
Test Bank

MULTIPLE-CHOICE QUESTIONS

- 1.1 Researchers in economics
- A. face ethical issues only in normative economics.
 - B. face ethical issues only in positive economics.
 - C. face ethical issues in both positive and normative economics.
 - D. face no ethical issues because economics is a science.
- 1.2 A moral hazard arises when a researcher
- A. is put in peril from dangerous workplace materials.
 - B. has an economic incentive to behave unethically.
 - C. is in jeopardy from being overly ethical.
 - D. cannot behave ethically because of a legal restriction.
- 1.3 If productive resources are limited, scarcity implies that
- A. people will collect only the facts they consider most important.
 - B. people will base their collection of facts solely on objective considerations.
 - C. all facts are of equal importance to researchers.
 - D. researchers don't consider values when they collect facts.
- 2.1 A game people use frequently for economic and psychological investigation is called the Ultimatum Game because the game
- A. shows how sellers operate when their product is the best in the market.
 - B. is the ultimate in simplicity — that is, the simplest possible two-step game.
 - C. involves a take-it-or-leave-it offer from one person to another.
 - D. shows how disregarding the feelings of others generates profits.
- 2.2 The difference between rational self-interest and greed is that greed
- A. is excessive, while rational self-interest is a legitimate motivation for people.
 - B. involves money but rational self-interest does not.
 - C. exists only in a market system.
 - D. concerns only consumers, while rational self-interest concerns consumers and producers.
- 2.3 Carol buys stock in a new technology company. The company grows, hires more employees and increases profits. Carol sells her stock for much more than she paid for it. This is an example of a
- A. zero-sum game.
 - B. negative-sum game.
 - C. positive-sum game.
 - D. ultimatum game.

- 3.1 Markets are more efficient when the following characteristics are present:
- A. Economic actors are self-interested.
 - B. Market activities are transparent.
 - C. Economic actors uphold ethical standards of behavior.
 - D. All of the above
- 3.2 A company board of directors hires a chief financial officer to carry out activities on behalf of the stockholders. This situation reflects
- A. a corporate hazard.
 - B. fiduciary duty.
 - C. ideology.
 - D. none of the above.
- 3.3 Frank learns that an inherited genetic disease affects people in his family. This disease will likely cause early death. Frank immediately applies for a large life-insurance policy without disclosing this genetic fact. This situation
- A. is economically efficient because Frank gets to buy the insurance he wants.
 - B. is economically efficient because Frank's family will need the money when he dies.
 - C. is economically inefficient because of asymmetric information.
 - D. is economically inefficient because of a fiduciary relationship.
- 4.1 Competitive markets promote all of the following behaviors except
- A. tolerating the values and opinions of customers.
 - B. using force to achieve economic progress.
 - C. providing incentives for individuals to serve other people.
 - D. encouraging individuals to discipline themselves.
- 4.2 Even if no laws require it, business owners have an economic incentive to be tolerant when they hire employees and serve customers because of
- A. their religious views.
 - B. their fear of major lawsuits.
 - C. the Occupational Safety and Health Administration.
 - D. the profit motive.
- 4.3 In *The Wealth of Nations*, economist Adam Smith argued that people can help others by helping themselves. His term for this idea was
- A. the social-service paradox.
 - B. benevolent dictator.
 - C. the invisible hand.
 - D. enlightened self-absorption.
- 5.1 Based on "Moral Criticisms of Markets," which of the following statements would Paul Heyne support?
- A. Markets promote selfish behavior.
 - B. Markets promote social cooperation among strangers.
 - C. People do everything for money.
 - D. Competition corrupts society.

- 5.2 Which of the following statements is a moral criticism of markets?
- A. Markets promote an inefficient allocation of resources.
 - B. Market transactions are voluntary.
 - C. Markets are more coercive than governments.
 - D. Markets may corrupt civic virtues.
- 5.3 Which of the following allocation methods is most efficient and most responsive to the preferences of consumers who have income to spend?
- A. First-come/first-served
 - B. Markets
 - C. Government
 - D. A lottery
- 6.1 Which of the following is NOT a characteristic of sweatshops?
- A. Sweatshops are workplaces that always earn high profits.
 - B. Sweatshops are factories where people work long hours under unhealthy or unsafe working conditions.
 - C. Sweatshops are workplaces where people can be subjected to intimidation and violence.
 - D. Sweatshops are workplaces that do not treat workers with dignity.
- 6.2 Sweatshop conditions are often said to result from
- A. a transparent working environment in which outsiders can monitor conditions.
 - B. the tendency of people to work together, no matter how bad the conditions may be.
 - C. a large rural population, heavy population density and high rates of poverty.
 - D. the tropical climate of some workplaces.
- 6.3 According to an economic view, exploitation is a condition that arises in what type of labor market?
- A. Markets with a lot of competition
 - B. Markets with fewer workers than the number of available jobs
 - C. Markets with many employers
 - D. Markets with little competition
- 7.1 Which of these statements about a price ceiling is correct?
- A. A price ceiling causes a shortage if the ceiling price is above the equilibrium price.
 - B. A price ceiling causes a surplus if the ceiling price is above the equilibrium price.
 - C. A price ceiling causes a shortage if the ceiling price is below the equilibrium price.
 - D. A price ceiling shifts the demand curve to the right.
- 7.2 If a legal market in kidneys for transplant replaced the current law forbidding the buying and selling of kidneys, what would happen?
- A. The price would rise, and the quantity of kidneys demanded would increase.
 - B. The price would rise, and the quantity of kidneys supplied would increase.
 - C. The shortage of transplant kidneys would increase.
 - D. The supply curve for transplant kidneys would shift to the right.

- 7.3 Which ethical theory would be most supportive of a legal, open market for kidneys?
- A. Outcomes-based ethics
 - B. Duty-based ethics
 - C. Virtue-based ethics
 - D. Value-based ethics
- 8.1 What welfare goal is allocative efficiency based on?
- A. The satisfaction of individual consumer preferences
 - B. The greatest happiness for the poorest members of society
 - C. Saving the most lives
 - D. Being fair to all citizens
- 8.2 Joan received a birthday gift of an expensive pink sweater. She hates pink and would prefer to return the sweater to the store and use the money for dinner and a movie. From Joan's perspective, the current allocation of goods is
- A. efficient because people should treasure the gifts they receive.
 - B. efficient because Joan hasn't yet returned the sweater.
 - C. inefficient because the gift was from a family member.
 - D. inefficient because it doesn't satisfy Joan's preferences.
- 8.3 An economic policy could create economic efficiency but might not be fair. To resolve this problem requires the use of
- A. aggregate economics.
 - B. normative economics.
 - C. inflation economics.
 - D. positive economics.
- 9.1 Which of the following is true of fiduciary duties?
- A. They are very unprofitable.
 - B. They bind employees to an expectation of honesty and loyalty to the employer.
 - C. Employees must adhere to them, but not employers.
 - D. Employers must adhere to them, but not employees.
- 9.2 According to John Mackey,
- A. a company has an ethical duty only to its shareholders.
 - B. achieving short-run profits is a company's principal goal.
 - C. communities have obligations to employers.
 - D. businesses have obligations to community stakeholders.
- 9.3 According to Milton Friedman,
- A. businesses should share their profits with customers and the community.
 - B. neither individuals nor businesses have a social responsibility beyond making profits.
 - C. a company executive has a direct responsibility only to the company's owners (shareholders).
 - D. maximizing profits is not consistent with improving the welfare of society.

- 10.1 Which of the following terms best describes the situation in which people in a society have large differences in incomes?
- A. Ethnic diversity
 - B. Economic inequality
 - C. Income unfairness
 - D. Material inequity
- 10.2 Who is most likely to be upset when an open society with good access to education and jobs generates extreme differences in income among its members?
- A. People who view justice in terms of process
 - B. People who view justice in terms of outcomes
 - C. People who view justice as indefinable
 - D. People who view justice as the presence of freedom
- 10.3 What is the point of imagining the choices you would make behind a veil of ignorance?
- A. People tend to make poor choices when they do not have enough information.
 - B. People tend to make good choices because ignorance is easily swept away through education.
 - C. People tend to make fair choices when they know the most about their own personal situations and opportunities.
 - D. People tend to make fair choices when they know so little that they cannot seek their own self-interest.

ESSAY QUESTIONS

- 1.1 In what ways are facts different from values? In what ways are they related in economic research?
- 1.2 What absolute moral values are necessary to conduct scientific research?
- 2.1 One winter the weather is unusually cold, and a fuel-oil dealer finds that customers are ordering much more heating oil. If the dealer raises prices in response, is this an example of rational self-interest or greed? Support your answer.
- 2.2 When driving on the freeway, Carl blows his horn repeatedly, tailgates cars and cuts in front of them if he can. Carl explains, "Other drivers are in my way, and I operate the way I do to get to my destination sooner." What benefits does Carl receive from driving in this manner? What costs does he incur? Is Carl showing rational self-interest or greed? Does Carl's strategy always work?
- 3.1 Analyze the extent and impact of fiduciary conduct in the operation of business.
- 3.2 Analyze how transparency affects the efficiency of markets. In markets that lack transparency, what role does ethical conduct play?

- 4.1** In the early 1940s, professional baseball, like much of American society, was characterized by rigid racial segregation. Several baseball club owners were convinced that African-Americans should not play in the major leagues. But in 1947 club owner Branch Rickey brought Jackie Robinson up from the minor leagues to play for the Brooklyn Dodgers. A few years later many African-American players joined major league teams. Why do you suppose Branch Rickey took the risk to sign Jackie Robinson?
- 4.2** You are the manager of a new boutique coffee shop and art gallery called Frame of Mind. Your immediate task is to complete the training of your three new employees. You have already shown them how to prepare the different coffee drinks, and you have helped them become familiar with the artwork in the gallery and the artists whose work is on display. Now you need to train the employees on the importance of good customer service. Identify and explain two values that you will stress to ensure good customer service and foster positive behavior on the part of your employees.
- 5.1** Karl Marx was the major proponent of communism (central planning by the government). A famous paraphrase of Marx is: "From each according to ability; to each according to need." Explain this quotation using moral theory. Do you think Marx was correct in condemning market activities?
- 5.2** List and explain the moral limitations of markets. Explain why you agree or disagree with these limits.
- 6.1** Do sweatshops prove that firms exploit workers in developing countries? Why?
- 6.2** Analyze the advantages and disadvantages of three policy options regarding sweatshops. Which solution do you favor and why?
- 7.1** Analyze the impact of the current federal law, which prohibits the sale of kidneys and allows only free-will donations.
- 7.2** Before it was stopped, bidding for a kidney on eBay reached \$5.7 million. Without considering the fact that buying kidneys is illegal, do you think the bidding should have been stopped?
- 8.1** What do modern economists mean by welfare and allocative efficiency? How do economists apply these concepts to public-policy analysis? What problems exist with the use of these concepts?
- 8.2** There are 10 people and space for only five in a life raft. How would you decide which people get a place on the raft? What solution to this problem would economists consider allocatively efficient? What other values besides efficiency are important in analyzing this situation?

- 9.1** Compare and contrast the views of Milton Friedman and John Mackey on corporate social responsibility. Which view do you find more compelling and why?
- 9.2** Imagine that you are the CEO of a corporation. The mayor of the city where your corporate offices are located asks your corporation for a major donation to build a new community park and swimming pool. How would you respond? Explain your answer.
- 10.1** Consider the following statement: “International statistics show that there is more inequality of incomes in the United States than in Sweden. These statistics mean that Sweden is a more just society than the United States.” Write a brief paragraph in favor of this statement and another brief paragraph opposing it.
- 10.2** Suppose a physical education teacher has a limited number of bonus points to award in class. The teacher can allocate them in one of two ways:
- Disproportionately to the few students who most quickly run a difficult obstacle course
 - Evenly to all the students who work hard on completing the course, even if they’re not the fastest and may not finish
- How do you think the teacher should award the points? First answer this question from your own self-interested situation (knowing your own athletic abilities). Then explain what your answer would be behind a veil of ignorance.

