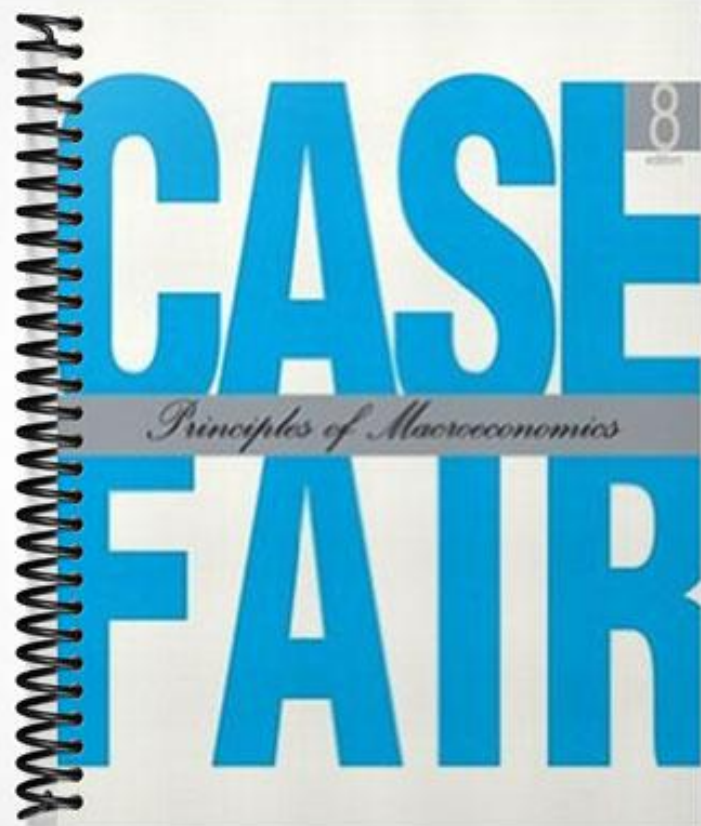


TEST BANK



Chapter 2 The Economic Problem: Scarcity, and Choice

Principles of Macroeconomics, Case/Fair, 8e

2.1 Scarcity, Choice, and Opportunity Cost

Multiple Choice

- 1) The process by which resources are transformed into useful forms is
- A) capitalization.
 - B) consumption.
 - C) production.
 - D) allocation.

Answer: C

Diff: 2

Skill: D

- 2) Outputs in the production process are
- A) pollution.
 - B) money.
 - C) good and services of value to households.
 - D) resources.

Answer: C

Diff: 2

Skill: D

- 3) Which of the following is NOT a resource as the term is used by economists?
- A) Land
 - B) Labor
 - C) Buildings
 - D) Money

Answer: D

Diff: 1

Skill: F

- 4) Which of the following would an economist classify as capital?
- A) A deposit of silver
 - B) A share of stock
 - C) A public corporation's employees
 - D) A computer used by an accountant

Answer: D

Diff: 2

Skill: D

- 5) Capital, as economists use the term,
- A) is the money the firm spends to hire resources.
 - B) is money the firm raises from selling stock.
 - C) refers to the process by which resources are transformed into useful forms.
 - D) refers to things that have already been produced that are in turn used to produce other goods and services.

Answer: D

Diff: 3

Skill: C

- 6) The concept of opportunity cost is based on the principle of
- A) need.
 - B) consumption.
 - C) scarcity.
 - D) profit.

Answer: C

Diff: 2

Skill: D

- 7) The concept of trade-offs would become irrelevant if
- A) we were dealing with a very simple, one-person economy.
 - B) poverty were eliminated.
 - C) scarcity were eliminated.
 - D) capital were eliminated.

Answer: C

Diff: 2

Skill: D

- 8) Suppose you have to decide whether to spend your tax refund on a new CD player or a new computer. You are dealing with the concept of
- A) diminishing marginal returns.
 - B) comparative advantage.
 - C) opportunity costs.
 - D) the fallacy of composition.

Answer: C

Diff: 2

Skill: D

- 9) According to the theory of comparative advantage, specialization and free trade will benefit
- A) all trading parties under certain circumstances.
 - B) all trading parties, even when some are absolutely more efficient producers than others.
 - C) only that trading party that has an absolute advantage in the production of all goods.
 - D) only that trading party that has a comparative advantage in the production of all goods.

Answer: B

Diff: 3

Skill: C

Refer to the information provided in Table 2.1 below to answer the following questions.

Table 2.1

	Matthew	Andrew
Design Brochure	10	12
Design Web Site	2	3

- 10) Refer to Table 2.1. For Matthew, the opportunity cost of designing one Web site is
- A) 1/5 of a brochure.
 - B) 4 brochures.
 - C) 5 brochures.
 - D) 10 brochures.

Answer: C

Diff: 2

Skill: A

- 11) Refer to Table 2.1. For Andrew, the opportunity cost of designing one Web site is
- A) 1/4 of a brochure.
 - B) 2 brochures.
 - C) 4 brochures.
 - D) 8 brochures.

Answer: C

Diff: 2

Skill: A

- 12) Refer to Table 2.1. Which of the following statements is TRUE?
- A) Matthew has a comparative advantage in both Web site design and in brochures.
 - B) Andrew has a comparative advantage in both Web site design and brochures.
 - C) Matthew has a comparative advantage in Web site design and Andrew has a comparative advantage in brochures.
 - D) Andrew has a comparative advantage in Web site design and Matthew has a comparative advantage in brochures.

Answer: D

Diff: 2

Skill: D

- 13) Refer to Table 2.1. To maximize total production,
- A) Matthew should specialize in Web site design and Andrew should specialize in making brochures.
 - B) Andrew should specialize in Web site design and Matthew should specialize in making brochures.
 - C) Matthew and Andrew should both split their time between making brochures and Web site design.
 - D) Matthew should make brochures and design Web sites, but Andrew should only make brochures.

Answer: B

Diff: 2

Skill: A

14) Refer to Table 2.1. For Andrew, the opportunity cost of designing four Web sites is _____ brochures made.

- A) 8
- B) 16
- C) 20
- D) an indeterminate number of

Answer: B

Diff: 2

Skill: A

15) Refer to Table 2.1. For Matthew, the opportunity cost of designing three Web sites is _____ brochures made.

- A) 12
- B) 13
- C) 15
- D) 20

Answer: C

Diff: 2

Skill: A

16) According to the theory of comparative advantage, _____ raise(s) productivity by lowering opportunity costs.

- A) trade and specialization
- B) investment in capital goods
- C) economic growth
- D) exchange and consumption

Answer: A

Diff: 2

Skill: D

17) When two people trade

- A) both of them expect to be made worse off by the exchange.
- B) they are trying to help out each other.
- C) they know one of them will get the better of the other.
- D) they both expect to be made better off by the exchange.

Answer: D

Diff: 2

Skill: D

18) Someone has a comparative advantage in producing a good, if they can produce that good

- A) in greater quantities.
- B) at a lower opportunity cost.
- C) using more capital and less labor.
- D) without sunk costs.

Answer: B

Diff: 2

Skill: A

- 19) If someone has a comparative advantage in producing cars,
- A) they can produce cars at a lower opportunity cost than other producers.
 - B) they also have an absolute advantage in producing cars.
 - C) they can produce more cars using the same resources than other producers.
 - D) cars are the only product they can produce.

Answer: A

Diff: 2

Skill: A

- 20) Which of the following does NOT constitute an act of "investment" as economists use the term?
- A) The city park commission authorizes the construction of a new swimming pool.
 - B) An individual buys 100 shares of stock at \$30 a share and then sells the stock at a profit for \$35 a share.
 - C) A corporate lawyer attends a seminar on changes in the federal tax code.
 - D) A grocery store increases its inventory of potato chips and soda before the Memorial Day weekend.

Answer: B

Diff: 1

Skill: F

- 21) In economics, investment always refers to
- A) the act of buying stocks or bonds.
 - B) the creation of capital.
 - C) improving the productivity of labor.
 - D) an increase in per capita output.

Answer: B

Diff: 2

Skill: D

- 22) The process of using resources to produce new capital is
- A) research and development.
 - B) investment.
 - C) consumption.
 - D) economic growth.

Answer: B

Diff: 2

Skill: D

- 23) An example of trading present benefits for future benefits is
- A) production.
 - B) saving.
 - C) consumption.
 - D) growth.

Answer: B

Diff: 2

Skill: D

24) Because resources are scarce, the opportunity cost of investment in capital is

- A) zero.
- B) forgone future consumption.
- C) forgone present consumption.
- D) infinite.

Answer: C

Diff: 2

Skill: D

25) An example of an investment is

- A) the purchase of a share of Microsoft stock.
- B) the purchase of a Microsoft bond.
- C) the purchase of a computer that uses a Microsoft operating system for use by a business.
- D) all of the above.

Answer: C

Diff: 2

Skill: D

26) The opportunity cost of investment in capital is forgone present consumption because

- A) capital takes a long time to produce.
- B) capital increases the productivity of labor.
- C) resources are scarce.
- D) capital is an intangible good.

Answer: C

Diff: 3

Skill: C

27) If the unemployment rate decreases from 10% to 8%, the economy will

- A) move closer to a point on the ppf.
- B) move away from the ppf toward the origin.
- C) remain on the ppf.
- D) remain on the origin.

Answer: A

Diff: 3

Skill: C

28) Periods of less than full employment correspond to

- A) points outside the ppf.
- B) points inside the ppf.
- C) points on the ppf.
- D) either points inside or outside the ppf.

Answer: B

Diff: 3

Skill: C

Refer to the information provided in Figure 2.1 below to answer the questions that follow.

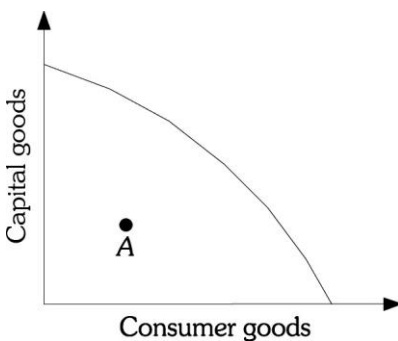


Figure 2.1

29) Refer to Figure 2.1. Macroland is currently operating at Point A. The best explanation for this is that

- A) the economy has very poor technology.
- B) the economy's resources are being used inefficiently.
- C) the economy has very few resources.
- D) the economy operates as an efficient market.

Answer: B

Diff: 3

Skill: C

30) Refer to Figure 21. Macroland's production possibility frontier is bowed out from the origin due to

- A) decreasing opportunity costs.
- B) trade.
- C) unemployment.
- D) specialized resources.

Answer: D

Diff: 3

Skill: A

31) Refer to Figure 2.1. The shape of Macroland's production possibility frontier shows

- A) increasing opportunity costs.
- B) constant opportunity costs.
- C) decreasing opportunity costs.
- D) random opportunity costs.

Answer: A

Diff: 3

Skill: A

- 32) The production possibility frontier is used to illustrate the concept of
- A) the laissez-faire economy.
 - B) opportunity costs.
 - C) equilibrium.
 - D) aggregate demand.

Answer: B

Diff: 1

Skill: F

Refer to the information provided in Figure 2.2 below to answer the questions that follow.

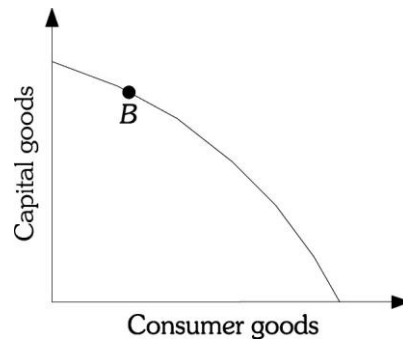


Figure 2.2

- 33) Refer to Figure 2.2. Point *B* represents a situation of
- A) full employment but production inefficiency.
 - B) less than full employment but production efficiency.
 - C) both full resource employment and production efficiency.
 - D) less than full employment and production inefficiency.

Answer: C

Diff: 1

Skill: F

- 34) Refer to Figure 2.2. Microland is currently operating at Point *B*. You correctly deduce that
- A) in Microland all resources are fully employed and there are no production inefficiencies.
 - B) Microland has achieved a position of inefficiency.
 - C) Microland has recently experienced some type of technological breakthrough.
 - D) Microland has overcome the problem of scarcity.

Answer: A

Diff: 2

Skill: A

- 35) The production possibility frontier is a graph that shows
- A) all the combinations of goods and services that are consumed over time if all of society's resources are used efficiently.
 - B) the amount of goods and services consumed at various average price levels.
 - C) the rate at which an economy's output will grow over time if all resources are used efficiently.
 - D) all the combinations of goods and services that can be produced if all of society's resources are used efficiently.

Answer: D

Diff: 2

Skill: D

- 36) Production inefficiency is occurs
- A) only when an economy produces inside its production possibility frontier.
 - B) only when an economy produces at the wrong point on the production possibility frontier.
 - C) either when an economy produces inside the production possibility frontier or when the economy is producing the wrong combination of goods on the production possibility frontier.
 - D) only when the economy produces outside the production possibility frontier.

Answer: C

Diff: 3

Skill: C

- 37) An economy that is producing at a suboptimal point on its production possibility frontier is
- A) efficient, as it is on the production possibility frontier.
 - B) inefficient, as the combination of goods and services produced is not what people want.
 - C) efficient, as the economy is producing goods at the lowest possible cost.
 - D) inefficient, as that combination of goods could be produced at a lower cost if more efficient technology were employed.

Answer: B

Diff: 2

Skill: D

- 38) If resources are combined efficiently in production, then the society
- A) is producing at the most-desirable point on the production possibility frontier.
 - B) is producing at a point on the production possibility frontier but not necessarily at the most-desirable point.
 - C) is producing at a point outside the production possibility frontier.
 - D) is experiencing economic growth.

Answer: B

Diff: 1

Skill: F

- 39) Suppose an economy produces television sets and computers in perfectly competitive industries. The economy is currently operating at a point on its ppf. If a single firm gains control over the production of computers, which of the following is most likely to happen?
- A) The economy will move to a less-desirable point on the ppf.
 - B) The economy's ppf will shift inward.
 - C) The economy will now be able to produce at a point outside its ppf.
 - D) The economy's ppf will shift outward, but the maximum number of computers will remain the same.

Answer: A

Diff: 2

Skill: A

- 40) The value of the slope of a society's production possibility frontier is called its
- A) marginal rate of substitution.
 - B) inflation rate.
 - C) unemployment rate.
 - D) marginal rate of transformation.

Answer: D

Diff: 2

Skill: D

- 41) Assume a society can produce either beef or chicken. If the marginal rate of transformation of beef into chicken is 0.5, then the opportunity cost of chicken is
- A) the two units of beef that must be forgone.
 - B) the additional 0.5 unit of beef that can be produced.
 - C) the 0.5 units of beef that must be forgone.
 - D) the two units of chicken that must be forgone.

Answer: C

Diff: 2

Skill: A

- 42) The marginal rate of transformation is the
- A) slope of the production possibility frontier.
 - B) dollar value of the best forgone alternative.
 - C) process of using resources to produce new capital.
 - D) transformation of resources into a form that is useful to people.

Answer: A

Diff: 2

Skill: D

Refer to the information provided in Figure 2.3 below to answer the questions that follow.

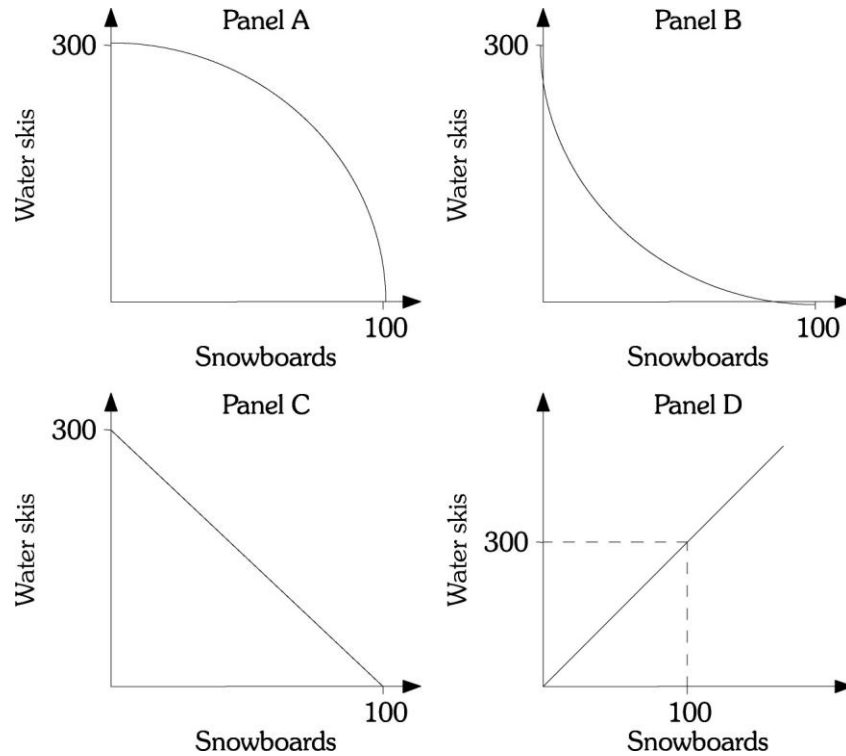


Figure 2.3

43) Refer to Figure 2.3. Assume that in Microland the marginal rate of transformation of snowboards for water skis is constant and equal to -3 . A graph of this society's production possibility frontier will be represented by

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

Answer: C

Diff: 2

Skill: D

44) Refer to Figure 2.3. Assume that in Microland the opportunity cost snowboards in terms of waterskis is increasing. A graph of this society's production possibility frontier will be represented by

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

Answer: A

Diff: 2

Skill: C

45) Refer to Figure 2.3. The law of increasing opportunity costs is best depicted by the production possibilities frontier in panel

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

Answer: A

Diff: 2

Skill: C

46) A society can produce two goods: bread and cookies. The society's production possibility frontier is negatively sloped and "bowed outward" from the origin. As this society moves down its production possibility frontier, producing more and more units of cookies, the opportunity cost of producing cookies

- A) decreases.
- B) remains constant.
- C) increases.
- D) could decrease or increase depending on the technology.

Answer: C

Diff: 2

Skill: C

Refer to the information provided in Figure 2.4 below to answer the questions that follow.

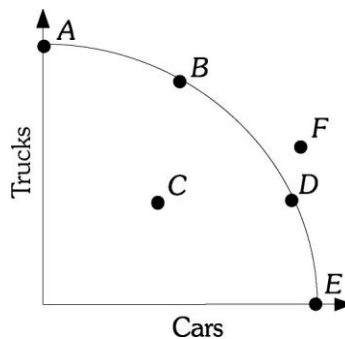


Figure 2.4

47) According to Figure 2.4, the point where only cars are produced is

- A) A.
- B) B.
- C) C.
- D) E.

Answer: D

Diff: 2

Skill: A

48) According to Figure 2.4, the optimal point for the economy is

- A) *A*.
- B) *B*.
- C) *F*.
- D) indeterminate from the information given.

Answer: D

Diff: 2

Skill: A

49) According to Figure 2.4, which point cannot be produced with the current state of technology?

- A) *A*
- B) *B*
- C) *C*
- D) *F*

Answer: D

Diff: 2

Skill: A

50) According to Figure 2.4, the point where only trucks are produced is

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

Answer: A

Diff: 2

Skill: A

51) According to Figure 2.4, a decrease in unemployment may be represented by the movement from

- A) *B* to *A*.
- B) *B* to *D*.
- C) *C* to *D*.
- D) *A* to *C*.

Answer: C

Diff: 2

Skill: A

52) According to Figure 2.4, as the economy moves from Point *A* to Point *D*, the opportunity cost of cars, measured in terms of trucks,

- A) decreases.
- B) increases.
- C) remains constant.
- D) initially increases, then decreases.

Answer: B

Diff: 2

Skill: A

- 53) According to Figure 2.4, as the economy moves from Point *D* to Point *A*, the opportunity cost of trucks, measured in terms of cars,
- A) increases.
 - B) decreases.
 - C) remains constant.
 - D) initially increases, then decreases.

Answer: A

Diff: 2

Skill: A

- 54) Refer to Figure 2.4. The economy moves from Point *B* to Point *D*. This could be explained by
- A) a reduction in unemployment.
 - B) an improvement in technology.
 - C) an increase in economic growth.
 - D) a change in society's preferences for cars versus trucks.

Answer: D

Diff: 2

Skill: A

Refer to the information provided in Figure 2.5 below to answer the questions that follow.

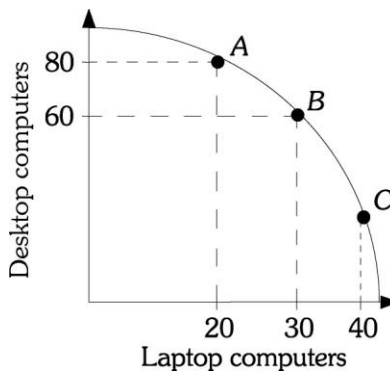


Figure 2.5

- 55) Refer to Figure 2.5. The economy is currently at Point *A*. The opportunity cost of moving from Point *A* to Point *B* is the
- A) 60 desktop computers that must be forgone to produce 10 additional laptop computers.
 - B) 20 desktop computers that must be forgone to produce 30 additional laptop computers.
 - C) 80 desktop computers that must be forgone to produce 20 additional laptop computers.
 - D) 20 desktop computers that must be forgone to produce 10 additional laptop computers.

Answer: D

Diff: 2

Skill: A

- 56) Refer to Figure 2.5. The marginal rate of transformation in moving from Point A to Point B is
- A) 5.
 - B) -2.
 - C) -2.8.
 - D) -4.

Answer: B

Diff: 2

Skill: A

- 57) Refer to Figure 2.5. For this economy to move from Point B to Point C so that an additional 10 laptop computers could be produced, production of desktop computers would have to be reduced by
- A) exactly 20.
 - B) fewer than 20.
 - C) more than 20.
 - D) exactly 40.

Answer: C

Diff: 2

Skill: A

- 58) Refer to Figure 2.5. The best point for society would be
- A) Point C, as at this point there are approximately equal amounts of desktop and laptop computers being produced.
 - B) either Point B or Point C, as the total amount being produced at either of these points is approximately the same.
 - C) at any of the labeled points, as all of the points represent an efficient allocation of resources.
 - D) indeterminate from this information, as we don't have any information about the society's desires.

Answer: D

Diff: 2

Skill: A

- 59) If the opportunity costs of producing a good increase as more of that good is produced, the economy's production possibility frontier will be
- A) negatively sloped and "bowed inward" toward the origin.
 - B) negatively sloped and "bowed outward" from the origin.
 - C) a negatively sloped straight line.
 - D) a positively sloped straight line.

Answer: B

Diff: 3

Skill: C

- 60) As you move down the production possibility frontier, the absolute value of the marginal rate of transformation
- A) increases.
 - B) decreases.
 - C) initially increases, then decreases.
 - D) initially decreases, then increases.

Answer: A

Diff: 3

Skill: C

- 61) As more of a good, such as television sets, is produced, the opportunity costs of producing it increases. This most likely occurs because
- A) as more of a good is produced the inputs used to produce that good will increase in price.
 - B) consumers would be willing to pay higher prices for the good as more of the good is produced.
 - C) resources are not equally well suited to producing all goods and as more of a good is produced it is necessary to use resources less well suited to the production of that good.
 - D) as more of a good is produced the quality of that good declines and therefore the costs of production increase.

Answer: C

Diff: 3

Skill: C

- 62) Economic growth may occur when
- A) a society acquires new resources.
 - B) a society learns to produce more using existing resources.
 - C) the society begins to produce the combination of goods society wants most.
 - D) Both A and B

Answer: D

Diff: 2

Skill: D

Refer to the information provided in Figure 2.6 below to answer the questions that follow.

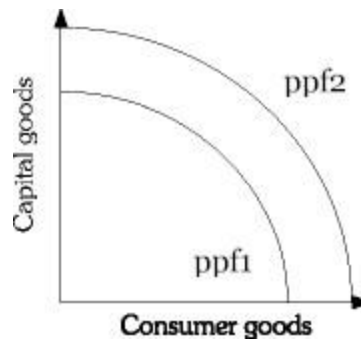


Figure 2.6

63) Refer to Figure 2.6. Economic growth is represented by a

- A) shift from ppf^2 to ppf^1 .
- B) shift from ppf^1 to ppf^2 .
- C) movement along ppf^1 .
- D) movement along ppf^2

Answer: B

Diff: 2

Skill: A

64) Refer to Figure 2.6. An improvement in technology may be represented by a

- A) shift from ppf^2 to ppf^1 .
- B) shift from ppf^1 to ppf^2 .
- C) movement along ppf^2 .
- D) movement along ppf^1 .

Answer: B

Diff: 2

Skill: A

65) Refer to Figure 2.6. Which of the following will shift an economy's production possibility frontier from ppf^1 to ppf^2 ?

- A) A decrease in unemployment
- B) An increase in production efficiency
- C) A change in consumer's tastes
- D) An increase in the economy's capital stock

Answer: D

Diff: 2

Skill: A

66) Refer to Figure 2.6. Which of the following will NOT cause the production possibility frontier to shift from ppf^1 to ppf^2 ?

- A) The discovery of previously unknown oil fields
- B) An improvement in technology
- C) An increase in the stock of capital
- D) A decrease in the unemployment rate

Answer: D

Diff: 2

Skill: A

67) Refer to Figure 2.6. Which of the following is most likely to shift the production possibility frontier from ppf^1 to ppf^2 ?

- A) A change in consumer tastes
- B) The purchase of stocks on the New York Stock Exchange
- C) Moving resources from capital to consumer goods
- D) An increase in the general educational level of the population

Answer: D

Diff: 2

Skill: A

68) Refer to Figure 2.6. If the economy is at ppf^1 , a change in consumer preferences would be shown by:

- A) shift from ppf^2 to ppf^1 .
- B) movement along ppf^1 .
- C) movement along ppf^2 .
- D) shift from ppf^1 to ppf^2 .

Answer: B

Diff: 2

Skill: A

69) During the Persian Gulf War many of Kuwait's oil refineries were destroyed. This would best be represented by a

- A) movement down Kuwait's production possibility frontier.
- B) movement off Kuwait's production possibility frontier to some point inside the frontier.
- C) shift of Kuwait's production possibility frontier toward the origin.
- D) movement up Kuwait's production possibility frontier.

Answer: C

Diff: 2

Skill: A

- 70) For an economy to produce at a point beyond its current ppf, the economy must
- A) waste less.
 - B) be more efficient.
 - C) reduce inputs.
 - D) increase its resource base.

Answer: D

Diff: 3

Skill: C

- 71) In terms of the production possibility frontier, an increase in productivity attributable to new technology would best be shown by
- A) a movement along the frontier.
 - B) the production possibility frontier shifting outward, away from the origin.
 - C) a movement from a point inside the frontier to a point on it.
 - D) a movement toward the origin.

Answer: B

Diff: 2

Skill: C

- 72) An improvement in technology will cause the
- A) production possibility frontier to shift outward.
 - B) production possibility frontier to shift inward.
 - C) economy to move down the production possibility frontier.
 - D) economy to move closer to its production possibility frontier.

Answer: A

Diff: 1

Skill: F

- 73) Consider two countries, Germany and Sweden. Germany devotes a larger portion of its production to capital. All other things equal which of the following statements is most likely true?
- A) Germany is a poorer country than Sweden.
 - B) Germany will move up its production possibility curve faster than Sweden.
 - C) Sweden is producing inside its production possibility frontier, whereas Germany is producing at a point on its production possibility frontier.
 - D) Germany's production possibility frontier will shift up and out farther and faster than Sweden's.

Answer: D

Diff: 3

Skill: C

- 74) The gap between rich and poor countries
- A) has decreased over time because poor countries can more easily devote resources to capital production.
 - B) has increased over time because poor countries find it difficult to devote resources to capital production.
 - C) has remained constant over time because technological advances can be easily shared among nations.
 - D) has remained constant over time because the rate of capital production has remained constant in rich and poor nations.

Answer: B

Diff: 1

Skill: F

- 75) An economy produces capital goods and consumer goods. This economy is operating at a point on its production possibility frontier associated with a small amount of capital goods and a large amount of consumer goods. This is most likely to be a
- A) "poor" country because such a nation has difficulty devoting many resources to the production of capital goods.
 - B) "rich" country because such a nation can afford to sacrifice.
 - C) country with a free market.
 - D) country with a command economy.

Answer: A

Diff: 3

Skill: C

- 76) The economic problem can best be stated as:
- A) How can the economy improve technology so as to shift the production possibility frontier up and to the right?
 - B) Given scarce resources, how exactly do societies go about deciding what to produce, how to produce it, and for whom to produce?
 - C) Given the fact that the economy is inefficient, how much and what type of government intervention should be used to improve the efficiency of the economy?
 - D) What is the best rate of economic growth for a society?

Answer: B

Diff: 2

Skill: D

True/False

- 1) In economics, the term *capital* refers only to some form of money.

Answer: True False

Diff: 2

Skill: D

- 2) Among the resources used in production are labor and capital.

Answer: True False

Diff: 2

Skill: D

- 3) Things that have already been produced that are in turn used to produce other goods and services over time are called "capital."
Answer: True False
Diff: 2
Skill: D
- 4) When two people trade, one must lose.
Answer: True False
Diff: 2
Skill: C
- 5) Economic growth shifts a society's production possibility frontier away from the origin.
Answer: True False
Diff: 1
Skill: F
- 6) A society's production possibility frontier is bowed out from the origin due to specialized resources.
Answer: True False
Diff: 1
Skill: F
- 7) The "economic problem" is that given scarce resources, how do large societies go about answering the basic economic questions of what will be produced, how it will be produced, and who will get it.
Answer: True False
Diff: 1
Skill: F
- 8) Comparative advantage refers to the ability to produce more goods than a competitor.
Answer: True False
Diff: 2
Skill: D
- 9) Comparative advantage refers to the ability to produce at a lower opportunity cost than a competitor.
Answer: True False
Diff: 2
Skill: D
- 10) The government produces only what the market is willing to pay for.
Answer: True False
Diff: 1
Skill: F

2.2 Economic Systems

Multiple Choice

- 1) An economy in which a central authority draws up a plan that establishes what will be produced and when, sets production goals, and makes rules for distribution is a
- A) socialist economy.
 - B) laissez-faire economy.
 - C) public goods economy.
 - D) command economy.

Answer: D

Diff: 2

Skill: D

- 2) An economy in which individual people and firms pursue their own self-interest without any central direction or regulation is a(n)
- A) command economy.
 - B) laissez-faire economy.
 - C) invisible-hand economy.
 - D) private-sector economy.

Answer: B

Diff: 2

Skill: D

- 3) Which of the following statements is FALSE?
- A) Planned economies have not fared very well in recent years; many of these economies have almost completely collapsed.
 - B) Command economies operate the most efficiently because the government makes all the production decisions.
 - C) In command economies consumers still exercise choice.
 - D) In a command economy the government answers the questions of what to produce, how to produce it, and how to distribute it.

Answer: B

Diff: 2

Skill: D

- 4) Which of the following is an element of a command economy?
- A) The market decides distribution.
 - B) The means of production are privately owned.
 - C) Production decisions are centralized.
 - D) The market decides what will be produced.

Answer: C

Diff: 1

Skill: F

- 5) Which of the following statements is NOT true for a command economy?
- A) Consumers have some choices concerning what they buy.
 - B) The government decides what is produced.
 - C) The amount of a good supplied always equals the amount of the good demanded.
 - D) The state decides how to distribute what is produced.

Answer: C

Diff: 1

Skill: F

- 6) In a laissez-faire economy _____ what gets produced, how it is produced, and who gets it.
- A) the behavior of buyers and sellers determines
 - B) the central government authority determines
 - C) firms but not consumers determine
 - D) consumers but not firms determine

Answer: A

Diff: 1

Skill: F

- 7) An institution through which buyers and sellers interact and engage in exchange is
- A) a central authority.
 - B) "laissez-faire."
 - C) a market.
 - D) a production frontier.

Answer: C

Diff: 2

Skill: D

- 8) Which of the following is NOT true of a market economy?
- A) In its pure form, it is also known as a laissez-faire economy.
 - B) Decisions are regulated by a central agency.
 - C) The interaction between buyers and sellers answers the basic economic questions of what gets produced, how it gets produced, and who gets it.
 - D) It relies on millions of individual economic decisions to determine economic outcomes.

Answer: B

Diff: 2

Skill: D

- 9) Consumer sovereignty
- A) is dependent on profits.
 - B) is the idea that consumers can buy whatever they want to.
 - C) is the idea that consumers determine what is produced in the economy through their demands.
 - D) is only possible in a monarchy.

Answer: C

Diff: 2

Skill: D

- 10) The idea that consumers ultimately dictate what will be produced by choosing what to purchase is known as
- A) laissez-faire.
 - B) the economic problem.
 - C) centralized decision making.
 - D) consumer sovereignty.
- Answer: D
Diff: 2
Skill: D
- 11) The amount that households have accumulated out of past income through saving and inheritance is
- A) future income.
 - B) wealth.
 - C) consumption.
 - D) past income.
- Answer: B
Diff: 2
Skill: D
- 12) In a free market system, the amount of output that any one household gets depends on its
- A) income.
 - B) wealth.
 - C) wage and interest income.
 - D) income and wealth.
- Answer: D
Diff: 1
Skill: F
- 13) Advocates of an unregulated market system argue that
- A) competition promotes efficiency.
 - B) competition leads to innovation.
 - C) competition leads to product variety and quality.
 - D) All of the above
- Answer: D
Diff: 3
Skill: C
- 14) The basic coordinating mechanism in a free market system is
- A) quantity.
 - B) price.
 - C) a central government authority.
 - D) the corporation.
- Answer: B
Diff: 1
Skill: F

15) Which of the following statements is FALSE?

- A) In a free market system, the basic economic questions are answered without the help of a central government plan or directive.
- B) Individuals guided by their own-self interest will produce products and services that other people want.
- C) The basic coordinating mechanism in a free market system is quantity adjustments toward equilibrium.
- D) In a free market system, competition forces firms to adopt efficient production techniques.

Answer: C

Diff: 2

Skill: D

16) Some economists advocate government intervention in a market economy

- A) to produce collective goods and services.
- B) when resource costs for a private producer do not reflect the full cost to society.
- C) to stabilize the economy.
- D) All of the above

Answer: D

Diff: 1

Skill: F

True/False

1) A laissez-faire economy is one in which individual people and firms pursue their own self-interest without any central direction or regulation.

Answer: True False

Diff: 2

Skill: D

2) A command economy is one in which a central government sets output targets, incomes and prices.

Answer: True False

Diff: 2

Skill: D

3) A command economy eliminates markets.

Answer: True False

Diff: 2

Skill: C

4) Price is the coordinating mechanism in a planned economy.

Answer: True False

Diff: 2

Skill: D

5) The notion that buyers determine what will be produced by choosing what they purchase is called consumer sovereignty.

Answer: True False

Diff: 2

Skill: D

