

Chapter 2

The Modern Mixed Economy

Multiple Choice Questions

1. In a market system, the what decision is made most basically by
- A) representative government.
 - B) national planning.
 - C) bankers.
 - D) advertisers and their ability to persuade buyers.
 - E) spending decisions of those with money.

Answer: E

Difficulty: Easy

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

2. "Distribution" in economics refers to:
- A) retailing, wholesaling, and transportation.
 - B) what.
 - C) how.
 - D) for whom.
 - E) none of the above.

Answer: D

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

3. The economic role of government in mixed economies can include:
- A) provision of public goods.
 - B) tax collections.
 - C) income redistribution.
 - D) all of the above.
 - E) none of the above.

Answer: D

Difficulty: Easy

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

4. A market is in equilibrium when:
- A) there is a surplus of goods available for sale.
 - B) the price of the product is equal to zero.
 - C) the price of the product simultaneously meets the desires of both buyers and sellers.

- D) the government establishes a proper price for each good produced and sold.
- E) none of the above.

Answer: C

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

Topic: Simple Application

5. If price is a signal in a market economy, what signal does it send to producers when the price of oil goes up?
- A) suppliers should produce more gasoline.
 - B) buyers should purchase even more gasoline.
 - C) government should decrease taxes on gasoline.
 - D) government should place price controls on the market for gasoline.
 - E) suppliers should produce less gasoline.

Answer: A

Difficulty: Medium

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

6. In a modern market economy, the "invisible hand," or pricing system:
- A) solves the what and for whom, while engineers solve the how.
 - B) solves the what and how, while the for whom is primarily determined by the tax laws passed by Congress.
 - C) largely solves the three basic problems of economic organization.
 - D) is unable to solve any basic problems with precision, because of the intensity of perfect competition.
 - E) largely solves the three basic problems of economic organization only during recessions.

Answer: C

Difficulty: Easy

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

7. Imperfect competition is defined by:
- A) unethical business practices.
 - B) only a few buyers in a market.
 - C) firm's ability to affect price.
 - D) advertising.
 - E) economies of large-scale production.

Answer: C

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

8. Capital is defined by economists as:
- A) money needed to run a business.
 - B) the only primary factor in production.

- C) produced goods used for further production.
- D) private property.
- E) the total value of all resources used in production.

Answer: C

Difficulty: Medium

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

9. Who is in charge of a market economy? That is, what agents and factors are the most important in determining market outcomes?

- A) Large companies.
- B) Congress and the president.
- C) Consumers alone.
- D) All producers.
- E) Consumers and technology.

Answer: E

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

10. A society which forgoes present consumption:

- A) is forced to do so because of excessive consumption within the country in the past.
- B) may be devoting new resources to new capital formation.
- C) is merely devoting resources to the replacement of capital.
- D) expects to consume only that amount tomorrow which was foregone today.
- E) does none of the above.

Answer: B

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

11. Policy designed to assist individual families with many children and only one wage earner is policy intended primarily to

- A) improve economic efficiency.
- B) increase household consumption.
- C) improve economic equity.
- D) improve stability of the economy.
- E) increase taxes.

Answer: C

Difficulty: Medium

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

12. In a perfectly competitive market economy the what decision is made basically by

- A) engineers and scientists.
- B) economists and planners.
- C) government.

- D) people's money votes.
- E) none of the above.

Answer: D

Difficulty: Easy

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

13. The principle of the "invisible hand" claims that:

- A) the selfish pursuits of everyone's own interest will lead to the best good for all under market competition.
- B) government must gently guide economic activity so that the best for all will be attained.
- C) government policies work like an invisible hand, steering resources to their best use.
- D) producers must quietly cooperate so that prices are not so low as to cause losses.
- E) none of the above.

Answer: A

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

14. Which of the following is a negative externality?

- A) Advertising.
- B) Consumer getting value for their dollar.
- C) Sellers getting profit.
- D) Noise pollution by the airport.
- E) Government policies.

Answer: D

Difficulty: Easy

Topic: Simple Application

Bloom's: Knowledge

AACSB: Reflective Thinking

15. Primary factors of production are:

- A) labor, land, and capital.
- B) labor and capital.
- C) labor and land.
- D) capital and land.
- E) irreplaceable inputs.

Answer: A

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

16. Specialization entails:

- A) interdependence.
- B) division of labor.
- C) need for exchange.
- D) all of the above.

E) none of the above.

Answer: D

Difficulty: Medium

Topic: Simple Application

Bloom's: Knowledge

AACSB: Reflective Thinking

17. Barter is inconvenient because:

A) bargaining power is unequal between rich and poor.

B) without money, "fair" values cannot be determined.

C) one individual's wants and supplies may not match another individual's wants and supplies

D) it leads to imperfect competition.

E) all of the above.

Answer: C

Difficulty: Medium

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

18. Which of the following statements is true of specialization?

A) Specialization is inconsistent with the idea of individual freedom.

B) Economies that practice a division of labor are morally superior to those that do not.

C) In accepting specialization, a person sacrifices his or her own interests for the sake of society's interest.

D) While specialization has enormous advantages, the costs outweigh them.

E) Increased productivity is more likely to be achieved through specialization.

Answer: E

Difficulty: Medium

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

19. The tremendous increase in imports and exports that has occurred globally has been caused primarily by:

A) declining tariff rates in most countries.

B) increased interest in protectionism.

C) declining transportation and communications costs.

D) decreases in wages in developing countries.

E) shifts in political organization away from central planning.

Answer: C

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

20. Capital is defined as:

A) the vacant lot next to your factory.

B) the means to pay for your lunch.

C) the produced and durable input which is itself an output of the economy.

D) the political seat of a state.

Answer: C

Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking

21. Unlike land and labor, capital has to be what before you can use it.
- A) bought.
 - B) inherited.
 - C) produced.
 - D) all of the above.

Answer: C
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking

22. Which of the following can be compatible with imperfect competition?
- A) Monopoly power in a given market.
 - B) Excessive advertising.
 - C) An ability to set price or output in a given market.
 - D) An ability for one firm to service all of the demand in a given market.
 - E) All of the above.

Answer: E
Difficulty: Medium
Topic: Definition
Bloom's: Comprehension
AACSB: Reflective Thinking

23. Which of the following best characterizes the market system?
- A) Households buy goods and sell factors of production. Businesses sell goods and buy factors of production.
 - B) Households buy goods and factors of production. Businesses sell goods and factors of production.
 - C) Households sell factors of production. Businesses sell goods and buy factors of production.
 - D) Households buy and sell goods. Businesses buy factors of production.
 - E) None of the above.

Answer: A
Difficulty: Easy
Topic: Experience
Bloom's: Comprehension
AACSB: Reflective Thinking

24. Which of the following is not an example of government regulation designed to curb a negative externality?
- A) Anti-child labor laws.
 - B) Anti-pollution laws.
 - C) A national sales tax.
 - D) Legislation against strip mining.
 - E) The Clean Air Act.

Answer: C
Difficulty: Easy

Topic: Experience
Bloom's: Comprehension
AACSB: Reflective Thinking

25. Lighthouses are public goods because their services are:
- A) nonrival.
 - B) non-exclusive.
 - C) provided by government.
 - D) subsidized by government.
 - E) both A and B.

Answer: E
Difficulty: Easy
Topic: Definition
Bloom's: Comprehension
AACSB: Reflective Thinking

26. Fiscal policy involves the government determining:
- A) market interest rates.
 - B) the money supply growth rate.
 - C) taxation and government spending levels.
 - D) the money supply.
 - E) the rate of inflation.

Answer: C
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking

27. Which of the following does not indicate market failure?
- A) Existence of monopolies.
 - B) Excessive air and water pollution.
 - C) A lack of such necessities as national defense.
 - D) Insufficient levels of research and development expenditures.
 - E) Severe income inequalities.

Answer: E
Difficulty: Medium
Topic: Experience
Bloom's: Comprehension
AACSB: Reflective Thinking

28. Firms base their business decisions on a desire to:
- A) maximize output.
 - B) minimize costs.
 - C) maximize profits.
 - D) minimize negative externalities.
 - E) all of the above.

Answer: C
Difficulty: Easy
Topic: Experience
Bloom's: Knowledge

AACSB: Reflective Thinking

29. Monetary policy is an effective tool to:

- A) change the prevailing interest rate.
- B) lower the inflation rate.
- C) lower the unemployment rate.
- D) all of the above.
- E) A and B only.

Answer: D

Difficulty: Easy

Topic: Experience

Bloom's: Comprehension

AACSB: Reflective Thinking

30. How goods are produced is determined by:

- A) consumer demand.
- B) government intervention to force businesses to produce goods cheaply.
- C) big business activity.
- D) business competition to buy factor inputs and sell goods most cheaply.
- E) none of the above.

Answer: D

Difficulty: Easy

Topic: Experience

Bloom's: Comprehension

AACSB: Reflective Thinking

31. Prices in factor markets are primarily determined by:

- A) government regulation.
- B) big business collusion.
- C) the interaction of business supply with household demand in the factor markets.
- D) the interaction of household supply with business demand in the factor markets.
- E) none of the above.

Answer: D

Difficulty: Easy

Topic: Experience

Bloom's: Comprehension

AACSB: Reflective Thinking

32. The term business cycle refers to:

- A) periodic bouts of inflation and recession that occur in a capitalist economy.
- B) regular government intervention in the economy that is intended to reduce income inequality.
- C) periodic government intervention into the economy that is intended to address market failures.
- D) seasonal changes in the mix of goods and services produced by an economy.
- E) expected declines in the level of economic activity that occur in socialist economies.

Answer: A

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

33. Macroeconomic policies for stabilization include:

- A) fiscal and monetary policies.
- B) pollution policy.
- C) lending policy.
- D) business demand policy.
- E) none of the above.

Answer: A

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

34. How does economics contribute to the debates about equity?

- A) It gives us all the answers.
- B) It tells us who is right and who is wrong.
- C) It helps to analyze the costs and benefits of different redistribution systems.
- D) It can make the decisions about who gets what in the economy.

Answer: C

Difficulty: Easy

Topic: Experience

Bloom's: Comprehension

AACSB: Reflective Thinking

35. Laissez-faire means what:

- A) more government regulation.
- B) leave us alone.
- C) don't be so lazy.
- D) kind of like a county fair.

Answer: B

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

36. An economy dominated by imperfect competition is characterized by

- A) too much output, and low prices compared to perfect competition.
- B) same amount of output, and low prices compared to perfect competition.
- C) too little output, and low prices compared to perfect competition.
- D) too little output, and high prices compared to perfect competition.
- E) too much output, and high prices compared to perfect competition.

Answer: D

Difficulty: Easy

Topic: Experience

Bloom's: Comprehension

AACSB: Reflective Thinking

37. Which of the following is not true?

- A) Adding to the stock of capital goods now requires a sacrifice of future consumption goods.
- B) Adding to the stock of capital goods now requires a sacrifice of present consumption.
- C) Each claim or title to ownership of a capital good is subject to valuation by the market.
- D) Capital goods represent goods that can be used as factor inputs for further production.

E) Capital goods represents inputs that are themselves outputs of the economy.

Answer: A

Difficulty: Medium

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

38. The absence of which of the following conditions could lead to the collapse of a competitive market?

A) Many buyers of the same good.

B) Many sellers of the same good.

C) The inability of either suppliers or demanders to influence the price of the good.

D) Free entry of new firms attracted by high profits into the market.

E) The absence of any of the above could lead to imperfect competition in a competitive market.

Answer: E

Difficulty: Easy

Topic: Definition

Bloom's: Knowledge

AACSB: Reflective Thinking

39. A signal to get more shoes produced comes in a market or mixed economy when:

A) podiatrists detect a greater incidence of fallen arches.

B) the government so decides.

C) profits in shoe production rise.

D) Gallup polls report that consumers need more footwear.

E) the price of socks rises.

Answer: C

Difficulty: Medium

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

40. Of the three basic problems in our modern economy, prices in a market system solve:

A) what and for whom, but physical scientists solve how.

B) what and how, but for whom is determined by social scientists.

C) how and for whom, but Congress solves the what.

D) what but physical scientist and social scientists solve the how and for whom.

E) none of the above is accurate.

Answer: E

Difficulty: Easy

Topic: Simple Application

Bloom's: Comprehension

AACSB: Reflective Thinking

41. Which of the following is a governmental tool used to reduce income inequality?

A) Progressive taxation.

B) Transfer payments to the poor.

C) Food stamp program.

D) Low cost housing for the poor.

E) All of the above.

Answer: E

Difficulty: Easy
Topic: Experience
Bloom's: Comprehension
AACSB: Reflective Thinking

True/False Questions

42. The market system gives more goods to those with more money votes.
Answer: True
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
43. A "mixed economy" involves both private and public decision making.
Answer: True
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
44. A "mixed economy" may involve both perfect and imperfect competition.
Answer: True
Difficulty: Medium
Topic: Simple Application
Bloom's: Knowledge
AACSB: Reflective Thinking
45. An economic good is valued in part by its scarcity.
Answer: True
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
46. The prices of productive factors influence how goods are produced.
Answer: True
Difficulty: Medium
Topic: Simple Application
Bloom's: Knowledge
AACSB: Reflective Thinking
47. By the "invisible hand," Adam Smith meant that although government dominates our economy most of us are not aware of this fact.
Answer: False
Difficulty: Easy
Topic: Definition

Bloom's: Knowledge
AACSB: Reflective Thinking

48. Without government, the “for whom” problem could not be solved.
Answer: False
Difficulty: Medium
Topic: Simple Application
Bloom's: Knowledge
AACSB: Reflective Thinking
49. Where there are differences in individual abilities, specialization may be desirable.
Answer: True
Difficulty: Hard
Topic: Simple Application
Bloom's: Knowledge
AACSB: Reflective Thinking
50. Adding to the stock of capital goods may require a temporary reduction of present consumption.
Answer: True
Difficulty: Easy
Topic: Simple Application
Bloom's: Knowledge
AACSB: Reflective Thinking
51. The American economy of the 1990's was essentially a laissez-faire economy with a shrinking government sector.
Answer: False
Difficulty: Easy
Topic: Experience
Bloom's: Comprehension
AACSB: Reflective Thinking
52. In a price system, the signals sent to business people by losses are just as important as the signals sent by large profits.
Answer: True
Difficulty: Medium
Topic: Simple Application
Bloom's: Comprehension
AACSB: Reflective Thinking
53. The Internet would be considered a negative externality.
Answer: False
Difficulty: Medium
Topic: Simple Application
Bloom's: Comprehension
AACSB: Reflective Thinking
54. Transfer payments are one way the government can help with income inequality.
Answer: True
Difficulty: Easy
Topic: Definition

Bloom's: Knowledge
AACSB: Reflective Thinking

55. The welfare state came about to offset some of the laissez-faire systems of the past.
Answer: True
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
56. "Perfect competition" exists only when no single individual can influence the market price.
Answer: True
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
57. For whom goods are produced is a question that is largely answered by pricing the factors of production that people own.
Answer: True
Difficulty: Hard
Topic: Simple Application
Bloom's: Comprehension
AACSB: Reflective Thinking
58. Capital goods differ from other factors in that they are produced-they are outputs of the economic system.
Answer: True
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
59. Prices serve to ration the most scarce goods by making them more expensive.
Answer: True
Difficulty: Easy
Topic: Simple Application
Bloom's: Knowledge
AACSB: Reflective Thinking
60. Policies designed to promote economic efficiency never operate in opposition to policies designed to promote economic equity because efficiency implies that equity has been achieved.
Answer: False
Difficulty: Hard
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
61. In a production process, more specialization is always preferred to less specialization.
Answer: False
Difficulty: Hard

Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking

62. In the U.S., the market system plays a critical role in deciding how much of current output is to be allocated to current consumption and how much is to be devoted to future consumption through the production of capital goods.
Answer: True
Difficulty: Medium
Topic: Experience
Bloom's: Comprehension
AACSB: Reflective Thinking
63. Capital goods are consumption goods stored in inventory for consumption sometime in the future.
Answer: False
Difficulty: Medium
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
64. Capital goods differ from primary factors because the value of only capital goods can be computed over the long term.
Answer: False
Difficulty: Hard
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
65. A system of barter would make an elaborate division of labor with a good deal of labor specialization an extremely difficult process to manage.
Answer: True
Difficulty: Hard
Topic: Simple Application
66. Milton Friedman would probably agree with the following statement: "The welfare system in the United States should be reformed so that individuals are encouraged to take greater responsibility for their own well-being."
Answer: True
Difficulty: Medium
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
67. "What," "for whom," and "how" are problems that must be solved by prices in a capitalistic economy but which are solved automatically in a socialist economy.
Answer: False
Difficulty: Medium
Topic: Simple Application
Bloom's: Comprehension
AACSB: Reflective Thinking

68. Taxation plays no role in efficiency or stability concerns.
Answer: False
Difficulty: Medium
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
69. Because the market system is so important in the U.S. in determining the proportion of current output to be allocated to producing capital goods, there is no policy tool that can influence that allocation.
Answer: False
Difficulty: Hard
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
70. Decisions about how much of current output to devote to the production of capital goods determine, in part, the rate of growth of the economy.
Answer: True
Difficulty: Hard
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
71. A purely competitive system minimizes production costs and, at the same time, tends to keep economy wide profits at a minimum.
Answer: True
Difficulty: Hard
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
72. An imperfect competitor is anyone who buys or sells enough of a good to affect the price.
Answer: True
Difficulty: Medium
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
73. An example of legal limitations on property rights is the prohibition of pollution.
Answer: True
Difficulty: Medium
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
74. In an affluent modern society, businesses may have to offer workers more fulfilling jobs.
Answer: True
Difficulty: Medium
Topic: Simple Application

Bloom's: Application
AACSB: Reflective Thinking

75. The extent to which roundabout methods of production are used at one moment in time is limited by the extent to which people have abstained from consumption in the past.
Answer: True
Difficulty: Hard
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
76. An important role of government in our society is providing the rules for the functioning of private units in the economy.
Answer: True
Difficulty: Medium
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
77. By the "invisible hand," Smith meant the influence and lobbying of government by various interest groups.
Answer: False
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
78. An imperfect-competitor is anyone who is unable to affect the price of the good he or she is buying or selling.
Answer: False
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking
79. Taxation can be used to redistribute more "equitably" the dollar votes that would otherwise prevail under laissez-faire.
Answer: True
Difficulty: Medium
Topic: Simple Application
Bloom's: Application
AACSB: Reflective Thinking
80. Capital goods differ from primary factors in that they are evaluated in terms of money.
Answer: False
Difficulty: Easy
Topic: Definition
Bloom's: Knowledge
AACSB: Reflective Thinking