

TEST BANK



INTRODUCTION TO
ECONOMIC REASONING



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Seventh Edition

Introduction to Economic Reasoning, 7e (Rohlf)

Chapter 2: Economic Systems

Multiple Choice Questions

- 1) Pure capitalism is characterized by
- A) public ownership of the means of production.
 - B) centralized decision-making.
 - C) pure competition.
 - D) economic planning.
 - E) equal incomes.

Answer: C

Question Status: Previous Edition

- 2) In a "laissez-faire" economy,
- A) the central planning board dictates which goods and services will be produced.
 - B) the role of government is very limited.
 - C) there is no private property.
 - D) income is equally distributed.
 - E) self-interest is not permitted to influence decision-making.

Answer: B

Question Status: Previous Edition

- 3) According to the invisible hand doctrine
- A) as individuals pursue their own interest, they also promote the good of the society as a whole.
 - B) government can be relied on to ensure that businesspersons serve society.
 - C) economic planning is the most effective way of guiding the production decisions of businesses.
 - D) the unselfish nature of businesspersons guides them to promote the good of the society.
 - E) competition is undesirable.

Answer: A

Question Status: Previous Edition

- 4) In pure capitalism, the production decisions of businesses are guided by
- A) the central planning board.
 - B) the way that consumers spend their incomes.
 - C) the needs of households.
 - D) government commands.
 - E) social concerns.

Answer: B

Question Status: Previous Edition

- 5) In pure capitalism,
- A) each household is equally important in guiding the production decisions of businesses.
 - B) output is distributed to those who are willing and able to pay for it.
 - C) consumer sovereignty ensures that the basic needs of all consumers will be met.
 - D) there is very limited competition.
 - E) central planners dictate what goods and services will be produced.

Answer: B

Question Status: Previous Edition

- 6) Which of the following is **not** a function of prices in a capitalist economy?
- A) dividing up the economy's limited output
 - B) ensuring that income is distributed fairly
 - C) motivating businesses to produce the products desired by consumers
 - D) rationing the society's output of goods and services
 - E) conserving scarce resources

Answer: B

Question Status: Previous Edition

- 7) The belief that competitive capitalism helps to ensure political freedom is attributed to
- A) Milton Friedman.
 - B) Adam Smith.
 - C) Arthur Okun.
 - D) John Kenneth Galbraith.
 - E) Ronald Reagan.

Answer: A

Question Status: Previous Edition

- 8) Which of the following is an example of a common property resource?
- A) an apartment building
 - B) a river
 - C) a taxicab
 - D) a hamburger
 - E) a very ordinary plot of land

Answer: B

Question Status: Previous Edition

- 9) In pure capitalism, consumers are protected from shoddy products and high prices by the presence of
- A) a strong central government.
 - B) the unselfish nature of businesspersons.
 - C) competition.
 - D) central planners.
 - E) Ralph Nader, the consumer advocate.

Answer: C

Question Status: Previous Edition

- 10) In pure capitalism, the scarcest resources tend to be employed very conservatively because
- A) they are carefully rationed by the central planning board.
 - B) they tend to have high prices.
 - C) businesspersons are concerned about future generations.
 - D) businesses gain by helping one another.
 - E) the central government rations their use.

Answer: B

Question Status: Previous Edition

- 11) In pure capitalism, the prices of economic resources would influence
- A) the answer to the "how to produce" question, but not the income distribution in the economy.
 - B) the income distribution, but not the answer to the "how to produce" question.
 - C) the answers to "what" and "how" to produce, but not the answer to the "for whom" question.
 - D) the answers to all three fundamental questions.
 - E) the answers to "how" and "for whom" to produce, but not the answer to the "what" question.

Answer: D

Question Status: Previous Edition

- 12) In pure capitalism, the answer to the "how to produce" question
- A) would depend primarily on how consumers spend their incomes.
 - B) would be dictated by the central planning board.
 - C) would be influenced by the prices of the economic resources.
 - D) would not be influenced by technological change.
 - E) would be determined primarily by tradition or custom.

Answer: C

Question Status: Previous Edition

- 13) The two types of markets shown in the circular flow model are
- A) business and household.
 - B) real and money.
 - C) competitive and monopolistic.
 - D) product and resource.
 - E) planned and unplanned.

Answer: D

Question Status: Previous Edition

- 14) According to the circular flow model
- A) households sell economic resources to businesses.
 - B) businesses sell economic resources to households.
 - C) households buy economic resources from businesses.
 - D) businesses buy and sell economic resources.
 - E) households buy and sell economic resources.

Answer: A

Question Status: Previous Edition

- 15) The payments to the owners of land, labor, capital, and entrepreneurship are, respectively
- A) rent, wages, dividends, and salaries.
 - B) interest, wages, dividends, and profits.
 - C) profits, wages, dividends, and interest.
 - D) rent, wages, interest, and profits.
 - E) taxes, wages, premiums, and profits.

Answer: D

Question Status: Previous Edition

- 16) According to the concept of consumer sovereignty
- A) producers respond to the dictates of central planners.
 - B) businesses attempt to produce the products that are most desired by consumers.
 - C) all members of society have an equal voice in determining what products will be produced.
 - D) the central government must ensure that businesses produce the proper mix of products.
 - E) you get what you pay for.

Answer: B

Question Status: Previous Edition

- 17) Which of the following is not a characteristic of pure command socialism?
- A) public ownership of the means of production
 - B) decentralized decision-making
 - C) economic planning
 - D) allocation by command
 - E) production targets dictated by central planners

Answer: B

Question Status: Previous Edition

- 18) In pure command socialism,
- A) workers select their own employment.
 - B) central planning coordinates economic decisions.
 - C) individual enterprises are free to decide what products to produce.
 - D) output must be distributed equally to all consumers.
 - E) decision-making is highly decentralized.

Answer: B

Question Status: Previous Edition

- 19) Which of the following is not an accurate description of the information flows in the command pyramid?
- A) Data regarding production capacities is transmitted from producing units to central planners.
 - B) Production targets are transmitted from producing units to the central planners.
 - C) Facts about consumer preferences are transmitted from consuming units to the central planners.
 - D) Data regarding raw materials supplies flows from producing units to central planners.
 - E) Information about labor capabilities is transmitted from producing units to central planners.

Answer: B

Question Status: Previous Edition

- 20) In pure command socialism, the job of ensuring that specific production objectives agree (so that ax handle manufacturers don't produce 500,000 handles, while ax head manufacturers produce only 250,000 heads) is performed by
- A) the market.
 - B) prices.
 - C) commands from the central authority.
 - D) economic planning.
 - E) consumer sovereignty.

Answer: D

Question Status: Previous Edition

- 21) A likely weakness of pure command socialism is
- A) its inability to provide for a fair distribution of output.
 - B) its inability to foster rapid economic growth.
 - C) its inefficient use of economic resources.
 - D) its inability to eliminate scarcity.
 - E) its highly decentralized decision-making.

Answer: C

Question Status: Previous Edition

- 22) Pure capitalism and pure command socialism are alike in that
- A) both systems are characterized by public ownership of the means of production.
 - B) both systems use markets to implement the fundamental economic choices.
 - C) they are both economic models.
 - D) consumer sovereignty exists in both systems.
 - E) both systems use economic planning to coordinate economic decisions.

Answer: C

Question Status: Previous Edition

23) One reason the United States is not an example of pure capitalism is because

- A) self-interest is an important motivating force in the economy.
- B) there is significant government intervention in the economy.
- C) most enterprises are privately owned.
- D) the economy is characterized by decentralized decision-making.
- E) there is a strong central planning board.

Answer: B

Question Status: Previous Edition

24) Which of the following is **not** true of the United States economy?

- A) Most enterprises are privately owned.
- B) Pure competition exists throughout the economy.
- C) The economy is coordinated primarily by the market mechanism.
- D) Some decisions are implemented by command or government dictate, rather than through markets.
- E) Some enterprises are publicly owned.

Answer: B

Question Status: Previous Edition

25) Which of the following countries is commonly associated with an industrial policy?

- A) Japan
- B) United States
- C) Germany
- D) Sweden
- E) Canada

Answer: A

Question Status: Previous Edition

26) When a nation pursues an "industrial policy," government policymakers attempt to

- A) enhance competition.
- B) reduce income inequality.
- C) promote particular industries.
- D) combat unemployment and inflation.
- E) prevent environmental damage.

Answer: C

Question Status: Previous Edition

27) Which of the following functions of government is most consistent with the model of pure capitalism?

- A) correcting for externalities
- B) redistributing income
- C) providing public goods
- D) preventing unemployment and inflation
- E) establishing a legal framework

Answer: E

Question Status: Previous Edition

28) Codetermination is the requirement that corporations have worker representatives on their boards of directors. It is associated with which of the following countries?

- A) Germany
- B) France
- C) Japan
- D) Russia
- E) Sweden

Answer: A

Question Status: Previous Edition

29) Which of the following is a true statement?

- A) Great Britain practices industrial policy.
- B) Codetermination is practiced in France.
- C) Germany has long practiced indicative economic planning.
- D) Sweden uses government policy primarily to alter the income distribution.
- E) The economy of Hong Kong approximates pure command socialism.

Answer: D

Question Status: Previous Edition

30) Which of the following countries remains committed to economic planning?

- A) Hong Kong
- B) Germany
- C) North Korea
- D) Sweden
- E) Great Britain

Answer: C

Question Status: Previous Edition

31) Which of the following countries pursue an industrial policy?

- A) Germany, France, and Great Britain
- B) Sweden, France, and the United States
- C) South Korea, Taiwan, and Japan
- D) Canada, Hong Kong, and Australia
- E) Russia, Poland, and Hungary

Answer: C

Question Status: Previous Edition

32) "Shock therapy" is the description that has been used to characterize what country's efforts to reform its economy?

- A) Russia
- B) China
- C) Germany
- D) Japan
- E) Cuba

Answer: A

Question Status: Previous Edition

- 33) Which of the following is an accurate description of the difference between the Russian and Chinese efforts at economic reform?
- A) Russia's approach was timid, while the Chinese approach has been described as "shock therapy."
 - B) Russia has done very little to reform its economy, while the Chinese have introduced many market-related reforms.
 - C) Russia introduced market reforms in a relatively short time period, while China has taken a very cautious, go-slow approach.
 - D) China has done very little to reform its economy, while Russia has introduced many market-related reforms.
 - E) Both Russia and China have introduced market-related reforms at a rapid rate, but the Russians have gone to much greater lengths to publicize their efforts.

Answer: C

Question Status: Previous Edition

Multiple Choice Questions Reproduced from the Study Questions

- 1) Which of the following is not a characteristic of pure capitalism?
- A) public ownership of the means of production
 - B) the pursuit of self-interest
 - C) markets and prices
 - D) pure competition
 - E) limited government

Answer: A

Question Status: Previous Edition

- 2) In a market economy, the scarcest resources will be used very conservatively because
- A) central planners will allocate such resources only where they are most needed.
 - B) the scarcest resources will tend to have the highest prices.
 - C) government officials will not permit their use.
 - D) the scarcest resources will tend to have the lowest prices.

Answer: B

Question Status: Previous Edition

- 3) In a capitalist economy,
- A) businesses are free to produce whatever products they choose.
 - B) consumers are free to utilize their incomes as they see fit.
 - C) resource owners have the freedom to sell their resources to whomever they choose.
 - D) All of the above
 - E) None of the above

Answer: D

Question Status: Previous Edition

- 4) Consumer sovereignty means that
- A) consumers dictate which goods and services will be produced by the way they spend their money.
 - B) central planners allocate a major share of society's resources to the production of consumer goods.
 - C) the role of government in the economy is very limited.
 - D) all economic resources are used efficiently.

Answer: A

Question Status: Previous Edition

- 5) According to the invisible hand doctrine,
- A) as individuals pursue their own interests, they tend to promote the interests of society as a whole.
 - B) the actions of individuals often have unanticipated and undesirable effects on society.
 - C) individuals should put the interests of society first.
 - D) when individuals attempt to promote the best interests of the entire society, they also further their own personal interests.

Answer: A

Question Status: Previous Edition

- 6) Adam Smith recognized that the invisible hand would function as he envisioned only if
- A) individuals unconsciously considered the welfare of others in making their decisions.
 - B) government regulations forced businesses to behave in an ethical manner.
 - C) a high degree of competition existed in the economy.
 - D) individuals lived in accordance with the golden rule.

Answer: C

Question Status: Previous Edition

- 7) In a market economy, if consumers suddenly stop buying SUVs and start buying fuel efficient cars,
- A) the price of SUVs will tend to fall and more of them will be produced.
 - B) the price of fuel-efficient cars will tend to rise, making them less profitable to produce and encouraging producers to supply more of them.
 - C) resources will tend to be shifted from the production of SUVs to the production of fuel-efficient cars.
 - D) the price of SUVs will tend to rise, making them more profitable to produce and encouraging producers to supply more of them.

Answer: C

Question Status: New

- 8) Which of the following best describes command socialism?
- A) An economic system characterized by private ownership of the means of production, centralized decision-making, and command implementation.
 - B) An economic system characterized by public ownership of the means of production, centralized decision-making, and market implementation.
 - C) An economic system characterized by public ownership of the means of production, individual decision making, and command implementation.
 - D) An economic system characterized by public ownership of the means of production, centralized decision making, and command implementation.

Answer: D

Question Status: Previous Edition

- 9) Which of the following is correct?
- A) In command socialism, the basic economic choices are made by individuals.
 - B) In pure capitalism, powerful economic units have a substantial impact on the way economic choices are made.
 - C) In command socialism, producers are required to produce whatever products central planners dictate.
 - D) In pure capitalism, economic planning ensures that the various production decisions will be consistent with one another.

Answer: C

Question Status: Previous Edition

- 10) In deciding what products to produce, the central planners in a socialist command economy need not consider
- A) the size of the economy's labor force.
 - B) the production capabilities of the economy's factories.
 - C) consumer preferences.
 - D) the economy's stock of raw materials.

Answer: C

Question Status: Previous Edition

- 11) In order to get the most output from society's limited resources, the scarcest resources must be used only where no other input will suffice.
- A) In command socialism, this function is performed by planners; in pure capitalism, it is performed by the central government.
 - B) In pure capitalism, this function is performed by input prices; in command socialism, it is performed by planners.
 - C) In command socialism, this function is performed by the producing units; in pure capitalism, it is performed by planners.
 - D) In pure capitalism, this function is performed by government regulations; in command socialism, it is performed by output targets.

Answer: B

Question Status: Previous Edition

- 12) In a comparison of command socialism and pure capitalism, which of the following is true?
- A) Prices play a larger role in command socialism than in pure capitalism.
 - B) Resources are likely to be used more efficiently in command socialism than in pure capitalism.
 - C) Economic planning plays a larger role in pure capitalism than in command socialism.
 - D) Decision making is more decentralized in pure capitalism than in command socialism.

Answer: D

Question Status: Previous Edition

- 13) One function of government the U.S. economy is to "correct for externalities." Which of the following is an example of government performing that function?
- A) construction of a flood control dam
 - B) paying a portion of the cost of a flu vaccination
 - C) reducing the income tax rate on citizens with low incomes
 - D) outlawing the sale of automobiles lacking seatbelts

Answer: B

Question Status: New

- 14) One reason the United States is not an example of pure capitalism is that
- A) most producing units are publicly owned.
 - B) commands are used to implement some economic decisions.
 - C) the pursuit of self-interest is a powerful force.
 - D) markets are used to coordinate most economic decisions.

Answer: B

Question Status: Previous Edition

- 15) Which of the following is a true statement?
- A) Codetermination is a feature of the Swedish economy.
 - B) The Germans describe their economy as a "social market economy."
 - C) Industrial policy is a characteristic of the British economy.
 - D) Japan's leadership employs "indicative planning" in guiding its economy.

Answer: B

Question Status: Revised

Multiple Choice Questions Reproduced from the Companion Web Site

- 1) The purpose of an economic system is to
- A) decide who owns the means of production.
 - B) answer the three fundamental questions of economics.
 - C) decide who will receive the economy's output.
 - D) protect the rights of consumers and businesses.

Answer: B

Question Status: Previous Edition

- 2) In describing economic systems it is helpful to ask who makes the economic decisions and
- A) how the economy's output will be distributed.
 - B) who owns the means of production.
 - C) how self-interest will be held in check.
 - D) who will do the economic planning.

Answer: B

Question Status: Previous Edition

- 3) Which of the following is an element of capitalism?
- A) economic planning
 - B) allocation by command
 - C) public ownership of the means of production
 - D) self-interest

Answer: D

Question Status: Previous Edition

- 4) In a capitalist economy, consumers dictate what goods and services will be produced. This is called
- A) the invisible hand doctrine.
 - B) the pursuit of self-interest.
 - C) consumer sovereignty.
 - D) laissez-faire.

Answer: C

Question Status: Previous Edition

- 5) In a capitalist economy, if a new product becomes popular
- A) its price will tend to rise, which will encourage more businesses to produce this product.
 - B) its price will tend to fall, which will encourage more consumers to buy this product.
 - C) central planners will need to ensure that additional resources are made available to its producers.
 - D) central planners will need to decide which consumers will receive this product.

Answer: A

Question Status: Previous Edition

- 6) Pure competition is a situation in which
- A) there is only one producer of a product.
 - B) a few, very large, firms dominate an industry.
 - C) there are many small buyers and sellers of a product.
 - D) government is the only producer of a product.

Answer: C

Question Status: Previous Edition

- 7) Which of the following is a strength of pure capitalism?
- A) the protection of common-property resources
 - B) an equal distribution of income and output
 - C) production of the products which consumers want the most
 - D) equal treatment under the law

Answer: C

Question Status: Previous Edition

- 8) Which of the following is **not** a characteristic of command socialism?
- A) public ownership of the means of production
 - B) centralized decision making
 - C) reliance on markets and prices
 - D) allocation by command

Answer: C

Question Status: Previous Edition

- 9) A socialist command economy is depicted as a pyramid in order that it reflects
- A) the importance of consumer preferences in guiding decision making.
 - B) the fact that all factories and other forms of capital are publicly owned.
 - C) the centralization of economic decision making.
 - D) the importance of economic planning.

Answer: C

Question Status: Previous Edition

- 10) Socialist command economies are likely to use resources inefficiently because
- A) market prices generally provide poor signals to producers.
 - B) prices play too large a role in a socialist command economy.
 - C) wants are likely to be unlimited in a socialism command economy.
 - D) planners are unable to gather and process all the information they require.

Answer: D

Question Status: Previous Edition

- 11) In a capitalist economy,
- A) central planners decide how the economy's output will be distributed.
 - B) low resource prices help to ensure that scarce resources are conserved.
 - C) a high degree of equality ensures that output is distributed fairly.
 - D) markets and prices take the place of economic planners.

Answer: D

Question Status: Previous Edition

- 12) Although the U.S. government's role in _____ is clearly consistent with the model of pure competition, its efforts to _____ are not.
- A) redistributing income; stabilize the economy
 - B) providing public goods; establish a legal framework
 - C) redistributing income; correct for externalities
 - D) establishing a legal framework; redistribute income

Answer: D

Question Status: Previous Edition

- 13) Industrial policy is a practice commonly attributed to the _____ economy, while codetermination is found in the _____ economy.
- A) Swedish; Japanese
 - B) Russian; North Korean
 - C) German; Swedish
 - D) Japanese; German

Answer: D

Question Status: Previous Edition

- 14) Which of the following countries maintain a commitment to centralized economic planning?
- A) Sweden and Russia.
 - B) Cuba and North Korea.
 - C) South Korea and Taiwan.
 - D) Japan and Taiwan.

Answer: B

Question Status: Previous Edition

- 15) In Sweden, a major purpose of government intervention is to
- A) promote some industries and discourage others.
 - B) encourage more rapid economic growth.
 - C) achieve a more equal income distribution.
 - D) encourage foreign investment through low taxes.

Answer: C

Question Status: Previous Edition

- 16) This country's attempt to rapidly introduce market reforms into its economy has been described as "shock therapy."
- A) Russia
 - B) China
 - C) South Korea
 - D) North Korea

Answer: A

Question Status: Previous Edition

- 17) According to the "invisible hand" doctrine,
- A) the pursuit of self-interest always maximizes the welfare of the individual.
 - B) competition ensures that the pursuit of self-interest also promotes the well-being of the society.
 - C) individuals are always guided by their conscience to promote both their own self-interest and the well-being of the society.
 - D) government regulation can ensure that the pursuit of self-interest also promotes the society's well-being.

Answer: B

Question Status: Previous Edition

- 18) "Codetermination" means that
- A) all economic decisions are the result of corporations interacting with government regulators.
 - B) corporations must have worker representatives on their boards of directors.
 - C) state bureaucrats attempt to promote what they deem to be key sectors of the economy.
 - D) the state planning agency uses indirect means, such as tax incentives, to influence business decisions.

Answer: B

Question Status: Previous Edition

- 19) China's approach to reforming its centralized economy has been described as
- A) shock therapy.
 - B) reckless.
 - C) heartless.
 - D) cautious.

Answer: D

Question Status: Previous Edition

- 20) Which of the following is FALSE?
- A) France has turned away from economic planning and has focused more attention on privatization.
 - B) The Russian economy grew at a rapid rate following the breakup of the Soviet Union.
 - C) In South Korea and Taiwan, government routinely targets specific industries for assistance.
 - D) In China, state-owned enterprises (SOEs) have been forced to compete with foreign businesses.

Answer: B

Question Status: Revised

- 21) In a market economy, if consumers suddenly stop buying 10-speed bikes and start buying 21-speed bikes,
- A) the price of 10-speeds will tend to fall and more of them will be produced.
 - B) the price of 21-speeds will tend to rise, making them more profitable to produce and encouraging producers to supply more of them.
 - C) resources will tend to be shifted from the production of 21-speeds to the production of 10-speeds.
 - D) the price of 10-speeds will tend to rise, making them more profitable to produce and encouraging producers to supply more of them.

Answer: B

Question Status: Revised

- 22) Which of the following is is not a function of government in the U.S. economy?
- A) providing public goods
 - B) redistributing income
 - C) economic planning
 - D) maintaining competition

Answer: C

Question Status: Revised

- 23) Codetermination is a feature of which of the following economies?
- A) France
 - B) Russia
 - C) Germany
 - D) Great Britain

Answer: C

Question Status: Revised

True/False Questions

- 1) An economic system is a set of procedures for using markets to answer the three fundamental questions.
Answer: TRUE
Question Status: Previous Edition
- 2) The U.S. economy is an example of pure capitalism.
Answer: FALSE
Question Status: Previous Edition
- 3) The former Soviet Union was an example of pure command socialism.
Answer: FALSE
Question Status: Previous Edition
- 4) Pure capitalism and pure command socialism are economic models.
Answer: TRUE
Question Status: Previous Edition
- 5) Pure capitalism is an economic system in which the means of production are privately owned, the fundamental economic choices are made by individuals and implemented through the market mechanism.
Answer: TRUE
Question Status: Previous Edition
- 6) A "market" consists of all actual or potential buyers and sellers of a product.
Answer: TRUE
Question Status: Previous Edition
- 7) Private property, markets, and pure competition are all elements of pure capitalism.
Answer: TRUE
Question Status: Previous Edition
- 8) In a laissez-faire economy the role of government is very limited.
Answer: TRUE
Question Status: Previous Edition
- 9) Mixed economies face a different economic problem than "pure" economic systems.
Answer: FALSE
Question Status: Previous Edition
- 10) Every economic system must answer the questions of what, how and for whom to produce.
Answer: TRUE
Question Status: Previous Edition
- 11) The invisible hand doctrine describes the function of economic planning.
Answer: FALSE
Question Status: Previous Edition
- 12) According to the invisible hand doctrine, the pursuit of self-interest may promote the good of society as a whole.
Answer: TRUE
Question Status: Previous Edition
- 13) Adam Smith believed that the pursuit of self-interest always promoted the good of the society as a whole.
Answer: FALSE
Question Status: Previous Edition

- 14) Adam Smith recognized that for self-interest to promote the public good it needed to be guided and restrained by the invisible hand of government.
Answer: FALSE
Question Status: Previous Edition
- 15) According to Adam Smith, self-interest needed to be restrained by competition.
Answer: TRUE
Question Status: Previous Edition
- 16) Pure capitalism requires pure competition, a situation in which there are at least two sellers of a product.
Answer: FALSE
Question Status: Previous Edition
- 17) In pure capitalism, consumer sovereignty ensures that the economy's goods and services will be distributed fairly.
Answer: FALSE
Question Status: Previous Edition
- 18) In pure capitalism, consumer sovereignty means that consumers determine which goods and services businesses will produce.
Answer: TRUE
Question Status: Previous Edition
- 19) Milton Friedman argues that competitive capitalism promotes political freedom by separating economic and political power.
Answer: TRUE
Question Status: Previous Edition
- 20) Arthur Okun argued that in a capitalist economy money can buy preferred treatment before the law and other things that are not supposed to be for sale.
Answer: TRUE
Question Status: Previous Edition
- 21) Command socialism is an economic system in which the means of production are publicly owned, the fundamental economic choices are made by a central authority, and implemented through the market mechanism.
Answer: FALSE
Question Status: Previous Edition
- 22) In pure command socialism, the state owns the means of production.
Answer: TRUE
Question Status: Previous Edition
- 23) In pure command socialism, all factories are state owned, but some farms are privately owned.
Answer: FALSE
Question Status: Previous Edition
- 24) The what, how, and for whom questions are answered by the central authority in a socialist command economy.
Answer: TRUE
Question Status: Previous Edition

- 25) In pure command socialism, the central authority must be responsive to the wishes of the population.
Answer: FALSE
Question Status: Previous Edition
- 26) Consumer sovereignty dictates which products will be produced in a socialist command economy.
Answer: FALSE
Question Status: Previous Edition
- 27) Markets and prices guide production decisions in a socialist command economy.
Answer: FALSE
Question Status: Previous Edition
- 28) In command socialism, economic planning ensures that specific production objectives agree.
Answer: TRUE
Question Status: Previous Edition
- 29) According to the diagram of the command pyramid, the producing units transmit production targets to the central planning board.
Answer: FALSE
Question Status: Previous Edition
- 30) In the command pyramid diagram, the central planning board is found at the base of the pyramid.
Answer: FALSE
Question Status: Previous Edition
- 31) Before the central authority in a socialist command economy can establish production targets, it must obtain information from producing units regarding their production capabilities.
Answer: TRUE
Question Status: Previous Edition
- 32) The central planners in a socialist command economy must use resources efficiently if they are to satisfy as many wants as possible.
Answer: TRUE
Question Status: Previous Edition
- 33) One of the strengths of pure command socialism is the fact that it requires a minimum amount of information to ensure the efficient use of resources.
Answer: FALSE
Question Status: Previous Edition
- 34) The economies of the United States and China are both examples of mixed economies.
Answer: TRUE
Question Status: Previous Edition
- 35) The only element of command socialism in the U.S. economy is the presence of some publicly owned enterprises.
Answer: FALSE
Question Status: Previous Edition
- 36) In the former Soviet Union, all prices were established in free markets.
Answer: FALSE
Question Status: Previous Edition

- 37) Gorbachev succeeded in discrediting the Soviet planned economy and replacing it with a well-functioning market economy.
Answer: FALSE
Question Status: Previous Edition
- 38) China's approach to economic reform has been described as "shock therapy."
Answer: FALSE
Question Status: Previous Edition
- 39) In the U.S. economy, some economic decisions are implemented by commands, rather than through markets.
Answer: TRUE
Question Status: Previous Edition

Essay Questions

- 1) In pure capitalism, how does competition help ensure that self-interest seeking businesspeople will be responsive to consumers? Provide an example to illustrate how and why the outcome might be different in the absence of competition.
Answer: No Answer Given
Question Status: Previous Edition
- 2) Market economies are sometimes described as "impersonal" because the decisions about what, how, and for whom to produce are made by markets rather than by central planners. Do you think this impersonality is a positive or negative feature of capitalism? Defend your conclusion.
Answer: No Answer Given
Question Status: Previous Edition
- 3) Explain in detail why it is more accurate to describe the U.S. economy as a mixed economy than as an example of pure capitalism. Supplement your explanation with examples that illustrate the "mixed" nature of the U.S. economy.
Answer: No Answer Given
Question Status: Previous Edition
- 4) Discuss in detail the role of central planners in a socialist command economy and the information they need to perform their job. Be complete.
Answer: No Answer Given
Question Status: Previous Edition
- 5) Compare the methods employed by a capitalist economy to answer the three fundamental questions with those employed by a socialist command economy. Why is it accurate to say that decision-making is centralized in a command economy, and decentralized in a market economy?
Answer: No Answer Given
Question Status: Previous Edition