

1. In order to measure what a country produces, we

- A. summarize total output in physical terms.
- B. count units of output.
- C. count the weight of different products.
- D.** summarize the monetary value of output.

Using monetary value instead of physical units to compare total output, the accounting is easier.

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Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

2. GDP can be found by

- A.** adding the monetary value of all final goods and services produced during a given period of time.
- B. adding the physical amount of all final goods and services produced during a given period of time.
- C. taking the difference between exports and imports during a given period of time.
- D. adding the value of all final output produced and measuring it in constant prices during a given period of time.

GDP is a summary measure of a nation's output.

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3. Ceteris paribus GDP most closely measures

- A. output per worker.
- B. a summary of the world's output.
- C.** the total value of all final goods and services produced within a nation's borders in a given year.
- D. the rate of change in capital stock.

GDP can be found by adding the monetary value of all final goods and services.

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4. The output of cell phones can be added to the output of refrigerators in order to compute GDP by

- A. multiplying the quantity of output of each by the corresponding prices and adding these dollar values.
- B. dividing the output of each by price and adding these dollar values.
- C. adding up the physical number of cell phones and refrigerators produced.
- D. dividing dollar values of output for each by price and adding the results.

By multiplying the physical output of each good by its price the total value of each good produced can be determined.

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5. Country-level GDP is

- A. the sum of the physical amounts of goods and services in the economy.
- B. a dollar measure of output produced within a nation's borders during a given time period.
- C. a measure of the per capita economic growth rate of the economy.
- D. a physical measure of the capital stock of the economy.

GDP enables us to sum production of all goods and services

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6. Which of the following is NOT included in U.S. GDP?

- A. toys produced by a U.S. firm located in China
- B. beer brewed in Colorado and purchased by a German tourist
- C. a car made by a Japanese auto producer in Kansas
- D. corn grown in Iowa and exported to Africa

GDP measures only those products produced within a nation's borders.

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7. Which of the following is NOT included in U.S. GDP?

- A. the construction of new homes to replace those destroyed by fires in California
- B. the salary of the President of the United States
- C. shoes produced abroad and imported by a U.S. company**
- D. the purchase of U.S. soybeans by a food manufacturer in Canada

To be counted in GDP goods must be produced within a nation's borders.

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8. The value of output produced in the United States in current prices measures

- A. GDP growth.
- B. real GDP.
- C. per capita GDP.
- D. nominal GDP.**

Nominal GDP is the value of output measured in current prices.

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9. Nominal GDP measures the

- A. inflation-adjusted value of output.
- B. real value of output per worker.
- C. value of output produced in current prices.**
- D. value of output produced in constant prices.

Nominal GDP is the value of output in the U.S. in current prices.

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10. Nominal GDP is affected by changes in

- A. output only.
- B. output and prices.**
- C. income transfers.
- D. prices only.

Nominal GDP measures the value of output produced in current prices.

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Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

11. Changes in real GDP serve as a better measure of the health of the economy than changes in nominal GDP because real GDP is affected by changes in

- A. output only.
- B. prices and output.
- C. prices only.
- D. average wages.

Real GDP is the inflation-adjusted value of GDP. When calculating the value of products, it holds prices constant to a base year and this allows us to isolate changes in output.

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Topic: What America Produces

12. The inflation-adjusted value of final goods and services produced in the United States measures

- A. nominal GDP.
- B. real GDP.
- C. per capita GDP.
- D. GDP per worker.

Real GDP is adjusted for inflation.

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Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

13. Real GDP is a more accurate measure of economic growth than nominal GDP because

- A. nominal GDP is a total dollar measurement.
- B. nominal GDP only increases because of an increase in production.
- C. nominal GDP can increase due to an increase in production, prices, or both.
- D. real GDP is a measurement of the overall price level.

Real GDP adjusts for changes in price or inflation.

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Learning Objective: 02-01 Explain how an economy's size is measured.

14. Which of the following is the best measure of an increase in actual output?

- A. nominal GDP
- B. real GDP**
- C. per capita GDP
- D. GDP per dollar

Real GDP is the best measure because it adjusts for changes in price due to inflation.

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Difficulty: 1 Easy

Learning Objective: 02-01 Explain how an economy's size is measured.

Topic: What America Produces

15. Which of the following countries currently has the largest GDP?

- A. Japan
- B. China
- C. Britain
- D. United States**

Because of advanced production techniques and technological advancement, the U.S. has the largest GDP of any of these countries.

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Difficulty: 1 Easy

Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.

Topic: What America Produces

16. The economy of the United States is important because it

- A. produces as much output as China, Japan, and Western Europe combined.
- B. produces more than 20 percent of total world output.**
- C. exceeds the combined production of all other countries in the world.
- D. accounts for over 20 percent of total world population.

Of the \$90 trillion of global output in 2018, the U.S. had \$20 trillion in output.

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Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.

Topic: What America Produces

17. U.S. GDP for 2018 was approximately

- A. \$11 trillion.
- B. \$100 billion.
- C. \$18 trillion.

D. \$20 trillion.

Refer to 2018 statistical data in Chapter 2.

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Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: What America Produces

18. To compare the standard of living of one country to another, economists use

- A.** per capita GDP.
- B. real GDP.
- C. nominal GDP.
- D. output per worker.

Per capita GDP is an indicator of how much each person would receive of output if output would be divided equally.

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Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

19. Per capita GDP is the most practical way to

- A. measure how much income households receive
- B. measure how much output can be consumed on a sustainable basis
- C.** measure how much output is potentially available to the average person
- D. analyze the growth rate of the economy over time

Per capita GDP is an indicator of how much each person would receive of output if output would be divided equally.

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Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

20. In 2018, per capita GDP in the United States was approximately

- A. \$41,000.
- B. \$53,000.
- C. \$35,000.
- D.** \$59,000.

Refer to 2018 statistical data in Chapter 2.

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Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: What America Produces

21. Per capita GDP will always rise when

- A. the population rises.
- B. the rate of economic growth increases.
- C. there is an increase in the rate at which the economy's labor force grows.
- D. the rate of economic growth exceeds the rate of population growth.**

When GDP growth exceeds population growth per capita GDP will rise.

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Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

22. If output growth exceeds population growth for a country, then

- A. average living standards will increase.**
- B. GDP must have grown at a very rapid rate.
- C. per capita GDP will decrease.
- D. this country must have overcome the problem of scarcity.

Real GDP per capita is a measure of the standard of living. This takes output and divides it by the size of the population. If output rises faster than the population, this will increase the size of real GDP per capita and so average standards of living will increase.

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Blooms: Understand
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

23. If all of our GDP were distributed equally across the United States, each individual would receive

- A. their current income divided by the U.S. population.
- B. the market value of final goods and services produced in the U.S. per year.
- C. the value of total world output divided by the population.
- D. the market value of final goods and services produced in the U.S. per year divided by the population.**

Per capita GDP is an indicator of how much output each person would get if all output were divided evenly among the population.

AACSB: Reflective Thinking
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Blooms: Understand

24. When comparing GDP per capita globally, which list ranks countries correctly from largest to smallest?

- A. China, Mexico, Germany
- B. Japan, Mexico, Haiti**
- C. Mexico, France, India
- D. Greece, Japan, Indonesia

See Figure 2.1 in text.

25. Country A and Country B both recorded an increase in real GDP of 5 percent per year from 1980 to 2012. During this time, the population for Country A grew at 6 percent per year and the population for Country B grew at 4 percent. Which of the following is true during this period?

- A. Per capita GDP was the same for both Country A and Country B.
- B. Per capita GDP decreased for Country B only.
- C. Per capita GDP decreased for both Country A and Country B.
- D. Per capita GDP decreased for Country A only.**

Although both countries experienced the same GDP growth rate, Country A's GDP per capita decreased because its population increased at a rate that was greater than the rate at which its GDP grew. Since the population grew faster than GDP (output), there was less output per person over time.

26. Country D and Country E both recorded an increase in real GDP of 4 percent per year from 1997 to 2012. During this time, the population for Country D grew at 3 percent per year and the population for Country E grew at 2 percent. Which of the following is true during this period?

- A. Per capita GDP decreased for both Country D and Country E.
- B. Per capita GDP increased for both Country D and Country E.**
- C. Per capita GDP increased for Country D only.
- D. Per capita GDP decreased for Country E only.

Since the percentage of growth in population is lower than the percentage of growth in real GDP, both countries experience per capita increases.

AACSB: Analytical Thinking
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Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

27. Economic growth implies that

- A. prices have risen.
- B. total value of the output produced has increased.**
- C. per capita GDP has declined.
- D. resources are limited.

Continued economic growth implies more output per person.

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Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

28. Economic growth

- A. is an increase in output or real GDP.**
- B. causes a contraction in the production possibilities curve.
- C. involves reduced capacity in the short run.
- D. cannot be sustained over time.

Economic growth is an increase in output (real GDP), an expansion of production possibilities.

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Difficulty: 1 Easy
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Topic: What America Produces

29. Ceteris paribus, economic growth involves an

- A. increase in imports.
- B. expansion of production possibilities.**
- C. increase in GDP due to inflation.
- D. increase in government spending.

Economic growth will expand production possibilities outward.

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Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

30. On average, U.S. real GDP has grown roughly _____ percent per year.

- A. one
- B. three**
- C. seven
- D. five

Due to America's technological advancements, real GDP increases by 3 percent per year.

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Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: What America Produces

31. Which of the following statements is true?

- A. Nominal GDP is a good measure of social welfare.
- B. GDP per capita is a complete measure of social welfare.
- C. Crime and pollution reduce social welfare which reduces GDP.
- D. GDP is not necessarily the best measure of social welfare.**

GDP is simply a measure of the volume of goods and services produced.

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Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

32. A country's total output includes all of the following except

- A. household consumption.
- B. business investment.
- C. imports.**
- D. government services.

Total output is measured by what is produced within a country. Imports are produced in another country and shipped in so they should not count toward output measures.

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Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

33. According to your textbook, which of the following spending categories ranks the contribution to GDP in correct order (from largest to smallest for the United States)?

- A. consumer goods, total government purchases, investment goods, net exports**
- B. consumer goods, investment goods, total government purchases, net exports
- C. investment goods, consumer goods, total government purchases, net exports
- D. total government purchases, consumer goods, investment goods, net exports

See Figure 2.2 in the textbook.

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Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

34. Suppose during a year an economy produces \$6 trillion of consumer goods, \$1 trillion of investment goods, \$2 trillion in government services, and has \$3 trillion of exports and \$2 trillion of imports. GDP would be

- A. \$8 trillion.
- B. \$10 trillion.**
- C. \$12 trillion.
- D. \$14 trillion.

Imports must first be subtracted from exports to get net exports. Then, add consumer spending, investment spending, government spending, and net exports together.

AACSB: Knowledge Application
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Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

35. Suppose during a year an economy produces \$10 trillion of consumer goods, \$4 trillion of investment goods, \$6 trillion in government services, and has \$4 trillion of exports and \$5 trillion of imports. GDP would be

- A. \$19 trillion.**
- B. \$21 trillion.
- C. \$24 trillion.
- D. \$29 trillion.

Imports must first be subtracted from exports to get net exports. Then, add consumer spending, investment spending, government spending, and net exports together.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

36. The largest component of U.S. GDP is

- A. government services at the federal, state and local levels combined.
- B. business investment.
- C. household consumption.**
- D. net exports.

Consumer goods dominate the U.S. mix of output.

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Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

37. Consumer goods

- A. account for over two-thirds of total U.S. output.
- B. include nondurable goods but not durable goods.
- C. account for a smaller portion of GDP than government services.
- D. include durable and nondurable goods but not services.

See Figure 2.2 in the textbook.

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Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

38. Consumer goods

- A. account for half of total U.S. output.
- B. include expenditures for durable goods, nondurable goods, and services.
- C. include government expenditure on welfare and food stamps.
- D. account for the smallest portion of U.S. GDP.

The vast array of products consumers purchase is classified as either durable goods, nondurable goods, or services.

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Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

39. Which of the following components of consumer spending is the most cyclical?

- A. services
- B. agricultural goods
- C. nondurable goods
- D. durable goods

Because they are big ticket items and last 3–5 years, durable goods are most cyclical, meaning spending on durable goods varies significantly depending on the strength of the economy.

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Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.

40. Which of the following is included in investment, according to economists?

- A. production of plant and machinery
- B. purchases of corporate stock
- C. money put into a pension fund
- D. dollars spent in the stock market

Investments include plants, machinery, equipment, and inventories held for later sale to consumers.

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Topic: What America Produces

41. Investment includes all of the following EXCEPT:

- A. the production of new factories.
- B. the purchase of new machinery and equipment.
- C. money in a retirement fund.
- D. business inventories.

Economic investments enhance our capacity to produce.

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Topic: What America Produces

42. Which of the following is NOT an example of investment, according to economists?

- A. A business builds a new factory.
- B. A private college buys a new copy machine to replace an old worn out machine.
- C. A family buys \$10,000 worth of bonds.
- D. A department store buys additional men's jeans just before Christmas.

Economic investments enhance our capacity to produce.

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Topic: What America Produces

43. Which of the following is an example of investment, as a component of GDP?

- A. the purchase of a truck by a delivery company
- B. the purchase of Ford stock by an individual saving for retirement
- C. the purchase of land by an individual

D. the purchase of bridges and dams by the government

GDP is the measurement of all final goods and services.

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Topic: What America Produces

44. Which of the following expenditures is the most important in expanding a country's production possibilities?

- A. consumer goods
- B.** investment goods
- C. government services
- D. net exports

Investment goods are critical to continuing growth because they expand our ability to produce.

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Topic: What America Produces

45. Which of the following is NOT true about investment goods?

- A. They add to the nation's stock of capital.
- B. They can be used to replace worn-out equipment.
- C. They can expand the nation's production possibilities.
- D.** They increase the retirement benefits for individuals.

Economic investment enhances our capacity to produce.

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Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

46. According to your textbook, for the United States, investment accounts for approximately _____ percent of GDP.

- A.** 13
- B. 25
- C. 35
- D. 70

See Figure 2.2 in the textbook.

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Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

47. Which of the following is true about government services as a component of GDP?

- A. It includes welfare benefits.
- B. It includes spending on national defense.**
- C. It includes Social Security benefits.
- D. It includes federal government spending but not state and local spending.

Only the part of federal spending used to acquire resources and produce services is counted in GDP.

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Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

48. Government services

- A. are larger than consumption in the United States.
- B. include the dollars spent on income transfers.
- C. include federal, state, and local government purchases of goods and services.**
- D. equal approximately \$10 trillion per year in the United States.

These branches of government build highways, write law, and police the streets to name just a few items.

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Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

49. Which of the following is not included in GDP as part of government services?

- A. Social Security benefits**
- B. military equipment
- C. highways and bridges
- D. education

Social Security is an income transfer; therefore it is not a part of output because no good or service is exchanged.

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Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.

50. As a portion of GDP, government purchases include

- A. food stamps.
- B. national defense expenditures.**
- C. unemployment benefits.
- D. welfare checks.

National defense spending is production of real goods and services. The others are transfer payments.

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Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

51. Government income transfers are NOT included in the calculation of GDP because

- A. it is difficult to measure the value of these payments.
- B. most of these payments are paid to foreign immigrants.
- C. these payments do not have an impact on the WHAT question.
- D. these payments do not reflect the production of goods and services.**

Only that part of federal spending used to acquire resources and produce services is counted in GDP.

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Difficulty: 2 Medium

Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: What America Produces

52. Income transfers include

- A. food provided by a privately funded food bank.
- B. housing provided at a reduced cost by the government.**
- C. free medical care provided by a retired doctor.
- D. the money saved when clothing is purchased on sale.

Reduced-cost housing is a type of transfer payment; the government subsidizes the cost of rent with nothing in exchange from those receiving the subsidies.

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Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

53. The goods and services sold to foreign buyers are

- A. imports.

- B. exports.
- C. income transfers.
- D. externalities.

Goods and services that are shipped abroad are exports.

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*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

54. Exports represent

- A. goods and services sold to foreigners.
- B. goods and services bought from foreigners.
- C. a larger number than imports for the United States.
- D. a negative number when calculating GDP.

Goods and services that are shipped abroad.

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Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

55. The goods and services purchased from foreign sources are

- A. investment.
- B. exports.
- C. imports.
- D. income transfers.

Imports are goods and services which are purchased from foreign sources.

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*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

56. Imports

- A. are goods and services sold to foreigners.
- B. increase the value of GDP.
- C. are a larger dollar value than exports for the United States.
- D. equal exports in dollar value for most countries.

We import more goods and services than we export.

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Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

57. GDP is the sum of consumption, investment, government purchases, and

- A. the factors of production.
- B. net exports.**
- C. saving.
- D. capital stock.

Exports are factored into GDP while imports are pulled out because, while consumed domestically, imports are not produced within the consuming nation's borders.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

58. U.S. net exports are

- A. equal to the value of exports minus the value of imports.**
- B. positive if the U.S. imports more than it exports.
- C. a larger portion of GDP than investment.
- D. always equal to zero.

The value of exports minus the value of imports equals net exports.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

59. Net exports measures the

- A. total dollar value of U.S. exports.
- B. dollar amount of imports.
- C. quantity of goods produced abroad.
- D. dollar value of exports minus the dollar value of imports.**

U.S. net exports are equal to the value of exports minus the value of imports.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

60. The decline in employment in the farm sector in the U.S. during the 1900s can be attributed primarily to

- A. new technology that made it possible to grow more food with fewer workers.
- B. an increase in the importance of the manufacturing sector.
- C. competition from imported agricultural products.
- D. a decline in the amount of food consumption per person.

New technology makes it possible to grow more food with fewer workers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

61. Over the last century in the United States there has been an increase in _____ as a percentage of total output.

- A. construction and mining
- B. farming
- C. manufacturing
- D. services

The relative decline in manufacturing is due primarily to the rapid expansion of the service sector.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

62. Over the last century in the United States there has been an increase in _____ as a percentage of total output.

- A. manufacturing, government, and services
- B. farming, international trade, and manufacturing
- C. services, government, and international trade
- D. services, farming, and construction

The service industry and the government generate over 70 percent of total output. About one-eighth of the output Americans produce is exported.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

63. Currently, the U.S. economy is best described as

- A. a service economy.
- B. a manufacturing economy.
- C. an agricultural economy.
- D. a government economy.

Much of the growth in the US economy is in the service sector. Projections indicate that 98% of net job growth in the US economy from 2018 through 2028 will be in services.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

64. Which of the following sectors contributes the largest amount to the U.S. GDP?

- A. farming
- B. manufacturing
- C. services
- D. exports

The service sector generates over 70 percent of total output.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

65. Which sector is expected to grow most rapidly for the United States in the future?

- A. farming since Americans are getting fatter
- B. services since Americans have high relative incomes
- C. manufacturing since Americans demand more and more luxury items
- D. mining since Americans use a lot of natural resources

The service industry is predicted to contribute 98 percent of job growth in the next ten years.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

66. Which of the following plays an increasingly important role in the U.S. economy?

- A. international trade
- B. manufacturing
- C. farming
- D. construction and mining

Advances in communications and transportation technologies make international trade and investment easier.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

67. The growth of international trade for the United States has been enhanced by

- A. an increase in trade barriers.
- B. improved communication and transportation technologies.**
- C. a decline in the government and services sectors.
- D. an increase in domestic manufacturing.

Advances in communications and transportation technologies make international trade and investment easier and cheaper.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

68. The factors of production include all of the following EXCEPT

- A. money.**
- B. land.
- C. labor.
- D. entrepreneurship.

Money is not a factor of production.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

69. The factors of production

- A. are unlimited for the United States since the country is so wealthy.
- B. include land, capital, and money.
- C. are the resource inputs used to produce goods and services.**
- D. include consumption, investment and government spending.

The factors of production are: Land, Labor, Capital, and Entrepreneurship.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

70. Which of the following statements is true?

- A. A country's GDP includes all output produced by its factors of production.
- B. A country's GDP includes all output produced within its borders.**
- C. A country's GDP is equal to its exports minus its imports.
- D. A country's GDP is equal to all output produced and consumed within its borders.

GDP measures all output produced within a county's border.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

71. Which of the following is NOT a reason why the United States is able to produce such high levels of GDP?

- A. abundant factors of production
- B. labor-intensive production process**
- C. high levels of investment in human capital
- D. high quality of capital

The high productivity of the U.S. economy results from using highly educated workers in a capital-intensive production process.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

72. Which of the following contribute to high levels of U.S. production?

- A. abundant factors of production**
- B. labor-intensive production
- C. barriers to trade
- D. immigration restrictions

America's greater economic strength is explained by the abundance of factors of production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

73. Capital intensive means

- A. the production process uses a high ratio of capital to labor inputs.**

- B. the production process uses a high ratio of labor to capital inputs.
- C. the production process is inefficient because it requires too much capital.
- D. that there are fewer jobs for workers and the economy will begin to decline.

The use of capital goods is at a higher level than the use of labor in production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

74. A capital-intensive production process

- A. reduces productivity because few workers are being employed.
- B. is necessary if a country has few factors of production.
- C. uses a high ratio of capital to labor inputs.
- D. is used in poor countries.

America invests each year in better plants and equipment and so the use of these capital goods is rising faster than the amount of labor employed.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

75. American production is described as capital intensive, which means that

- A. foreign investment is relatively small.
- B. the ratio of machinery to labor is high.
- C. the ratio of labor to machinery is high.
- D. government control of production processes is high.

In the production of goods, more capital goods are used than labor.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

76. Productivity measures

- A. output per worker.
- B. the dollar value of investment.
- C. final goods minus intermediate goods.
- D. the total amount of goods produced in the United States.

Productivity defines how much output an input is capable of producing.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

77. The productivity of American workers reflects all of the following EXCEPT:

- A. capital intensity of the production process.
- B. investment in human capital.
- C. high quality of capital.
- D. scarcity of plant and equipment.**

America invests in better plants and equipment and educated workers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

78. Which of the following does NOT contribute to an increase in productivity?

- A. technological advances
- B. high quality of capital
- C. high quantity of labor**
- D. highly skilled labor

Quantity of workers does not contribute to an increase in productivity. It is the quality of the workers that is most important.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

79. Education and job training are part of

- A. business inventory spending.
- B. consumer spending on durables since the impact is long lasting.
- C. human capital investment.**
- D. income transfers.

Human capital refers to workers' productive capabilities.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

80. Factor mobility refers to

- A. how easily factors of production can be reallocated.
- B. the quantity of resources a country has.
- C. how rapidly resources depreciate.
- D. the quality of the factors of production.

Continuing ability to produce the goods and services that consumers demand also depends on the ability to reallocate resources from one industry to another.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

81. When World War II ended, some resources moved easily from the production of military goods to the production of consumer goods. In economics, this phenomenon is described as

- A. production equality.
- B. capital adaptation.
- C. resource flexibility.
- D. factor mobility.

Factor mobility is the agility in reallocating resources from one industry to another.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

82. The primary way to distinguish among corporations, partnerships, and proprietorships is by observing

- A. ownership characteristics.
- B. the size of the industry.
- C. the number of firms in each classification.
- D. the size of profits.

A single proprietorship is a firm owned by one individual. A partnership is owned by a small number of individuals. A corporation is owned by the stockholders.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

83. Sole proprietorships

- A. are each owned by many individual stockholders.
- B. are owned by one individual.

- C. account for most business sales and assets.
- D. are the least common type of business firm.

The characteristic of a proprietorship is one owner.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

84. Proprietorships

- A. dominate market transactions.
- B. are owned by many individual stockholders.
- C. are known for their large assets.
- D.** are the most common type of business firm.

The single proprietorship is the most common type of business firm in America.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

85. Most businesses in the U.S. are classified as

- A. corporations.
- B. partnerships.
- C.** proprietorships.
- D. non-profit.

The single proprietorship is the most common type of business firm in America.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces

86. In the United States, corporations

- A.** dominate market transactions.
- B. are owned by one or two people.
- C. are the most common type of business firm.
- D. typically have less than \$10,000 in assets.

Corporations account for over 60 percent of all business sales.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

*Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

87. Which of the following is NOT true about U.S. corporations?

- A. the owners have limited liability for the actions of the company.
- B. they account for the majority of business sales.
- C. the typical asset size is in excess of \$4 million.
- D. they are the most common type of business firm.**

Proprietorships are the most common type of business firm.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

88. In the United States, government regulation is primarily designed to

- A. protect the environment through government ownership of natural resources.
- B. prevent businesses from competing with each other.
- C. protect labor, consumers, and the environment.**
- D. determine all the answers to the WHAT, HOW and FOR WHOM questions.

Government lays the foundation for market transactions, protecting consumers, labor and the environment.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

89. Which of the following is NOT viewed as a role for the U.S. government?

- A. providing a legal framework for business
- B. owning the factors of production**
- C. protecting consumers from exploitation
- D. protecting the environment

In a mixed economic system, the factors of production are owned by individuals.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

90. The government has an impact on the HOW to produce question when it does all of the following EXCEPT

- A. limits environmental pollution.
- B. forbids the use of child labor.
- C. sets a minimum wage.
- D.** follows a policy of laissez faire.

If the government followed the doctrine of laissez faire (hands off), it would not be involved in the HOW to produce question.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

91. A monopoly is

- A.** a firm that produces the entire market supply of a particular good or service.
- B. not likely to charge a high price because if it does consumers will switch to a different product.
- C. rarely affected by government regulation since there is only one firm in the industry.
- D. the most common type of U.S. business firm.

A monopoly is a sole producer of a good and could dictate price, quality, and the quantity of the product.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

92. A firm that produces the entire market supply of a certain good or service is known as

- A. a competitive firm.
- B. an oligopoly.
- C. a monopsony.
- D.** a monopoly.

A monopoly is a sole producer of a good and could dictate price, quality, and the quantity of the product.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

93. In a market characterized as a monopoly

- A. prices tend to be lower and output tends to be higher.
- B.** output tends to be lower and prices tend to be higher.
- C. quality and output tend to be higher.

D. prices tend to be lower and quality tends to be higher.

Monopolies may control price, quantity, and quality of a good's production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces

94. The term externalities refers to

- A. black-market economic activity.
- B. some costs and benefits of a market activity borne by a third party.**
- C. the impact on markets of goods imported from foreign countries.
- D. illegal economic activity.

An example of an externality is pollution. The cost of pollution is borne by a third party who was not responsible for causing the pollution.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces

95. The dumping of chemicals into a lake, which contaminates the drinking water, is an example of

- A. income transfers.
- B. a monopoly.
- C. an externality.**
- D. factor mobility.

In this case the cost of drinking water is borne by an innocent third party who was not involved in the pollution of the lake, but must pay for clean drinking water.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces

96. If government intervention forces the economy inside the production possibilities curve, there is

- A. market failure.
- B. government failure.**
- C. an externality.
- D. income inequality.

There is no guarantee that government regulation of HOW goods are produced always makes us better off.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

97. Too much government regulation might do all of the following EXCEPT

- A. inhibit production.
- B. raise product prices.
- C. limit consumer choices.
- D.** cause a market failure.

Government intervention causes government failures.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

98. The basic economic issue concerning the FOR WHOM question is specifically interpreted to mean, who

- A. gets the available jobs.
- B.** gets to consume the goods and services that are produced.
- C. inherits the accumulated wealth in the economy.
- D. produces the goods and services.

The FOR WHOM question helps divide the "economic pie" of goods and services among consumers.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces*

99. Which of the following is least likely to determine individual income in a market economy?

- A. the quantity of resources owned
- B. the quality of resources owned
- C. the prices of resources in the marketplace
- D.** the government

The U.S. government generally takes a laissez faire position in the distribution of income in a market economy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

100. Which of the following statements is true concerning income inequality?

- A. Income is distributed equally in poor countries.
- B. Rich countries have greater income inequality than poor countries.
- C. The government has no mechanism for altering income inequality.
- D. A free market economy tends to produce an unequal distribution of income.**

Markets reward individuals on the basis of their contribution to output.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

101. Which question does the "distribution of income" relate to most directly?

- A. For whom is output produced?**
- B. How is output produced?
- C. What output is produced?
- D. Why is output produced?

The FOR WHOM question answers the way total personal income is divided.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

102. In terms of income distribution, if a person moves from the lowest fifth of households to the highest fifth over many years, this is known as

- A. income migration.
- B. income mobility.**
- C. global migration.
- D. union membership.

Income mobility takes into consideration how long a person stays in any income level and the ability that person has to change their income level relative to others.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

103. The purpose of the U.S. tax-transfer system is to

- A. eliminate the economic power of the rich.
- B. preserve the Social Security system for future generations.
- C. furnish lower income households with more goods and services than the market alone provides.**
- D. equalize all household incomes in the U.S.

The mechanisms for re-slicing the income pie are taxes and income transfers.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces*

104. By definition, a progressive income tax

- A. generates greater tax revenues from the poor.
- B. imposes a higher marginal tax rate as income increases.**
- C. imposes a lower marginal tax rate as income increases.
- D. implies that the same marginal tax rate is paid at all income levels.

A progressive tax makes after-tax incomes more equal than before-tax incomes.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces*

105. Which of the following is true about the income-transfer system in the United States?

- A. The system provides more output for lower-income households than the market alone provides.**
- B. Transfer payments solve the problem of income inequality.
- C. The system does not affect the distribution of income because of regressive taxes.
- D. The system is actually progressive and gives more income to rich households.

Income transfers give lower-income households more of the income pie than they got in the marketplace.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces*

106. Income transfers include all of the following EXCEPT

- A. food stamps.
- B. medicaid.

- C. wages.
- D. welfare benefits.

Wages are not income transfers. Remember that transfers are one directional—there is no exchange taking place. Wages are paid in exchange for services rendered. The remaining options all represent a payment from the government to individuals who are not obligated to give anything back to the government.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

107. One News Wire article in the text, "Income Share of the Rich," reports: "In most developing countries the top tenth of all households receives 30–50 percent of all income." Which of the following forms of government intervention is designed to reduce this market situation?

- A. Antitrust laws.
- B. Public goods.
- C. Laissez-faire.
- D. Income transfers.

Income-transfer system gives lower-income households more output than the market itself would provide.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

108. GDP is a measure of the market value of final goods and services produced within a nation's borders in a given period.

TRUE

GDP measures the market value of final goods and services produced within a nation's borders in a given period.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

109. In periods of rising prices, real GDP will always rise more rapidly than nominal GDP.

FALSE

Nominal GDP will rise more rapidly than real GDP because real GDP ignores price changes. In other words, if prices rise and the quantity of output remains the same, then nominal GDP would rise and real GDP would remain the same.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

110. Per capita GDP measures the distribution of income within a country.

FALSE

Per Capita GDP measures the distribution of income each person would get if all output were divided evenly among the population.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

111. Growth in GDP per capita is achieved when population grows more rapidly than GDP.

FALSE

Growth in GDP per capita occurs when GDP grows more rapidly than population.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

112. Economic growth is desirable because it usually creates more jobs and income.

TRUE

Growth is essential to maintain or increase production possibilities.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

113. One reason that GDP is not the best measure of social welfare is because it does not include volunteer activities.

TRUE

Social welfare may not contribute to production and so would not be counted in some cases.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

114. Consumer goods account for approximately 70 percent of total U.S. output.

TRUE

Consumer goods dominate the U.S. mix of output.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

115. Since investment spending in the United States is a smaller percentage of GDP than consumer spending, it is not essential for economic growth.

FALSE

Investment is essential for economic growth.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

116. If an individual purchases stock in the stock market, this is included in the economic definition of investment as a component of GDP.

FALSE

Individual purchases of stock do not contribute to economic growth. This personal investment is not an economic investment. Stock purchases may later contribute to growth, however, this would require that firms take the money raised from stock sales and reinvest it internally. When they do, this would count as investment and be factored into GDP. If this were counted as an investment *and* as a stock sale, one transaction would be counted twice, which is not permitted.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

117. In the United States, all of the state and local governments combined use more of our scarce resources than does the federal government.

TRUE

State and local governments use far more of our scarce resources than does the federal government.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

118. In the United States, net exports account for two-thirds of GDP.

FALSE

Net exports account only for a small portion of GDP.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

119. If the United States imports more than it exports, this implies that the country uses more goods and services than it produces.

TRUE

Imports represent goods and services that are used by Americans but are not produced in the U.S.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

120. The manufacturing share of output has increased in the United States since World War II.

FALSE

The manufacturing and agricultural shares have decreased while the services share has increased.

*AACSB: Understand
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

121. A capital-intensive production process increases the level of output per worker.

TRUE

Capital goods greatly assist in increasing the level of output per person.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

122. The reason that U.S. productivity is so high is because the United States has more natural resources and a larger population than any other country in the world.

FALSE

Population does not contribute to productivity.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

123. The United States has invested heavily in human capital by promoting education and skill training.

TRUE

More than other places in the world, the U.S. has higher rates of high school and college graduation.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

124. U.S. corporations account for the majority of output in the country even though proprietorships outnumber corporations.

TRUE

Corporations dominate market transactions, accounting for almost 90 percent of all business sales.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

125. In a monopoly situation, government regulation is incapable of improving market outcomes.

FALSE

Government regulations are intended to protect the interests of consumers, preventing firms from becoming too powerful. The government could enforce competition laws, price regulations, or quantity regulations to effectively protect consumers and improve market outcomes.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

126. Externalities are costs or benefits of a market activity borne by a third party.

TRUE

The cost or benefits of externalities are spread to innocent third parties.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: How America Produces*

127. Incomes are distributed more equally in poor countries than in rich ones because of transfer payments.

FALSE

Most poor countries do not have a system of transfer payments like welfare and disparities in income tend to be more amplified.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces*

128. The U.S. federal income tax is an example of a progressive tax.

TRUE

A progressive tax makes after-tax incomes more equal than before-tax incomes.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: How America Produces*

129. The U.S. tax-transfer system gives more output to lower-income households than does the market alone.

TRUE

The income-transfer system gives lower-income households more output than the market itself would provide.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: How America Produces*

130. Why is using real GDP a better measurement of GDP than using nominal GDP?

GDP is based on both physical output and prices. From one year to the next either rising prices or an increase in physical output could cause nominal GDP to increase. However, the goal of GDP is to see how production, or output, changes from one year to the next. As a result, we want to ignore the impacts of changing prices on the value of the goods and services produced so GDP numbers must be adjusted for inflation. These inflation adjustments delete the effects of rising prices by valuing output in constant prices. The result is called real GDP and is more reflective of production levels than nominal GDP.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard*

*Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces*

131. Investment goods are a different type of output. Discuss the types of investment goods and their relationship to the production possibilities of an economy.

Investment goods include the plant, machinery, and equipment that are produced for use in the business sector. These investments are often used to replace worn-out equipment and factories, which maintains the production possibilities of an economy. We can say, then, that investment goods maintain, increase, or improve the stock of capital. Depending on the size of the investment relative to equipment becoming more worn out, production possibilities should improve with greater investment.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces*

132. What does the government do to protect consumers from monopolies? List specific steps the government takes to protect consumers.

The government tries to prevent individual firms from dominating specific markets. Antitrust laws prohibit mergers or acquisitions that threaten competition. The U.S. Department of Justice and the Federal Trade Commission also regulate pricing practices, advertising claims, and other behavior that might put consumers at an unfair disadvantage in product markets.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: How America Produces*

133. China is incorrectly regarded, by many, as the largest economy in terms of GDP. In fact it is the U.S. that has the largest GDP in the world. List some of the reasons why this is so.

The U.S. has a smaller population than China. However, due to capital intensive productivity and a highly skilled workforce combined with the other factors of production, the U.S. leads the world in production. China's economy has been growing more rapidly, though, as it invests more in the workforce and capital goods. Many believe that in the near future, China will have the largest economy in terms of GDP.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard*

*Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces*

134. Explain the importance of consumer durable goods spending as it relates to the economy.

Durable goods spending by consumers will increase when the economy is performing well. When consumers are confident about the economy, they will purchase the expensive big ticket items. When the economy is doing poorly, durable good spending declines because consumers are worried about their incomes. As a result, changes to durable goods spending can be used as a barometer for the perceptions that consumers have about the health of an economy.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: What America Produces*

135. Give some examples of nondurable goods and explain why they could be considered nondurable.

Examples include: gasoline, food, clothing, and medicine. Each of these goods has a relatively short lifespan and is used up rather quickly. In this way, they are considered less durable than something like a car or a house, which is supposed to last for decades.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: What America Produces*

136. What specific programs are available through government for the poor to provide financial assistance?

Taxes collected by the government are redistributed to the poor through income transfers. These would include food stamps, welfare benefits, and Medicaid.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: What America Produces

137. Which of these is NOT included in GDP?

- A. government transfer payments to Social Security beneficiaries
- B. consumer spending on durable and nondurable goods
- C. business investment in new equipment
- D. net exports

Government transfer payments to Social Security beneficiaries is the correct answer because there is no production associated with government transfer payments.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

138. GDP is the total value of all _____ goods and services produced within a nation's borders in a given time period.

- A. final
- B. unfinished
- C. intermediate
- D. non-exported

GDP only includes *final* goods and services.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: What America Produces

139. _____ GDP is adjusted for inflation.

- A. Nominal
- B. Real
- C. Current
- D. Per capita

"Real" means adjusted for inflation in economics.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: What America Produces

140. In the United States, per capita GDP is

- A. determined by dividing total GDP by total population.
- B. more than four times the world average.
- C. a measure of how much output each person in an economy would get if all of the output of the economy was divided up evenly.
- D. All of these choices are correct.**

All of these describe per capita GDP, which is calculated as GDP divided by population.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: What America Produces*

141. Which type of output leads to increased output in the future?

- A. consumption
- B. investment**
- C. government services
- D. net exports

Investments sacrifice current consumption so that resources may be used for future output.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: What America Produces*

142. The United States' economy is the largest in the world because

- A. it has a high quantity and quality of capital resources.
- B. the government directs resources to the most desirable outcomes.
- C. it has abundant natural and human resources.
- D. Both a high quantity and quality of capital resources and an abundance of natural and human resources are correct.**

The United States benefits from an abundance of the factors of production—including land (natural resources) and labor (human resources), as well as having capital resources in sufficient quantity and quality to raise productivity levels.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: What America Produces*

143. Durable goods

- A. are goods produced with minerals and metals.

- B.** tend to be big-ticket items like cars.
- C. include clothes, food, and gasoline.
- D. Both goods produced with minerals and metals and big-ticket items like cars are correct.

Durable goods are larger purchases that tend to last for three years or longer. Some goods produced with minerals and metals may not last that long and so we would need more information to define them as durable.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

144. Consumer goods account for more than _____ of total U.S. output.

- A. One-third
- B. One-half
- C.** Two-thirds
- D. Nine-tenths

Consumer spending represents about two-thirds of total U.S. output.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: What America Produces

145. In a market economy, an individual's income depends on

- A. the quantity and quality of resources owned.
- B. the price that resources command in the market.
- C. natural resource availability.
- D.** Both the quantity and quality of resources owned, as well as the price that resources command in the market are correct.

Income depends on wages, which are determined in the labor market, as well as the quantity of hours worked and quality of labor provided.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

146. Which of these statements about income distribution in the United States is correct?

- A. People often move up and down the income ladder.
- B. The poorest fifth of households account for 3 percent of total income.
- C. The richest fifth of households account for 51 percent of total income.
- D.** All of these choices are correct.

All of these statements are true of income distribution in the United States.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: For Whom America Produces

Chapter 02 Test Bank Summary

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