

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following would be a topic emphasized in a macroeconomics course? 1) _____
- A) How a firm decides the price it will charge for one of its products.
 - B) How a consumer chooses which goods to buy.
 - C) The determinants of the wage rate for a certain type of labour.
 - D) Factors that determine how fast a nation's economy is growing.

Answer: D

Explanation: A)
B)
C)
D)

- 2) When the supply curve and demand curve for a particular good are on a single graph, the point at which the two curves intersect identifies the: 2) _____
- A) total amount of labour that will be employed in that market.
 - B) amount of time it takes to bring together the buyers and sellers of the good.
 - C) equilibrium price of the good.
 - D) total profit earned by producers.

Answer: C

Explanation: A)
B)
C)
D)

- 3) Economics is the study of how: 3) _____
- A) to invest wisely in the stock market.
 - B) sophisticated statistical techniques can be used to make predictions about the evolution of society over the long run.
 - C) to employ resources to produce goods and services and distribute them among competing groups and individuals.
 - D) people govern themselves in a democratic society.

Answer: C

Explanation: A)
B)
C)
D)

4) Which of the following statements provides the most accurate comparison of socialism and communism? 4) _____

- A) Under socialism the government owns most businesses, while under communism the church owns most businesses.
- B) Communism believes that the government should always strive to balance its budget, while socialism accepts deficit spending as the price of achieving true equality.
- C) Socialism strives for an equal distribution of income but communism wants income to go primarily to those who own and operate private businesses.
- D) Both socialism and communism want to achieve a more equal distribution of income and wealth, but under communism the government takes more control over people's lives.

Answer: D

Explanation: A)
B)
C)
D)

5) _____ is a condition in which the average level of prices is actually falling. 5) _____
A) Stagflation B) Deflation C) De-inflation D) Disinflation

Answer: B

Explanation: A)
B)
C)
D)

6) In recent years, countries with communist economic systems have: 6) _____

- A) experienced severe economic depression.
- B) grown very slowly, but have avoided the severe problems that have plagued some capitalist economies in Asia and Europe.
- C) produced goods sufficient for their own people and for export.
- D) enjoyed a period of great prosperity.

Answer: A

Explanation: A)
B)
C)
D)

- 7) Three of the major indicators of the economic condition of Canada are the gross domestic product (GDP), the price indices, and the: 7) _____
- A) unemployment rate.
 - B) debt to equity ratio (DER).
 - C) index of capital formation.
 - D) gross resource utilization index (GRUI).

Answer: A

Explanation: A)
B)
C)
D)

- 8) In recent years, productivity in the goods-producing sector of the Canadian economy has been: 8) _____
- A) falling very rapidly.
 - B) relatively stable.
 - C) falling slowly.
 - D) rising.

Answer: D

Explanation: A)
B)
C)
D)

- 9) Almost every discussion about a country's economy is based on gross domestic product. GDP is the: 9) _____
- A) total output of goods and services in a given period divided by the total hours of labour required to provide them
 - B) general well-being of a society in terms of political freedom
 - C) amount of goods and services people can buy with the money they have
 - D) total value of goods and services produced in a country in a given year

Answer: D

Explanation: A)
B)
C)
D)

- 10) In most large cities there are a large number of bakeries. These bakeries produce similar, but not identical, products. Some bakeries claim to have the best cheesecakes in town, while others brag about their cookies or specialty breads. The bakery market in a large city is an example of: 10) _____
- A) a monopoly.
 - B) an oligopoly.
 - C) monopolistic competition.
 - D) perfect competition.

Answer: C

Explanation: A)
B)
C)
D)

- 11) One reason the CPI is followed very closely by the government, businesses, and workers is that: 11) _____
- A) it is the best measure of worker productivity in the service sector.
 - B) it indicates whether we are running a budget surplus or a deficit.
 - C) some wages, interest rates, tax rates, and government benefits are tied to changes in the value of the CPI.
 - D) the gross national product is computed from the reported increases in the CPI.

Answer: C

Explanation: A)
B)
C)
D)

- 12) The _____ index measures changes in the prices of goods and services such as food, housing, and apparel. 12) _____
- A) producer price
 - B) market price
 - C) wholesale price
 - D) consumer price

Answer: D

Explanation: A)
B)
C)
D)

- 13) The system that has provided more opportunities for poor people to work their way out of poverty is known as what? 13) _____
- A) Socialism
 - B) Communism
 - C) Free-market capitalism
 - D) Monopolistic competition

Answer: C

Explanation: A)
B)
C)
D)

- 14) A(n) _____ exists when the entire supply of a good is controlled by a single seller. 14) _____
- A) monopoly
 - B) perfect competition
 - C) pure capitalism
 - D) oligopoly

Answer: A

Explanation: A)
B)
C)
D)

- 15) A typical demand curve shows that: 15) _____
- A) as people earn more income, they buy more of a good.
 - B) people tend to buy more of a good when its price decreases.
 - C) people tend to buy more of a good than they really want.
 - D) as supply increases, the amount purchased decreases.
- Answer: B
- Explanation: A)
B)
C)
D)
- 16) Both socialism and communism are variations of: 16) _____
- A) competitive economies.
 - B) free-market economies.
 - C) plutocratic systems.
 - D) command economies.
- Answer: D
- Explanation: A)
B)
C)
D)
- 17) Communism is an economic system in which: 17) _____
- A) all or most of the productive resources are owned by private businesses.
 - B) the government and private citizens own equal shares of the economic resources.
 - C) the government makes most of the major economic decisions.
 - D) individual consumers make all economic decisions.
- Answer: C
- Explanation: A)
B)
C)
D)
- 18) If a shortage exists for a good in a free-market economy, the: 18) _____
- A) government must establish a rationing system to make sure that the good is fairly distributed.
 - B) price of the good will fall.
 - C) price of the good will rise.
 - D) government will order suppliers to increase the production of that good.
- Answer: C
- Explanation: A)
B)
C)
D)

19) Peter Principal is the prime minister of the nation of Urbania. Peter has called for Urbania's legislature to enact new legislation designed to shift his economy away from socialism toward a more capitalistic system. Peter has acknowledged that such a radical change will entail some hardships, and that some citizens will be unhappy with the changes in the economy. The most likely source of unhappiness associated with a move toward capitalism is:

19) _____

- A) people will have less economic freedom.
- B) the distribution of wealth will become less equal.
- C) less wealth will be created.
- D) tax rates will have to increase.

Answer: B

Explanation: A)
B)
C)
D)

20) Which of the following statements would a follower of Adam Smith be most likely to make?

20) _____

- A) Market economies are flawed because they put too much emphasis on economic growth and not enough on environmental problems.
- B) The federal government should use its ability to spend and tax to guide the decisions of businesses and consumers.
- C) If people are given the freedom to follow their own interests, they will end up promoting economic growth that benefits society as a whole.
- D) Overpopulation is the main danger confronting modern economies.

Answer: C

Explanation: A)
B)
C)
D)

21) When prices are free to adjust over time, the market price of a good tends to:

21) _____

- A) fall below the equilibrium price in the long run.
- B) have no specific relationship to the equilibrium price.
- C) equal the equilibrium price in the long run.
- D) rise above the equilibrium price in the long run.

Answer: C

Explanation: A)
B)
C)
D)

- 22) A command system is characterized by: 22) _____
A) reliance on the government to determine what is produced and who gets the output.
B) freedom of choice and freedom of competition.
C) reliance on the forces of supply and demand to determine what is produced.
D) an extremely rapid rate of economic growth.
Answer: A
Explanation: A)
B)
C)
D)
- 23) The rise and fall of the economy is referred to as the concept of: 23) _____
A) recession B) depression
C) business cycles D) recovery
Answer: C
Explanation: A)
B)
C)
D)
- 24) _____ looks at the behaviour of individual people and organizations in specific 24) _____
markets.
A) Finite economics B) Microeconomics
C) Nanoeconomics D) Macroeconomics
Answer: B
Explanation: A)
B)
C)
D)
- 25) Which of the following people would tend to favour a socialist economy? 25) _____
A) Dann wants to live in a country with low marginal tax rates.
B) Liz wants to live in a country with limited government regulation.
C) Robin wants to live in a country that encourages rapid economic growth.
D) Dwayne prefers to live in a country that promotes social equality.
Answer: D
Explanation: A)
B)
C)
D)

- 26) Jorge Martinez is a hard working entrepreneur who operated a successful business in his home country of Margintina for many years. Recently, however, he immigrated to Canada and applied for Canadian citizenship. "In Margintina, tax rates were very high," Jorge complained. "The government used the taxes I paid to finance all sorts of social programs to help the less fortunate. While this is a noble goal, it has really undermined the profit incentive of individuals such as myself. I really feel that these high taxes have stifled economic growth." Jorge's comments illustrate the reason many socialist countries are experiencing a(n):
- A) depression. B) brain drain.
C) antitrust problem. D) budget surplus.

Answer: B

Explanation: A)
B)
C)
D)

- 27) A typical supply curve shows that an increase in the price of a good will cause the quantity supplied to:
- A) remain constant.
B) fluctuate randomly around its equilibrium value.
C) increase.
D) decrease.

Answer: C

Explanation: A)
B)
C)
D)

- 28) The presence of competition in free markets:
- A) typically results in better quality and lower prices.
B) is rare, since most markets eventually evolve into monopolies.
C) is undesirable because it results in unnecessary duplication of efforts.
D) is undesirable, because one big firm can usually produce goods more efficiently than a large number of small firms.

Answer: A

Explanation: A)
B)
C)
D)

29) Kathleen manages a manufacturing plant for ScanRite, Inc., a producer of scanners and other input devices connected to computers. About six months ago, Kathleen asked an assistant to keep track of both work hours and output at her plant. She has compared these figures, and has found that even though the number of workers (and the hours they worked) remained relatively steady over the past six months, the plant's output increased significantly. This indicates that:

29) _____

- A) ScanRite prices have increased faster than the wages it pays to its workers.
- B) Kathleen should hire more workers.
- C) the productivity of workers at the ScanRite plant has increased.
- D) the ScanRite plant must have sold off some of its excess inventory.

Answer: C

Explanation: A)
B)
C)
D)

30) A major benefit of socialism is assumed to be its:

30) _____

- A) emphasis on low tax rates.
- B) ability to create strong incentives to work hard.
- C) emphasis on social equality.
- D) ability to stimulate rapid economic growth.

Answer: C

Explanation: A)
B)
C)
D)

31) One of the most significant problems faced by communist economies is:

31) _____

- A) persistent shortages of basic goods such as food and clothing.
- B) a great inequality in the distribution of wealth and income.
- C) severe inflationary pressures due to rapid economic growth.
- D) too little government regulation of economic activity.

Answer: A

Explanation: A)
B)
C)
D)

32) _____ is characterized by a large number of firms selling products that appear to be identical.

32) _____

- | | |
|------------------------------|-----------------------------|
| A) Perfect competition | B) Monopolistic competition |
| C) Microeconomic competition | D) Oligopoly |

Answer: A

Explanation: A)
B)
C)
D)

- 33) Two or more consecutive quarters of GDP decline is known as a _____. 33) _____
A) seasonal B) depression C) recession D) frictional
Answer: C
Explanation: A)
 B)
 C)
 D)
- 34) The nation of Nadiria is in the midst of a terrible economic downturn. The nation's GDP has been declining steadily for over five years and is now at its lowest level in over fifty years. Nadiria's unemployment rate is at an all-time high and the nation's CPI is falling. Nadiria is experiencing a _____. 34) _____
A) balance of trade deficit. B) period of retraction.
C) period of stagflation. D) period of depression.
Answer: D
Explanation: A)
 B)
 C)
 D)
- 35) Some regions of China do not allow their citizens to practice certain religions, change jobs, or move to another town. This is an example of: 35) _____
A) capitalism B) socialism C) communism D) free-market
Answer: C
Explanation: A)
 B)
 C)
 D)
- 36) John complained to his buddy, Frank, that the prices of all the goods he and his family buy have increased a lot over the past year. Frank disagreed, saying that the prices of some goods have gone up a bit, but other prices have declined. Frank feels that the average price of consumer goods hasn't changed very much. In order to resolve their disagreement, John and Frank should look at recent figures for the: 36) _____
A) PPI B) GDP C) MEW D) CPI
Answer: D
Explanation: A)
 B)
 C)
 D)

- 37) The markets for laundry detergents, soft drinks, and automobiles all are dominated by just a few sellers. Economists would classify these markets as examples of: 37) _____
- A) perfect competition. B) monopolistic competition.
C) an oligopoly. D) a monopoly.

Answer: C

Explanation: A)
B)
C)
D)

- 38) When the economy is weak, government revenues in Canada 38) _____
- A) rise B) slowly rise C) stay steady D) decline

Answer: D

Explanation: A)
B)
C)
D)

- 39) Fourteen years ago, Murray noticed that a lot of people who bought personal computers really did not know much about how to use them and frequently suffered system crashes and other aggravations. He decided he could earn a nice profit by starting a consulting business to help other people overcome their computer woes. Although the business struggled at first, it has been quite successful for the last five years. Murray has many satisfied customers, and the business has grown to the point where he now employs several workers. According to Adam Smith, Murray's experience is an example of: 39) _____
- A) the multiplier principle.
B) freedom.
C) the principle of comparative advantage.
D) socialism at work.

Answer: B

Explanation: A)
B)
C)
D)

- 40) A _____ is a very severe recession that is usually accompanied by a decline in the average level of prices. 40) _____
- A) retraction B) depression C) dissolution D) stagflation

Answer: B

Explanation: A)
B)
C)
D)

- 41) One of the greatest concerns associated with capitalism is that: 41) _____
- A) producers are unlikely to supply the goods and services that consumers value the most.
 - B) it is not very successful at creating wealth.
 - C) the amount of economic freedom enjoyed by consumers is very limited.
 - D) some businesspeople may let greed guide their behaviour.
- Answer: D
Explanation: A)
B)
C)
D)
- 42) Adam Smith believed that countries would prosper if businesspeople were free to start and run their own businesses, because business people would make a profit by providing the goods, services and ideas that others in the economy wanted. This was called the: 42) _____
- A) kinked demand theory.
 - B) demand accelerator.
 - C) invisible hand.
 - D) spending multiplier.
- Answer: C
Explanation: A)
B)
C)
D)
- 43) Today, the economic systems of most nations could most accurately be classified as: 43) _____
- A) pure socialism.
 - B) command economies.
 - C) pure capitalism.
 - D) mixed economies.
- Answer: D
Explanation: A)
B)
C)
D)
- 44) Which of the following statements most accurately identifies a serious limitation of the free-market economic system? 44) _____
- A) Free-market economies have been unable to create wealth as rapidly as other types of economic systems.
 - B) Free-market economies offer little opportunity for the poor to work their way out of poverty.
 - C) Free-market economies result in a very unequal distribution of wealth.
 - D) Free-market economies often are plagued by shortages of needed consumer goods.
- Answer: C
Explanation: A)
B)
C)
D)

- 45) The economic system that has led to wealth creation in most of the world is known as: 45) _____
A) free-trade B) socialism C) communism D) capitalism

Answer: D

Explanation: A)
 B)
 C)
 D)

- 46) The market price of apples is currently rising. In a free-market economy, the most likely 46) _____
explanation of this price change is that:
A) there is a shortage in the market for apples.
B) the supply of money has decreased.
C) the equilibrium price is lower than the market price.
D) the government has decided to set a higher price so that the firms in the market
make an adequate profit.

Answer: A

Explanation: A)
 B)
 C)
 D)

- 47) In an effort to promote rapid growth, the government of Goldinia has kept taxes low, 47) _____
done little to regulate business activities, and implemented only modest social programs.
The government is now facing political pressure to do more to clean up the environment
and reduce the inequalities of income and wealth. Which of the following statements is
most accurate? Goldinia's government is currently taking:
A) a predominately socialist approach to achieving economic goals, but the current
pressures it faces suggest it is likely to adopt a more capitalist approach in the
future.
B) a purely capitalist approach to achieve its economic goals, and is likely to continue
doing so in the future.
C) a predominately capitalist approach toward achieving economic goals, but the
current pressures it faces suggest it is likely to adopt a more socialist approach in
the future.
D) a purely socialist approach to achieve its economics goals, and is likely to continue
doing so in the future.

Answer: C

Explanation: A)
 B)
 C)
 D)

48) A(n) _____ exists when a large number of firms produce goods that are similar but are perceived by buyers as being different. 48) _____

- A) monopolistic competition
- B) monopoly
- C) oligopoly
- D) perfect competition

Answer: A

Explanation: A)
B)
C)
D)

49) A typical supply curve shows a relationship between the: 49) _____

- A) amount of time required to produce a good and the relevant production costs.
- B) amount of a good a firm produces and the total profit it earns.
- C) amount of labour a firm hires and the amount of output it can produce.
- D) price of a good and the quantity sellers would be willing to offer for sale.

Answer: D

Explanation: A)
B)
C)
D)

50) The quantity of a good or service that manufacturers or owners are willing to sell at different prices during a specific time period is known as the: 50) _____

- A) utility of that product.
- B) elasticity of that product.
- C) demand for that product.
- D) supply of that product.

Answer: D

Explanation: A)
B)
C)
D)

51) One of the dangers of free markets is that some people will let ____ dictate how they act. 51) _____

- A) demand
- B) supply
- C) prices
- D) greed

Answer: D

Explanation: A)
B)
C)
D)

- 52) The nation of Tryland has seen the total value of the goods and services it produces increase rapidly over the past year. This would show up most clearly as a: 52) _____
- A) decline in the number of workers who are structurally unemployed.
 - B) rise in Tryland's CPI.
 - C) rise in Tryland's unemployment rate.
 - D) rise in Tryland's GDP.

Answer: D

Explanation: A)
B)
C)
D)

- 53) Free-market capitalism has brought prosperity as well as _____. 53) _____
- A) lower demand
 - B) monopolies
 - C) higher prices
 - D) inequality

Answer: D

Explanation: A)
B)
C)
D)

- 54) The four basic types of employment are frictional, structural, seasonal, and: 54) _____
- A) industrial.
 - B) cyclical.
 - C) traditional.
 - D) procedural.

Answer: B

Explanation: A)
B)
C)
D)

- 55) A major trend in the world today is that: 55) _____
- A) governments in countries with capitalist economies are paying less attention to environmental concerns and issues involving social equality.
 - B) governments in socialist economies are increasing their use of social programs and relying on higher tax rates to finance these programs.
 - C) free-market economies are moving more toward socialism and socialist economies are moving more toward capitalism.
 - D) productivity in the service sector is increasing much more rapidly than productivity in agriculture and manufacturing.

Answer: C

Explanation: A)
B)
C)
D)

56) Which of the following results would be the clearest indication that an economy was experiencing deflation? 56) _____

- A) a decrease in the unemployment rate
- B) an increase in the PPI
- C) a decrease in the CPI
- D) a decrease in GDP

Answer: C

Explanation: A)
B)
C)
D)

57) A collapse in the national banking system of Lasia has resulted in a condition where prices are declining. This condition is known as: 57) _____

- A) disinflation.
- B) contra inflation.
- C) overproduction.
- D) deflation.

Answer: D

Explanation: A)
B)
C)
D)

58) The total value of final goods and services produced within a nation's borders in a given year is known as that nation's: 58) _____

- A) aggregate production quota.
- B) index of aggregate economic output.
- C) aggregate domestic output.
- D) gross domestic product.

Answer: D

Explanation: A)
B)
C)
D)

59) Samir, a friend of yours, has called for more government regulation of business. "After all", he says, "businesspeople are out to make a profit, not to create jobs or serve their customers. The government must pass more laws to require businesses to take the interests of consumers and workers into account". From these comments, it is clear that Samir: 59) _____

- A) is unaware of the fact that most businesses in Canada are actually owned by the government.
- B) agrees with the ideas of Adam Smith.
- C) does not realize that government regulation is already the main determinant of business decisions in capitalist economies.
- D) does not accept the philosophy behind Adam Smith.

Answer: D

Explanation: A)
B)
C)
D)

60) A supply curve typically _____

- A) Decreases from right to left.
- C) Rises from left to right.

- B) Rises from right to left.
- D) Decreases from left to right.

60) _____

Answer: C

Explanation: A)
B)
C)
D)

61) _____ refers to a general rise in the price level of goods and services over time.

- A) Recession
- B) Escalation
- C) Inflation
- D) Acceleration

61) _____

Answer: C

Explanation: A)
B)
C)
D)

62) Under socialism:

- A) a major goal of the government is to create incentives to encourage entrepreneurs to create jobs and economic growth.
- B) the basic goal is to make sure that those that create wealth are allowed to keep that wealth.
- C) a major goal of the government is to reduce the inequality in the distribution of wealth.
- D) the most important goal of the government is to keep tax rates extremely low.

62) _____

Answer: C

Explanation: A)
B)
C)
D)

63) _____ studies the operation of a nation's economy as a whole.

- A) Microeconomics
- B) Socioeconomics
- C) Macroeconomics
- D) Econometrics

63) _____

Answer: C

Explanation: A)
B)
C)
D)

- 64) Which of the following would be a topic emphasized in a microeconomics class? 64) _____
- A) How the government can use fiscal and monetary policies to stabilize the economy.
 - B) How a nation's GDP is computed.
 - C) How market conditions determine the price of a specific product.
 - D) The reasons why the unemployment rate for the economy is rising or falling.

Answer: C

Explanation: A)
B)
C)
D)

- 65) The _____ is a statistic that is used to compute the pace of inflation or deflation. 65) _____
- A) index of leading indicators
 - B) index of inflationary trends
 - C) consumer price index
 - D) gross domestic product

Answer: C

Explanation: A)
B)
C)
D)

- 66) In capitalism, most decisions about what goods and services to produce are made by: 66) _____
- A) majority rule, with everyone receiving an equal vote.
 - B) a variety of government agencies.
 - C) a central planning board that consists of consumers, business executives, and employees.
 - D) business people.

Answer: D

Explanation: A)
B)
C)
D)

- 67) Over the recent past, Canadian governments have been privatizing a number of businesses, as growing public sentiment is that governments are not effective as business operators. This trend is an example of the growth of: 67) _____
- A) command economies
 - B) free trade
 - C) free-market economies
 - D) mixed economies

Answer: C

Explanation: A)
B)
C)
D)

68) Although it has been considered a capitalist economy in the past, for the past several years the economy of the nation of Suburbania has become more socialist in its characteristics. Which of the following trends is most likely to be associated with Suburbania's movement toward socialism? 68) _____

- A) increasing reliance on markets to determine economic outcomes
- B) lower tax rates
- C) a more equal distribution of wealth
- D) more rapid economic growth

Answer: C

Explanation: A)
B)
C)
D)

69) A(n) _____ curve shows the relationship between the price of a good and the quantity of that good people are willing and able to buy in a given time period. 69) _____

- A) Laffer
- B) utility
- C) demand
- D) supply

Answer: C

Explanation: A)
B)
C)
D)

70) The reason why many socialist countries have experienced brain drain is that: 70) _____

- A) socialism encourages a very unequal distribution of income.
- B) tax rates on talented individuals tend to be very high.
- C) the government does little to protect the natural environment.
- D) workers tend to have to work longer hours and receive fewer benefits under socialism.

Answer: B

Explanation: A)
B)
C)
D)

71) An increase in _____ means that a given number of workers can produce more output than before. 71) _____

- A) productivity
- B) structural unemployment
- C) CPI
- D) GDP

Answer: A

Explanation: A)
B)
C)
D)

72) A key assumption of socialism is that:

72) _____

- A) the most important economic function of government is to promote rapid economic growth.
- B) tax rates should be kept as low as possible in order to give consumers the maximum possible purchasing power.
- C) economic growth requires strict government control over population growth.
- D) government ownership of some basic businesses is desirable because it helps achieve a more equal distribution of profits among the people.

Answer: D

Explanation: A)
B)
C)
D)

73) The government of Ruritania has implemented many programs that promote equality, but has become concerned about the very slow rate of growth that has plagued the national economy for many years. In order to address this problem, the government is likely to:

73) _____

- A) reduce taxes and cut back on some social programs.
- B) avoid the use of fiscal policies and reduce the supply of money in circulation.
- C) take control of more major industries.
- D) make sure to balance its budget.

Answer: A

Explanation: A)
B)
C)
D)

74) The study of how to increase resources is known as what?

74) _____

- A) Macroeconomics
- B) Resource economics
- C) Microeconomics
- D) Resource development

Answer: D

Explanation: A)
B)
C)
D)

75) The Canadian economic system can be described as a:

75) _____

- A) communist economy.
- B) socialist economy.
- C) mixed economy.
- D) capitalist economy.

Answer: C

Explanation: A)
B)
C)
D)

76) In the nation of Equalia, many businesses are privately owned, but the government owns some of the basic businesses and has developed many social programs designed to promote social equality. Tax rates are high, and many educated people have left the country. The economy of Equalia would be considered an example of: 76) _____

- A) mercantilism.
- B) communism.
- C) socialism.
- D) pure capitalism.

Answer: C

Explanation: A)
B)
C)
D)

77) Under capitalism: 77) _____

- A) the primary function of the government is to distribute wealth more evenly.
- B) markets operate to carry out the decisions made by central planners.
- C) utilities, health care, education, and other services are controlled by the government.
- D) most of the means of production and distribution are privately owned and operated for profit.

Answer: D

Explanation: A)
B)
C)
D)

78) The study of how society employs resources to produce goods and services and distribute them for consumption among various competing groups and individuals is known as: 78) _____

- A) marketing
- B) economics
- C) finance
- D) human resource management

Answer: B

Explanation: A)
B)
C)
D)

79) A supply curve indicates the relationship between ____ and the quantity supplied. 79) _____

- A) price
- B) demand
- C) supply
- D) utility

Answer: A

Explanation: A)
B)
C)
D)

80) According to Adam Smith, the best way for the government to encourage the creation of jobs and the production of the products most wanted by consumers would be to: 80) _____

- A) allow entrepreneurs a great deal of personal freedom.
- B) impose high taxes on individuals, and use the revenue to subsidize businesses to encourage them to produce the maximum rate of output.
- C) take over the operation of all firms in major industries, such as telecommunications, transportation, and energy, and operate these firms as non-profit organizations.
- D) allow private ownership of businesses, but make use of extensive regulation to force businesses to behave in a socially desirable way.

Answer: A

Explanation: A)
B)
C)
D)

81) _____ is the popular name for a free-market economy in which business people make most of the decisions about what products to produce, how many workers to hire, and what prices to charge for goods and services. 81) _____

- A) Marginalism
- B) Communism
- C) Socialism
- D) Capitalism

Answer: D

Explanation: A)
B)
C)
D)

82) _____ is a condition in which the rate of inflation is declining. 82) _____

- A) Disinflation
- B) Deflation
- C) Stagflation
- D) De-inflation

Answer: A

Explanation: A)
B)
C)
D)

83) The challenge for macroeconomists is what? 83) _____

- A) Why some countries are wealthy and others are poor.
- B) How to lower unemployment rates.
- C) Why resources affect the behaviour of people.
- D) How to increase individual productivity.

Answer: A

Explanation: A)
B)
C)
D)

84) Sue is a gifted cook. She is about to open her own business, a restaurant in which she will be the head chef. Sue is willing to work long hours because she believes that her culinary talents and hard work will allow her business to succeed and earn her a great deal of money. Sue's efforts appear most consistent with the economic theory developed by:

84) _____

- A) Karl Marx.
- C) Adam Smith.

- B) Thomas Malthus.
- D) David Ricardo.

Answer: C

Explanation: A)
B)
C)
D)

85) Francine is a bright and talented woman. She recently quit her job at a major corporation because she and her boss didn't get along and she saw little chance for advancement. Francine has not yet found another job, but the economy appears healthy and lots of firms are hiring people with her qualifications. Thus, Francine is confident that she will find a job in the near future. Which of the following statements about Francine's current situation is most accurate? Francine is:

85) _____

- A) most likely to find employment quickly if she seeks training in a different field.
- B) not considered unemployed because she voluntarily quit her job.
- C) an example of cyclical unemployment.
- D) an example of frictional unemployment.

Answer: D

Explanation: A)
B)
C)
D)

86) An oligopoly is a market that is characterized by:

86) _____

- A) a large number of small firms all producing very similar products.
- B) a few large sellers who dominate the market supply.
- C) several small firms that compete primarily by differentiating their products.
- D) one firm that totally dominates the supply of the product.

Answer: B

Explanation: A)
B)
C)
D)

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

87) Monica notices that just a few big companies produce the vast majority of soft drinks. She would be correct in describing the soft drink industry as an oligopoly.

87) _____

Answer: ☒ True False

Explanation:

- 88) Like most nations, Canada has a mixed economy. 88) _____
Answer: ☒ True ☐ False
Explanation:
- 89) Legislation has ended the monopoly status of utilities in some areas. 89) _____
Answer: ☒ True ☐ False
Explanation:
- 90) The Canadian economy is an integral part of the world economy. 90) _____
Answer: ☒ True ☐ False
Explanation:
- 91) One of the drawbacks of free markets is the fact that competition in such markets undermines the ability of price to adjust to its equilibrium value in the long run. 91) _____
Answer: ☐ True ☒ False
Explanation:
- 92) A basic right under capitalism is the right of business to receive funding provided by the government. 92) _____
Answer: ☐ True ☒ False
Explanation:
- 93) One drawback of socialism is that it may result in a reduction in the individual's incentive to work hard. 93) _____
Answer: ☒ True ☐ False
Explanation:
- 94) Adam Smith felt that incentives to seek personal gain would insure the creation of wealth, but that the government must step in to make sure that this wealth was equitably distributed. 94) _____
Answer: ☐ True ☒ False
Explanation:
- 95) Some communist countries have not allowed their citizens to practice certain religions or change jobs. 95) _____
Answer: ☒ True ☐ False
Explanation:
- 96) If a shortage exists in a market for a good, the price of that good will tend to fall. 96) _____
Answer: ☐ True ☒ False
Explanation:
- 97) The Canadian economy is a service economy. 97) _____
Answer: ☒ True ☐ False
Explanation:

- 98) Disinflation refers to a situation in which the overall level of prices in an economy is steadily falling. 98) _____
Answer: True ☒ False
Explanation:
- 99) Inflation refers to a general rise in the prices of goods and services over time. 99) _____
Answer: ☒ True False
Explanation:
- 100) Stagflation occurs when the economy is slowing but prices are rising. 100) _____
Answer: ☒ True False
Explanation:
- 101) In perfect competition, each firm produces a product that is clearly differentiated from the products of other firms in the same market. 101) _____
Answer: True ☒ False
Explanation:
- 102) A depression is a severe recession usually accompanied by inflation. 102) _____
Answer: True ☒ False
Explanation:
- 103) Skeeden is a nation with an economic system that features free markets with private ownership of businesses. It still relies on those businesses to create most wealth. However, over time the government of Skeeden has developed some programs and policies designed to help the needy and reduce the level of income inequality. It pays for these programs by levying relatively high taxes on businesses and workers. These arrangements suggest that the economy of Skeeden is moving closer to the adoption of pure capitalism. 103) _____
Answer: True ☒ False
Explanation:
- 104) Most communist countries today are suffering from severe economic problems. 104) _____
Answer: ☒ True False
Explanation:
- 105) In command economies, the government plays a major role in deciding which goods will be produced and who will get them. 105) _____
Answer: ☒ True False
Explanation:
- 106) Supporters of a free market would argue that because supply and demand interactions determine prices, there is no need for government involvement or planning. 106) _____
Answer: ☒ True False
Explanation:

- 107) In recent years, government leaders in Canada have reached broad agreement on the need for the government to continue expanding its role in health care and the regulation of banks and airlines. 107) _____
Answer: True ☒ False
Explanation:
- 108) In the long run, the actual market price tends to adjust toward the equilibrium price. 108) _____
Answer: ☒ True False
Explanation:
- 109) Adam Smith believed the self-interest of businesspeople would lead them to create needed goods, services, and jobs. 109) _____
Answer: ☒ True False
Explanation:
- 110) Under perfect competition, sellers' products appear to be identical. 110) _____
Answer: ☒ True False
Explanation:
- 111) Product differentiation is a key to success in monopolistic competition. 111) _____
Answer: ☒ True False
Explanation:
- 112) Socialism and communism are both variations of a free-market economy. 112) _____
Answer: True ☒ False
Explanation:
- 113) The concept of the invisible hand is based on the assumption that the primary motivation of entrepreneurs is to enjoy the financial rewards of their hard work. 113) _____
Answer: ☒ True False
Explanation:
- 114) If the quantity supplied in a market exceeds the quantity demanded, a shortage will exist. 114) _____
Answer: True ☒ False
Explanation:
- 115) Just as no country is purely capitalist, no market is truly free. 115) _____
Answer: ☒ True False
Explanation:
- 116) Socialists believe that the primary economic function of the government is to promote rapid economic growth. 116) _____
Answer: True ☒ False
Explanation:

- 117) Prices are determined by sellers in a free market. 117) _____
Answer: True ☒ False
Explanation:
- 118) Adam Smith's theories focused on explaining the best way to divide the fixed resources we have available, rather than on how to create more wealth. 118) _____
Answer: True ☒ False
Explanation:
- 119) Socialism and capitalism are examples of command economies. 119) _____
Answer: True ☒ False
Explanation:
- 120) In socialist economies, the government owns some, if not most, basic businesses such as coal mines and utilities. 120) _____
Answer: ☒ True ☐ False
Explanation:
- 121) Current measures of productivity in the service sector provide an accurate measure of changes in the quality of output. 121) _____
Answer: True ☒ False
Explanation:
- 122) A problem with the CPI is that it measures the price changes of only food and clothing, while ignoring what happens to the prices of such important items as shelter and transportation. 122) _____
Answer: True ☒ False
Explanation:
- 123) The higher the productivity is, the higher the costs of production are likely to be. 123) _____
Answer: True ☒ False
Explanation:
- 124) An important economic trend has been for free-market economies to move more toward socialism while command economies move more toward free markets. 124) _____
Answer: ☒ True ☐ False
Explanation:
- 125) A strength of a free-market economic system is that it emphasizes the fair and humane treatment of the less fortunate in society. 125) _____
Answer: True ☒ False
Explanation:
- 126) Under monopolistic competition, product differentiation is a key to success. 126) _____
Answer: ☒ True ☐ False
Explanation:

- 127) Fatma is a citizen of a country that has an economic system that is primarily based on free market capitalism. Fatma is likely to have the freedom to buy and sell property. 127) _____
Answer: ☒ True ☐ False
Explanation:
- 128) At the equilibrium point the quantity consumers desire to buy equals the quantity sellers desire to sell. 128) _____
Answer: ☒ True ☐ False
Explanation:
- 129) Macroeconomics is the economic perspective that looks at the operation of a nation's economy as a whole. 129) _____
Answer: ☒ True ☐ False
Explanation:
- 130) The CPI is based on what is happening to the prices of a "basket" of goods and services for an average family. 130) _____
Answer: ☒ True ☐ False
Explanation:
- 131) Economist Sue Pligh is examining how consumers in the automobile market have responded to recent price increases by car manufacturers. Sue's efforts reflect the microeconomic perspective of economics. 131) _____
Answer: ☒ True ☐ False
Explanation:
- 132) Although changes in the CPI provide interesting insights into the overall performance of the economy, these changes have little practical impact on the lives of ordinary people. 132) _____
Answer: ☐ True ☒ False
Explanation:
- 133) Adam Smith believed that the key to creating rising standards of living was to limit population growth. 133) _____
Answer: ☐ True ☒ False
Explanation:
- 134) According to Statistics Canada, to be classified as frictional unemployed, a person must have tried to find a job within the past four weeks. 134) _____
Answer: ☐ True ☒ False
Explanation:
- 135) In capitalist countries, the government decides what to produce and how the goods and services will be produced. 135) _____
Answer: ☐ True ☒ False
Explanation:

- 136) Economics is the study of how people use resources to produce goods and services and distribute them for consumption among various competing groups and individuals. 136) _____
Answer: ☒ True False
Explanation:
- 137) Jill owns a bakery that specializes in cheesecakes. Until recently, Jill charged a price of \$12 for each cheesecake. At this price, Jill's customers bought an average of 84 cheesecakes each week. For the last few weeks, she has reduced her price to \$10.50 per cheesecake, and her customers have purchased an average of 96 cheesecakes each week. These results are consistent with the economic concept of demand. 137) _____
Answer: ☒ True False
Explanation:
- 138) A monopoly occurs when there is a single seller for a product or service. 138) _____
Answer: ☒ True False
Explanation:
- 139) In Canada, massive government support was needed to build our first national rail line. 139) _____
Answer: ☒ True False
Explanation:
- 140) The nation of Woland has seen its GDP decline severely for four years in a row, with no relief in sight. Unemployment has risen to record levels, prices are falling, and businesses are failing faster than at any time in the past century. The economy of Wo.land is experiencing a depression 140) _____
Answer: ☒ True False
Explanation:
- 141) As productivity increases, the cost of producing goods and services is likely to fall. 141) _____
Answer: ☒ True False
Explanation:
- 142) Resource development is the system that has led to wealth creation in much of the world. 142) _____
Answer: True ☒ False
Explanation:
- 143) In the service sector of the economy, the influx of machinery such as computers increases output per worker, but does little to improve the quality of services. 143) _____
Answer: True ☒ False
Explanation:
- 144) The primary difference between macroeconomics and microeconomics is that macroeconomics looks at long run economic problems while microeconomics examines short run economic problems. 144) _____
Answer: True ☒ False
Explanation:

- 145) In the small nation of Equalia, the government owns all of the key businesses. There are severe shortages of many key items, such as food. These features of Equalia's economy are consistent with a communist economic system. 145) _____
Answer: ☒ True ☐ False
Explanation:
- 146) An increase in productivity means that a worker is now able to produce more goods and services in the same amount of time. 146) _____
Answer: ☒ True ☐ False
Explanation:
- 147) Capitalism is the foundation of the Canadian economic system. 147) _____
Answer: ☒ True ☐ False
Explanation:
- 148) Permany is a nation with an economic system that closely approximates pure capitalism. While Permany's economy is likely to generate a great deal of wealth, it may do a poor job of providing an acceptable level of income for the elderly or disabled. 148) _____
Answer: ☒ True ☐ False
Explanation:
- 149) The consumer price index (CPI) measures what is happening to prices at the wholesale level. 149) _____
Answer: ☐ True ☒ False
Explanation:
- 150) In a mixed economy, some allocation of resources is made by government, and some by the market. 150) _____
Answer: ☒ True ☐ False
Explanation:
- 151) Countries that rely on a free market system often are plagued by persistent shortages or surpluses of goods and services. 151) _____
Answer: ☐ True ☒ False
Explanation:
- 152) Followers of Malthus today believe that there are too many people in the world. 152) _____
Answer: ☒ True ☐ False
Explanation:
- 153) History shows that free-market capitalism leads to a fair and equitable distribution of wealth. 153) _____
Answer: ☐ True ☒ False
Explanation:

- 154) If we graph the supply and demand curves for a product at a specific time, the point on the graph where the two curves intersect is called the stress point. 154) _____
Answer: True ☒ False
Explanation:
- 155) The "invisible hand" in Adam Smith's theory refers to the efforts of the government to control the operation of markets. 155) _____
Answer: True ☒ False
Explanation:
- 156) Demand refers to the quantity of products that people are willing to buy at different prices at a specific time. 156) _____
Answer: ☒ True False
Explanation:
- 157) Workers in socialist countries often get longer vacations and more social benefits than workers in free market economies. 157) _____
Answer: ☒ True False
Explanation:
- 158) Adam Smith believed that since businesspeople are motivated to improve their own prosperity, their actions are unlikely to benefit society as a whole. 158) _____
Answer: True ☒ False
Explanation:
- 159) Resource development is concerned with finding the best way to utilize the declining amount of resources a society has available. 159) _____
Answer: True ☒ False
Explanation:
- 160) Harry Cutter is the owner of Harry's Hairy Business, one of a large number of barbershops that compete against each other in the city where Harry lives. Harry has tried to attract more customers by staying open longer hours than most barbershops, and by advertising heavily on local radio to convince people that he offers the best haircuts in town. Harry appears to be operating in an oligopolistic market. 160) _____
Answer: True ☒ False
Explanation:
- 161) Deflation is a situation where the average level of prices is actually declining. 161) _____
Answer: ☒ True False
Explanation:
- 162) In a free market system, decisions about what to produce and in what quantities are made by the market. 162) _____
Answer: ☒ True False
Explanation:

- 163) Over the past decade, socialist economies have proven to be more successful at innovation and inventions than capitalist economies. 163) _____
Answer: True ☒ False
Explanation:
- 164) The greed of businesspeople represents the greatest danger to the operation of a free market system. 164) _____
Answer: ☒ True False
Explanation:
- 165) Frictional unemployment occurs because the economy is experiencing a recession. 165) _____
Answer: True ☒ False
Explanation:
- 166) The top tax rate on personal income in most socialist economies is usually lower than the top tax rate on personal income in capitalist economies. 166) _____
Answer: True ☒ False
Explanation:
- 167) The CPI is based on the prices of a carefully selected basket of goods, all of which consumers can purchase at a typical supermarket. 167) _____
Answer: True ☒ False
Explanation:
- 168) Market price is determined only by supply. 168) _____
Answer: True ☒ False
Explanation:
- 169) Communism is an economic system where the state makes almost all economic decisions. 169) _____
Answer: ☒ True False
Explanation:
- 170) Maureen is the office manager of a service company. She has recently spent a lot of money installing new computers and office equipment that will be used by the workers in her office as they provide services to clients. If Maureen's company is like most service companies, she will probably see a big jump in the productivity figures reported for workers in her office. 170) _____
Answer: ☒ True False
Explanation:
- 171) The government of Nexico has made progress in its efforts to bring Nexico's rapid inflation under control. Although prices are still rising, the rate of increase has slowed considerably. This suggests that Nexico currently is experiencing disinflation. 171) _____
Answer: ☒ True False
Explanation:

- 172) The strength of the economy has a large effect on businesses. 172) _____
Answer: ☒ True ☐ False
Explanation:
- 173) In capitalism, the government prohibits people and businesses from competing with each other. 173) _____
Answer: ☐ True ☒ False
Explanation:
- 174) Price is the key factor that determines both quantity supplied and quantity demanded. 174) _____
Answer: ☒ True ☐ False
Explanation:
- 175) Some wages, tax brackets, interest rates, and government benefits are based on the CPI. 175) _____
Answer: ☒ True ☐ False
Explanation:
- 176) Economists refer to a market in which a few sellers dominate the supply side as monopolistic competition. 176) _____
Answer: ☐ True ☒ False
Explanation:
- 177) One of the benefits of communism is that it allows individuals a great deal of freedom to make their own economic decisions. 177) _____
Answer: ☐ True ☒ False
Explanation:
- 178) The major benefit of socialism is that it creates strong incentives to work hard and take the risks associated with starting and operating a business. 178) _____
Answer: ☐ True ☒ False
Explanation:
- 179) People are unemployed in Canada for many reasons. 179) _____
Answer: ☒ True ☐ False
Explanation:
- 180) Adam Smith believed that an economic system couldn't truly prosper unless people were taught to value the welfare of others above their own personal gain. 180) _____
Answer: ☐ True ☒ False
Explanation:
- 181) An economy is said to be in a recession if GDP declines for two or more consecutive quarters. 181) _____
Answer: ☒ True ☐ False
Explanation:

182) Adam Smith the author of *The Wealth of Nations*, said that all companies would function best with more government involvement. 182) _____

Answer: True ☒ False

Explanation:

183) The total value of a country's output of final goods and services in a given year is known as the nation's gross domestic product (GDP). 183) _____

Answer: ☒ True False

Explanation:

184) Microeconomics focuses on the decisions and behaviour of people and organizations in particular markets. 184) _____

Answer: ☒ True False

Explanation:

185) Under the basic principle of supply, as the price goes down, manufacturers and suppliers of a product tend to supply less of the product to the market. 185) _____

Answer: ☒ True False

Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

186) Explain how prices are determined in a free-market economy.

Answer: In a free-market economy prices are determined by the interaction of supply and demand.

Supply is the relationship between the price of a good and the quantity producers are willing to sell in a given time period. The supply relationship can be illustrated with a graph. This graph will show that the higher the price, the more producers are willing to sell.

Demand is the relationship between the price of a good and the quantity people are willing to buy in a given time period. This relationship can also be illustrated with a graph. The graph will show that the higher the price, the less people are willing to buy.

The equilibrium price of a good is the price where the quantity supplied is equal to the quantity demanded. On a graph, it is found where the supply curve intersects the demand curve. The market price of a good tends to move toward this equilibrium price. If the market price is higher than the equilibrium price, quantity supplied will exceed quantity demanded, and this surplus will put downward pressure on price, moving the market toward equilibrium. If the market price is lower than the equilibrium price, the quantity demanded will be greater than the quantity supplied. Thus, a shortage will exist which will put upward pressure on the market price. The upward movement of price will move the market toward equilibrium. Once the equilibrium price is achieved, there is neither a shortage nor a surplus. Thus at the equilibrium price there is no further pressure for price to rise or fall (unless something happens to cause the supply or demand relationships to change).

187) No country is solely capitalist. What issues does the Canadian government get involved in?

Answer: The text notes that Canadian governments have passed many laws and regulations to ensure that significant economic and cultural institutions, such as banks, insurance companies, radio and TV stations remain under Canadian control. In the past, this has also included rail and airlines. The book also notes the Canada Health Act, which covers public health care.

188) Explain what the business cycle is.

Answer: The Business cycle (also known as the economic cycles) is the periodic rise and fall that occurs in economies over time. These fluctuations are often measured using the real gross domestic product. Economists look at a number of types of cycles, from seasonal cycles that occur within a year to cycles that occur every 48 to 60 years. Economist Joseph Schumpeter identified the four phases of long-term business cycles as boom, recession, depression, recovery.

1. An economic boom brings jobs, growth, and economic prosperity.
2. Recession is two or more consecutive quarters of decline in the GDP. In a recession, prices fall, people purchase fewer products, and businesses fail. A recession has many negative consequences for an economy: high unemployment, increased business failures, and an overall drop in living standards.
3. A depression is a severe recession usually accompanied by deflation. Business cycles rarely go through a depression phase. In fact, while there were many business cycles during the twentieth century, there was only one severe depression (in the 1930s).
4. A recovery occurs when the economy stabilizes and starts to grow. This eventually leads to an economic boom, starting the cycle all over again.

189) Canada has a mixed economy, like most other countries in the world. Explain what the term mixed economy means & what the benefits are.

Answer: A mixed economy is one that is part capitalist and part socialist. Some businesses are privately owned, but taxes tend to be high to distribute income more evenly among the population. A mixed economy has most of the benefits of wealth creation that free markets bring, plus the benefits of social equality and concern for the environment that socialism offers.

190) Identify the four different degrees of competition.

Answer: Perfect competition exists when there are many sellers in a market and no seller is large enough to dictate the price of a product. Under perfect competition, sellers produce products that appear to be identical. Agricultural products (e.g., apples, corn, potatoes) are often considered to be the closest examples of such products.

Monopolistic competition exists when a large number of sellers produce products that are very similar but are perceived by buyers as different (e.g., hot dogs, candy, and T-shirts). Under monopolistic competition, product differentiation (the creation of real or perceived product differences) is a key to success.

An oligopoly occurs when a few sellers dominate a market. Oligopolies exist in industries that produce products in the areas of oil and gas, tobacco, automobiles, aluminum, and aircraft. One reason some industries remain in the hands of a few sellers is that the initial investment required to enter the business is tremendous. In an oligopoly, prices for products from different companies tend to be close to the same. As in monopolistic competition, product differentiation, rather than price, is usually the major factor in market success.

A monopoly occurs when there is only one seller for a good or service, and that one seller controls the total supply of a product and the price. Traditionally, monopolies were common in areas such as water, electricity, and telephone services that were considered to be essential to a community. Legislation has ended many monopolies.

191) When describing the state of the Canadian economy, reporters and commentators often refer to figures for the nation's GDP, its unemployment rate, and the CPI. Explain what each of these terms means and why each measure is significant.

Answer: GDP stands for gross domestic product, which is the total value of a nation's output of final goods and services for a specific year. It is a broad indicator of the overall performance of the economy. Increases and decreases in GDP indicate whether the economy is growing or stagnating. For example, when GDP falls for two or more consecutive quarters the economy is said to be in a recession.

The unemployment rate measures the number of civilians 15 or older that are actively seeking work but do not have a job. A high unemployment rate indicates that a lot of people who are able to work and want a job are without jobs. This is obviously undesirable, leading to less output and lower incomes in the economy.

The CPI is the consumer price index. This is an index of how the prices of consumer goods are changing over time. The CPI is based on a market basket of consumer goods. When the CPI rises, the economy is experiencing inflation. The CPI is used by the government and many businesses to determine how to adjust their wages and other payments for inflation.

192) What is the difference between macroeconomics and microeconomics?

Answer: Macroeconomics looks at the operation of a nation's economy as a whole, and microeconomics looks at the behaviour of people and organizations in particular markets. For example, while macroeconomics looks at how many jobs exist in the whole economy, microeconomics examines how many people will be hired in a particular industry or a particular region of the country.

Answer Key

Testname: C2

- 1) D
- 2) C
- 3) C
- 4) D
- 5) B
- 6) A
- 7) A
- 8) D
- 9) D
- 10) C
- 11) C
- 12) D
- 13) C
- 14) A
- 15) B
- 16) D
- 17) C
- 18) C
- 19) B
- 20) C
- 21) C
- 22) A
- 23) C
- 24) B
- 25) D
- 26) B
- 27) C
- 28) A
- 29) C
- 30) C
- 31) A
- 32) A
- 33) C
- 34) D
- 35) C
- 36) D
- 37) C
- 38) D
- 39) B
- 40) B
- 41) D
- 42) C
- 43) D
- 44) C
- 45) D
- 46) A
- 47) C
- 48) A
- 49) D
- 50) D

Answer Key
Testname: C2

- 51) D
- 52) D
- 53) D
- 54) B
- 55) C
- 56) C
- 57) D
- 58) D
- 59) D
- 60) C
- 61) C
- 62) C
- 63) C
- 64) C
- 65) C
- 66) D
- 67) C
- 68) C
- 69) C
- 70) B
- 71) A
- 72) D
- 73) A
- 74) D
- 75) C
- 76) C
- 77) D
- 78) B
- 79) A
- 80) A
- 81) D
- 82) A
- 83) A
- 84) C
- 85) D
- 86) B
- 87) TRUE
- 88) TRUE
- 89) TRUE
- 90) TRUE
- 91) FALSE
- 92) FALSE
- 93) TRUE
- 94) FALSE
- 95) TRUE
- 96) FALSE
- 97) TRUE
- 98) FALSE
- 99) TRUE
- 100) TRUE

Answer Key

Testname: C2

- 101) FALSE
- 102) FALSE
- 103) FALSE
- 104) TRUE
- 105) TRUE
- 106) TRUE
- 107) FALSE
- 108) TRUE
- 109) TRUE
- 110) TRUE
- 111) TRUE
- 112) FALSE
- 113) TRUE
- 114) FALSE
- 115) TRUE
- 116) FALSE
- 117) FALSE
- 118) FALSE
- 119) FALSE
- 120) TRUE
- 121) FALSE
- 122) FALSE
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Answer Key
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186) In a free-market economy prices are determined by the interaction of supply and demand.

Supply is the relationship between the price of a good and the quantity producers are willing to sell in a given time period. The supply relationship can be illustrated with a graph. This graph will show that the higher the price, the more producers are willing to sell.

Demand is the relationship between the price of a good and the quantity people are willing to buy in a given time period. This relationship can also be illustrated with a graph. The graph will show that the higher the price, the less people are willing to buy.

The equilibrium price of a good is the price where the quantity supplied is equal to the quantity demanded. On a graph, it is found where the supply curve intersects the demand curve. The market price of a good tends to move toward this equilibrium price. If the market price is higher than the equilibrium price, quantity supplied will exceed quantity demanded, and this surplus will put downward pressure on price, moving the market toward equilibrium. If the market price is lower than the equilibrium price, the quantity demanded will be greater than the quantity supplied. Thus, a shortage will exist which will put upward pressure on the market price. The upward movement of price will move the market toward equilibrium. Once the equilibrium price is achieved, there is neither a shortage nor a surplus. Thus at the equilibrium price there is no further pressure for price to rise or fall (unless something happens to cause the supply or demand relationships to change).

187) The text notes that Canadian governments have passed many laws and regulations to ensure that significant economic and cultural institutions, such as banks, insurance companies, radio and TV stations remain under Canadian control. In the past, this has also included rail and airlines. The book also notes the Canada Health Act, which covers public health care.

188) The Business cycle (also known as the economic cycles) is the periodic rise and fall that occurs in economies over time. These fluctuations are often measured using the real gross domestic product. Economists look at a number of types of cycles, from seasonal cycles that occur within a year to cycles that occur every 48 to 60 years. Economist Joseph Schumpeter identified the four phases of long-term business cycles as boom, recession, depression, recovery:

1. An economic boom brings jobs, growth, and economic prosperity.
2. Recession is two or more consecutive quarters of decline in the GDP. In a recession, prices fall, people purchase fewer products, and businesses fail. A recession has many negative consequences for an economy high unemployment, increased business failures, and an overall drop in living standards.
3. A depression is a severe recession usually accompanied by deflation. Business cycles rarely go through a depression phase. In fact, while there were many business cycles during the twentieth century, there was only one severe depression (in the 1930s).
4. A recovery occurs when the economy stabilizes and starts to grow. This eventually leads to an economic boom, starting the cycle all over again.

189) A mixed economy is one that is part capitalist and part socialist. Some businesses are privately owned, but taxes tend to be high to distribute income more evenly among the population.

A mixed economy has most of the benefits of wealth creation that free markets bring, plus the benefits of social equality and concern for the environment that socialism offers.

- 190) Perfect competition exists when there are many sellers in a market and no seller is large enough to dictate the price of a product. Under perfect competition, sellers produce products that appear to be identical. Agricultural products (e.g., apples, corn, potatoes) are often considered to be the closest examples of such products.
- Monopolistic competition exists when a large number of sellers produce products that are very similar but are perceived by buyers as different (e.g., hot dogs, candy, and T-shirts). Under monopolistic competition, product differentiation (the creation of real or perceived product differences) is a key to success.
- An oligopoly occurs when a few sellers dominate a market. Oligopolies exist in industries that produce products in the areas of oil and gas, tobacco, automobiles, aluminum, and aircraft. One reason some industries remain in the hands of a few sellers is that the initial investment required to enter the business is tremendous. In an oligopoly, prices for products from different companies tend to be close to the same. As in monopolistic competition, product differentiation, rather than price, is usually the major factor in market success.
- A monopoly occurs when there is only one seller for a good or service, and that one seller controls the total supply of a product and the price. Traditionally, monopolies were common in areas such as water, electricity, and telephone services that were considered to be essential to a community. Legislation has ended many monopolies.
- 191) GDP stands for gross domestic product, which is the total value of a nation's output of final goods and services for a specific year. It is a broad indicator of the overall performance of the economy. Increases and decreases in GDP indicate whether the economy is growing or stagnating. For example, when GDP falls for two or more consecutive quarters the economy is said to be in a recession.
- The unemployment rate measures the number of civilians 15 or older that are actively seeking work but do not have a job. A high unemployment rate indicates that a lot of people who are able to work and want a job are without jobs. This is obviously undesirable, leading to less output and lower incomes in the economy.
- The CPI is the consumer price index. This is an index of how the prices of consumer goods are changing over time. The CPI is based on a market basket of consumer goods. When the CPI rises, the economy is experiencing inflation. The CPI is used by the government and many businesses to determine how to adjust their wages and other payments for inflation.
- 192) Macroeconomics looks at the operation of a nation's economy as a whole, and microeconomics looks at the behaviour of people and organizations in particular markets. For example, while macroeconomics looks at how many jobs exist in the whole economy, microeconomics examines how many people will be hired in a particular industry or a particular region of the country.