF  
ECONOMICS**

**J.R. CLARK**



**GWARTNEY • STROUP • CLARK**

# **STUDY GUIDE for ESSENTIALS OF ECONOMICS**

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# Preface

This *Study Guide* is designed as a valuable support tool for the student using *Essentials of Economics*. It provides several important features that contribute to a good course which cannot be included in the standard textbook, and if used correctly it will improve your understanding of, and ability to apply, economic principles to everyday decision-making.

In order to get the most out of this course it is important that you follow these four steps:

1. **ACTIVELY PARTICIPATE IN THE LEARNING PROCESS.** Active participation implies a great deal more than taking notes in class, memorizing them the night before the exam, and hoping for the best. Active learning requires that you INTERACT with the class, the instructor, and the text material. The self-tests in Sections 1 and 2 of each chapter of this *Study Guide* will assist you in this effort. After having read the text material you should review the learning objectives at the end of each chapter and then try to answer the self-test questions in this *Guide*. If you cannot answer most of these questions correctly, the text material should be reviewed further.

2. **SEEK OUT PROMPT ACCURATE FEEDBACK REGARDING WHAT YOU HAVE LEARNED.** Timely feedback reinforces correct concepts and helps to dispel misconceptions. The answers to the self-test questions provided in the *Study Guide* are intended to give you this

type feedback. They should be used responsibly. If you encounter a question to which the correct answer is puzzling, you should discuss the matter with the instructor while the issue is still fresh in your mind. Also, the *Study Guide* should be used regularly as you move through the weekly material. If a significant interval elapses between your reading of the text and working in the *Study Guide*, much of the value of using the *Guide* will be lost. Your regular timely use of it will give you a clear competitive edge over the student who does not use it properly.

3. **LEARN THE RELEVANCE OF THE CONCEPTS.** Relevance is both a motivational force and a guide to application. If you understand the relevance of a particular concept to your everyday life, the material will be learned faster and retained longer. The text and this *Study Guide* are designed to stress the **ECONOMIC WAY OF THINKING**. That is, they teach a method of inquiry that enables you to make not only purely economic decisions but also many other types of decisions that affect your everyday life. The problems and projects sections of this *Study Guide* require that you carefully think through problematic situations and that you reason in an economic manner. You should complete these sections in each chapter while considering how the concepts they present could be transferred to your own decision-making. The seven guideposts to economics at the beginning of the text are also valuable in this regard.

4. **LEARN TO ADDRESS ECONOMIC ISSUES AND POLICIES CRITICALLY.** The Perspectives in Economics section of each chapter in this *Study Guide* presents a provocative point of view on a current issue and suggests criticism. You should review each perspective and consider the discussion questions following it. Having done so, you should be able to offer criticism of your own on the issue. Through this process you will develop critical skills and the ability to verbalize your critical analyses. You should learn to formulate your own economic policies and to support your suggestions with sound economic arguments.

If you follow these four steps, your experience in this economics course may be one of the most valuable one of your life. The 1980's are becoming the "age of the economists." What you learn in this course may well influence your career and your happiness, and perhaps even the future of our national economy. With so much at stake it would seem wise to follow carefully the structured course of action described above.

In closing, a word about evaluation is appropriate. Questions very much like those that appear in the self-tests of this *Study Guide* also appear in the *Instructors' Manual and Test Bank*. Many instructors will draw their exam questions from this source. Although not identical to those in the self-tests, these questions have been designed so that the student who can answer the self-test questions will consistently be able to answer those in the test bank. This enables instructors to offer an incentive to students to use the *Study Guide* and thus to understand more fully the material presented in the text.

## ACKNOWLEDGMENTS

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skills. Rob Greenfield stimulated some of the questions raised in this volume with his usual gadfly sense of economic humor. Finally, the contributions of Si Goodwin, Cynthia Jewett, and Casimir Psujek should be noted. They did an excellent job of converting a rag-tag manuscript into a professional product in an unreasonably short period of time.

J. R. Clark  
December 1981

CHAPTER ONE

# **The Economic Approach**

SECTION ONE

## **True or False**

### **Self-Test**

1. People derive utility or satisfaction from consuming tangible goods and services like food and clothing as well as from nontangibles like leisure, prestige, and freedom.
2. Economic goods are all those goods that are available in such supply that consumers can obtain all they desire at a zero price.
3. Scarcity and poverty are really the same thing when you think about them in strictly economic terms.
4. Scarcity comes about because resources are fixed and yet people's wants and needs are unlimited.
5. When the benefits of undertaking a specific action increase or the costs of that action decrease, economics tells us that individuals are more likely to undertake that action.



6. When an individual steals money from his or her employer, the primary effect might be an increase in immediate income but the secondary effect might well be the loss of the person's job and a more permanent reduction in long-term earnings.
7. When you decide how to allocate your time among study, leisure, and working at a job, you are not making an economic choice.
8. Extended government spending is "wrong" for the country. We should do what is "right" and reduce government spending. These are examples of normative economic statements.
9. Scientific method is used in economics to test the validity of positive economic statements.
10. Public goods that are provided by government are not scarce, since you can use things like highways and schools all that you want.

## SECTION TWO

### Multiple Choice

#### Self-Test

1. Which of the following goods is not scarce and not an economic good?
  - a. television comedy
  - b. automobiles
  - c. economics textbooks
  - d. smallpox
2. If I can stand up during an exciting play at a football game, I can see better. Therefore, if everyone stands up during the play, it is obvious that they can all see better. This is an example of:
  - a. the comedy of errors
  - b. the fallacy of composition
  - c. the law of scarcity
  - d. the types of mistakes made by trained economists.
3. Which of the following is a normative economic statement?
  - a. Gasoline costs \$1.45 per gallon.
  - b. There are 100,000 more barrels of oil per day being produced this year than at the same time last year.
  - c. There is too much oil being produced this year.
  - d. It takes approximately 12 days for an oil tanker to cross the Atlantic.
4. Economic incentives affect the behavior of:
  - a. only selfish and greedy people
  - b. altruistic people

- c. selfish and altruistic people
  - d. all human beings.
5. The test of an economic theory is its:
- a. ability to explain behavior
  - b. ability to predict human behavior
  - c. degree of sophistication
  - d. simplicity.
6. Some examples of incentives to which people respond are:
- a. large fines for littering the highways
  - b. tax credits for investing in municipal bonds
  - c. reduced prices for matinee performances of films and theatrical events
  - d. all of the above.
7. Economic resources are:
- a. anything that is used to make a profit
  - b. anything that is used to incur an economic loss
  - c. anything that can be used to satisfy a want or need
  - d. none of the above.
8. The United States is producing over \$1 trillion worth of goods and services each year. Obviously there is no scarcity in the United States. This statement is:
- a. basically true because we have very little poverty
  - b. basically untrue because poverty will always exist among human beings
  - c. sometimes true when output is high in the United States
  - d. never true because taxes are so high in the United States.
9. Which of the following is the best example of economizing behavior on the part of the student whose only objective is to get an A in the course?
- a. taking the optional final exam to improve his grade even though he is already certain of an A
  - b. spending the economics class hour studying for another class because he is already assured of getting an A
  - c. doing outside reading in economics that will not be beneficial for the examination
  - d. spending time attending class and studying after the teacher has informed him that his present grade of B cannot possibly change.
10. The central message of Adam Smith was that the production and wealth of a nation would be magnified if:
- a. individuals were left free to act in their own interest
  - b. the government controlled the use of and payment for labor and capital
  - c. most goods were provided free by government

- d. people were really more altruistic and looked after each other's welfare as if it were their own.

### SECTION THREE

#### Vocabulary

#### Self-Test

1. \_\_\_\_\_ is a basic economic concept that indicates that less of a good is readily available than consumers would like.
2. The desire for \_\_\_\_\_, which is a scarce good, exceeds the amount available from Nature.
3. \_\_\_\_\_ is the selection from among alternatives.
4. An input such as land, labor, or capital used to produce economic goods is a \_\_\_\_\_.
5. \_\_\_\_\_ is the ability to choose objectively the option that will yield a specific benefit at the smallest cost possible, and conversely, to choose from among alternatives of equal cost the one that will produce the greatest benefit.
6. The satisfaction expected from a chosen course of action is \_\_\_\_\_.
7. \_\_\_\_\_ is the term used to describe the effects of a small change, usually one unit, in economic activity.
8. \_\_\_\_\_ are the economic consequences of an initial economic change that are not immediately identifiable and are felt only with the passage of time.
9. \_\_\_\_\_ comprises two steps: development of a theory, and testing of that theory to determine its consistency with real-world events.
10. A scientific attempt to determine "what is" among economic relationships is commonly termed \_\_\_\_\_.
11. \_\_\_\_\_ involves judgment about "what ought to be" in economic matters; such views cannot be proven false because they are based on value judgments.
12. The view that what is true for the individual will also be true for the entire group constitutes the \_\_\_\_\_.