

**TEST BANK**

**2007 UPDATE**

**ECONOMICS**

*Principles and Policy*

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## The Economy: Myth and Reality

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### TRUE/FALSE

1. The United States is the largest national economy in the world.

ANS: T                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

2. The U.S. economy is unique for both its size and prosperity.

ANS: T                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

3. The *factors of production* include all goods and services produced in an economy.

ANS: F                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

4. *Outputs* includes goods but not services.

ANS: F                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

5. Population density varies little between the fifty states.

ANS: F                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

6. Prosperity in the United States is evenly distributed across the fifty states.

ANS: F                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

7. In the United States, all property is privately owned.

ANS: F                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

8. Gross domestic product is the money value of all final goods and services produced in an economy in a year.

ANS: T                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

9. Gross domestic product is the money value of manufacturing production in a year.

ANS: F                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

10. GDP is a measure of the total output of an economy.

ANS: T                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

11. Real GDP is the dollar value of all goods and services produced in an economy.

ANS: F                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

12. Government production accounts for about half of all GDP in the United States.

ANS: F                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

13. The United States is one of the most marketized economies in the world.  
ANS: T                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch
14. The United States is one of the least marketized economies in the world.  
ANS: F                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch
15. The U.S. economy is relatively open in terms of economic activity related to international trade.  
ANS: F                    DIF: Moderate                    TOP: The American Economy: A Thumbnail Sketch
16. The U.S. economy is relatively closed in terms of economic activity related to exports and imports.  
ANS: T                    DIF: Moderate                    TOP: The American Economy: A Thumbnail Sketch
17. An open economy produces most of the goods and services that it needs, with few imports and exports.  
ANS: F                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch
18. An open economy is one in which exports and imports constitute a large share of GDP.  
ANS: T                    DIF: Moderate                    TOP: The American Economy: A Thumbnail Sketch
19. The U.S. economy rarely grows.  
ANS: F                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch
20. Real GDP per capita in the U.S. grows over time.  
ANS: T                    DIF: Moderate                    TOP: The American Economy: A Thumbnail Sketch
21. In 2004, per capita real GDP was roughly half its value in 1959.  
ANS: F                    DIF: Moderate                    TOP: The American Economy: A Thumbnail Sketch
22. A recession is a period of time in which the total output of the economy falls.  
ANS: T                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch
23. A recession is a period of time in which real GDP falls.  
ANS: T                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch
24. The U.S. economy has grown steadily over the years.  
ANS: F                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch
25. A recession is a period of time in which the total output of the economy rises.  
ANS: F                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch

26. Unemployment in the United States varies considerably over time.  
ANS: T                    DIF: Moderate            TOP: The American Economy: A Thumbnail Sketch
27. Recessions are periods of declining economic activity.  
ANS: T                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch
28. Over the last several years the United States has had lower unemployment rates than most European countries.  
ANS: T                    DIF: Moderate            TOP: The American Economy: A Thumbnail Sketch
29. Roughly 140 million people in the United States hold jobs.  
ANS: T                    DIF: Easy                    TOP: The Inputs: Labor and Capital
30. Teenage employment in the United States has risen in the last two decades.  
ANS: F                    DIF: Moderate            TOP: The Inputs: Labor and Capital
31. A minority of American women work outside of the home.  
ANS: F                    DIF: Easy                    TOP: The Inputs: Labor and Capital
32. Approximately half of all U.S. workers are employed by various levels of government.  
ANS: F                    DIF: Moderate            TOP: The Inputs: Labor and Capital
33. The federal government employs more civilians than state and local governments.  
ANS: T                    DIF: Easy                    TOP: The Inputs: Labor and Capital
34. The majority of American workers are employed in the manufacturing sector.  
ANS: F                    DIF: Moderate            TOP: The Inputs: Labor and Capital
35. The majority of American workers are employed in the service sector of the economy.  
ANS: T                    DIF: Moderate            TOP: The Inputs: Labor and Capital
36. Workers earn less than half of the income generated by the production process.  
ANS: F                    DIF: Moderate            TOP: The Inputs: Labor and Capital
37. Workers wages account for most income earned in the United States.  
ANS: T                    DIF: Moderate            TOP: The Inputs: Labor and Capital
38. The total market value of capital assets in the United States is over \$30 trillion dollars.  
ANS: T                    DIF: Easy                    TOP: The Inputs: Labor and Capital

39. Profits account for about 30 cents out of each dollar spent on goods in the United States.  
ANS: F                    DIF: Moderate            TOP: The Inputs: Labor and Capital
40. Consumer spending accounts for about two thirds of GDP.  
ANS: T                    DIF: Moderate            TOP: The Outputs: What Does America Produce?
41. American households spend more of their incomes on goods than on services.  
ANS: F                    DIF: Moderate            TOP: The Outputs: What Does America Produce?
42. There are about 5 million business firms in the United States.  
ANS: F                    DIF: Easy                TOP: The Central Role of Business Firms
43. The nationality of a company and a product is easily determined.  
ANS: F                    DIF: Easy                TOP: The Central Role of Business Firms
44. Multinational businesses produce and sell goods around the world.  
ANS: T                    DIF: Easy                TOP: The Central Role of Business Firms
45. Government is unnecessary in a free enterprise economy such as the United States.  
ANS: F                    DIF: Moderate            TOP: What's Missing from the Picture? Government
46. One important role for government as referee is in defining and enforcing property rights.  
ANS: T                    DIF: Easy                TOP: What's Missing from the Picture? Government
47. *Antitrust laws* are designed to promote competition.  
ANS: T                    DIF: Moderate            TOP: What's Missing from the Picture? Government
48. Government spending plays no role in meeting our social and public needs.  
ANS: F                    DIF: Moderate            TOP: What's Missing from the Picture? Government
49. National defense made up the largest portion of federal expenditures in 2004.  
ANS: F                    DIF: Easy                TOP: What's Missing from the Picture? Government
50. Government in the United States spends more as a percentage of GDP than in most other industrialized nations.  
ANS: F                    DIF: Moderate            TOP: What's Missing from the Picture? Government
51. The personal income tax is the single largest source of revenue for the federal government.  
ANS: T                    DIF: Moderate            TOP: What's Missing from the Picture? Government

52. The corporate income tax is the single largest source of revenue for the federal government.  
ANS: F                    DIF: Moderate            TOP: What's Missing from the Picture? Government
53. The federal government receives most of its revenue from personal income taxes and payroll taxes.  
ANS: T                    DIF: Easy                    TOP: What's Missing from the Picture? Government
54. Transfer payments are money received as grants from government.  
ANS: T                    DIF: Easy                    TOP: What's Missing from the Picture? Government
55. A tax is progressive if the ratio of taxes to income rises as income rises.  
ANS: T                    DIF: Moderate            TOP: What's Missing from the Picture? Government
56. A tax is progressive if it raises a greater fraction of total tax revenue every year.  
ANS: F                    DIF: Moderate            TOP: What's Missing from the Picture? Government
57. Transfer payments are paid to individuals for services rendered.  
ANS: F                    DIF: Easy                    TOP: What's Missing from the Picture? Government
58. Education accounts for the largest share of state and local government spending.  
ANS: T                    DIF: Easy                    TOP: What's Missing from the Picture? Government
59. The governments budget accounts for about 80 percent of GDP in the United States.  
ANS: F                    DIF: Easy                    TOP: What's Missing from the Picture? Government
60. In a mixed economy, there is some public influence over the workings of free markets.  
ANS: T                    DIF: Easy                    TOP: Conclusion: It's a Mixed Economy
61. A mixed economy is one that combines public and private ownership of property.  
ANS: T                    DIF: Easy                    TOP: Conclusion: It's a Mixed Economy
62. The United States is an example of a mixed economy.  
ANS: T                    DIF: Easy                    TOP: Conclusion: It's a Mixed Economy

## **MULTIPLE CHOICE**

1. The United States economy is
- the third largest in the world.
  - larger than all other national economies combined.
  - second largest in the world, behind Japan.
  - largest in the world.

ANS: D                    DIF: Easy                    TOP: The American Economy: A Thumbnail Sketch

2. How does the U.S. economy rank in size?

- a. first in economic output
- b. second in economic output
- c. third in economic output
- d. fourth in economic output
- e. fifth in economic output

ANS: A                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

3. The United States has the largest economy in the world because

- a. it has the most land to work with.
- b. it has a large population.
- c. American workers are very productive.
- d. both b and c are correct.

ANS: D                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

4. Inputs, or factors of production, include

- a. labor.
- b. machinery.
- c. natural resources.
- d. all of the above.

ANS: D                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

5. On a world scale, how populous is the U.S. economy?

- a. first
- b. second
- c. third
- d. fourth
- e. fifth

ANS: C                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

6. The working population of the United States is approximately

- a. 140 million
- b. 290 million
- c. 1.1 billion
- d. 1.3 billion

ANS: A                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

7. If California were a separate economy, it would be the \_\_\_\_ largest economy on earth.

- a. second
- b. third
- c. fifth
- d. eighth

ANS: C                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

8. Capitalism and free enterprise are common, and the United States

- a. has just begun to move in that direction after years of central planning.
- b. has gone further in that direction than almost any other country.
- c. is becoming more “free,” but is not as capitalistic as many others.
- d. is considering a major change to “free up” its economy as many others have.

e. is leading the move toward greater central planning and control.

ANS: B                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

9. Government ownership of property and resources in the United States is
- about as common as it is in European countries.
  - widespread; the United States is a leader in the amount of government ownership of resources.
  - relatively rare; the United States is mostly privatized.
  - rare, but has been increasing rapidly as the United States catches up to other countries.

ANS: C                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

10. Gross domestic product is
- the largest industry in an economy.
  - the money value of all final goods and services produced in a year.
  - the volume of goods and services which are subject to international trade.
  - goods and services produced by private companies.
  - non-market production of goods and services.

ANS: B                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

11. The United States produces \_\_\_\_ of what it consumes, and consumes \_\_\_\_ of what it produces.
- little, little
  - little, most
  - most, little
  - most, most

ANS: D                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

12. Currently, about what percentage of goods and services sold in the United States is imported?
- 4%
  - 12%
  - 30%
  - 85%

ANS: B                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

13. From which country does the U.S. import most of its goods and services?
- Canada
  - China
  - Japan
  - U.K.

ANS: A                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

14. Which of the following is the best definition of openness?
- The average of imports expressed as a share of GDP.
  - The average of goods traded in markets expressed as a share of GDP.
  - The average of imports and exports expressed as a share of GDP.
  - The average trade balance expressed as a share of GDP.
  - The average of exports expressed as a share of GDP.

ANS: C                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch



15. How does the United States compare to other advanced, industrialized economies on the issue of openness?
- It is completely closed.
  - It is one of the less open of them.
  - It is about average in openness.
  - It is one of the more open of them.
  - It is the most open of them.

ANS: B                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

16. Roughly what percentage of imports into the U.S. come from China?
- 2%
  - 4%
  - 12.5%
  - 32%
  - 51%

ANS: C                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

17. Which of the following is the most closed economy?
- the Netherlands
  - the United States
  - Germany
  - Japan
  - Canada

ANS: D                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

18. Compare the openness of the U.S. economy in 1999 to the openness in the past.
- The United States is less open now than it was 25 years ago, but more open than it was 50 years ago.
  - The United States is more open now than it was 25 years ago, and about as open as it was 50 years ago.
  - The United States has remained fairly steady in the degree of openness that it displays.
  - The United States is more open now than it was about 40 years ago.

ANS: D                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

19. Gross Domestic Product tends to increase every year, but it is important to note that
- none of the growth represents more output.
  - measurement of output omits any effect of inflation.
  - much of the growth is simply inflation.
  - graphs of output are unable to display such growth.

ANS: C                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

20. According to the data on real U.S. GDP,
- economic growth has been irregular, with periodic downturns.
  - economic growth is steady and consistent, with few downturns.
  - economic growth has been extremely rapid, but with major collapses.
  - economic growth is an elusive goal, but downturns have largely been eliminated.

ANS: A                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

21. Economic progress is best measured by
- the growth rate of prices over time.

- b. the growth rate of GDP per capita
- c. the amount of time it takes a worker to work to afford certain goods and services.
- d. the growth rate in the population.

ANS: B                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

22. Along with changes in the level of economic activity, measured by GDP, what other economic variable tends to rise and fall as a consequence?
- a. precipitation
  - b. regulation
  - c. circulation
  - d. unemployment

ANS: B                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

23. Why does unemployment tend to change when the level of output changes?
- a. Persons wish to buy things, and if output falls, people need to work less to earn the income to buy the smaller output.
  - b. Labor is an input, and if output falls, employers need fewer workers to make it, so the employment falls.
  - c. When output rises, persons are more interested in buying, and will work more to earn the income to buy things.
  - d. Persons face the option of buying or working, so that when they do more of one, the other necessarily falls.
  - e. When companies replace workers with machines, output rises, and people take time off from work to buy before returning to employment.

ANS: B                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

24. Per capita GDP can be defined as
- a. GDP per working person.
  - b. GDP per unit of capital.
  - c. GDP per person.
  - d. GDP per unit of unemployment.

ANS: C                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

25. Economic fluctuations are defined as
- a. alternating periods of good and bad times.
  - b. virtually nonexistent in developed countries.
  - c. a period of stable economic growth.
  - d. alternating periods of unemployment falling above and below zero.

ANS: A                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

26. A recession can best be defined as a period of time in which
- a. total output of the economy falls.
  - b. total output of the economy rises very slowly.
  - c. total unemployment falls.
  - d. total international trade fails to rise.
  - e. Both a and c

ANS: A                      DIF: Moderate                      TOP: The American Economy: A Thumbnail Sketch

27. Which of the following is true about the United States?
- a. There has only been one recession in U.S. history.

- b. There have been recessions every couple of years throughout U.S. history.
- c. Recessions have never occurred in the United States.
- d. Recessions have occurred periodically in U.S. history.
- e. Recessions in the United States have generally been worse than in other countries.

ANS: D                      DIF: Easy                      TOP: The American Economy: A Thumbnail Sketch

28. What is the approximate number of Americans who have jobs?
- a. 140 million
  - b. 200 million
  - c. 290 million
  - d. 1.1 billion
  - e. 3.1 billion

ANS: A                      DIF: Easy                      TOP: The Inputs: Labor and Capital

29. One of the most important changes in the composition of the labor force in the United States has been
- a. the major increase in the number of women who work outside the home.
  - b. the drop in the number of men who only work part-time.
  - c. the steady decline in the number of women who work.
  - d. the increase in the ratio of male workers to female workers.
  - e. the major increase in the number of men who work away from the home or farm.

ANS: A                      DIF: Easy                      TOP: The Inputs: Labor and Capital

30. Which of the following groups has had declining labor force participation over the last 30 years?
- a. Women
  - b. Men
  - c. Teenagers
  - d. Americans

ANS: C                      DIF: Easy                      TOP: The Inputs: Labor and Capital

31. In the United States, most workers
- a. work for government of some sort.
  - b. produce raw materials for manufacturing.
  - c. work in agriculture and farming.
  - d. produce services rather than goods.

ANS: D                      DIF: Moderate                      TOP: The Inputs: Labor and Capital

32. Most American workers
- a. are employed in the goods-producing sector.
  - b. are employed by government.
  - c. are employed in the service-producing sector.
  - d. are employed in the agricultural sector.

ANS: C                      DIF: Moderate                      TOP: The Inputs: Labor and Capital

33. In 2003, the \_\_\_\_ sector employed more people than the \_\_\_\_ sector.
- a. manufacturing, service
  - b. service, manufacturing
  - c. federal government, service
  - d. federal government, state and local government

ANS: B                      DIF: Moderate                      TOP: The Inputs: Labor and Capital

34. The portion of income which is earned in the form of wages for labor is about
- 12%
  - 30%
  - 51%
  - 70%

ANS: D                      DIF: Moderate              TOP: The Inputs: Labor and Capital

35. The average hourly wage (excluding benefits) in the United States is currently
- \$5.15
  - \$7
  - \$12
  - \$16

ANS: D                      DIF: Moderate              TOP: The Inputs: Labor and Capital

36. For those workers who are given fringe benefits such as health insurance and pensions, the additional income this amounts to over and above the average hourly wage is approximately
- 12%
  - 30%
  - 51%
  - 70%

ANS: B                      DIF: Moderate              TOP: The Inputs: Labor and Capital

37. How does the wages in the United States compare to that in northern Europe?
- U.S. wage rates are higher than those of all northern European nations.
  - Northern Europe's average wage rates are higher.
  - U.S. wage rates are higher than those in Germany and the Netherlands.
  - they are similar.

ANS: D                      DIF: Moderate              TOP: The Inputs: Labor and Capital

38. The payments to owners of capital include
- interest and profits.
  - debt and taxes.
  - wages and salaries.
  - expenses and bonuses.
  - All of the above are correct.

ANS: A                      DIF: Easy                      TOP: The Inputs: Labor and Capital

39. Most Americans
- have accurate perceptions of the level of corporate profits.
  - underestimate corporate profits.
  - overestimate corporate profits.
  - believe that corporations earn zero profit.

ANS: C                      DIF: Moderate              TOP: The Inputs: Labor and Capital

40. Consumer spending accounts for what share of GDP?
- 20%
  - 40%
  - 70%
  - 90%

ANS: C                      DIF: Easy                      TOP: The Outputs: What Does America Produce?

41. The typical American family spends about \_\_\_\_ percent of its budget on goods, and the remainder on services.
- a. 20
  - b. 40
  - c. 60
  - d. 70

ANS: B                      DIF: Moderate                      TOP: The Outputs: What Does America Produce?

42. Nonconsumption spending accounts for roughly what percent of total output of goods and services?
- a. 20%
  - b. 30%
  - c. 40%
  - d. 60%

ANS: B                      DIF: Moderate                      TOP: The Outputs: What Does America Produce?

43. The United States has approximately
- a. 80,000 businesses.
  - b. 5 million businesses
  - c. 12 million businesses
  - d. 25 million businesses

ANS: C                      DIF: Easy                      TOP: The Central Role of Business Firms

44. According to Robert Reich, secretary of Labor in the Clinton administration,
- a. the identity of American companies is clear, and laws should be written accordingly.
  - b. foreign companies are clearly different from American companies.
  - c. multinational companies have clear bases of operations, which form their identity.
  - d. it is almost impossible to define the nationality of a multinational company.
  - e. identifying the country of origin of a product is almost impossible, but essential for proper regulation.

ANS: D                      DIF: Moderate                      TOP: The Central Role of Business Firms

45. In the United States each year, approximately
- a. 25% of all businesses fail.
  - b. 12,000 businesses fail.
  - c. 80,000 businesses fail.
  - d. 1 million businesses fail.

ANS: C                      DIF: Moderate                      TOP: The Central Role of Business Firms

46. A firm that does business all over the world is called a(n)
- a. multinational corporation.
  - b. international conglomerate.
  - c. competitive corporation.
  - d. government-owned business.

ANS: A                      DIF: Easy                      TOP: The Central Role of Business Firms

47. An industry can be defined as
- a. the group of all firms that sell a product.

- b. any company that produces and sells something.
- c. the set of buyers of a particular good or service.
- d. the top companies that sell something.

ANS: A                      DIF: Easy                      TOP: The Central Role of Business Firms

48. Government plays a role in which type of economy?
- a. only free market economies like the United States
  - b. only socialist economies
  - c. only mixed economies
  - d. all economies

ANS: D                      DIF: Easy                      TOP: What's Missing from the Picture? Government

49. The role of government in a market economy includes all of the following except
- a. providing services such as national defense.
  - b. collecting taxes.
  - c. extensive ownership of productive resources.
  - d. making and enforcing laws.

ANS: C                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

50. Comparing the United States to other economies, the United States is one of the \_\_\_\_ economy in the world.
- a. most government-supervised
  - b. most privatized
  - c. most government-owned
  - d. least privatized

ANS: B                      DIF: Easy                      TOP: What's Missing from the Picture? Government

51. Which of the following illustrates government acting as a referee?
- a. taxing high income persons
  - b. enforcing contract provisions between buyer and seller
  - c. buying new weapons for defense
  - d. mailing checks to social security recipients
  - e. collecting data on imports and exports

ANS: B                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

52. As Americans have become more health conscious, rules about food labels have become more complex and stringent. This is an example of government acting as
- a. regulator.
  - b. redistributor.
  - c. taxer.
  - d. defender.
  - e. referee.

ANS: E                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

53. Which of the following is a valid reason to consider government regulation?
- a. Seeking some social objective that markets do not achieve.
  - b. Fear that capitalism will prove too productive.
  - c. Desire on the part of government to be useful.
  - d. Requests for protection from an industry.
  - e. All of the above.

ANS: A                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

54. When government defines and enforces property rights, this is an example of government as
- referee.
  - regulator of business.
  - buyer of goods and services.
  - tax collector.
  - redistributor.

ANS: A                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

55. Antitrust laws are designed to
- preserve competition.
  - protect the environment.
  - protect the public's trust in the government
  - all of the above

ANS: A                      DIF: Easy                      TOP: What's Missing from the Picture? Government

56. During fiscal year 2004, the most recent mentioned in the text, the federal government spent approximately
- \$1.7 billion
  - \$1.8 trillion
  - \$2.3 trillion
  - \$30 trillion

ANS: C                      DIF: Easy                      TOP: What's Missing from the Picture? Government

57. The largest single portion of the federal budget is devoted to
- National defense
  - Medicare and Medicaid
  - Social Security and unemployment compensation
  - Education
  - Interest payments on the national debt.

ANS: C                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

58. The largest single portion of state and local budgets is devoted to
- State and local defense
  - Health and public welfare programs
  - State and local unemployment compensation
  - Education
  - Interest payments on state and local debt.

ANS: D                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

59. Compared to people in other nations, people in the United States pay
- much higher taxes.
  - somewhat higher taxes, on average.
  - about the same amount taxes.
  - lower taxes.

ANS: D                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

60. In 1996, the “flat tax” was a popular campaign idea for several Republican candidates for president. If such a flat tax were enacted, what would happen to the role of government as redistributor?
- It would decrease as tax rates increased and income taxes became more progressive.
  - It would increase as tax rates decreased and income taxes became more representative.
  - It would decrease as progressive income taxes ended.
  - It would increase as regressive income taxes ended.
  - It would be largely unchanged.

ANS: C                      DIF: Difficult                      TOP: What's Missing from the Picture? Government

61. The largest single source of tax revenue for the federal government is the
- personal income tax.
  - corporate income tax.
  - payroll tax.
  - sales tax.
  - property tax.

ANS: A                      DIF: Easy                      TOP: What's Missing from the Picture? Government

62. A transfer payment is a sum of money
- spent by government for new goods and services.
  - shifted between members of a household.
  - given by government without a good or service in exchange.
  - moved between companies for goods and services.
  - required to pay taxes.

ANS: C                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

63. The concept of government as redistributor is
- approved by many, but questioned by many as well.
  - generally rejected as against “the American way.”
  - largely approved by a vast majority of Americans.
  - unnecessary in the United States because income disparities are small.
  - a conservative idea that many liberals reject.

ANS: A                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

64. In 2005, President Bush promoted a plan to privatize Social Security through allowing workers to create personal savings accounts. How will this affect the government's role as a redistributor of income?
- it will be diminished.
  - it will not be affected.
  - it will be strengthened.
  - the government does not redistribute income in the U.S.

ANS: A                      DIF: Difficult                      TOP: What's Missing from the Picture? Government

65. The government redistributes income to the poor, primarily through
- progressive taxes.
  - transfer payments.
  - government purchases.
  - both a and b.

ANS: D                      DIF: Moderate                      TOP: What's Missing from the Picture? Government

66. Progressive income taxes are designed to



- a. make the distribution of income less equal.
- b. leave unchanged the distribution of income.
- c. let the market determine the distribution of income after taxes.
- d. make the distribution of income more equal.

ANS: D                      DIF: Easy                      TOP: What's Missing from the Picture? Government

67. A mixed economy is one in which
- a. a mixture of businesses exist and function.
  - b. there is a mixture of public influence over government.
  - c. government plays a dominant role, and private markets are secondary.
  - d. there is some public influence over free markets.

ANS: D                      DIF: Easy                      TOP: Conclusion: It's a Mixed Economy

68. The United States is a fairly good example of
- a. a mixed economy.
  - b. a pure market system.
  - c. a government-dominated economy.
  - d. a manufacturing economy.
  - e. a transitioning economy.

ANS: A                      DIF: Easy                      TOP: Conclusion: It's a Mixed Economy

69. In a mixed economy
- a. all economies choose the same mix of private and public involvement in the economy.
  - b. the government is more important than the private sector in generating output.
  - c. there is some government influence over the workings of the free market.
  - d. all of the above.

ANS: C                      DIF: Moderate                      TOP: Conclusion: It's a Mixed Economy

## ESSAY

1. The U.S. economy is the largest in the world. What two factors primarily explain this? What makes the U.S. economy unique?

ANS:

Sheer size of the country, with a population of over 290 million and a labor force of 140 million, contributes to the large production. But this cannot be the only element, or India's GDP would be three times as large. Efficiency is the second factor the U.S. economic system transforms inputs into output in a much more productive fashion. U.S. success is attributable to the free enterprise market system.

What makes the U.S. economy unique is its combination of prosperity and population. While there are several countries that are rich in terms of per capita GDP, they are relatively small because of their small population and geographic size. Other countries have immense populations, but have not achieved economic propriety in terms of per capita GDP.

DIF: Moderate

2. What important changes have occurred in the composition of the labor force since 1950? Is the popular image of the American worker as a factory worker accurate? Describe the types of jobs Americans are working in today.

ANS:

The most important change is the increasing participation of women, who composed 29 percent of the labor force in 1950 but now account for 47 percent. This has led to discussions of wage discrimination against women and questions of parental leave. A second trend is a declining percentage of teenagers in the labor force, after peaking in the early 1970s. Teenagers typically hold entry-level jobs, suggesting why these jobs must be increasingly filled by other segments of the labor force (McDonalds may be hiring the elderly not just for public relations but due to the unavailability of youthful workers).

In 2003, about 61 percent of American workers were employed in service-related industries. Manufacturing companies employ only about 14.5 million people and about one third of them work in offices rather than factories. About 21.5 million people are employed by all levels of government; the majority at the state and local levels. About 2.3 million people work on farms and 9.3 million people are self-employed.

DIF: Moderate

3. Between 1959 and 2004 U.S. GDP, measured in dollars of constant purchasing power, expanded about 4.4 times. However, the standard of living only increased by 2.7 times over this period. Explain the difference.

ANS:

GDP growth includes the effects of inflation and population growth, meaning there are more labor inputs in the economy. The standard of living is better measured by real GDP per capita. To obtain the standard of living from GDP, one must correct for the effect of population growth.

DIF: Moderate

4. List five major economic activities of government, and give an example of each.

ANS:

1. Government as referee. Example: enforcing contracts, or supervising truth-in-lending laws.
2. Regulating business. Example: anti-trust laws, environmental laws.
3. Expenditures. Example: government pensions, national defense.
4. Taxes. Example: income, sales, property taxes.
5. Government as redistributor. Example: poverty programs, social security.

DIF: Easy

5. How does the United States compare to other nations on a per capita scale as far as government production and taxation?

ANS:

Government production as a share of GDP is relatively low compared with other countries. Perhaps more surprising is that U.S. citizens are perhaps the most lightly taxed, at 30 percent of GDP. The cry for "No more taxes" may reflect a concern with government inefficiency, but Americans are mistaken if they believe their tax burden is high compared to other countries.

DIF: Moderate

6. It is often asserted that the United States no longer manufactures anything, instead it imports manufactured goods from countries like China and Japan. Critically evaluate this claim.

ANS:

If the claim were true then the share of GDP that the U.S. imports would have to be extremely high given the share of goods versus services in the U.S. economy. If we look at the data, only about 13 percent of U.S. GDP is imported and imports from Japan account for about one seventh of this (about 2 percent of GDP). That means that over 80 percent of what Americans consume is made in the United States. Therefore this claim is false. Furthermore, the U.S. imports more from Canada than it does from any other country.

DIF: Moderate

7. A nation's citizens often dislike the economy's distribution of income. Explain two methods for creating a more equal distribution of income.

ANS:

One method is to override the market distribution to force a more equal distribution of incomes. A second method, that is used to varying degrees in virtually all of the private-enterprise economies, is to use transfer payments, sums of money that individuals receive from the government without providing any goods or services in return. By taxing wealthier individuals and giving transfer payments to poorer individuals, a more equal distribution of after-tax income may be achieved.

DIF: Easy