

**TEST BANK**



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McCONNELL  
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Economics

## Chapter 02 The Market System and the Circular Flow

### Multiple Choice Questions

1. The market system is an economic system that:
- A. Produces more consumer goods than capital goods
  - B. Produces more capital goods than consumer goods
  - C.** Gives private individuals and institutions the right to own resources used in production
  - D. Gives the government the right to tax individuals and corporations for the production of capital goods

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Moderate*  
*Topic: Economic systems*

2. Another description for capitalism is:
- A. The command system
  - B. The socialist economy
  - C.** The market system
  - D. The system of inputs and outputs

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Easy*  
*Topic: Economic systems*

3. Capitalism is an economic system that:

- A. Produces more capital goods than consumer goods
- B. Produces more consumer goods than capital goods
- C. Gives the government the right to tax individuals and corporations
- D. Gives private individuals and corporations the right to own productive resources**

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Easy*  
*Topic: Economic systems*

4. The market system is characterized by:

- A. Extensive government constraints on individual behavior
- B. Private ownership of the means of production**
- C. Government control of all production decisions
- D. Government rationing of all goods and services

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Moderate*  
*Topic: Economic systems*

5. The private ownership of property resources and use of prices to direct and coordinate economic activity is characteristic of:

- A. A command system
- B. A market system**
- C. Communism
- D. Socialism

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Easy*  
*Topic: Economic systems*

6. In a capitalistic economy:

- A. Consumers can never be sovereign
- B. Markets can never be competitive
- C. There is a reliance on the market system**
- D. The government owns the means of production

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Easy  
Topic: Economic systems*

7. Which statement best describes a capitalist economy?

- A. The production of goods and services is determined primarily by markets, but the allocation of goods and services is determined primarily by government
- B. The production of goods and services is determined primarily by government, but the allocation of goods and services is determined primarily by markets
- C. The production and allocation of goods and services is determined primarily through markets**
- D. The production and allocation of goods and services is determined primarily through government

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Easy  
Topic: Economic systems*

8. Which statement best describes a capitalist economy?

- A. Society determines production and the allocation of goods and services only through markets**
- B. Government policies determine the production and the allocation of goods and services
- C. Government policies determine the production, but not the allocation, of goods and services
- D. The role of individual self-interest is relatively unimportant because government makes most of the economic decisions

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Moderate  
Topic: Economic systems*

9. Which statement best describes a command economy?

- A. The production of goods and services is determined primarily by markets, but the allocation of goods and services is determined primarily by government
- B. The production of goods and services is determined primarily by government, but the allocation of goods and services is determined primarily by markets
- C. The production and allocation of goods and services is determined primarily through markets
- D.** The production and allocation of goods and services is determined primarily through government

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Easy  
Topic: Economic systems*

10. Which would *not* be characteristic of a capitalist economy?

- A.** Government ownership of the factors of production
- B. Competition and unrestricted markets
- C. Reliance on the market system
- D. Free enterprise and choice

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Easy  
Topic: Economic systems*

11. A basic characteristic of a command system is that:

- A. Wages paid to labor are higher
- B.** Government owns most economic resources
- C. Free markets are never permitted in a command economy
- D. Government planners play a limited role in deciding what goods will be produced

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Difficult  
Topic: Economic systems*

12. The economy of the former Soviet Union would best be classified as:

- A. A market system
- B. Pure capitalism
- C. Laissez-faire capitalism
- D.** A command system

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Difficult*  
*Topic: Economic systems*

13. The economy of Germany would best be classified as:

- A. A command system
- B. Socialism
- C. Pure capitalism
- D.** A market system

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Moderate*  
*Topic: Economic systems*

14. The economy of North Korea would best be classified as:

- A. A laissez-faire economy
- B.** A command system
- C. A capitalist economy
- D. A market system

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Easy*  
*Topic: Economic systems*

15. The economy of Cuba most closely approximates:

- A. Laissez-faire capitalism
- B. A command economy**
- C. Pure capitalism
- D. A market economy

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Easy  
Topic: Economic systems*

16. By free enterprise, we mean that:

- A. Products are provided free to those who can't afford to buy them
- B. Individual producers determine how to produce, but government agencies determine what will be produced
- C. Individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose**
- D. Individuals are free to produce those products that government agencies determine can be produced profitably

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Difficult  
Topic: Characteristics of the market system*

17. Which statement is correct?

- A. The operation of a market system eventually results in an equal distribution of income
- B. Producers are "kings" in a market economy because they determine what is produced
- C. The market system is efficient at allocation of resources, but not consumer goods to their most valued uses
- D. Freedom of choice and enterprise are essential elements of the market system**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Moderate  
Topic: Characteristics of the market system*

18. The maximization of profit and the minimization of losses is the primary factor affecting the economic decision making of:

- A. Workers
- B. Consumers
- C. Public officials
- D.** Entrepreneurs

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

19. How do workers typically express self-interest?

- A. By minimizing the economic losses of other business firms
- B. By maximizing the economic profits of other business firms
- C. By seeking the highest price when purchasing a consumer product
- D.** By seeking jobs with the best combination of wages and benefits

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

20. In a market economy, entrepreneurs are most concerned with:

- A. Maximizing utility or satisfaction from limited incomes
- B. Increasing the wages and salaries of workers
- C.** Maximizing profits or minimizing losses
- D. The selfish pursuit of money

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-2*

*Level: Moderate*

*Topic: Characteristics of the market system*



21. Consumers express self-interest when they:

- A. Reduce business losses
- B. Collect economic profits
- C. Seek the lowest price for a product**
- D. Search for jobs with the highest wages

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

22. In a market system, well-defined property rights are important because they:

- A. Reduce unnecessary investment
- B. Limit destructive economic growth
- C. Create economic problems
- D. Encourage economic activity**

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

23. Which is a key feature of the market system?

- A. Price floors and price ceilings in all markets
- B. Reallocation of all resources from private to public uses
- C. The right to own private property and control resource use**
- D. Central planning by government to provide goods and services

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

24. Legal and social rules that affect the ownership of property are:

- A.** Property rights
- B. The coincidence of wants
- C. The freedom of choice
- D. The freedom of enterprise

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Moderate*  
*Topic: Characteristics of the market system*

25. The institution of private property is sustained over time by:

- A. Competition
- B.** Bequests
- C. Self-interest
- D. Free enterprise

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Difficult*  
*Topic: Characteristics of the market system*

26. Which is characteristic of the market system?

- A. Unselfish individuals
- B. Centralized decision-making
- C.** Free enterprise and choice
- D. Government ownership of the means of production

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Easy*  
*Topic: Characteristics of the market system*

27. Competition is more likely to exist when:
- A. There is free entry into and exit out of industries
  - B. There is a single supplier of all goods and services
  - C. The government purchases most goods and services
  - D. Products are produced by a few large firms

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Moderate*  
*Topic: Characteristics of the market system*

28. Which condition will encourage competition?
- A. Government licensing requirements in order to enter an industry
  - B. A small number of buyers and sellers in a market
  - C. The freedom of sellers and buyers to enter or exit an industry
  - D. The government serving as the only supplier of goods to consumers

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Moderate*  
*Topic: Characteristics of the market system*

29. A purely competitive economy assumes the existence in each industry of a:
- A. Large number of small firms facing a large number of small buyers
  - B. Few large firms facing a large number of small buyers
  - C. Large number of small firms facing a few large buyers
  - D. Few small firms facing a few small buyers

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Easy*  
*Topic: Characteristics of the market system*

30. Competition denotes a condition where:

- A. There is more than one seller in a market
- B. A given product can be purchased at a range of prices
- C.** There are many independent buyers and sellers in a market
- D. A few sellers attempt to garner a larger share of the market by cutting prices

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Moderate*

*Topic: Characteristics of the market system*

31. Which statement is correct?

- A. In a market system, buyers and sellers must be in face-to-face contact with each other
- B. Prices affect the distribution of goods in a market system but not the allocation of resources
- C.** In a market system, prices serve to ration goods and services to consumers
- D. The operation of a market system has little, if any, effect on the distribution of income in the economy

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Difficult*

*Topic: Characteristics of the market system*

32. The construction and use of capital goods to aid in the production of consumer goods is:

- A. Division of labor
- B. Coincidence of wants
- C. Guiding function of prices
- D.** Roundabout production

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

33. A characteristic of the market system is:

- A. Extensive use of price controls
- B. Extensive use of barter
- C. Extensive use of capital goods**
- D. Low interest rates

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Moderate*

*Topic: Characteristics of the market system*

34. All accurately describe a market economy *except*:

- A. Government establishes maximum and minimum prices for most goods and services**
- B. Prices serve as a signaling mechanism to buyers and sellers
- C. The allocation of resources is determined by their prices
- D. The actions of buyers and sellers establish a product's price

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

35. The process in which workers select specialized tasks to make a product is referred to as:

- A. A coincidence of wants
- B. Roundabout production
- C. Freedom of choice
- D. Division of labor**

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Moderate*

*Topic: Characteristics of the market system*

36. How does human specialization contribute to an economy's output?

- A.** It makes use of differences in abilities
- B. It is a process of creative destruction
- C. It works like an "invisible hand"
- D. It decreases derived demand

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-2*

*Level: Moderate*

*Topic: Characteristics of the market system*

37. Which of the following is not a reason why specialization and trade are beneficial to society?

- A. The output of economic goods may be increased with no increase in resources
- B. Scarce resources are utilized more efficiently
- C. A division of labor lowers prices for products
- D.** A countries will specialize in the production of the good for it can produce the greatest amount of output.

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

38. Advantages of specialization do not include:

- A. Increased production of economic goods with no increase in resources
- B. The more efficient use of scarce resources
- C. Increased ability to utilize the division of labor
- D.** Less interdependence

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-2*

*Level: Difficult*

*Topic: Characteristics of the market system*

39. A prerequisite of specialization is:

- A. A capitalistic economic system
- B. A medium of exchange**
- C. Free enterprise
- D. Competition

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Moderate*

*Topic: Characteristics of the market system*

40. Which is an example of barter?

- A. A person trades a desk for a box of tools**
- B. A person buys clothes at a used clothing store
- C. A gift of tuition money from parents to their children
- D. The purchase of stock on the New York Stock Exchange

*AACSB: Analytic*

*Bloom's: Application*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

41. An economic system in which money is *not* used is a:

- A. Planned economy
- B. Market economy
- C. Mixed economy
- D. Barter economy**

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-2*

*Level: Easy*

*Topic: Characteristics of the market system*

42. Which is necessary to make a trade in a barter economy?

- A. Money
- B. Unlimited wants
- C. A medium of exchange
- D.** A coincidence of wants

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Moderate*  
*Topic: Characteristics of the market system*

43. Consider a barter situation where you have pens and you want pencils. To achieve your objective there must be a(n):

- A. Use of capital goods
- B. Entry and exit from the market
- C. Large number of sellers
- D.** Coincidence of wants

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Moderate*  
*Topic: Characteristics of the market system*

44. The use of a money for exchange:

- A. Increases the use of barter
- B. Reduces consumer sovereignty
- C. Decreases the coincidence of wants
- D.** Encourages more specialization in production

*AACSB: Analytic*  
*Bloom's: Comprehension*  
*Learning Objective: 2-2*  
*Level: Moderate*  
*Topic: Characteristics of the market system*



Chapter 02 - The Market System and the Circular Flow

45. Anything that is generally acceptable in exchange for goods and services is:

- A. A medium of exchange
- B. A measure of value
- C. A store of value
- D. Token money

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Difficult*  
*Topic: Characteristics of the market system*

46. Which is the main problem with the barter system of exchange? Barter:

- A. Encourages self-interest and selfishness
- B. Fosters specialization and division of labor
- C. Requires a coincidence of wants
- D. Undermines the right to bequeath

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Moderate*  
*Topic: Characteristics of the market system*

47. The direct exchange of goods for goods is:

- A. Barter
- B. The circular flow
- C. The invisible hand
- D. Roundabout production

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Easy*  
*Topic: Characteristics of the market system*

48. Why might a company use barter rather than money to make a transaction?

- A. Barter is generally more efficient than money exchanges
- B. Barter can enable two firms to trade when their cash flows are limited**
- C. Money requires a coincidence of wants, barter is more direct
- D. Money is economically efficient for large transactions, but barter is preferred for smaller transactions

*AACSB: Analytic*  
*Bloom's: Comprehension*  
*Learning Objective: 2-2*  
*Level: Moderate*  
*Topic: Characteristics of the market system*

49. Which is assumed to be most limited in scope under a market system?

- A. Freedom of enterprise
- B. Freedom of choice
- C. Competition
- D. Government**

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Easy*  
*Topic: Characteristics of the market system*

50. Which is one of the five fundamental questions that needs to be answered by economic systems?

- A. What is the rate of unemployment?
- B. Who will be the richest person in the economy?
- C. What goods and services will be produced?**
- D. Why are the prices for goods and services so high?

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Easy*  
*Topic: Five fundamental questions*

51. All economic systems must answer certain fundamental economic questions. Which is *not* one of these questions?

- A. Which actions should government take to reduce inflation?
- B. How will the goods and services be produced?
- C. What goods and services will be produced?
- D. Who is to receive the output?

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-3*  
*Level: Difficult*  
*Topic: Five fundamental questions*

52. Which is *not* one of the Five Fundamental Questions?

- A. How will the goods and services be produced?
- B. How should the system accommodate change?
- C. Who is to receive the output of the system?
- D. What goods and services should be produced by government?

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-3*  
*Level: Difficult*  
*Topic: Five fundamental questions*

53. Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?

- A. What will be produced?
- B. How is the output to be produced?
- C. How can the system accommodate change?
- D. Who is to receive the output?

*AACSB: Analytic*  
*Bloom's: Comprehension*  
*Learning Objective: 2-3*  
*Level: Easy*  
*Topic: Five fundamental questions*

54. What to produce in a market economy is ultimately determined by the:

- A. Output decisions of business firms
- B. Income plans of households
- C. Spending decisions of households**
- D. Workers' technical skills

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-3*

*Level: Difficult*

*Topic: Five fundamental questions*

55. The term *consumer sovereignty* means that:

- A. Consumers are controlled by the actions of the marketplace
- B. What is produced is ultimately determined by what consumers buy**
- C. There are no limits on what consumers may buy under capitalism
- D. Businesses produce with consumer satisfaction as their primary goal

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

56. Within a market economy, some industries may be declining while other industries may be expanding. This indicates that:

- A. Incomes are declining
- B. Resources are being reallocated**
- C. Factors of production are scarce
- D. Producers are not maximizing profits

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

57. By *consumer sovereignty* we mean that:

- A. Government is responsible for protecting consumer interests
- B.** Consumers determine what goods and services are produced
- C. Businesses decide what the consumer will buy
- D. All goods and services are produced by consumers

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*

58. The market system is said to be characterized by "consumer sovereignty." This is because:

- A. A large number of consumer goods are produced
- B. The prices of consumer goods are regulated by government
- C. Consumer goods are more profitable than investment goods
- D.** Of the role of consumers in determining what goods are produced

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*

59. A major feature of a market system is that:

- A. There is economic equality
- B.** There is consumer sovereignty
- C. There is full employment
- D. All producers make profits

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

60. The failure of the McLean burger was an example of:

- A. An increase in demand
- B. Consumer sovereignty**
- C. Technological advances
- D. Economic profit

*AACSB: Reflective*

*Bloom's: Application*

*Learning Objective: 2-3*

*Level: Difficult*

*Topic: Five fundamental questions*

61. The term *dollar votes* means:

- A. Inflation will occur if consumers don't spend wisely
- B. Voters may be offered dollars to help elect certain political candidates
- C. Government is responsible for determining what will be considered legal tender
- D. Consumers "vote" for certain products to be produced by how they spend their incomes**

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

62. Payments made to secure and retain needed resources would be:

- A. Derived demand
- B. Economic profit
- C. Economic costs**
- D. Total revenue

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*

63. If a business's total economic cost of producing 2,000 units of a product is \$1,000,000 and this output is sold to consumers for \$1,300,000, then the firm would earn an economic profit of:

- A. \$200,000
- B.** \$300,000
- C. \$1,000,000
- D. \$1,300,000

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

64. If a firm's total economic cost of producing 50,000 widgets is \$2,000,000, and this output is sold for \$2,200,000, we can conclude that the firm will earn an economic profit of:

- A.** \$200,000
- B. \$300,000
- C. \$2,000,000
- D. \$2,200,000

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

65. If a business's total economic cost of producing 1,500 units of a product is \$15,000 and this output sold to consumers for \$16,500, then the firm would earn an economic profit of:

- A. \$1,000
- B. \$16,500
- C.** \$1,500
- D. \$15,000

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Difficult*  
*Topic: Five fundamental questions*

66. Economic profit exists when:

- A. Total revenues exceed payments to labor plus interest and rental payments for capital and land
- B.** Total revenues exceed the payment of all economic costs
- C. A firm is being operated efficiently
- D. A firm is a monopolist

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

67. With an increase in profits in a particular industry, we would expect:

- A. Firms to leave the industry
- B. Firms to produce less
- C.** Firms to enter the industry
- D. People to buy less

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*

68. Firms will tend to enter an industry when:

- A.** Profits are high
- B. Demand is decreasing
- C. Costs of production increase
- D. The prices of substitutes fall

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*



69. An increase in the demand for a product and a reduction in its costs of production would:

- A. Decrease profits
- B. Encourage firms to leave an industry
- C. Encourage firms to enter an industry**
- D. Cause a shortage of the product

*AACSB: Reflective*

*Bloom's: Comprehension*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

70. Under what circumstances would you expect economic profits to be zero in a particular industry?

- A. During a recession
- B. When there is little competition in the industry
- C. When the industry is neither expanding nor contracting**
- D. When the demand for the product being produced is increasing

*AACSB: Reflective*

*Bloom's: Application*

*Learning Objective: 2-3*

*Level: Difficult*

*Topic: Five fundamental questions*

71. As new firms enter an expanding industry:

- A. Economic profits tend to rise
- B. Economic profits tend to decline**
- C. Normal profits tend to decline
- D. The industry becomes more monopolistic

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*

72. Economic efficiency would be primarily discussed in response to which of the fundamental questions about a competitive market economy?

- A. What will be produced?
- B.** How is the output to be produced?
- C. How can the system accommodate change?
- D. Who is to receive the output?

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-3*  
*Level: Easy*  
*Topic: Five fundamental questions*

73. In the market system, the least costly techniques of production will be chosen by competitive firms because:

- A. Of consumer sovereignty
- B. Of the law of diminishing returns
- C.** Profits will be highest with such techniques
- D. These techniques will result in full employment

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-3*  
*Level: Easy*  
*Topic: Five fundamental questions*

Suppose a firm can produce 70 units of a hypothetical product, Zenia, by combining labor, land, capital, and entrepreneurial ability in each of the four ways shown in the table below. Assume further that the firm can hire labor at \$3 per unit, land at \$3 per unit, capital at \$6 per unit, and entrepreneurship at \$9 per unit.

	<u>Techniques</u>			
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
<b>Labor</b>	4	10	6	5
<b>Land</b>	5	3	3	3
<b>Capital</b>	5	2	4	4
<b>Entrepreneurship</b>	1	1	1	1

74. Refer to the above table. Which technique is economically the most efficient way of producing Zenia?

- A. A
- B. B
- C. C
- D.** D

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

75. Refer to the above table. If each of the 70 Zenias that are produced sells for \$1 each, what will be the economic profit for the firm?

- A. \$7
- B. \$10
- C.** \$13
- D. \$19

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

76. Refer to the above table. If the price of labor declines from \$3 to \$2 per unit, then what is the least costly way of producing Zenias?

- A. A
- B.** B
- C. C
- D. D

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

The following table illustrates alternative production techniques for producing 18 widgets that can be sold for \$1 each for a total revenue of \$18.

Resource	Price Per Unit of Resource	Techniques			
		(# of Units of Each Resource Required)			
		A	B	C	D
Labor	\$2	3	2	1	2
Land	1	2	1	3	1
Capital	4	1	2	2	3
Entrepreneurship	3	1	2	1	1

77. Based on the data shown above, the economically most efficient production technique is:

- A. A
- B. B
- C. C
- D. D

*AACSB: Analytic  
Bloom's: Application  
Learning Objective: 2-3  
Level: Easy  
Topic: Five fundamental questions*

78. Refer to the above table. Using the technique cited in the previous question will result in an:

- A. Economic loss of \$2
- B. Economic profit of \$1
- C. Economic profit of \$2
- D. Economic profit of \$3

*AACSB: Analytic  
Bloom's: Application  
Learning Objective: 2-3  
Level: Moderate  
Topic: Five fundamental questions*

79. Refer to the above table. If the price per unit of labor were to increase from \$2 to \$3, the most efficient production technique would then be:

- A. A
- B. B
- C. C**
- D. D

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Difficult*  
*Topic: Five fundamental questions*

80. Refer to the above table. At the \$3 price for labor the most efficient technique will result in an:

- A. Economic loss of \$2
- B. Economic profit of \$1**
- C. Economic profit of \$2
- D. Economic profit of \$3

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Difficult*  
*Topic: Five fundamental questions*

81. Refer to the above table. If the resource prices doubled and the product price doubled from the original amounts, what would be the least costly production technique?

- A. A**
- B. B
- C. C
- D. D

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Easy*  
*Topic: Five fundamental questions*

82. Refer to the above table. If the resource prices doubled and the product price doubled from the original amounts, what would be the economic profit?

- A. \$1
- B. \$3
- C. \$6**
- D. \$9

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

83. The most efficient combination of resources in producing any output is that which:

- A. Comes closest to using equal quantities of land, labor, capital, and entrepreneurship
- B. Conserves most on those resources which are most plentiful
- C. Uses the smallest total quantity of all resources
- D. Can be employed at the least possible cost**

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

Suppose a firm can produce 100 units of product X by combining labor, land, capital, and entrepreneurial ability in each of the four ways shown in the table below. Assume further that the firm can hire labor at \$2 per unit, land at \$3 per unit, capital at \$5 per unit, and entrepreneurship at \$10 per unit.

	<b>Techniques</b>			
	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>
<b>Labor</b>	<b>8</b>	<b>13</b>	<b>10</b>	<b>6</b>
<b>Land</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>2</b>
<b>Capital</b>	<b>4</b>	<b>2</b>	<b>4</b>	<b>7</b>
<b>Entrepreneurship</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

84. Refer to the above table. Which technique is economically the most efficient way of producing X?

- A. I
- B. II**
- C. III
- D. IV

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Easy*  
*Topic: Five fundamental questions*

85. Refer to the above table. What economic profit or loss will the firm realize if product X sells for \$.50 per unit?

- A. A profit of \$5
- B. A profit of \$50
- C. A loss of \$5**
- D. A loss of \$15

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

86. Refer to the above table. What is the economic profit or loss for the firm if the product X sells for \$1.00 per unit?

- A. A profit of \$25
- B. A profit of \$45**
- C. A profit of \$55
- D. A loss of \$5

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

87. Refer to the above table. If the price of labor increased to \$4, it would now be most profitable for the firm to use technique:

- A. I
- B. II
- C. III
- D. IV

*AACSB: Analytic*  
*Bloom's: Application*  
*Learning Objective: 2-3*  
*Level: Difficult*  
*Topic: Five fundamental questions*

88. "For whom is a given mix of goods and services to be produced? How, in other words, is the product to be distributed among people when such commodities and services are available?" In a market economy, this problem is resolved primarily in the:

- A. Public sector through the mechanism of central planning
- B. Business sector through the mechanism of advertising
- C. Private sector through the earning and spending of income
- D. Money market through borrowing and saving by households and businesses

*AACSB: Reflective*  
*Bloom's: Comprehension*  
*Learning Objective: 2-3*  
*Level: Difficult*  
*Topic: Five fundamental questions*

89. Issues of the distribution of goods and services and incomes in a competitive market system are the primary topic of which fundamental question?

- A. What is to be produced?
- B. How is the output to be produced?
- C. How can the system accommodate change?
- D. Who is to receive the output?

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*



90. In a market economy, the money incomes of individuals depend primarily upon:

- A. Government policies in setting wages and interest rates
- B.** The value and amounts of the productive resources the individuals possess
- C. The amount of education the individuals have
- D. How hard they are willing to work

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*

91. From society's point of view, the economic function of profits is to:

- A. Equalize incomes
- B. Create full employment
- C. Provide revenues to pay high wages
- D.** Direct resources in response to changes in the economy

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

92. The market system communicates changes in supply and demand and elicits appropriate responses from businesses and resource suppliers. This is known as the:

- A. Rationing function of prices
- B.** Guiding function of prices
- C. Monetary function of prices
- D. Circular flow of income

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Difficult*

*Topic: Five fundamental questions*

93. Which statement accurately summarizes the relationship between the prices of goods and their relative scarcity?

- A. The price of a good is a direct function of the relative scarcity of the good
- B. The price of a good is an inverse function of the relative scarcity of the good
- C. The price of a good is independent of the relative scarcity of the good
- D. High prices lead to greater relative scarcity

*AACSB: Analytic*

*Bloom's: Comprehension*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*

94. Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation?

- A. What is to be produced?
- B. How is the output to be produced?
- C. How will the system promote progress?
- D. Who is to receive the output?

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

95. The development of the Internet and e-mail to replace regular mail services in many cases would be an example of:

- A. Roundabout production
- B. Derived demand
- C. Creative destruction
- D. Specialization

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Five fundamental questions*

96. The development of CDs and DVD that significantly reduced the market for cassette tapes. This would be an example of:

- A. Specialization
- B. Derived demand
- C. Roundabout production
- D.** Creative destruction

*AACSB: Reflective*  
*Bloom's: Comprehension*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Five fundamental questions*

97. The idea that the desires of resource suppliers and producers to further their own self-interest will automatically further the public interest is known as:

- A. Consumer sovereignty
- B.** The invisible hand
- C. Derived demand
- D. Profit maximization

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-3*  
*Level: Moderate*  
*Topic: Invisible hand*

98. Which best describes the "invisible hand" concept?

- A. Sufficiently detailed central direction of an economy will maximize the public's best interests
- B. The market system works best when resources are highly substitutable
- C. The problem of scarcity can best be overcome in a system of mixed capitalism
- D.** The desires of producers and resource suppliers to further their own self-interest will automatically promote the social interest

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-3*  
*Level: Easy*  
*Topic: Invisible hand*

99. The idea that firms and resource suppliers in seeking to further their own self-interests in a competitive market economy also simultaneously promotes the public or social interest is a description of:

- A. The guiding function of prices
- B. Capital accumulation
- C. The "invisible hand"**
- D. "Dollar votes"

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-4*  
*Level: Easy*  
*Topic: Invisible hand*

100. The influential book written by Adam Smith was:

- A. *The Worldly Philosophers*
- B. *The Affluent Society*
- C. *The Age of the Economist*
- D. *The Wealth of Nations***

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-4*  
*Level: Easy*  
*Topic: Invisible hand*

101. The "invisible hand" concept used to describe the guiding function of prices was developed by:

- A. Henry George
- B. Adam Smith**
- C. Milton Friedman
- D. John Kenneth Galbraith

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-4*  
*Level: Easy*  
*Topic: Invisible hand*

102. The basic economic argument for the market system is that it promotes:

- A.** An efficient allocation of resources
- B. Equality in the distribution of income
- C. Personal freedom
- D. The use of money

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-4*  
*Level: Moderate*  
*Topic: Invisible hand*

103. The market economy is regarded as "efficient" in that:

- A. It achieves a large quantity of output per unit of input
- B. It generates a rapid rate of technological change
- C.** It directs resources to meet consumer demand
- D. Managers and workers have an incentive to work hard

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-4*  
*Level: Difficult*  
*Topic: Invisible hand*

104. The economic institution that was characteristic of the former Soviet Union and also pre-reform China was:

- A. Consumer sovereignty
- B.** Central planning
- C. Decentralized ownership of property
- D. A system of markets to determine prices

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Moderate*  
*Topic: Demise of the command systems*

105. The basic problem in central planning has to do with:
- A. Determining the production goals for a factory
  - B. Determining the proper geographic location of new firms
  - C.** Coordinating production so that bottlenecks do not develop
  - D. Providing financial resources for increasing the real flows of products

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Moderate*  
*Topic: Demise of the command systems*

106. In the system of central planning:
- A. There is rapid decay of the infrastructure
  - B. There is severe inflation in wholesale and retail prices
  - C. Economic growth leads to widespread unemployment among workers
  - D.** The outputs of some industries become inputs for other industries

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Difficult*  
*Topic: Demise of the command systems*

107. The major "success indicator" for enterprise managers was in command economies:
- A.** The quantity of output
  - B. Product quality
  - C. The amount of profits
  - D. Worker morale

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Moderate*  
*Topic: Demise of the command systems*

108. What was the major success indicator for enterprises in the former Soviet Union and pre-reform China?

- A.** Production targets
- B. Revenue from the turnover tax
- C. The level of prices for products produced
- D. The rate of profit on products produced

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Moderate  
Topic: Demise of the command systems*

109. A characteristic of centrally planned economies is that:

- A.** The price is relatively unimportant in allocating resources
- B. Output reflects the pattern of consumer spending
- C. Income is fairly evenly distributed among individuals
- D. There are many incentives for innovation and hard work

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Difficult  
Topic: Demise of the command systems*

110. Which is true of an economy which operates entirely through central planning?

- A.** Individual economic performance is reduced by the absence of the profit motive
- B. There is relative ease in matching resource allocation to consumer demand
- C. Producers receive market information through the price mechanism
- D. The system adapts easily to technological change

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Moderate  
Topic: Demise of the command systems*

111. A major problem with state ownership of resources is that it does not:
- A. Allow for the full use of central economic planning
  - B. Let state enterprises buy resources used to make products
  - C. Let state enterprises sell products produced with those resources
  - D. Give incentives for individuals to make the best use of those resources**

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Difficult*  
*Topic: Demise of the command systems*

112. The centrally planned system used by the former Soviet Union and pre-reform China lacked:
- A. Entrepreneurship**
  - B. Production targets
  - C. Allocation by directive
  - D. Government price setting

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-1*  
*Level: Easy*  
*Topic: Demise of the command systems*

113. In the circular flow model, households:
- A. Buy products and resources
  - B. Sell products and resources
  - C. Buy products and sell resources**
  - D. Sell products and buy resources

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Easy*  
*Topic: Circular flow model*



Chapter 02 - The Market System and the Circular Flow

114. The circular flow model:

- A. Assumes that central planning is taking place
- B. Illustrates how natural resources are created
- C. Illustrates how money is created by the banking system
- D. Illustrates the interdependence of businesses and consumers**

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Easy*  
*Topic: Circular flow model*

115. The simple circular flow model shows that workers, entrepreneurs, and the owners of land and capital offer their services through:

- A. Product markets
- B. Resource markets**
- C. Employment agencies
- D. Business firms

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Easy*  
*Topic: Circular flow model*

116. Markets in which firms sell their output of goods and services are called:

- A. Resource markets
- B. Product markets**
- C. Command markets
- D. Mixed markets

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Moderate*  
*Topic: Circular flow model*

117. The circular flow model shows that the goods and services produced by business firms are sold through:

- A.** Product markets
- B. Stock markets
- C. Money markets
- D. Resource markets

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Moderate*  
*Topic: Circular flow model*

118. In a circular flow model consisting of the household sector, the business sector, product markets, and resource markets:

- A. Households are sellers of products
- B.** Businesses are sellers of products
- C. Households are buyers of productive resources
- D. Resource markets are sellers of products

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Difficult*  
*Topic: Circular flow model*

119. In the simple circular flow model:

- A.** Households are sellers of resources and demanders of products
- B. Households are sellers of products and demanders of resources
- C. Businesses are sellers of resources and demanders of products
- D. Businesses are sellers of both resources and products

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Moderate*  
*Topic: Circular flow model*

Chapter 02 - The Market System and the Circular Flow

120. In product markets:

- A. Households sell products to business firms
- B. Households sell resources to business firms
- C. Businesses sell resources to households
- D. Businesses sell goods and services to households**

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Moderate*  
*Topic: Circular flow model*

121. The money income of households consists of the sum of:

- A. Wages plus salaries
- B. Consumption expenditures plus profits
- C. Wages plus rents plus interest plus profits**
- D. Consumption expenditures plus costs of resources

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Easy*  
*Topic: Circular flow model*

122. Which of the following would be primarily determined in the resource market?

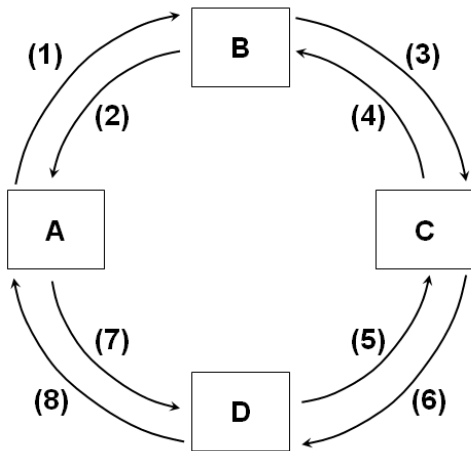
- A. The price of compact discs
- B. The wage rates for electricians**
- C. The number of automobiles produced
- D. The amount of money in circulation

*AACSB: Reflective*  
*Bloom's: Application*  
*Learning Objective: 2-5*  
*Level: Easy*  
*Topic: Circular flow model*

123. The fact that expenditures on products and payments to owners of resources used to produce those products flow in opposite directions is known as:

- A. Roundabout production
- B. A barter economy
- C. A pure economy
- D. The circular flow of income**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-5  
Level: Moderate  
Topic: Circular flow model*



124. Refer to the above figure. If box B represents the resource market and flow (3) represents money income, then:

- A. Box A is the product market and box C is households
- B. Box C is the product market and box A is households
- C. Box D is the product market and box C is households**
- D. Box C is the product market and box D is households

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-5  
Level: Difficult  
Topic: Circular flow model*

125. Refer to the above figure. If box A represents businesses and flow (7) represents goods and services, then:

- A. Box D is the product market and box B is the resource market
- B. Box D is the product market and box B is households
- C. Box B is the product market and box C is households
- D. Box C is the product market and box B is the resource market

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Difficult*  
*Topic: Circular flow model*

126. Refer to the above figure. If flow (1) is the cost businesses pay to the resource market, then:

- A. (2) is the flow of productive resources
- B. (4) is the flow of goods and services
- C. (6) is the flow of money income
- D. (7) is the flow of revenue

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Difficult*  
*Topic: Circular flow model*

127. Refer to the above figure. If box D represents the product market and flow (6) represents consumption expenditures, then box C is:

- A. Households, flow (7) is revenue, and flow (8) is goods and services
- B. Businesses, flow (7) is revenue, and flow (8) is goods and services
- C. Households, flow (7) is goods and services, and flow (8) is revenue
- D. Businesses, flow (7) is goods and services, and flow (8) is revenue

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Difficult*  
*Topic: Circular flow model*

128. Refer to the above figure. If box A represents businesses and box B represents the resource market in this circular flow model, then the real flow of goods, services, and economic resources would be represented by flows:

- A. (1), (3), (6), and (8)
- B.** (7), (5), (4), and (2)
- C. (1), (2), (3), and (4)
- D. (5), (6), (7), and (8)

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Difficult*  
*Topic: Circular flow model*

129. Refer to the above figure. If box A represents businesses and box D represents the product market in this circular flow model, then money flow in the model would be represented by:

- A. (1), (2), (3), and (4)
- B. (5), (6), (7), and (8)
- C.** (1), (3), (6), and (8)
- D. (7), (5), (4), and (2)

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Difficult*  
*Topic: Circular flow model*

130. Refer to the above figure. If you know that flow (8) is revenues and flow (4) is economic resources (land, labor, capital, and entrepreneurial ability), then box:

- A. A is the resource market and box B is the product market
- B. B is the resource market and box A is the product market
- C. C is the product market and box B is the resource market
- D.** D is the product market and box B is the resource market

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Moderate*  
*Topic: Circular flow model*

131. Assume that rents flow clockwise in a circular economic flow diagram. This implies that land flows:

- A. Clockwise and capital flows counterclockwise
- B. Clockwise and profits flow counterclockwise
- C. Counterclockwise and capital flows clockwise
- D. Counterclockwise and profits flow clockwise**

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Difficult*  
*Topic: Circular flow model*

132. If goods and services flow clockwise in a circular economic flow diagram, then consumption expenditures flow:

- A. Clockwise and revenues flow clockwise
- B. Clockwise and revenues flow counterclockwise
- C. Counterclockwise and revenues flow clockwise
- D. Counterclockwise and revenues flow counterclockwise**

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Difficult*  
*Topic: Circular flow model*

133. In the circular economic flow diagram, households:

- A. Make consumption expenditures and pay for land, labor, and capital
- B. Make consumption expenditures and receive goods and services**
- C. Buy resources and receive goods and services
- D. Receive revenue and supply resources

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-5*  
*Level: Easy*  
*Topic: Circular flow model*

134. Limiting purchases of goods and services to one specific nation, state within a nation, or city within a state is most likely to:

- A. Lower prices
- B. Increase the specialization of labor
- C. Expand the economic wealth of nations
- D.** Make people worse off because there is less trade

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Learning Objective: 2-2*  
*Level: Easy*  
*Topic: Characteristics of the market system*

135. In 1999, McDonald's introduced the "Big Xtra" and it turned out to be successful product. In the marketplace for fast-food products, this success would be an example of:

- A. Derived demand
- B. Medium of exchange
- C.** Consumer sovereignty
- D. Roundabout production

*AACSB: Reflective*  
*Bloom's: Comprehension*  
*Learning Objective: 2-2*  
*Level: Easy*  
*Topic: Characteristics of the market system*

136. In 1997, McDonald's introduced the "55-cent special." It turned out to be an unsuccessful product. In the marketplace for fast-food products, this lack of success would be an example of:

- A. Normal profit
- B. Economic costs
- C.** Consumer sovereignty
- D. Medium of exchange

*AACSB: Reflective*  
*Bloom's: Comprehension*  
*Learning Objective: 2-2*  
*Level: Easy*  
*Topic: Characteristics of the market system*



137. The introduction in 1996 of "Arch Deluxe" was a hit product for McDonald's. This example shows that in the market for such fast-food products:

- A. Normal profits are greater than economic profits
- B. The medium of exchange is more important than the message
- C. Consumer sovereignty is less important than roundabout production
- D.** The dollar votes of consumers determined which products are successes

*AACSB: Reflective*

*Bloom's: Comprehension*

*Learning Objective: 2-3*

*Level: Moderate*

*Topic: Characteristics of the market system*

138. What is one observation about private property by economist Donald Boudreaux?

- A.** Private property encourages mutual accommodation in a market system
- B. The social benefits of private property accrue only to the property owner
- C. Private property creates disorder and randomness in a market system
- D. The costs of private property ownership are greater than the benefits

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Easy*

*Topic: Five fundamental questions*

139. What, according to economist Donald Boudreaux, best explains why the decentralized market system is *not* a random, chaotic mess?

- A. There is active cooperation among private property owners and government officials to correct the excesses of a market economy
- B. The roundabout methods of production allocate resources from consumers to producers and then producers to consumers
- C. Government planning limits the chaos and government controls direct economic activity to create stability in the market system
- D.** People seek to make the best use of resources and in doing so create arrangements that produce the products people want

*AACSB: Analytic*

*Bloom's: Knowledge*

*Learning Objective: 2-3*

*Level: Difficult*

*Topic: Five fundamental questions*

### **True / False Questions**

140. A market system is characterized by the private ownership of resources and the use of markets and prices to coordinate and direct economic activity.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Easy  
Topic: Economic systems*

141. The economy of the United States can best be described as pure capitalism.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Easy  
Topic: Economic systems*

142. Property rights have a positive effect in a market economy because they encourage owners to maintain their property.

**TRUE**

*AACSB: Analytic  
Bloom's: Comprehension  
Learning Objective: 2-2  
Level: Easy  
Topic: Characteristics of the market system*

143. The institution of private property is sustained over time by the right to bequeath.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Moderate  
Topic: Characteristics of the market system*

144. Property rights are the right of the government to own, use, and dispose of resources in an economy.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Easy  
Topic: Characteristics of the market system*

145. Selfishness and self-interest are the same concepts.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Easy  
Topic: Characteristics of the market system*

146. An important part of the market system is that producers and consumers consider the public interest in making production and consumption decisions.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Difficult  
Topic: Characteristics of the market system*

147. Economic rivalry, or competition, requires a large number of buyers and sellers in the market.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Moderate  
Topic: Characteristics of the market system*

148. More specialization in a market economy generally leads to the more efficient use of its resources.

**TRUE**

*AACSB: Analytic  
Bloom's: Comprehension  
Learning Objective: 2-2  
Level: Moderate  
Topic: Characteristics of the market system*

149. A division of labor enhances society's output by permitting people to take advantage of existing differences in their abilities and skills.

**TRUE**

*AACSB: Analytic  
Bloom's: Comprehension  
Learning Objective: 2-2  
Level: Easy  
Topic: Characteristics of the market system*

150. Exchange by barter requires a coincidence of wants.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Easy  
Topic: Characteristics of the market system*

151. One of the most important economic resources is money.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Difficult  
Topic: Characteristics of the market system*

152. The return, or factor payment, to suppliers of property resources is called profit.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Moderate  
Topic: Five fundamental questions*

153. If economic profit exists in an industry, resource suppliers will be enticed into expanding the industry.

**TRUE**

*AACSB: Analytic  
Bloom's: Comprehension  
Learning Objective: 2-2  
Level: Difficult  
Topic: Five fundamental questions*

154. The concept of consumer sovereignty refers to situations in which consumers are represented on the board of directors of large corporations.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Moderate  
Topic: Five fundamental questions*

155. Economic efficiency entails getting the smallest amount of output from a given level of input of scarce resources.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-2  
Level: Difficult  
Topic: Five fundamental questions*

156. In the market system, prices tend to guide resources from less important to more important uses as the market system accommodates change.

**TRUE**

*AACSB: Analytic  
Bloom's: Comprehension  
Learning Objective: 2-2  
Level: Easy  
Topic: Invisible hand*

157. In a competitive market economy, firms and resource suppliers will seek to further their own self-interest, but at the same time, as if guided by an "invisible hand," they will promote the public interest.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-4  
Level: Moderate  
Topic: Invisible hand*

158. It is generally agreed that a major advantage of the competitive price system is the achievement of efficiency.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-3  
Level: Easy  
Topic: Invisible hand*

159. The problems of central planning become more complex as an economy grows over time.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Easy  
Topic: Demise of the command systems*

160. Profit, but not price, is the primary success indicator in a centrally planned economy.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Easy  
Topic: Demise of the command systems*

161. The coordination problem in the economy of the former Soviet Union and pre-reform China involved the difficulties of matching the inputs and outputs of industrial enterprises.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-1  
Level: Easy  
Topic: Demise of the command systems*

162. In the circular flow model, households function on the selling side of the resource market and the buying side of product markets.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-5  
Level: Easy  
Topic: Circular flow model*

163. In the circular flow model, there is a money flow of economic resources and finished goods and services and a real flow of income and consumption expenditures.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Learning Objective: 2-5  
Level: Easy  
Topic: Circular flow model*