

Practice questions for Chapter 2

- (1) *True or False?* Economics is largely the study of how people cooperate with friends, acquaintances, and family to create wealth.
- (2) *True or False?* Economists tend to focus largely on how strangers and acquaintances interact with one another, and less on how families and close friends work together.
- (3) *True or False?* We depend as much on strangers as we do friends and family.
- (4) *True or False?* We depend as much on the altruism of strangers as we do the love of friends and family.
- (5) *True or False?* Economists specialize in studying commerce (*i.e.*, the private sector, businesses, trading), leaving the workings of government to political scientists.
- (6) *True or False?* Economists pay particular attention to how social interactions alter the culture of societies over time.
- (7) *True or False?* Economists pay particular attention to how people interact in the realm of business and politics, leaving the evolution of culture to be studied by other social scientists.
- (8) *True or False?* Economics is largely concerned with the creation of wealth, and does not concern things like a meaningful life.
- (9) *True or False?* Economists measure wealth in terms of money, leaving it to sociologists and environmentalists to account for the health of the environment.
- (10) *True or False?* Economists believe everyone, even an ascetic monk, wants more stuff.
- (11) *True or False?* *The Onion* once created a video mocking how some humans are satisfied with so little.
- (12) *True or False?* In economics we assume that people have unlimited wants and needs.
- (13) *True or False?* Economics was born with the publication of Adam Smith's book, *Capital*.
- (14) *True or False?* Carol Gaither is a good economist because she helps poor people make informed decisions about what they should be buying.
- (15) *True or False?* Economists see their major role as helping people understand what they should and should not buy to live a happy, meaningful life.
- (16) *True or False?* If people buying organic food believe it to be more nutritious, but economists disagree, then the higher price they pay for organic food is wasted money.

(17) *True or False?* If people buy food believing it to be organic food, but in reality it is not, then the higher price they pay for organic food is wasted money.

(18) *True or False?* OSU is home to the most famous agricultural economist in the world, and his name is Bailey Norwood.

(19) *True or False?* If people pay higher prices for the better treatment of farm animals, but those higher prices do not in some way directly impact humans, then it is wasted money.

(20) *True or False?* *Portlandia* once did a sketch mocking how concerned some people are with the happiness of farm animals.

(21) *True or False?* Economic is particularly concerned with making what is in the self-interest of the person also in the interest of society.

(22) *True or False?* Every time a buyer and seller make an exchange, both are made better off.

(23) *True or False?* Most of economics involves the study of how an individual pursues their self-interest through business and government, regardless of whether that self-interest is in the social interest.

(24) *True or False?* If banks take excessive risks because they know they will be bailed-out by governments if they lose money, then the banks may be following their self-interest but their behavior is not in the interests of society.

(25) *True or False?* The Pilgrims were expected to work for the common good by donating 20% of the food they produce on their private property to the Church.

(26) *True or False?* The Pilgrim women were forced to wash the clothes of all the men, not just those in their families.

(27) *True or False?* When the Pilgrims founded Plymouth Plantation in 1620, their economy was organized into small sections of private property with no taxes.

(28) Why did the Pilgrims initially face the threat of starvation?

- a. They did not choose the right variety of crops to take with them from England
- b. There was no private property
- c. Being landowners back in England, they were not accustomed to working for themselves
- d. Their Puritan religion forbade them from trading with England

(29) *True or False?* After great troubles and hunger, the Pilgrims decided more food would be produced for everyone if each family was given land as private property and allowed to keep whatever they grew.

- (30) *True or False?* In 1978 China farmers worked on collective farms, where no one person owned anything. Everything was owned by the group.
- (31) *True or False?* In 1978 on collective farms in China, farm workers were told that even the teeth in their mouth did not belong to them.
- (32) *True or False?* In 1978 on collective farms in China, farm workers produced an abundance of food, but they worked longer hours than they would have liked.
- (33) *True or False?* In 1978 on a collective in Xiogang, workers agreed each family would get its own plot of land to farm, and the family could keep whatever they grew for themselves.
- (34) *True or False?* When the Communist Party in China found out about the Xiogang farm's arrangement, they promptly executed each person who signed the document.
- (35) *True or False?* The story of what happened on the Xiogang farm became accepted by the Communist Party, which led to a series of similar economic reforms.
- (36) *True or False?* The story of what happened on the Xiogang farm, and its influence on the Communist Party's philosophy, is well-known in China, but the Party forbids anyone from speaking about it publicly.
- (37) Why was China's agricultural sector so unproductive, leading to malnutrition and often starvation?
- The Communist Party destroyed too much agricultural land in its efforts to industrialize the nation with factories everywhere
 - The Communist Party did not allow workers to keep the fruits of their labor
 - The Communist Party broke up the big collective farms and made farmers work on their own individual plots
 - The Communist Party forbade them from using tractors made in America
- (38) *True or False?* The French economist Bastiat once remarked that it is in vain to expect others to produce our food out of love for us, but they will produce food in pursuit of their own self-interest.
- (39) *True or False?* The TV show *The Increasingly Poor Decisions of Todd Margaret* made a joke that you would only get if you knew who the French economist Bastiat was.
- (40) The world population has increased about $\{(7-2)/2 =\}$ 250% in the last century, while the price of agricultural products has
- Increased about 69%
 - Decreased about 69%
 - Increased about 220%
 - Decreased about 220%

- (41) In 1900 43% of the world lived in extreme poverty, compared to ____ today.
- 11%
 - 21%
 - 33%
 - 43%
 - 68%
- (42) According to *The Economist* magazine, the biggest poverty-reduction is the
- Formation of welfare programs
 - Formation of food subsidies
 - Subsidizing the development of new technologies
 - Encouraging free-trade
- (43) When economists say “capitalism”, what do they mean?
- The colonization and rule of white Europeans over others
 - A system where a few wealthy capitalists exert considerable control over politicians
 - A system where governments subsidize the formation of “capital” like large factories and machines
 - A system of private property, free-enterprise, and free-trade
- (44) When economists say “crony-capitalism”, what do they mean?
- A system of property and trade, but also the colonization and rule of white Europeans over others
 - A system of property and trade, but where a few wealthy capitalists exert considerable control over politicians
 - A system of property and trade, but also where governments subsidize the formation of “capital” like large factories and machines
- (45) How was Jesse Lauriston Livermore an example of crony-capitalism?
- He was so influential he didn’t have to stop for red lights
 - He was so influential he didn’t have to pay any taxes
 - FDR allowed Lauristen to write his own legislative bills, after which FDR would work to see them enacted
 - Herbert Hoover allowed Lauristen to act as if he was his *de facto* vice-president
 - Calvin Coolidge always checked with Lauristen before he supported a piece of legislation
- (46) *True or False?* In the 19th century the buffalo almost went extinct whereas cattle have never come close to extinction, and the reason is that cattle are private property while the buffalo belonged to no one.
- (47) *True or False?* A buffalo hunter is unlikely to let a buffalo live so that the buffalo can breed offspring because that hunter is unlikely to be the person who gets to sell or consume that offspring.

(48) *True or False?* The typical farmer is unlikely sell and slaughter all of their cows in the same year. They will always reserve some cows for breeding because they will own the offspring and can profit from them.

(49) *True or False?* When resources are owned by everyone people tend to over-use it.

(50) *True or False?* In the 1980s in Uzbekistan, natural gas was free but matches were rationed and scarce. Because matches were scarce people rarely lit their stoves, and very little natural gas was used, making it difficult for people to cook their food.

(51) *True or False?* When a resource or good is costly to produce but provided to consumers for free, people tend to over consume the goods, consuming some units that they value less than it actually costs them.

(52) *True or False?* Economists believe nothing should be free.

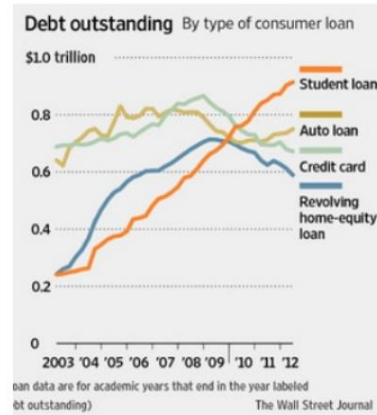
(53) *True or False?* In 18th and 19th century, the English sent many convicts to Australia, and because the ship captains were paid according to how many people were transported (regardless of whether or not the convicts were alive when they got to Australia) the prisoners were treated very poorly and many died in transit.

(54) *True or False?* In the past, when the English exiled convicts to Australia, the government found that it had to pay for each convict that made it to Australia alive, otherwise the ship captains would take poor care of the prisoners.

(55) Robert Fisher, a Harvard professor, believed it was too easy for the President to start a nuclear war—that his incentives were not aligned with society. How did he suggest correcting this discord?

- a. Making a nuclear strike contingent upon two separate people, with some distance between them, inserting and turning two separate keys simultaneously.
- b. Making the system such that it can only launch at least twenty nuclear missiles at once
- c. Making a public statement on television seconds before the attack begins
- d. Forcing the President to kill another man to retrieve the launch codes

Should student loans be forgiven in bankruptcy?



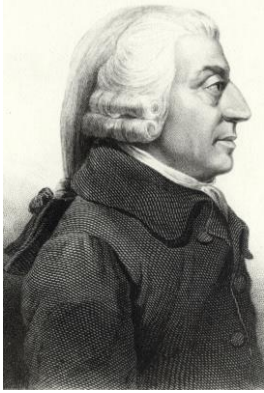
(56) *True or False?* Student debt differs from other types of debt because the debt does not go away when the person goes bankrupt.

(57) *True or False?* If the U.S. government made student loans forgivable upon bankruptcy, there is no doubt that this would benefit students.

(58) *True or False?* If the U.S. government made student loans forgivable upon bankruptcy, this could harm students as the people who loan the students money may be less likely to loan money, and students would have less access to student loans.

(59) *True or False?* In the African nation of Tanzania it is impossible for a bank or anyone else to repossess land that contains graves. For this reason, many parents make sure they are buried on their family's land to ensure it will always remain within the family. (Given this background information, is the following statement true or false?) This also makes it easier for people to use their family land as collateral when applying to a bank for a loan.

(60) *True or False?* This is Adam Smith



(61) *True or False?* This is Adam Smith



(62) *True or False?* This is Adam Smith



