

Chapter: Chapter 2: Economic Decision Making and Economic Systems

Multiple Choice

1. The three basic economic decisions are:

- A) what to produce, how to produce, and what prices to charge.
- B) how to produce, who should produce, and what they should be paid.
- C) what to produce, how to produce, and who receives what has been produced.
- D) what goods and services should be consumed, what these goods and services should cost, and how much people should earn.

Ans: C

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

2. The basic economic decisions are faced:

- A) in every economy because of scarcity.
- B) in every economy because every society has a formal government.
- C) only in market economies since no decision making is allowed in planned economies.
- D) only in advanced economies where enough goods and services are produced to force people to make choices.

Ans: A

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

3. Which of the following is NOT one of the three basic economic decisions?

- A) How goods and services should be produced.
- B) To whom the goods and services should be distributed.
- C) What goods and services should be produced and in what quantities.
- D) When goods and services should be produced, and when their producers should be paid.

Ans: D

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

4. The basic economic decisions:

- A) apply only to less-developed economies where scarcity is a real problem.
- B) relate to what is to be produced and how well it satisfies consumer demand.
- C) are decisions about production and distribution that must be made by every society.
- D) differ in every society; that is, some societies face only one basic decision while others face two or three.

Ans: C

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

5. Which of the following is NOT a basic economic decision that must be made by every society?

- A) What goods and services will be produced.
- B) What goods and services consumers will need most.
- C) Who will receive the goods and services that are produced.
- D) What factors of production and methods will be used in producing goods and services.

Ans: B

Difficulty: E

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

6. Every country in the world, regardless of its political or economic system, must determine:

- A) how goods and services will be produced.
- B) what goods and services will be produced.
- C) who will receive the goods and services that are produced.
- D) all of the above.

Ans: D

Difficulty: E

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

7. The way a society is organized to make the basic economic decisions is referred to as its:

- A) output strategy.
- B) economic system.
- C) production network.
- D) social-economic structure.

Ans: B

Difficulty: E

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

8. Decisions about what goods and services will be produced, how they will be produced, and who will get them, must be made in:

- A) all economies.
- B) market economies, but not in planned economies.
- C) socialist economies, but not in capitalist economies.
- D) economies based on individual decision making, but not in economies based on collective decision making.

Ans: A

Difficulty: E

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

9. With reference to the basic economic decisions, all economies must determine:

- A) what goods and services households want to purchase.
- B) what methods and techniques to use to produce goods and services.
- C) how taxes will be used to redistribute income among the population.
- D) how much control elected officials have in deciding what goods and services to produce.

Ans: B

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

10. A society's economic system is defined by:

- A) the degree of scarcity it faces.
- B) the way in which basic economic decisions are made.
- C) the forms into which its businesses are legally organized.
- D) its type of government; that is, whether it has a dictatorship or a democracy.

Ans: B

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

11. The way in which a country makes the basic economic decisions depends on:

- A) which basic economic decisions it must make.
- B) whether or not it has solved the scarcity problem.
- C) how the economic relationships among its households, businesses, and government are organized.
- D) all of the above.

Ans: C

Difficulty: E

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

12. Which of the following statements best describes the relationship among scarcity, economic decisions, and economic systems?

- A) The economic system that a society chooses determines whether or not it faces a scarcity problem.
- B) The choice of an economic system depends on which basic economic decisions a society must make.
- C) Scarcity forces a society to choose an economic system which, in turn, defines which economic decisions it must make.
- D) Scarcity imposes basic economic decisions on a society that are made through the type of economic system it chooses.

Ans: D

Difficulty: H

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

13. Which of the basic economic decisions always requires a dependence on markets, regardless of the type of system an economy has?

- A) How goods and services will be produced.
- B) What goods and services will be produced.
- C) How many goods and services will be produced.
- D) None of the above.

Ans: D

Difficulty: E

Topic: Scarcity, the Basic Economic Decisions and Economic Systems

14. An economy that relies largely on custom or ritual when making economic decisions:

- A) is a command economy.
- B) has never existed in history.
- C) is best described as being traditional or agrarian.
- D) none of the above.

Ans: C

Difficulty: E

Topic: TRADITIONAL OR AGRARIAN ECONOMIES

15. The economic systems of people such as some early Native American tribes that were small, focused on agriculture, and operated with production methods not changed for generations are best characterized as:

- A) mixed economies
- B) market economies.
- C) command economies.
- D) traditional or agrarian economies.

Ans: D

Difficulty: E

Topic: TRADITIONAL OR AGRARIAN ECONOMIES

16. You would expect a society with a traditional economy to have most of its economic activity directed toward:

- A) agriculture.
- B) manufacturing.
- C) production of services.
- D) real estate management.

Ans: A

Difficulty: M

Topic: TRADITIONAL OR AGRARIAN ECONOMIES

17. Which of the following statements about traditional economies is true?
- A) Workers' responsibilities tend to be tied to long-standing family or gender roles.
 - B) They often rely on barter, or the direct exchange of goods and services, to meet people's needs.
 - C) They typically rely on historical, social, political, or religious arrangements to decide what to produce and how it will be distributed.
 - D) All of the above.

Ans: D

Difficulty: M

Topic: TRADITIONAL OR AGRARIAN ECONOMIES

18. Up for Debate, "Is Western-Style Development Appropriate for Other Cultures?" discusses the high standards of living for people in the United States and Western Europe and
- A) gives arguments on both sides of the issue of whether western-style systems and institutions can be successful in all countries regardless of the history and culture
 - B) concludes that western-style structures and markets are the best choice for any economy regardless of the history and culture
 - C) concludes that western-style structures and markets will never work in non-western nations
 - D) debates the merits of measuring living standards by data

Ans: A

Difficulty: M

Topic: Mixed Economies

19. Which of the following statements describing a market economy is FALSE?
- A) Households only buy and businesses only sell.
 - B) Price is the language through which buyers and sellers communicate.
 - C) The basic economic decisions are made by households and businesses.
 - D) Households and businesses interact in markets to make economic decisions.

Ans: A

Difficulty: E

Topic: MARKET ECONOMIES

20. In a market economy the three basic economic decisions are made by the:
- A) government, based on voter preferences.
 - B) interaction of individual buyers and sellers based on prices.
 - C) government, based on the power of government office holders.
 - D) interaction of individual buyers and sellers based on the effectiveness of advertising.

Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

21. In a market economy, the willingness and ability of buyers to purchase goods and services helps to:
- A) set the prices of those goods and services.
 - B) determine who gets the goods and services.
 - C) determine what goods and services will be produced and in what quantities.
 - D) all of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

22. A "price system" is most closely associated with:
- A) socialism.
 - B) a market economy.
 - C) a command economy.
 - D) all of the above.

Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

23. For a pure market economy to work:
- A) buyers and sellers must be able to communicate through prices.
 - B) business owners must be free to make their own decisions and operate with a profit motive.
 - C) individuals must have private property rights to own and dispose of goods, services, and

resources.

D) all of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

24. Private property rights:

A) are one of the defining elements of capitalism.

B) are essential to the operation of a market economy.

C) allow individuals to own and use resources, goods, and services as they choose.

D) all of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

25. Free enterprise refers to the right of:

A) businesses to make their own decisions and operate with a profit motive.

B) society to demand that certain essential products be made available free of charge.

C) businesses that produce products that help the poor to be exempt from paying taxes.

D) none of the above.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

26. An economic system with free enterprise, private property rights, and economic decision-making in a market environment is:

A) socialism.

B) capitalism.

C) individualism.

D) none of the above.

Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

27. Capitalism is an economic system where:
- A) there is free enterprise.
 - B) there are private property rights.
 - C) economic decisions are made in a market environment.
 - D) all of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

28. The basic circular flow model includes:
- A) businesses, households, and government.
 - B) businesses, households, input markets, and output markets.
 - C) businesses, government, input markets, and output markets.
 - D) businesses, households, input markets, output markets, and government.

Ans: B

Difficulty: M

Topic: MARKET ECONOMIES

29. In a circular flow model of a market economy, households:
- A) are sellers and businesses are buyers in input markets.
 - B) are sellers and businesses are buyers in output markets.
 - C) buy resources from businesses in output markets.
 - D) buy goods and services from businesses in input markets.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

30. In a circular flow model of a market economy, households:
- A) are buyers and businesses are sellers in input markets.
 - B) are buyers and businesses are sellers in output markets.

- C) sell resources to businesses in output markets.
- D) sell goods and services to businesses in input markets.

Ans: B

Difficulty: M

Topic: MARKET ECONOMIES

31. In a circular flow model of a market economy, businesses:

- A) sell goods to households in output markets.
- B) buy goods from households in output markets.
- C) sell resources to households in output markets.
- D) buy resources from households in output markets.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

32. In a circular flow model of a market economy, households:

- A) sell goods to businesses in input markets.
- B) buy goods from businesses in input markets.
- C) sell resources to businesses in input markets.
- D) buy resources from businesses in input markets.

Ans: C

Difficulty: M

Topic: MARKET ECONOMIES

33. Which of the following transactions would occur in a resource market?

- A) Taking a job designing websites.
- B) Renting an automobile while on vacation.
- C) Taking your dog to the vet for a check-up.
- D) Purchasing a computer to do your class assignments.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

34. Which of the following transactions would occur in a product market?
- A) Getting a job at the local ice cream shop.
 - B) Paying tuition at a local college so that you can take an art course that you'd really enjoy.
 - C) Contracting with someone to develop a website for a business you run out of your home.
 - D) Selling a machine you designed to a manufacturer so that it can lower its costs of production.

Ans: B

Difficulty: H

Topic: MARKET ECONOMIES

35. In input markets:
- A) all factors except entrepreneurship are sold.
 - B) households are buyers and businesses are sellers.
 - C) there is an income flow of wages, rents, interest, and profit to households.
 - D) all of the above.

Ans: C

Difficulty: M

Topic: MARKET ECONOMIES

36. In output markets:
- A) households are buyers and businesses are sellers.
 - B) there is a flow of payments from businesses to households.
 - C) all products except banking and financial services are sold.
 - D) all of the above.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

37. In the circular flow model:
- A) resources go from businesses to households in input markets.
 - B) income flows to households from businesses in output markets.

- C) households are buyers and businesses are sellers in input markets.
- D) businesses are sellers and households are buyers in output markets.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

38. According to the circular flow model, money flows from households to businesses in:

- A) input markets.
- B) output markets.
- C) both input and output markets.
- D) neither input nor output markets.

Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

39. According to the circular flow model, money flows from businesses to households in:

- A) input markets.
- B) output markets.
- C) both input and output markets.
- D) neither input nor output markets.

Ans: A

Difficulty: E

Topic: MARKET ECONOMIES

40. According to the circular flow model, money flows from households to businesses, and resources flow from households to businesses in:

- A) input markets.
- B) output markets.
- C) input markets and output markets, respectively.
- D) output markets and input markets, respectively.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

41. According to the circular flow model, money flows from businesses to households, and goods and services flow from businesses to households in:

- A) input markets.
- B) output markets.
- C) input markets and output markets, respectively.
- D) output markets and input markets, respectively.

Ans: C

Difficulty: M

Topic: MARKET ECONOMIES

42. According to the circular flow model, land, labor, capital, and entrepreneurship flow from:

- A) households to businesses in input markets.
- B) businesses to households in input markets.
- C) households to businesses in output markets.
- D) businesses to households in output markets.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

43. According to the circular flow model, rent, wages, interest, and profit flow from:

- A) households to businesses in input markets.
- B) businesses to households in input markets.
- C) households to businesses in output markets.
- D) businesses to households in output markets.

Ans: B

Difficulty: M

Topic: MARKET ECONOMIES

44. According to the circular flow model, payments for goods and services flow from:

- A) households to businesses in input markets.

- B) businesses to households in input markets.
- C) households to businesses in output markets.
- D) businesses to households in output markets.

Ans: C

Difficulty: M

Topic: MARKET ECONOMIES

45. According to the circular flow model, goods and services flow from:

- A) households to businesses in input markets.
- B) businesses to households in input markets.
- C) households to businesses in output markets.
- D) businesses to households in output markets.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

46. An example of a transaction in an input market is:

- A) the rental of a building to a firm.
- B) the purchase of land by a business.
- C) an individual offering labor to a business.
- D) all of the above.

Ans: D

Difficulty: E

Topic: MARKET ECONOMIES

47. An example of a transaction in an output market is:

- A) the purchase of labor services by a business.
- B) the purchase of a new home by an individual.
- C) the purchase of a building by an auto dealership.
- D) all of the above.

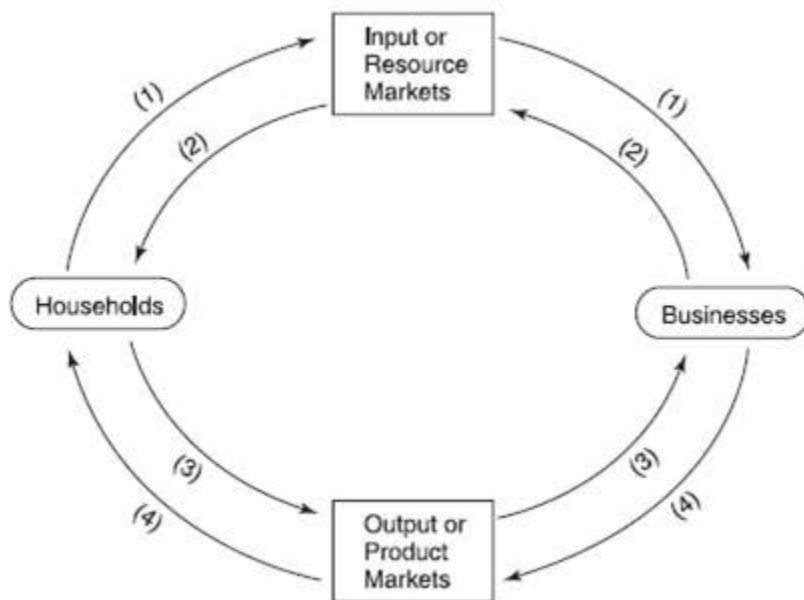
Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

Reference: Ref 2-1

Circular flow model.



48. The flow of land, labor, capital, and entrepreneurship is shown by line:

- A) (1).
- B) (2).
- C) (3).
- D) (4).

Ans: A

Refer To: Ref 2-1

Difficulty: M

Topic: MARKET ECONOMIES

49. The flow of expenditures on goods and services is shown by line:

- A) (1).
- B) (2).

- C) (3).
- D) (4).

Ans: C

Refer To: Ref 2-1

Difficulty: M

Topic: MARKET ECONOMIES

50. The flow of wages, rent, interest, and profit is shown by line:

- A) (1).
- B) (2).
- C) (3).
- D) (4).

Ans: B

Refer To: Ref 2-1

Difficulty: M

Topic: MARKET ECONOMIES

51. The flow of food, bicycles, and other products to their final users is shown by line:

- A) (1).
- B) (2).
- C) (3).
- D) (4).

Ans: D

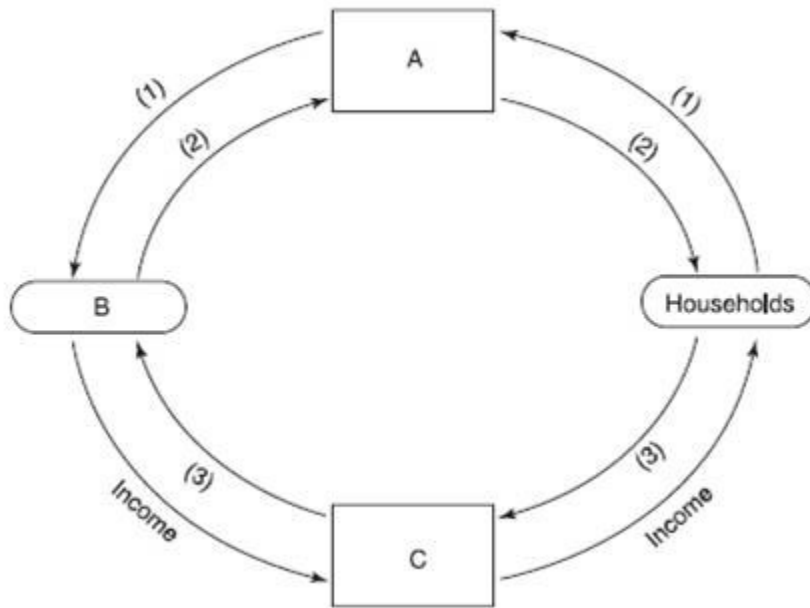
Refer To: Ref 2-1

Difficulty: M

Topic: MARKET ECONOMIES

Reference: Ref 2-2

Circular flow model.



52. Product, or output, markets are shown by:

- A) box A.
- B) box B.
- C) box C.
- D) line (2).

Ans: A

Refer To: Ref 2-2

Difficulty: M

Topic: MARKET ECONOMIES

53. Resource, or input, markets are shown by:

- A) box A.
- B) box B.
- C) box C.
- D) box A and box C.

Ans: C

Refer To: Ref 2-2

Difficulty: M

Topic: MARKET ECONOMIES

54. Lines (1) and (3) show, respectively, the flows of:
- A) factors of production, and goods and services.
 - B) goods and services, and factors of production.
 - C) expenditures on goods and services, and factors of production.
 - D) expenditures on goods and services, and goods and services.

Ans: C

Refer To: Ref 2-2

Difficulty: H

Topic: MARKET ECONOMIES

55. Lines (2) and (3) show, respectively, the flows of:
- A) goods and services, and factors of production.
 - B) goods and services, and expenditures on goods and services.
 - C) factors of production, and expenditures on factors of production.
 - D) expenditures on factors of production, and expenditures on goods and services.

Ans: A

Refer To: Ref 2-2

Difficulty: H

Topic: MARKET ECONOMIES

56. Lines (2) and (3):
- A) both show real flows.
 - B) both show money flows.
 - C) show a real flow, and a money flow, respectively.
 - D) show a money flow, and a real flow, respectively.

Ans: A

Refer To: Ref 2-2

Difficulty: H

Topic: MARKET ECONOMIES

57. Lines (1) and (2):
- A) both show a real flow.
 - B) both show a money flow.
 - C) show a real flow, and a money flow, respectively.
 - D) show a money flow, and a real flow, respectively.

Ans: D

Refer To: Ref 2-2

Difficulty: H

Topic: MARKET ECONOMIES

58. In a pure market economy, the government would be represented by:
- A) box A.
 - B) box C.
 - C) boxes A and C.
 - D) none of the above.

Ans: D

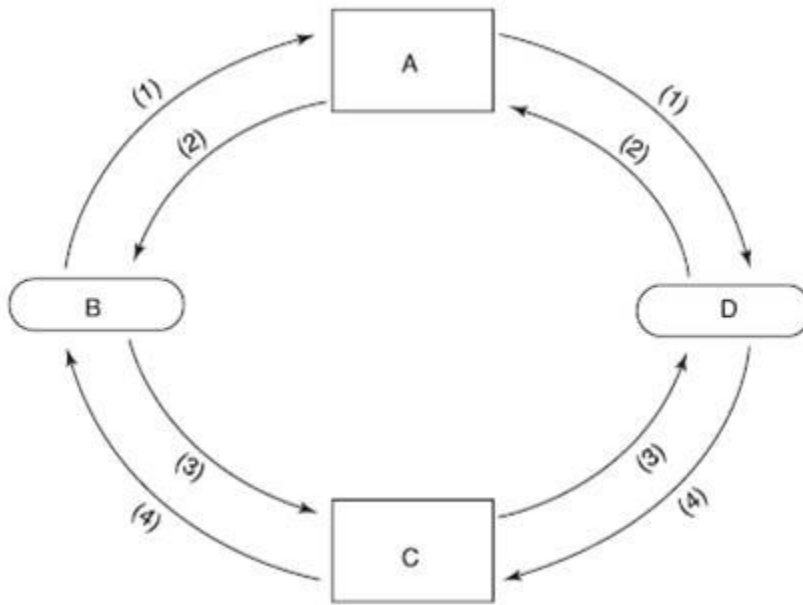
Refer To: Ref 2-2

Difficulty: E

Topic: MARKET ECONOMIES

Reference: Ref 2-3

Circular flow model.



59. If line (3) represents the flow of income, then output markets are shown by:

- A) box A.
- B) box B.
- C) box C.
- D) box D.

Ans: A

Refer To: Ref 2-3

Difficulty: M

Topic: MARKET ECONOMIES

60. If line (1) represents the flow of goods and services, then:

- A) line (2) is a money flow.
- B) box B represents businesses.
- C) box C represents input markets.
- D) all of the above.

Ans: D

Refer To: Ref 2-3

Difficulty: H

Topic: MARKET ECONOMIES

61. If line (4) represents the flow of resources, then households are represented by:

- A) box A.
- B) box B.
- C) box C.
- D) box D.

Ans: D

Refer To: Ref 2-3

Difficulty: M

Topic: MARKET ECONOMIES

62. If line 3 represents the flow of income to resource owners, then line 1 represents the flow of:

- A) resources in input markets.
- B) goods and services in output markets.
- C) payments by households for goods and services.
- D) none of the above.

Ans: B

Refer To: Ref 2-3

Difficulty: H

Topic: MARKET ECONOMIES

63. If line 2 represents the flow of payments to businesses for goods and services, then line 4 represents the flow of:

- A) resources in input markets.
- B) goods and services in output markets.
- C) payments to resource owners by businesses.
- D) none of the above.

Ans: A

Refer To: Ref 2-3

Difficulty: H

Topic: MARKET ECONOMIES

64. Which of the following statements about a pure market economy is FALSE?
- A) All goods and services must meet government standards.
 - B) Goods and services are produced using the least-cost method of production.
 - C) Goods and services are produced by businesses in the most efficient manner.
 - D) The goods and services that are produced are those which businesses can sell at a profit.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

65. In a pure market economy, individual buyers can force large sellers to change their products:
- A) only by having the government require that the products be changed.
 - B) because in this type of economy one person is as powerful as one business.
 - C) only by forming groups and deciding by vote not to buy the sellers' products.
 - D) through the combined effect of each person's decision about how to spend his or her money.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

66. Application 2.1, "Saying No!" gives several cases where consumers:
- A) got the government to force sellers to change their products.
 - B) decided against sellers' products with their spending patterns.
 - C) were unable to purchase goods and services because they were already sold out.
 - D) left markets in protest of high prices, but later returned because they could not get along without the products.

Ans: B

Difficulty: M

Topic: MARKET ECONOMIES

67. The least-cost method of production is the method that:
- A) is most efficient.
 - B) uses the smallest total number of resources.
 - C) uses the cheapest factors of production, regardless of their productivity.

D) minimizes the cost on a company's most important resource rather than the costs on its less important resources.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

68. A good is produced efficiently when it is produced:

- A) at the lowest possible cost.
- B) at the lowest possible quality.
- C) with the smallest number of resources.
- D) with equal amounts of the four factors of production.

Ans: A

Difficulty: E

Topic: MARKET ECONOMIES

69. When deciding on a method of production, a firm in a pure market economy selects the method that:

- A) minimizes cost.
- B) is most efficient.
- C) maximizes profit.
- D) all of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

70. By producing its product using the least-cost method, a seller is:

- A) using the smallest number of resources.
- B) necessarily producing the poorest quality product.
- C) producing in the way that allows for the greatest profit.
- D) all of the above.

Ans: C

Difficulty: M

Topic: MARKET ECONOMIES

71. In a pure market economy, who receives goods and services is determined by the:
- A) sellers who have produced those goods and services.
 - B) availability of government income support payments.
 - C) value judgments of those administering each particular market.
 - D) ability to pay for those goods and services from income earned in resource markets.

Ans: D

Difficulty: E

Topic: MARKET ECONOMIES

72. In a market system, income received by people determines:
- A) to whom goods and services that are produced will go.
 - B) how goods and services will be produced.
 - C) what quantities of goods and services will be produced.
 - D) the prices of goods and services.

Ans: A

Difficulty: E

Topic: MARKET ECONOMIES

73. In an economy based on individual decision making, goods and services are produced:
- A) using the least-cost method of production.
 - B) by individuals rather than by business firms.
 - C) in response to the wishes of any single buyer in the market.
 - D) all of the above.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

74. Which of the following statements about an economy based totally on individual decision making is true?
- A) No economy like this exists in the real world.

- B) Goods and services go to those who need them most.
- C) An economy like this depends on government regulation to ensure that buyers and sellers can communicate their intentions.
- D) All of the above.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

75. The strength of a market system is:

- A) it encourages businesses to produce in an efficient manner.
- B) it encourages people to acquire skills that are valued by employers.
- C) information passes directly between buyers and sellers, facilitating rapid adaptation of economic processes to changing conditions.
- D) all of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

76. In a market system:

- A) profit and income incentives cause resources to be used inefficiently.
- B) prices reflect the values of buyers and sellers rather than government planners.
- C) production and distribution decisions reflect the value judgments of sellers but not buyers.
- D) all of the above.

Ans: B

Difficulty: M

Topic: MARKET ECONOMIES

77. Market economies tend to produce goods and services efficiently because:

- A) profit incentives are a driving force behind business production decisions.
- B) information required for production decisions passes directly between buyers and sellers via prices.
- C) both of the above.
- D) none of the above.

Ans: C
Difficulty: M
Topic: MARKET ECONOMIES

78. A drawback of the market system in dealing with the basic economic questions is:
- A) it depersonalizes economic decision-making.
 - B) it produces high incomes for people with highly valued skills, and owners of highly valued resources.
 - C) it does not protect people with inadequate knowledge about products.
 - D) power is always concentrated on the side of businesses and consumers have no influence on business decisions.

Ans: C
Difficulty: H
Topic: MARKET ECONOMIES

79. A weakness of a market system is:
- A) it generates products that consumers do not want.
 - B) it generates low quality products when there are competing producers.
 - C) it does not encourage people to develop skills that allow them to be successful.
 - D) the incentive to produce at minimum cost could lead to environmental damage.

Ans: D
Difficulty: M
Topic: MARKET ECONOMIES

80. When a market system causes a problem or cannot achieve a goal set by society there is:
- A) mercantilism.
 - B) market failure.
 - C) market socialism.
 - D) no alternative but to go to a purely planned economy.

Ans: B
Difficulty: E
Topic: MARKET ECONOMIES

81. Cost-minimizing efforts by businesses that lead to pollution or inferior products are examples of:

- A) project risk.
- B) market failure.
- C) command breakdown.
- D) all of the above.

Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

82. Market failure occurs when:

- A) the price system fails to equalize income differentials between individuals.
- B) public policy produces a problem for society or fails to achieve society's goals.
- C) the price system produces a problem for society or fails to achieve society's goals.
- D) government intervention in a market distorts price signals and produces inefficiency.

Ans: C

Difficulty: M

Topic: MARKET ECONOMIES

83. Market failure occurs when:

- A) a small number of sellers dominate a market.
- B) buyers have inadequate information to make economic decisions.
- C) cost-minimizing decisions by businesses create problems for society.
- D) all of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

84. Which of the following is an example of market failure?

- A) Workers are treated unequally because of race, gender, or other discrimination.
- B) Buyers lack adequate information to make knowledgeable decisions about which goods and services to purchase.

- C) Competition drives sellers out of markets, leaving buyers with fewer sellers from whom to purchase and causing them to pay higher prices.
- D) All of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

85. The economic system in which the basic economic questions are answered through markets with some government intervention is a:

- A) mixed economy.
- B) market economy.
- C) planned economy.
- D) centralized economy.

Ans: A

Difficulty: E

Topic: MARKET ECONOMIES

86. An example of government intervention in input markets would be:

- A) antidiscrimination laws.
- B) collective bargaining laws.
- C) wage-and-hour legislation.
- D) all of the above.

Ans: D

Difficulty: E

Topic: MARKET ECONOMIES

87. Which of the following would NOT be an example of government intervention in an input market?

- A) Worker protection laws.
- B) Antidiscrimination laws.
- C) Collective bargaining laws.
- D) Consumer protection laws.

Ans: D

Difficulty: E

Topic: MARKET ECONOMIES

88. An example of government intervention in output markets would be:

- A) antidiscrimination laws.
- B) consumer protection laws.
- C) corporate income taxation.
- D) none of the above.

Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

89. An example of government intervention in the business sector would be:

- A) laws protecting competition.
- B) public utility regulation.
- C) laws affecting corporate income tax.
- D) all of the above.

Ans: D

Difficulty: E

Topic: MARKET ECONOMIES

90. Direct government intervention in the household sector would include:

- A) welfare payments.
- B) laws protecting competition.
- C) tariffs and quotas on imports.
- D) none of the above.

Ans: A

Difficulty: M

Topic: MARKET ECONOMIES

91. Government taxing and spending policies can influence economic activity because of their:

- A) ability to stimulate economic growth.
- B) sheer size relative to the size of the economy.
- C) ability to affect the levels of employment and inflation.
- D) all of the above.

Ans: D

Difficulty: M

Topic: MARKET ECONOMIES

92. Which of the following statements about government intervention in the U.S. economy is FALSE?

- A) Businesses in industries such as pharmaceuticals and food production are subject to government regulations.
- B) Government intervention occurs in the business sector, the household sector, output markets, and input markets.
- C) Government tax and expenditure programs are generally not considered forms of intervention into the economy.
- D) Government intervention into the economy includes setting the legal framework within which businesses and households must operate when dealing with one another.

Ans: C

Difficulty: M

Topic: MARKET ECONOMIES

93. In a planned economy the three basic economic decisions are made by the:

- A) government, based on price signals.
- B) government, based on voter preferences.
- C) government, based on value judgments of government planners.
- D) interaction of individual buyers and sellers based on prices.

Ans: C

Difficulty: E

Topic: Planned Economies

94. In a planned economy:

- A) free enterprise is the prevailing philosophy.
- B) goods and services are usually produced more efficiently than in a market system.

- C) value judgments of individual buyers and sellers are more important than value judgments of planners.
- D) how goods and services are produced is determined by what resources planners make available to producers.

Ans: D

Difficulty: E

Topic: Planned Economies

95. A country that allows no market activity in making the basic economic choices has a:

- A) mixed economy.
- B) capitalistic economy.
- C) free enterprise economy.
- D) purely planned economy.

Ans: D

Difficulty: E

Topic: Planned Economies

96. An economic system where many of the factors of production are collectively owned and there is an attempt to equalize incomes is:

- A) socialism.
- B) capitalism.
- C) absolutism.
- D) mixed capitalism.

Ans: A

Difficulty: E

Topic: Planned Economies

97. A socialist system:

- A) shares the same essential features as capitalism, but attempts to equalize the distribution of income.
- B) has collective ownership of many factors of production and attempts to equalize the distribution of income.
- C) depends exclusively on planning to decide what goods and services will be produced, and exclusively on markets to decide how they will be distributed.

D) none of the above.

Ans: B

Difficulty: M

Topic: Planned Economies

98. Which of the following statements about a planned economy is FALSE?

- A) Planners determine what, and how many, goods and services are to be produced.
- B) Planners can determine how goods and services are distributed using a rationing system.
- C) Planners permit individuals to choose where on a production possibilities curve to operate.
- D) Planners generally determine how goods or services will be produced by the types of resources that they make available.

Ans: C

Difficulty: E

Topic: Planned Economies

99. The main influence planners have over how goods and services will be produced in a planned economy is through:

- A) allowing businesses to earn a profit.
- B) imprisoning producers who do not operate according to the plan.
- C) determining which factors of production and processes will be made available to producers.
- D) threatening to have products produced in foreign countries if they are not produced according to the plan at home.

Ans: C

Difficulty: M

Topic: Planned Economies

100. An advantage of a planned economy is:

- A) greater control over unemployment.
- B) faster achievement of certain social goals.
- C) greater control over the distribution of goods and services.
- D) all of the above.

Ans: D

Difficulty: M

Topic: Planned Economies

101. When centralized planning creates a problem for a society or fails to achieve a society's goals, there is:

- A) planning gap.
- B) planning failure.
- C) market replacement.
- D) no alternative but to go to a pure market economy.

Ans: B

Difficulty: E

Topic: Planned Economies

102. Planning failure occurs when:

- A) government planners pursue noneconomic goals rather than economic goals.
- B) the price system produces a problem for society or fails to achieve society's goals.
- C) government intervention in a market distorts price signals and produces inefficiency.
- D) centralized decision making produces a problem for society or fails to achieve society's goals.

Ans: D

Difficulty: H

Topic: Planned Economies

103. A weakness of a planned economy is:

- A) goods and services most valued by buyers may not be produced.
- B) government planners may be unable to effectively plan due to the complexity of resource allocation decisions.
- C) air and water pollution may result from planners' failures to take the environment into account in many of their decisions.
- D) all of the above.

Ans: D

Difficulty: M

Topic: Planned Economies

104. In a planned economy:

- A) the wants and needs of everyone in the society can be satisfied.
- B) unemployment is difficult to eliminate because planners prefer using machines, rather than people, in production.
- C) the elapsed time from the beginning of a plan to the time of production can cause products that were once desired to no longer be in demand.
- D) production bottlenecks and stoppages can be eliminated because planners can anticipate all problems and control their effects.

Ans: C

Difficulty: M

Topic: Planned Economies

105. A mixed economy is one:

- A) that depends on both market and centralized decision making.
- B) where businesses decide what to produce and households decide what to buy.
- C) that is talked about in classrooms, but no mixed economies exist in the real world.
- D) none of the above.

Ans: A

Difficulty: M

Topic: MIXED ECONOMICS

106. An advantage of classifying economies according to the degree to which they depend on markets or planning is that it allows us to:

- A) focus on how societies deal with the economic decisions caused by scarcity.
- B) map how a country's approach to making the basic economic choices changes over time.
- C) sort economies according to the degree to which they depend on individual or collective decision making when dealing with the basic economic choices.
- D) all of the above.

Ans: D

Difficulty: H

Topic: MIXED ECONOMICS

107. The world's economies:

- A) are all either capitalist or socialist.
- B) differ from one another in terms of how they mix individual and collective decision making.
- C) are either capitalist in advanced societies or socialist in developing societies.
- D) are strictly individual or collective in how they make decisions, with little or no mixing of the two approaches.

Ans: B

Difficulty: M

Topic: MIXED ECONOMICS

108. Which of the following countries would rely most on a market based decision-making process?

- A) Cuba.
- B) China.
- C) England.
- D) United States.

Ans: D

Difficulty: E

Topic: MIXED ECONOMICS

109. Which of the following countries would rely most on central planning for economic decisions?

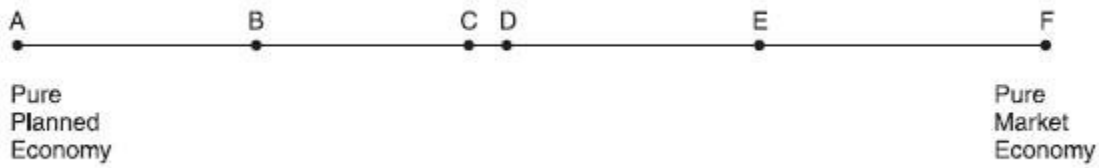
- A) Cuba.
- B) Sweden.
- C) England.
- D) United States.

Ans: A

Difficulty: E

Topic: MIXED ECONOMICS

110. On the basis of the following continuum, economic changes in Eastern Europe, the former Soviet Union, and China since the mid-1980s would be most appropriately



- A) A to point
- B) B to point A.
- C) B to point C.
- D) D to point B.

Ans: C

Difficulty: M

Topic: MIXED ECONOMICS

111. Beginning in the mid-1980s, the Soviet Union, China, and other planned economies:

- A) increased their dependence on centralized decision making.
- B) formed into a single super-economy to reduce the scarcity problem.
- C) moved toward greater use of free markets and individual decision making.
- D) turned their decision-making authority over to public officials in successful western economies.

Ans: C

Difficulty: E

Topic: CHANGING ECONOMIC SYSTEMS

112. The granting to individuals the property rights to factors of production that were once collectively owned, or owned by the state, is:

- A) referred to as privatization.
- B) an important element in the transformation from a planned to a market economy.
- C) necessary if individuals, rather than the state, are to organize resources and take risks.
- D) all of the above.

Ans: D

Difficulty: M

Topic: CHANGING ECONOMIC SYSTEMS

113. The transition from a planned to a market-oriented economy:

- A) requires that property rights be redefined to allow private ownership.
- B) occurs smoothly and quickly once the decision to make the transition is made.
- C) always leads to political stability as a result of people acting in their own best interests.
- D) all of the above.

Ans: A

Difficulty: H

Topic: CHANGING ECONOMIC SYSTEMS

114. Experience with economic and political changes in Eastern Europe and the former Soviet Union shows that:

- A) the market ideology will never be accepted outside the United States.
- B) changes in economic and social institutions necessary to transform a planned economy to a market economy occur quickly and smoothly.
- C) the transformation from a planned economy to a market economy may be accompanied by severe inflation, and a heightened sense of insecurity.
- D) none of the above.

Ans: C

Difficulty: M

Topic: CHANGING ECONOMIC SYSTEMS

115. The transition from a centrally planned economy to a market economy is complicated by the:

- A) embedded philosophy of collectivism in a centrally planned economy.
- B) fact that some people win and some people lose as a result of the transition.
- C) lack of legal institutions and people knowledgeable about business needed to support the operation of a market economy.
- D) all of the above.

Ans: D

Difficulty: M

Topic: CHANGING ECONOMIC SYSTEMS

116. According to Application 2.2, "The People's Republic of China:"

- A) in recent years the economic influence of individuals and private organizations has

decreased in China.

B) over the last 30-or-so years living standards in China have increased and its output has more than quadrupled.

C) since the late 1970s China has been moving further away from a market-oriented economy and more toward a command economy.

D) all of the above.

Ans: B

Difficulty: M

Topic: CHANGING ECONOMIC SYSTEMS

117. The idea of individual decision making popularized by Adam Smith in the late 1700s provided the foundation for:

A) mercantilism.

B) U.S. capitalism.

C) Chinese socialism.

D) the economy of the former Soviet Union.

Ans: B

Difficulty: E

Topic: THE U.S. ECONOMIC SYSTEM

118. Mercantilism:

A) placed the interests of the state or government above the interests of private individuals.

B) is the term used to describe the intense industrialization and rapid technology changes of the 1700s and 1800s.

C) held that individual decision making with minimal government intervention would maximize the interests of the state.

D) none of the above.

Ans: A

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

119. The economic system where the interests of the state are placed ahead of the interests of individual is:

A) mercantilism.

- B) pure capitalism.
- C) mixed capitalism.
- D) radical individualism.

Ans: A

Difficulty: E

Topic: THE U.S. ECONOMIC SYSTEM

120. Laissez-faire capitalism:

- A) is concerned with placing the interests of the state above the interests of individuals.
- B) holds that, for the sake of fairness, the state should decide how much income people will receive.
- C) holds that individual decision making with minimal government intervention will maximize the interests of society.
- D) all of the above.

Ans: C

Difficulty: E

Topic: THE U.S. ECONOMIC SYSTEM

121. According to the invisible hand doctrine:

- A) only laissez-faire capitalism provides the reward of profit.
- B) laissez-faire capitalism is improved when government intervenes in decision making.
- C) the interests of society are best served if producers decide which goods and services buyers should want.
- D) in a system of free and open competition, it is in producers' best interests to provide buyers with what they want, which best serves the interests of society.

Ans: D

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

122. An assumption of laissez-faire capitalism is that the wealth of a nation will be increased:

- A) by maintaining minimal government interference in its economy.
- B) by relying on free and open competition to regulate business dealings.
- C) if individuals are left relatively free to pursue their economic interests.
- D) all of the above.

Ans: D
Difficulty: M
Topic: THE U.S. ECONOMIC SYSTEM

123. Adam Smith, in his book, *The Wealth of Nations*, advocated:
- A) socialism.
 - B) mercantilism.
 - C) laissez-faire capitalism.
 - D) government intervention into the economy to control people's self-interest.

Ans: C
Difficulty: E
Topic: THE U.S. ECONOMIC SYSTEM

124. The invisible hand doctrine is most closely associated with:
- A) socialism.
 - B) mercantilism.
 - C) managed capitalism.
 - D) laissez-faire capitalism.

Ans: D
Difficulty: E
Topic: THE U.S. ECONOMIC SYSTEM

125. The British Industrial Revolution:
- A) was an era of significant technological and social change.
 - B) was a political uprising caused by the government's placing the interests of the state above the interests of individuals.
 - C) grew out of the belief that individual decision-making with minimal government intervention would harm the interests of the state.
 - D) all of the above.

Ans: A
Difficulty: M
Topic: THE U.S. ECONOMIC SYSTEM

126. The British Industrial Revolution was marked by:
- A) a shift from agriculture to manufacturing.
 - B) the advent of better technology and larger outputs.
 - C) a shift from home production to factory-based production.
 - D) all of the above.

Ans: D

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

127. The "dark side" of the Industrial Revolution included all of the following EXCEPT:
- A) low pay.
 - B) long hours.
 - C) poor working conditions.
 - D) exclusion of women and children from the workforce.

Ans: D

Difficulty: E

Topic: THE U.S. ECONOMIC SYSTEM

128. The poem, "The Factory Girl's Last Day," in Application 2.3 best exemplifies conditions during the:
- A) New Deal.
 - B) British mercantilist period.
 - C) British Industrial Revolution.
 - D) U.S. deregulatory wave of the 1970s and 1980s.

Ans: C

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

129. After the Civil War, the industrial boom in the U.S. was propelled by changes in:
- A) agriculture and real estate.
 - B) agriculture and the service industry.

- C) communications and transportation.
- D) communications and the service industry.

Ans: C

Difficulty: H

Topic: THE U.S. ECONOMIC SYSTEM

130. Which of the following developments brought about by the industrial boom in the U.S. led to calls for greater government intervention in the marketplace?

- A) the advent of large, powerful monopolies.
- B) low wages for workers and the use of child labor.
- C) long hours and poor working conditions for workers.
- D) all of the above.

Ans: D

Difficulty: E

Topic: THE U.S. ECONOMIC SYSTEM

131. "Muckrakers" were:

- A) machines that were put into early coal mines, causing many workers to lose their jobs.
- B) workers in British steel mills that demanded, and received, the first pro-labor legislation ever passed.
- C) legislators who passed laws favoring special interest groups in return for large campaign contributions.
- D) authors, journalists, and others who drew public attention to social, labor, and other problems in the early 20th century.

Ans: D

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

132. The government programs and legislative reforms initiated during the 1930s to reduce the problems of the Great Depression were termed:

- A) Reaganomics.
- B) the New Deal.
- C) laissez-faire intervention.
- D) the Employment Act proposals.

Ans: B
Difficulty: E
Topic: THE U.S. ECONOMIC SYSTEM

133. Which of the following was NOT an objective of the New Deal?
- A) Providing jobs for the unemployed.
 - B) Providing income to older adults through Social Security.
 - C) Preventing fraudulent banking and investment practices.
 - D) Lowering agricultural prices, so people could afford to eat.

Ans: D
Difficulty: H
Topic: THE U.S. ECONOMIC SYSTEM

134. Legislation giving the federal government the responsibility to provide an environment for achieving full employment, full production, and stable prices was:
- A) the Sherman Act.
 - B) the Employment Act of 1946.
 - C) a significant part of the New Deal reforms.
 - D) part of the regulatory wave of the 1960s and 1970s.

Ans: B
Difficulty: M
Topic: THE U.S. ECONOMIC SYSTEM

135. The landmark change brought about by the passage of The Employment Act of 1946 was the:
- A) provision of payments to unemployed workers.
 - B) requirement that government create jobs for the unemployed.
 - C) granting of power to the government to control input markets.
 - D) granting of power to the government to provide an environment that supports the entire economy.

Ans: D
Difficulty: M
Topic: THE U.S. ECONOMIC SYSTEM

136. The Employment Act of 1946 gave the federal government the power to change each of the following to influence the economy, EXCEPT:

- A) taxes.
- B) court rulings.
- C) budget deficits.
- D) government expenditures.

Ans: B

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

137. The number of regulatory agencies created by the federal government was greatest during:

- A) Franklin Roosevelt's Administration—(1930s and 1940s).
- B) the Johnson/Nixon Administrations—(1960s and 1970s).
- C) the Carter/Reagan Administrations—(1970s and 1980s).
- D) the Clinton/Bush Administrations—(1990s and 2000s).

Ans: B

Difficulty: H

Topic: THE U.S. ECONOMIC SYSTEM

138. Which of the following statements is correct?

- A) The U.S. enacted a policy of deregulation in the 1960s that continues to the present.
- B) A wave of increased regulatory activity began in the 1960s and continues to the present.
- C) A period of deregulation occurred in the 1960s and early 1970s, followed by reregulation in the late 1970s and 1980s.
- D) Regulatory activity increased in the 1960s and early 1970s, and was followed by deregulation in the late 1970s and 1980s.

Ans: D

Difficulty: H

Topic: THE U.S. ECONOMIC SYSTEM

139. Which of the following recent developments in the U.S. economy is true?
- A) The Employment Act was declared unconstitutional.
 - B) The deregulatory trend of the late 1970s and 1980s reversed in the 1990s.
 - C) The government has taken over all corporations that produce goods for defense.
 - D) The debt of the federal government was eliminated during the George W. Bush administration.

Ans: B

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

140. During President George W. Bush's and President Barack Obama's administrations:
- A) the national debt continued to decline.
 - B) health care spending which had been increasing for years began to fall.
 - C) future funding for Social Security no longer was an issue with increased contributions.
 - D) the trend toward less government intervention during the Bush administration was reversed with the Obama administration.

Ans: D

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

141. Which of the following is NOT one of the three basic economic decisions?
- A) Who will receive goods and services.
 - B) How goods and services will be produced.
 - C) When and where goods and services will be produced.
 - D) What and how many goods and services will be produced.

Ans: C

Difficulty: E

Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

142. Markets are important in economies where decisions are made:
- A) collectively.
 - B) by planners.
 - C) by individuals.
 - D) by the government.

Ans: C
Difficulty: E
Topic: MARKET ECONOMIES

143. In a pure market economy, buyers and sellers communicate their intentions to one another through:

- A) planners.
- B) prices paid or charged.
- C) individuals elected to public office.
- D) negotiations overseen by government agencies.

Ans: B
Difficulty: M
Topic: MARKET ECONOMIES

144. In a pure market economy:

- A) households buy and businesses sell resources.
- B) goods and services are distributed to those who can afford them.
- C) what is produced is based on what businesses think is best for society.
- D) goods and services are produced using the smallest total number of resources.

Ans: B
Difficulty: M
Topic: MARKET ECONOMIES

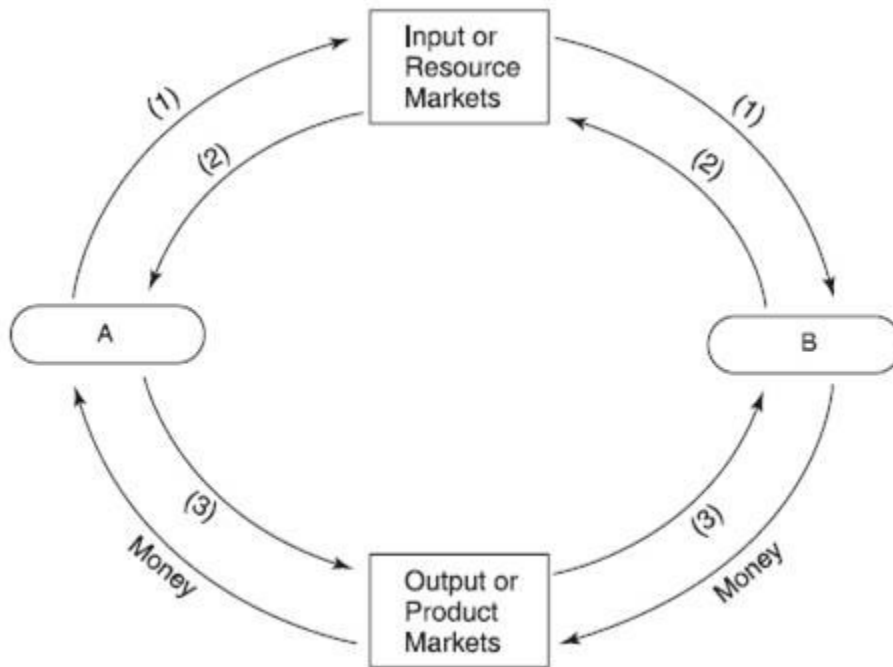
145. Which of the following occurs in a pure market economy?

- A) Businesses are guaranteed a profit.
- B) Government has an important role in the circular flow model.
- C) Households are sellers and businesses are buyers in resource markets.
- D) Collective decision making is valued more highly than individual decision making.

Ans: C
Difficulty: E
Topic: MARKET ECONOMIES

Reference: Ref 2-4

Circular flow model.



146. If this were a pure market economy, households would be shown by:

- A) box A.
- B) box B.
- C) lines (1) and (2).
- D) none of the above.

Ans: B

Refer To: Ref 2-4

Difficulty: M

Topic: MARKET ECONOMIES

147. Line (3) illustrates the flow of:

- A) factors of production.
- B) goods and services to their final users.
- C) payments to owners of factors of production.

D) payments for the purchase of goods and services.

Ans: B

Refer To: Ref 2-4

Difficulty: M

Topic: MARKET ECONOMIES

148. The flow of resources to businesses is shown by:

A) line (1).

B) line (2).

C) line (3).

D) lines (2) and (3).

Ans: B

Refer To: Ref 2-4

Difficulty: M

Topic: MIXED ECONOMICS

149. Which of the following statements is FALSE?

A) In a market economy, goods and services are produced using least-cost production techniques.

B) In a market economy, the basic economic questions are answered through the interaction of buyers and sellers.

C) In a planned economy, how goods and services are produced is determined largely by the resources made available to producers.

D) In most economies, the basic economic decisions are made either entirely by private individuals, or entirely by centralized authorities.

Ans: D

Difficulty: M

Topic: Economic Systems, the Basic Economic Decisions, and Economic Systems

150. The economic system in which all of the basic decisions are made through a centralized authority, such as a government agency, is termed a:

A) mixed economy.

B) planned economy.

C) capitalistic economy.

D) market socialist economy.

Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

151. A lack of incentives to protect the environment when producing goods and services is a weakness of:

A) a pure market economy.

B) a pure planned economy.

C) both a pure market economy and a pure planned economy.

D) neither a pure market economy nor a pure planned economy.

Ans: C

Difficulty: M

Topic: Economic Systems, the Basic Economic Decisions, and Economic Systems

152. Free enterprise exists where:

A) limits are set on how much government can tax.

B) businesses can make their own decisions and seek profits.

C) the government provides free goods and services to the needy.

D) resources are publicly owned and available free to anyone who wants to produce goods and services.

Ans: B

Difficulty: M

Topic: MARKET ECONOMIES

153. The economic system where private individuals own the factors of production is:

A) socialism.

B) capitalism.

C) collectivism.

D) a people's republic.

Ans: B

Difficulty: E

Topic: MARKET ECONOMIES

154. After studying the various economic systems, it is clear that:

- A) the U.S. has a pure market economy.
- B) an economy based on collective decision making needs markets to function.
- C) the economies of the world can be differentiated from one another by how they mix individual and collective decision making.
- D) all of the above.

Ans: C

Difficulty: E

Topic: Economic Systems, the Basic Economic Decisions, and Economic Systems

155. Since the mid-1990s, the economies of Eastern Europe, the former Soviet Union, and China have depended:

- A) completely on central planning.
- B) completely on individual decision making.
- C) less on individual decision making than before.
- D) more on individual decision making than before.

Ans: D

Difficulty: E

Topic: CHANGING ECONOMIC SYSTEMS

156. The economic system, important in Britain in the 17th and 18th centuries, in which national economic interests outweighed individuals' economic interests, was:

- A) mercantilism.
- B) market socialism.
- C) laissez-fair capitalism.
- D) a free enterprise system.

Ans: A

Difficulty: E

Topic: THE U.S. ECONOMIC SYSTEM

157. Which of the following statements about the U.S. economy is true?
- A) A major current concern is over the size of the federal debt.
 - B) The Sherman Act was passed to ensure there would be full employment.
 - C) The New Deal programs decreased government's role in the economy during the 1930s.
 - D) The Employment Act of 1946 was passed to control poor working conditions.

Ans: A

Difficulty: M

Topic: The U.S. Economic System

158. The economic programs and legislative reforms developed in the U.S. during the Great Depression were named:

- A) the New Deal.
- B) the Employment Act.
- C) Free Enterprise Reforms.
- D) none of the above.

Ans: A

Difficulty: E

Topic: THE U.S. ECONOMIC SYSTEM

Reference: Ref 2-5

Use the following figure.



159. The type of economy advocated by Adam Smith in *The Wealth of Nations* would operate at or near point:

- A) A
- B) C
- C) D

D) F

Ans: D

Refer To: Ref 2-5

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

160. The change in the U.S. economy following the Employment Act of 1946 might best be illustrated by a movement from point:

A) B to point A.

B) E to point D.

C) F to point D.

D) F to point A.

Ans: B

Refer To: Ref 2-5

Difficulty: E

Topic: THE U.S. ECONOMIC SYSTEM

True/False

161. One of the basic economic decisions facing every society is how goods and services should be produced.

Ans: True

Difficulty: E

Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

162. Highly-developed economies must make the basic economic choices, whereas less-developed economies produce so little that no choices are possible.

Ans: False

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

163. "Traditional economies" is a term used to describe economic systems based largely on custom or ritual.

Ans: True

Difficulty: E

Topic: TRADITIONAL OR AGRARIAN ECONOMIES

164. Price is the language through which buyers and sellers communicate their intentions to one another in a pure market economy.

Ans: True

Difficulty: E

Topic: MARKET ECONOMIES

165. Households buy goods and services in output markets and sell factors of production in input markets.

Ans: True

Difficulty: E

Topic: MARKET ECONOMIES

166. The least-cost method of production is the method that uses resources most efficiently.

Ans: True

Difficulty: E

Topic: MARKET ECONOMIES

167. The value judgments of persons running households and businesses play virtually no role in economic decision making in a pure market economy.

Ans: False
Difficulty: M
Topic: MARKET ECONOMIES

168. A mixed economy combines government intervention and individual decision making.

Ans: True
Difficulty: E
Topic: MARKET ECONOMIES

169. In a planned economy, economic decisions are made by individual buyers and sellers.

Ans: False
Difficulty: E
Topic: MARKET ECONOMIES

170. A lack of incentives to protect the environment is a weakness of both market economies and planned economies.

Ans: True
Difficulty: M
Topic: Scarcity, the basic economic decisions, and Economic Systems

171. In a socialist economy, goods and services go only to those who can pay for them with money earned from resources they own.

Ans: False
Difficulty: E
Topic: Planned Economies

172. A socialist system favors collective ownership of society's factors of production.

Ans: True
Difficulty: E
Topic: Planned Economies

173. There is no difference between a market economy and a planned economy in how income is distributed.

Ans: False
Difficulty: M
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

174. Scarcity is a problem in a market economy but not a planned economy.

Ans: False
Difficulty: E
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

175. In a mercantilist system, individual economic decisions are carried out with minimum government interference.

Ans: False
Difficulty: M
Topic: THE U.S. ECONOMIC SYSTEM

176. *The Wealth of Nations*, first published in 1776, strongly advocates mercantilism.

Ans: False
Difficulty: E
Topic: THE U.S. ECONOMIC SYSTEM

177. The invisible hand doctrine was Adam Smith's idea that allowing competing sellers to act in their own best interest advances the economic interests of all society.

Ans: True

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

178. The Sherman and Clayton Acts were passed to help maintain U.S. laborers' living and working conditions.

Ans: False

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

179. The Employment Act of 1946 gave the federal government the right and responsibility to provide an environment for the achievement of full employment, full production, and price stability.

Ans: True

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

180. Over the years, government's intervention in the economy has increased, but the increase has not been smooth or continuous.

Ans: True

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

Short Answer

181. Briefly explain each of the three basic economic decisions every society must make.

Ans: Every society must make a decision regarding what goods get produced, how those goods are produced, and who receives the distribution of the goods once they are produced.

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

182. Why are private property rights and free enterprise more important in a market economy than in a planned economy?

Ans: Free enterprise helps create economic growth in a market economy, and free enterprise cannot happen without the presence of private property rights. Entrepreneurs will not take risks to earn rewards if that benefit is not going to be returned to them.

Difficulty: H

Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

183. Explain how economic decision making differs between a market economy and a planned economy.

Ans: In a market economy, decisions are made based on the interaction between consumers and producers. In a planned economy, decisions are made by the government.

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

184. What role do prices play in the communication between buyers and sellers in a market economy?

Ans: Prices aggregate information and relay that information from one side of the market to the other. Prices inform consumers of a producer's willingness to accept, and prices inform producers of a consumer's willingness to pay.

Difficulty: M

Topic: MARKET ECONOMIES

185. Why is it in the best interest of a business in a market economy to use the least-cost method of production?

Ans: A firm's profits are the difference between the price it receives for a good and its costs of production. Therefore, focusing on least-cost will help a firm to maximize profits.

Difficulty: M

Topic: MARKET ECONOMIES

186. In your opinion, do firms in a market economy respond to consumer preferences, or create consumer preferences? Why?

Ans: Both. Firms respond to preferences by modifying current goods or producing new goods that consumers want. At the same time, a firm's marketing efforts will help shape consumers' understanding of their own needs and wants.

Difficulty: M

Topic: MARKET ECONOMIES

187. Why would you expect goods produced in a market economy to better reflect the value judgments of buyers and sellers than goods produced in a planned economy?

Ans: Prices reflect the values imposed on goods by producers and consumers. In a planned economy, it is not clear if the amount of type of good that is being produced has any relationship to the value placed on it by those who will consume it.

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

188. What is market failure and what is planning failure?

Ans: Market failure is the failure of the market to provide the socially optimal level of production, while planning failure is a problem created by the government in deciding upon the amount of a good to produce.

Difficulty: M

Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

189. Do you agree or disagree with the statement that "in economic matters, individual decision making is always preferable to decisions made by planners?" Why?

Ans: I agree, because individuals (in general) know how to plan their own consumption better than the government can do.

Difficulty: H

Topic:

Scarcity, the Basic Economic Decisions, and Economic Systems

190. What are some arguments for and some arguments against government intervention in an economy?

Ans: Government intervention in a market is beneficial in the presence of market failure, or the inability of a market to provide a particular good. Government intervention is not good when the government policy intrudes on the market's ability to produce efficiently.

Difficulty: H

Topic: MARKET ECONOMIES

191. Why is privatization essential for the shift from a centrally planned economy to a market economy?

Ans: Without the idea of privatization of property rights, individuals have no incentive to carry out the entrepreneurial activities required in a market system.

Difficulty: M

Topic: CHANGING ECONOMIC SYSTEMS

192. What is the difference between mercantilism and laissez-faire capitalism?

Ans: In a mercantilist economy, the interests of the individual are subordinate to the needs of the government, and in laissez-faire capitalism, the interests of the government are subordinate to the needs of the individual.

Difficulty: M

Topic: The U.S. Economic System

193. What is the invisible hand doctrine and what type of economic system does it support?

Ans: The invisible hand supports market economies by suggesting that markets can adjust without intervention; rather, they can adjust as if an “invisible hand” is helping the market move toward the equilibrium.

Difficulty: H

Topic: Market Economies

194. Why would it be incorrect to say the U.S. economy has always operated as laissez-faire capitalism?

Ans: Yes, because there have been times, such as during the Great Depression or during a World War, when the needs of the individual were less important than the needs of the government (or the society as a whole).

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM

195. What type of economic system best describes the U.S. economy in the 21st century? Why?

Ans: The US has primarily a mixed economy: there is a significant amount of private enterprise, with individuals receiving rewards for taking on risk. However, the government is not afraid to intervene in markets where it thinks it can be successful.

Difficulty: M

Topic: THE U.S. ECONOMIC SYSTEM