

**TEST BANK**



*Foundations of*  
**MICROECONOMICS**

*Fourth Edition*

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# Chapter 2

## The U.S. and Global Economies

### Checkpoint 2.1 What, How, and For Whom?

2.1.1) Items that are purchased by individuals for their own enjoyment are called

- A) consumption goods and services.
- B) capital goods.
- C) government goods and services.
- D) exports of goods and services.
- E) private goods.

Answer: A

*Topic: Consumption goods and services*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: WM*

2.1.2) Which of the following directly contributes people's standard of living?

- A) consumption goods and services
- B) capital goods
- C) government goods and services
- D) exports of goods and services
- E) private goods

Answer: A

*Topic: Consumption goods and services*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: TPS*

2.1.3) Which of the following is a consumption good or service?

- A) a personal computer purchased in order to play games at home
- B) a United Airline ticket counter
- C) the Endeavor space shuttle
- D) a United Parcel Service truck delivering Christmas gifts
- E) a satellite dish installed by Cox Cable to download programs that are then distributed through its cable system

Answer: A

*Topic: Consumption goods and services*

*Skill: Level 2: Using definitions*

*Objective: Checkpoint 2.1*

*Author: CT*

2.1.4) The largest share of total production in the United States is

- A) consumption goods and services.
- B) capital goods.
- C) government goods and services.
- D) exports of goods and services.
- E) imports of goods and services.

Answer: A

*Topic: Consumption goods and services*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: CT*

2.1.5) Items bought by businesses to help produce other goods and services are called

- A) consumption goods and services.
- B) capital goods.
- C) government goods and services.
- D) exports of goods and services.
- E) productive goods.

Answer: B

*Topic: Capital goods*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: WM*

2.1.6) An item that is purchased to increase businesses' productive factors is

- A) an export.
- B) a government good.
- C) a capital good.
- D) a consumption good.
- E) a productive good.

Answer: C

*Topic: Capital goods*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: CT*

2.1.7) Which of the following items is a capital good?

- A) A tennis ball purchased by two friends to play tennis.
- B) A jet airplane purchased by Delta Airlines.
- C) A coffee maker given to your roommate as a Christmas gift.
- D) A doughnut purchased by a surveyor on his way to work.
- E) A paper back book purchased by a business traveler to read on the airplane.

Answer: B

Topic: *Capital goods*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.1*

Author: *WM*

2.1.8) The goods and services that we produce can be divided into four large groups. One of these groups is

- A) labor.
- B) income.
- C) entrepreneurship.
- D) government goods and services.
- E) advanced goods and services.

Answer: D

Topic: *Government goods and services*

Skill: *Level 1: Definition*

Objective: *Checkpoint 2.1*

Author: *CT*

2.1.9) Computers and insurance coverage that are sold to people in other nations are categorized as

- A) consumption goods and services.
- B) capital goods.
- C) government goods and services.
- D) exports of goods and services.
- E) imports of goods and services.

Answer: D

Topic: *Exports*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.1*

Author: *AA*

- 2.1.10) The Colorado Ski Shop sold 60 ski jackets to a Belgium company's headquarters located in Paris, France. The ski jackets are a
- A) U.S. export.
  - B) capital good.
  - C) government good.
  - D) U.S. consumption service.
  - E) U.S. import.

Answer: A

Topic: Exports

Skill: Level 2: Using definitions

Objective: Checkpoint 2.1

Author: CT

- 2.1.11) Which of the following correctly lists the categories of factors of production?
- A) land, labor, capital, and entrepreneurship
  - B) land, buildings, capital, and entrepreneurship
  - C) labor, machines, buildings, capital, and entrepreneurship
  - D) forests, fish, buildings, capital, and entrepreneurship
  - E) labor, money, stocks, and bonds

Answer: A

Topic: Factors of production

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: AA

- 2.1.12) Factors of production are the
- A) goods that are bought by individuals and used to provide personal enjoyment.
  - B) goods that are bought by businesses to produce productive resources.
  - C) productive resources used to produce goods and services.
  - D) productive resources used by government to increase the productivity of consumption.
  - E) goods and services produced by the economy.

Answer: C

Topic: Factors of production

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: CT

2.1.13) Economists classify energy and water as part of which factor of production?

- A) land
- B) labor
- C) capital
- D) entrepreneurship
- E) land if undeveloped and capital if developed

Answer: A

Topic: Land

Skill: Level 2: Using definitions

Objective: Checkpoint 2.1

Author: CT

2.1.14) The productive resource that includes all the "gifts of nature" is called

- A) land.
- B) labor.
- C) capital.
- D) entrepreneurship.
- E) land if undeveloped and capital if developed.

Answer: A

Topic: Land

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: WM

2.1.15) The productive resource that includes work time and work effort is called

- A) land.
- B) labor.
- C) capital.
- D) entrepreneurship.
- E) human capital.

Answer: B

Topic: Labor

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: WM

2.1.16) Which factor of production does human capital enhance?

- i. land
  - ii. labor
  - iii. capital
- A) i only.  
B) ii only.  
C) iii only.  
D) i and ii.  
E) i, ii, and iii.

Answer: B

Topic: Labor, human capital

Skill: Level 2: Using definitions

Objective: Checkpoint 2.1

Author: TPS

2.1.17) The United States possesses a large amount of human capital. As a result of this fact, in the United States there is a

- A) large amount of machinery and equipment.
- B) large number of people and a great deal of land.
- C) highly skilled and educated labor force.
- D) large number of kind and generous humans.
- E) large amount of machinery (capital) that is run by people (humans).

Answer: C

Topic: Labor, human capital

Skill: Level 2: Using definitions

Objective: Checkpoint 2.1

Author: AA

2.1.18) Jan is attending college and studying to be an investment broker. To improve her chances of employment following college, she has interned at a top brokerage firm during the last two summers. Jan's internship has increased her

- A) natural labor.
- B) human capital.
- C) consumption services.
- D) natural resources.
- E) entrepreneurship capital.

Answer: B

Topic: Labor, human capital

Skill: Level 4: Applying models

Objective: Checkpoint 2.1

Author: CT

2.1.19) The percentage of the U.S. population with four or more years of college today is

- A) less than 3 percent.
- B) more than 75 percent.
- C) approximately 50 percent.
- D) more than 20 percent and less than 33 percent.
- E) more than 33 percent and less than 75 percent.

Answer: D

Topic: Labor, human capital

Skill: Level 3: Using models

Objective: Checkpoint 2.1

Author: WM

2.1.20) When looking at the development of human capital over the twentieth century, we see that

- A) a greater percentage of people finished high school in 1910 than in 2004.
- B) over 40 percent of the population has now completed four or more years of college.
- C) today, somewhat more than 25 percent of the population has completed four or more years of college.
- D) those with less than five years elementary school is now at its highest.
- E) more people have completed four or more years of college than have just completed high school.

Answer: C

Topic: Labor, human capital

Skill: Level 3: Using models

Objective: Checkpoint 2.1

Author: WM

2.1.21) Capital is a factor of production. Which of the following is an example of capital?

- i. \$1,000 in money
  - ii. 100 shares of Microsoft stock
  - iii. \$10,000 in bonds issued by General Motors
  - iv. A drill press in your local machine shop
- A) i and ii.
  - B) ii only.
  - C) iii only.
  - D) iv only.
  - E) ii and iii.

Answer: D

Topic: Capital

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: TPS



2.1.22) Capital is a factor of production. An example of capital as a factor of production is

- A) money.
- B) stocks.
- C) bonds.
- D) machines.
- E) education.

Answer: D

Topic: Capital

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: CT

2.1.23) One of the productive resources is capital. Capital includes

- A) money borrowed from a bank.
- B) a company's stocks and bonds.
- C) tools, buildings, and machine tools.
- D) toys, forks, CD players, and pencils.
- E) money in a savings account at a bank.

Answer: C

Topic: Capital

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: AA

2.1.24) The total amount of capital in the United States today is about

- A) \$10 billion.
- B) \$10 million.
- C) \$20 billion.
- D) \$35 trillion.
- E) \$145 trillion.

Answer: D

Topic: Capital

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: AA

2.1.25) The owners of the resource \_\_\_\_\_ are paid \_\_\_\_\_ .

- A) land; wages
- B) labor; profit
- C) capital; rent
- D) capital; interest
- E) entrepreneurship; wages

Answer: D

Topic: *Capital*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.1*

Author: *AA*

2.1.26) The productive resource that organizes labor, land, and capital is

- A) human capital.
- B) financial capital.
- C) entrepreneurship.
- D) government.
- E) capital.

Answer: C

Topic: *Entrepreneurship*

Skill: *Level 1: Definition*

Objective: *Checkpoint 2.1*

Author: *WM*

2.1.27) Payments to the factors of production are

- A) rent, mortgage, interest, and bonds.
- B) rent, interest, bonds, and profit or loss.
- C) rent, wages, interest, and profit or loss.
- D) rent, wages, profit or loss, and bonus.
- E) land, labor, capital, and entrepreneurship.

Answer: C

Topic: *Resource payments*

Skill: *Level 1: Definition*

Objective: *Checkpoint 2.1*

Author: *AA*

2.1.28) The income paid for the use of land is called

- A) rent.
- B) wages.
- C) interest.
- D) profit.
- E) land capital.

Answer: A

*Topic: Resource payments*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: CT*

2.1.29) The income paid to labor is called

- A) rent.
- B) wages.
- C) interest.
- D) profit.
- E) human capital.

Answer: B

*Topic: Resource payments*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: CT*

2.1.30) Which factor of production is paid "interest"?

- A) land
- B) labor
- C) capital
- D) entrepreneurship
- E) human capital

Answer: C

*Topic: Resource payments*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: TPS*

2.1.31) Which factor of production is paid "profit"?

- A) land
- B) labor
- C) capital
- D) entrepreneurship
- E) human capital

Answer: D

*Topic: Resource payments*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: TPS*

2.1.32) The functional distribution of income measures which of the following?

- A) How federal tax revenues are related to the business function that employs taxpayers.
- B) The distribution of earnings by the factors of production.
- C) The proportion of income generated by the four types of expenditures on goods and services.
- D) The distribution of income among households.
- E) The distribution of income among nations.

Answer: B

*Topic: Functional distribution of income*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: TPS*

2.1.33) In the United States, the productive factor that, as a group, receives the largest fraction of the nation's total income was

- A) labor.
- B) capital.
- C) consumption goods and services.
- D) entrepreneurship.
- E) land.

Answer: A

*Topic: Functional distribution of income*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.1*

*Author: CT*

2.1.34) Which factor of production earns the largest share of the nation's total income?

- A) labor
- B) land
- C) capital
- D) entrepreneurship
- E) consumption goods and services

Answer: A

Topic: Functional distribution of income

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: AA

2.1.35) The data show that more than 60 percent of the total income earned in the United States goes to

- A) labor.
- B) land.
- C) capital.
- D) entrepreneurship.
- E) profit.

Answer: A

Topic: Functional distribution of income

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: AA

2.1.36) The personal distribution of income measures which of the following?

- A) How federal tax revenues are related to the type of businesses that employs the taxpayers.
- B) The distribution of earnings by the factors of production.
- C) Proportion of income generated by the four types of expenditures on goods and services.
- D) The distribution of income among households.
- E) The distribution of income among nations.

Answer: D

Topic: Personal distribution of income

Skill: Level 1: Definition

Objective: Checkpoint 2.1

Author: TPS

- 2.1.37) The personal distribution of income in the United States shows that
- A) income is equally distributed.
  - B) the poorest 20 percent of individuals receive approximately 20 percent of total income.
  - C) the richest 20 percent of individuals receive approximately 50 percent of total income.
  - D) the poorest 60 percent of individuals receive approximately 50 percent of total income.
  - E) the richest 20 percent of individuals receive approximately 25 percent of total income.

Answer: C

Topic: *Personal distribution of income*

Skill: *Level 3: Using models*

Objective: *Checkpoint 2.1*

Author: *WM*

- 2.1.38) The richest 20 percent of individuals in the United States receive about \_\_\_\_\_ of the nation's total income.
- A) 20 percent
  - B) 50 percent
  - C) 90 percent
  - D) 10 percent
  - E) 23 percent

Answer: B

Topic: *Personal distribution of income*

Skill: *Level 1: Definition*

Objective: *Checkpoint 2.1*

Author: *AA*

## Checkpoint 2.2 The Circular Flows

- 2.2.1) Within the circular flow,
- A) households own the factors of production and firms choose the quantities of the factors to hire.
  - B) firms own the factors of production and households choose the quantities of the factors to hire.
  - C) households and firms both own factors of production, though firms make the decisions about the quantities to hire.
  - D) neither households nor firms own anything because both must rent the factors of production.
  - E) households and firms both own factors of production, though households make the decisions about the quantities to hire.

Answer: A

Topic: *Households vs. Firms*

Skill: *Level 1: Definition*

Objective: *Checkpoint 2.2*

Author: *WM*

- 2.2.2) Dan missed class the day the professor covered the circular flow model. Dan asked his friend Joan to explain markets to him. Joan correctly stated that a market
- A) requires a physical location for buyers and sellers to get together.
  - B) is any arrangement that brings buyers and sellers together.
  - C) must include a written contract between buyers and sellers.
  - D) is only a place to purchase groceries.
  - E) must have many buyers and only one seller, who is willing to sell to all the buyers.

Answer: B

Topic: Markets

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: CT

- 2.2.3) The decisions of firms and households are
- A) coordinated by markets.
  - B) made independently of one another.
  - C) controlled by but not totally coordinated by the government.
  - D) unexplainable by the circular flow model.
  - E) coordinated by but not totally controlled by the government.

Answer: A

Topic: Markets

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: WM

- 2.2.4) The circular flow model shows the
- A) distribution of income and consumption goods across income levels.
  - B) combinations of the factors of production needed to produce goods and services.
  - C) flow of expenditure and incomes that arise from the households', firms', and governments' decisions.
  - D) flow of natural resources from firms to the private market to government and back to firms.
  - E) distribution of income to the different factors of production.

Answer: C

Topic: Circular flow model

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: CT

- 2.2.5) In the circular flow model, consumption goods are bought and sold in the
- A) goods market.
  - B) financial market.
  - C) factor markets.
  - D) government market.
  - E) monetary flows.

Answer: A

*Topic: Circular flow model*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: CT*

- 2.2.6) In the circular flow model, which of the following is on the buying side in the goods market?
- i. firms
  - ii. households
  - iii. federal, state, and local governments
- A) i only.
  - B) ii only.
  - C) iii only.
  - D) i and ii.
  - E) ii and iii.

Answer: E

*Topic: Circular flow model*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: TPS*

- 2.2.7) In the circular flow model, which of the following is on the selling side in the goods market?
- A) federal, state, and local governments
  - B) only households
  - C) exporters
  - D) only firms
  - E) both firms and households

Answer: D

*Topic: Circular flow model*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: TPS*



2.2.8) The circular flow model shows that goods and services flow from

- A) businesses to households.
- B) households to business.
- C) the factor market to businesses.
- D) the goods market to businesses.
- E) the factor markets to the goods markets.

Answer: A

Topic: Circular flow model

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: AA

2.2.9) In the circular flow model, which of the following owns the factors of production?

- A) only federal, state, and local governments
- B) only households
- C) only firms
- D) both firms and households
- E) firms, households, and all levels of government

Answer: B

Topic: Circular flow model

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: TPS

2.2.10) In the circular flow model, the factor markets are the markets in which

- A) consumption goods and services are bought and sold.
- B) government goods and services are provided.
- C) land, labor, capital, and entrepreneurship are bought and sold.
- D) investment goods and services are bought and sold.
- E) governments impose all their taxes.

Answer: C

Topic: Circular flow model

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: CT

2.2.11) In the circular flow model, who hires the factors of production in the factor markets?

- A) an agency of the Federal government
- B) only households
- C) the goods market
- D) only firms
- E) both firms and households

Answer: D

*Topic: Circular flow model*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: TPS*

2.2.12) In the circular flow model, which of the following is on the selling side of the factor markets?

- A) federal, state, and local governments
- B) only households
- C) only financial institutions such as banks
- D) only firms
- E) firms and households

Answer: B

*Topic: Circular flow model*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: TPS*

2.2.13) In the circular flow model, which of the following is on the buying side of the factor markets?

- A) federal, state, and local governments
- B) only households
- C) only financial institutions such as banks
- D) only firms
- E) firms and households

Answer: D

*Topic: Circular flow model*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: TPS*

- 2.2.14) In the circular flow model, which of the following flows in the opposite direction from the flow of factors of production?
- A) finished goods and services
  - B) wages, rent, interest, and profit
  - C) interests payments of Federal, state, and local governments
  - D) firm's profit incentives
  - E) the goods market

Answer: B

Topic: Circular flow model

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: TPS

- 2.2.15) Terri is enrolled in her first economics course. She is required to give a presentation about the circular flow. Which of the following statements should she include in her presentation?
- A) Households choose the amount of the factors of production to provide the firms.
  - B) Firms choose the amount of the factors of production to provide households.
  - C) Households receive wages for the amount of entrepreneurship they provide firms.
  - D) Firms pay wages for the amount of entrepreneurship they provide households.
  - E) The flows of goods and services and payments for the goods and services flow in the same direction.

Answer: A

Topic: Circular flow model

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: CT

- 2.2.16) The circular flow model demonstrates that the decision by households not to purchase as many new cars this year is signaled in the
- A) factor markets and not the goods market.
  - B) capital market.
  - C) goods market and not the factors market.
  - D) circular market.
  - E) goods market and the factor markets.

Answer: C

Topic: Circular flow model

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: CT

2.2.17) In the circular flow model,

- A) the government is represented as a separate market.
- B) the government buys goods and services from firms.
- C) goods and services are sold by households and purchased by firms.
- D) factor markets are where goods rather than services are bought and sold.
- E) the government has no direct interaction with either households or firms.

Answer: B

Topic: *Circular flow and the government*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.2*

Author: SA

2.2.18) Which of the following levels of government are part of the circular flow diagram?

- i) federal
  - ii) state
  - iii) local
- A) i only.
  - B) i and ii.
  - C) i and iii.
  - D) i, ii and iii.
  - E) ii and iii.

Answer: D

Topic: *Circular flow and the government*

Skill: *Level 1: Definition*

Objective: *Checkpoint 2.2*

Author: CD

2.2.19) Which of the following are part of the government's money flows in the circular flow model?

- i) national defense expenditures
  - ii) interest on the national debt
  - iii) social security taxes
- A) ii only.
  - B) iii only.
  - C) ii and iii.
  - D) i, ii and iii.
  - E) i and iii.

Answer: D

Topic: *Circular flow and the government*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.2*

Author: CD

2.2.20) Which of the following is NOT shown explicitly in the circular flow model?

- A) the governments' purchases in the goods market
- B) the taxes the governments collect from households
- C) the governments' interaction with firms
- D) the legal system
- E) the transfers the governments make to households

Answer: D

Topic: Circular flow and the government

Skill: Level 3: Using models

Objective: Checkpoint 2.2

Author: CD

2.2.21) Which of the following is a function of the U.S. federal government?

- A) providing the legal and social framework for economic activity
- B) distributing private goods and services
- C) deciding for whom firms should produce goods and services
- D) deciding how much to produce of private goods and services
- E) determining what wages firms will pay their workers.

Answer: A

Topic: Federal government

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: PH

2.2.22) Within the U.S. economy, the role of the government

- A) includes providing some goods and services.
- B) is solely to collect taxes.
- C) is quite small and barely effects the private sector.
- D) is solely to regulate and punish those who break the law.
- E) is, in part, to determine the wages and salaries that all workers are paid.

Answer: A

Topic: Governments

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: WM

2.2.23) Which of the following is NOT a function of the federal government?

- A) collecting property taxes
- B) making social security and welfare payments
- C) making transfers to state and local governments
- D) providing public goods and services
- E) imposing a personal income tax.

Answer: A

*Topic: Functions of the federal government*

*Skill: Level 2: Using definitions*

*Objective: Checkpoint 2.2*

*Author: WM*

2.2.24) An example of a public good or service provided by the federal government is

- A) garbage collection.
- B) regulating gasoline prices.
- C) space exploration.
- D) determining the number of doctors admitted to medical school.
- E) setting each state government's budget.

Answer: C

*Topic: Functions of the federal government*

*Skill: Level 2: Using definitions*

*Objective: Checkpoint 2.2*

*Author: CT*

2.2.25) The largest single component of U.S. federal government expenditures is spent on

- A) interest paid on the national debt.
- B) social security.
- C) national defense.
- D) purchases of goods and services for purposes other than national defense.
- E) transfers to state and local governments.

Answer: B

*Topic: Federal government*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: PH*

2.2.26) The largest component of federal government spending is for

- A) national defense.
- B) social security.
- C) education.
- D) prisons.
- E) interest on the national debt.

Answer: B

*Topic: Federal government*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: JC*

2.2.27) Of the following, the federal government gets most revenue from

- A) interest on the national debt.
- B) taxes imposed on corporations.
- C) state income taxes.
- D) personal income taxes.
- E) lottery revenue.

Answer: D

*Topic: Federal government*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: SA*

2.2.28) Of the following, the federal government obtains most revenue from

- A) excise taxes.
- B) sales taxes.
- C) corporate income taxes.
- D) social security taxes.
- E) property taxes.

Answer: D

*Topic: Federal government*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.2*

*Author: PH*

2.2.29) Of the following, the federal government obtains most revenue from

- A) sales taxes.
- B) property taxes.
- C) transfers from state and local governments.
- D) personal income taxes.
- E) interest on the national debt.

Answer: D

Topic: Federal government

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: JC

2.2.30) Tax revenues are transferred from

- A) state governments to the federal government.
- B) local governments to state and federal governments.
- C) one state government to other state governments.
- D) the federal government to state and local governments.
- E) the state and local governments to the federal government.

Answer: D

Topic: Federal government

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: AA

2.2.31) Income taxes paid by corporations are a

- A) major source of revenue for the federal government.
- B) major source of revenue for state governments.
- C) major source of revenue for local governments.
- D) less than 10 percent of the federal government's revenue.
- E) major source of expenditure by the federal government.

Answer: D

Topic: Federal government

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: AA



2.2.32) The national debt becomes larger only when

- A) individuals borrow to finance their consumption expenditure.
- B) the Federal government owes money to state and local governments.
- C) state and local governments spend more than they receive in taxes.
- D) the Federal government spends more than it receives in taxes.
- E) the Federal government pays interest on the national debt.

Answer: D

Topic: National debt

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: TPS

2.2.33) The size of the national debt is

- A) nonexistent because the federal government cannot spend more than it takes in taxes.
- B) large enough to make interest payments on the national debt a large part of annual expenditures.
- C) very small when compared to the size of grants to state and local governments.
- D) large enough to make interest payments the largest of annual expenditures.
- E) large enough so that the state and local governments, as well as the federal government, are making interest payments on it.

Answer: B

Topic: National debt

Skill: Level 3: Using models

Objective: Checkpoint 2.2

Author: WM

2.2.34) The largest expenditure by state and local governments is for

- A) public welfare.
- B) highways.
- C) education.
- D) fire and ambulance services.
- E) transfers to the federal government.

Answer: C

Topic: State and local governments

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: SA

2.2.35) The largest single component of state and local government expenditures is spent on

- A) education.
- B) public welfare.
- C) highways.
- D) public safety.
- E) transfers from the federal government.

Answer: A

Topic: *State and local governments*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.2*

Author: *PH*

2.2.36) State and local governments obtain most of their revenue from

- A) excise taxes and property taxes.
- B) state income taxes on individuals and corporate income taxes.
- C) sales taxes and transfers from the federal government.
- D) state lotteries and corporate income taxes.
- E) corporate income taxes and property taxes.

Answer: C

Topic: *State and local governments*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.2*

Author: *PH*

2.2.37) Which of the following are sources of revenue for state and local governments?

- i) property taxes
  - ii) sales taxes
  - iii) transfers from the federal government
- A) i and ii.
  - B) ii and iii.
  - C) i and iii.
  - D) i, ii and iii.
  - E) i only.

Answer: D

Topic: *State and local governments*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.2*

Author: *CD*

- 2.2.38) Property taxes are a major source of revenue for
- A) state and local governments.
  - B) the federal governments.
  - C) the federal, state, and local governments.
  - D) firms wanting to relocate their operations.
  - E) consumers.

Answer: A

Topic: State and local governments

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: AA

- 2.2.39) To finance government expenditures, the
- A) federal government receives transfer payments from the state and local governments.
  - B) state and local governments receive transfer payments from the federal government.
  - C) federal, state, and local governments combine all revenue and evenly divide the revenue by population size.
  - D) federal government taxes state and local government revenue earnings.
  - E) federal government is paid by the states for the military bases maintained within each state.

Answer: B

Topic: State and local governments

Skill: Level 1: Definition

Objective: Checkpoint 2.2

Author: CT

- 2.2.40) The three largest state and local government expenditures are
- A) public welfare, subsidies, and police and fire protection.
  - B) public welfare, education, and police and fire protection.
  - C) education, public welfare, and highways.
  - D) education, public welfare, and subsidies.
  - E) sales taxes, transfers from the federal government, and property taxes.

Answer: C

Topic: State and local governments

Skill: Level 2: Using definitions

Objective: Checkpoint 2.2

Author: CT

- 2.2.41) The three largest sources of revenue for state and local governments are
- A) sales taxes, property taxes, and corporate taxes.
  - B) property taxes, corporate taxes, and personal income taxes.
  - C) sales taxes, transfers from the federal government, and property taxes.
  - D) sales taxes, personal income taxes, and property taxes.
  - E) education, public welfare, and highways.

Answer: C

Topic: *State and local governments*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.2*

Author: *CT*

### Checkpoint 2.3 The Global Economy

- 2.3.1) Compared to the world, the rate of U.S. population growth is
- A) slower than in the world as a whole.
  - B) about the same as in the world as a whole.
  - C) much faster than in the world as a whole.
  - D) incomparable because U.S. residents are born with a much greater chance of accumulating a lot of human capital.
  - E) incomparable because we do not have accurate world population statistics.

Answer: A

Topic: *World population*

Skill: *Level 1: Definition*

Objective: *Checkpoint 2.3*

Author: *WM*

- 2.3.2) The U.S. population is approximately \_\_\_\_\_ people.
- A) 30.2 million
  - B) 302 million
  - C) 302 thousand
  - D) 3.02 billion
  - E) 302 billion

Answer: B

Topic: *World population*

Skill: *Level 1: Definition*

Objective: *Checkpoint 2.3*

Author: *AA*

- 2.3.3) When describing the IMF broad country classification, the most accurate statement is that
- A) the category with the greatest number of countries is the advanced economies.
  - B) the emerging market economies are countries that were, until the early 1990s, part of the Soviet Union or its satellites.
  - C) most of the nations in Western Europe are considered emerging market economies.
  - D) most of the world's population lives in advanced economies.
  - E) about 50 percent of the world's population live in the advanced economies and the other 50 percent live in the emerging market and developing economies.

Answer: B

Topic: Classification of economies

Skill: Level 1: Definition

Objective: Checkpoint 2.3

Author: WM

- 2.3.4) Hong Kong, South Korea, Singapore, and Taiwan are among the \_\_\_\_\_ economies.
- A) developing
  - B) advanced
  - C) transition
  - D) resource-rich
  - E) emerging-market

Answer: B

Topic: Advanced economies

Skill: Level 1: Definition

Objective: Checkpoint 2.3

Author: WM

- 2.3.5) The percentage of the world's population that lives in the developing nations is
- A) about 80 percent.
  - B) about 50 percent.
  - C) about 25 percent.
  - D) less than 20 percent.
  - E) about 33 percent.

Answer: A

Topic: Developing economies

Skill: Level 2: Using definitions

Objective: Checkpoint 2.3

Author: WM

2.3.6) Most of the world's population lives in

- A) advanced economies.
- B) developing economies.
- C) transition economies.
- D) emerging market economies.
- E) island nations.

Answer: B

*Topic: Developing economies*

*Skill: Level 1: Definition*

*Objective: Checkpoint 2.3*

*Author: AA*

2.3.7) The percentage of the world's population that lives in the emerging market economies is

- A) more than 50 percent.
- B) almost 80 percent.
- C) about 7 percent.
- D) about 25 percent.
- E) about 67 percent.

Answer: C

*Topic: Emerging market economies*

*Skill: Level 2: Using definitions*

*Objective: Checkpoint 2.3*

*Author: WM*

2.3.8) Of the following, the country with the highest average income per day in the world is

- A) Japan.
- B) the United States.
- C) France.
- D) Germany.
- E) China.

Answer: B

*Topic: Income in the global economy*

*Skill: Level 2: Using definitions*

*Objective: Checkpoint 2.3*

*Author: WM*

- 2.3.9) Looking at living standards around the world, one sees that
- A) most countries have average incomes that are below \$3 per day.
  - B) the countries of Western Europe have average incomes greater than the United States.
  - C) the United States has the highest average income.
  - D) most people live in countries with average incomes above \$20 per day.
  - E) incomes in the emerging market economies top the incomes in the advanced economies.

Answer: C

Topic: *Income in the global economy*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 2.3*

Author: *WM*

## Checkpoint 2.4 Integrative Questions

- 2.4.1) If a product becomes more popular and consumers want more produced, which of the following best describes what happens to move more factors of production into that industry?
- A) An agency of the Federal government directs the movement of factors.
  - B) The chief executive officers or presidents of corporations require that factors leave one industry and move to the other industry.
  - C) Factor owners voluntarily move their factors because they want to satisfy the interests of consumers.
  - D) Wages, rent, interest, and profit increase in that industry, thereby giving factors the incentive to move to that industry.
  - E) Consumers increase their demand for the products and, as a result, the taxes the producers must pay decrease enabling the producers to hire more factors of production.

Answer: D

Topic: *Integrative*

Skill: *Level 3: Using models*

Objective: *Integrative*

Author: *TPS*

- 2.4.2) What determines the income flows that households receive?
- A) an agency of the Federal government
  - B) what they choose to produce, how much is sold, and the price received when sold
  - C) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
  - D) financial institutions such as banks
  - E) what they choose to consume

Answer: C

Topic: *Integrative*

Skill: *Level 3: Using models*

Objective: *Integrative*

Author: *TPS*

2.4.3) What determines the revenue flows received by businesses?

- A) an agency of the Federal government
- B) what they choose to produce, how much is sold, and the price received when sold
- C) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
- D) financial institutions such as banks
- E) what they pay the factors of production they employ.

Answer: B

*Topic: Integrative*

*Skill: Level 3: Using models*

*Objective: Integrative*

*Author: TPS*