Chapter 2

*Student: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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| 1. | The command system is also known as:      |  |  | | --- | --- | | A. | the market system. |  |  |  | | --- | --- | | B. | pure capitalism. |  |  |  | | --- | --- | | C. | market socialism. |  |  |  | | --- | --- | | D. | socialism or communism. | |

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| 2. | The economy of the former Soviet Union was best described as:      |  |  | | --- | --- | | A. | authoritarian capitalism. |  |  |  | | --- | --- | | B. | mixed capitalism. |  |  |  | | --- | --- | | C. | a command economy. |  |  |  | | --- | --- | | D. | market socialism. | |

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| 3. | The economy of North Korea most closely approximates:      |  |  | | --- | --- | | A. | pure capitalism |  |  |  | | --- | --- | | B. | a command economy |  |  |  | | --- | --- | | C. | market socialism |  |  |  | | --- | --- | | D. | authoritarian capitalism | |

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| 4. | Today, China's economy most closely approximates:      |  |  | | --- | --- | | A. | pure capitalism |  |  |  | | --- | --- | | B. | a command economy |  |  |  | | --- | --- | | C. | market socialism |  |  |  | | --- | --- | | D. | authoritarian capitalism | |

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| 5. | Which would not be characteristic of a capitalist economy?      |  |  | | --- | --- | | A. | government ownership of the means of production |  |  |  | | --- | --- | | B. | competition and unrestricted markets |  |  |  | | --- | --- | | C. | reliance on the market system |  |  |  | | --- | --- | | D. | free enterprise and choice | |

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| 6. | Which of the following statements best describes a mixed economy?      |  |  | | --- | --- | | A. | In a mixed economy, society determines production and the allocation of goods and services only through the market system. |  |  |  | | --- | --- | | B. | In a mixed economy, government policies determine the production and the allocation of goods and services, but each individual is free to pursue his or her own self-interest. |  |  |  | | --- | --- | | C. | In a mixed economy, the government and private sectors interact in determining production and allocation of goods and services. |  |  |  | | --- | --- | | D. | In a mixed economy, the role of individual self-interest is relatively unimportant because government makes most of the economic decisions. | |

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| 7. | The private ownership of property resources and use of prices to direct and coordinate economic activity is characteristic of:      |  |  | | --- | --- | | A. | a command system. |  |  |  | | --- | --- | | B. | a market system. |  |  |  | | --- | --- | | C. | communism. |  |  |  | | --- | --- | | D. | socialism. | |

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| 8. | In a capitalistic economy:      |  |  | | --- | --- | | A. | consumers can never be sovereign. |  |  |  | | --- | --- | | B. | markets can never be competitive. |  |  |  | | --- | --- | | C. | there is a reliance on the market system. |  |  |  | | --- | --- | | D. | the government owns the means of production. | |

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| 9. | The term "laissez faire" suggests that:      |  |  | | --- | --- | | A. | land and other natural resources should be privately owned, but capital should be publicly owned. |  |  |  | | --- | --- | | B. | land and other natural resources should be publicly owned, but capital equipment should be privately owned. |  |  |  | | --- | --- | | C. | government should not interfere with the operation of the economy. |  |  |  | | --- | --- | | D. | government action is necessary if the economy is to achieve full employment and full production. | |

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| 10. | The term "mixed economy" refers to an economy:      |  |  | | --- | --- | | A. | comprised of both product and resource markets. |  |  |  | | --- | --- | | B. | which engages in both domestic and international trade. |  |  |  | | --- | --- | | C. | comprised of both extensive private markets and government involvement in the economy. |  |  |  | | --- | --- | | D. | which functions primarily on the basis of custom and tradition. | |

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| 11. | The Canadian economy most closely approximates:      |  |  | | --- | --- | | A. | mixed capitalism |  |  |  | | --- | --- | | B. | a command economy |  |  |  | | --- | --- | | C. | market socialism |  |  |  | | --- | --- | | D. | authoritarian capitalism | |

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| 12. | Which of the following is unique to a market economy system?      |  |  | | --- | --- | | A. | the extensive use of capital goods |  |  |  | | --- | --- | | B. | private ownership of property resources |  |  |  | | --- | --- | | C. | specialization |  |  |  | | --- | --- | | D. | the use of money | |

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| 13. | Property rights are important because they:      |  |  | | --- | --- | | A. | encourage investment and growth. |  |  |  | | --- | --- | | B. | are conducive to the writing of books and music. |  |  |  | | --- | --- | | C. | facilitate exchange. |  |  |  | | --- | --- | | D. | do all of the above. | |

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| 14. | The market system is an economic system that:      |  |  | | --- | --- | | A. | produces more consumer goods than capital goods. |  |  |  | | --- | --- | | B. | produces more capital goods than consumer goods. |  |  |  | | --- | --- | | C. | gives private individuals and institutions the right to own resources used in production. |  |  |  | | --- | --- | | D. | gives the government the right to tax individuals and corporations for the production of capital goods. | |

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| 15. | The market system is characterized by:      |  |  | | --- | --- | | A. | extensive government constraints on individual behaviour. |  |  |  | | --- | --- | | B. | private ownership of the means of production. |  |  |  | | --- | --- | | C. | government control of all production decisions. |  |  |  | | --- | --- | | D. | government rationing of all goods and services. | |

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| 16. | In a market system, well-defined property rights are important because they:      |  |  | | --- | --- | | A. | increase unnecessary investment. |  |  |  | | --- | --- | | B. | limit destructive economic growth. |  |  |  | | --- | --- | | C. | create economic problems. |  |  |  | | --- | --- | | D. | encourage economic activity. | |

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| 17. | Which is a major feature of the market system?      |  |  | | --- | --- | | A. | price floors and price ceilings in all markets |  |  |  | | --- | --- | | B. | reallocation of all resources from private to public uses |  |  |  | | --- | --- | | C. | the right to own private property and control resource use |  |  |  | | --- | --- | | D. | central planning by government to provide goods and services | |

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| 18. | Which is a major feature of pure capitalism?      |  |  | | --- | --- | | A. | price floors and price ceilings in markets |  |  |  | | --- | --- | | B. | reallocation of resources from private to public uses |  |  |  | | --- | --- | | C. | the right to own private property and control resource use |  |  |  | | --- | --- | | D. | central planning by government to provide goods and services | |

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| 19. | By free enterprise, we mean that:      |  |  | | --- | --- | | A. | products are provided free to those who can't afford to buy them. |  |  |  | | --- | --- | | B. | individual producers determine how to produce, but government agencies determine what will be produced. |  |  |  | | --- | --- | | C. | individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose. |  |  |  | | --- | --- | | D. | individuals are free to produce those products that government agencies determine can be produced profitably. | |

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| 20. | Which statement is correct?      |  |  | | --- | --- | | A. | The operation of a market system eventually results in an equal distribution of income. |  |  |  | | --- | --- | | B. | Producers are "kings" in a market economy because they determine what is produced. |  |  |  | | --- | --- | | C. | The market system is efficient at allocation of resources, but not consumer goods to their most valued uses. |  |  |  | | --- | --- | | D. | Freedom of choice and enterprise are essential elements of the market system. | |

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| 21. | Which is characteristic of the capitalistic ideology?      |  |  | | --- | --- | | A. | unselfish individuals |  |  |  | | --- | --- | | B. | centralized decision-making |  |  |  | | --- | --- | | C. | free enterprise and choice |  |  |  | | --- | --- | | D. | government ownership of the means of production | |

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| 22. | How do workers typically express self-interest?      |  |  | | --- | --- | | A. | by minimizing the economic losses of other business firms |  |  |  | | --- | --- | | B. | by maximizing the economic profits of other business firms |  |  |  | | --- | --- | | C. | by seeking the highest price when purchasing a consumer product |  |  |  | | --- | --- | | D. | by seeking jobs with the best combination of wages and benefits | |

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| 23. | Consumers express self-interest when they:      |  |  | | --- | --- | | A. | reduce business losses. |  |  |  | | --- | --- | | B. | collect economic profits. |  |  |  | | --- | --- | | C. | seek the lowest price for the product. |  |  |  | | --- | --- | | D. | search for jobs with the highest wage | |

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| 24. | Competition means that:      |  |  | | --- | --- | | A. | sellers can cause artificial product scarcities and thereby manipulate market price. |  |  |  | | --- | --- | | B. | there are large numbers of independently acting buyers and sellers in each market. |  |  |  | | --- | --- | | C. | a given product can be purchased at a number of different prices. |  |  |  | | --- | --- | | D. | there is only one seller in a market. | |

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| 25. | The competitive market system:      |  |  | | --- | --- | | A. | encourages innovation because government provides tax breaks and subsidies to those who develop new products or new productive techniques. |  |  |  | | --- | --- | | B. | discourages innovation because it is difficult to acquire additional capital in the form of new machinery and equipment. |  |  |  | | --- | --- | | C. | discourages innovation because firms want to get all the profits possible from existing machinery and equipment. |  |  |  | | --- | --- | | D. | encourages innovation because successful innovators are rewarded with economic profits. | |

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| 26. | Competition is more likely to exist when:      |  |  | | --- | --- | | A. | there is free entry into and exit out of industries. |  |  |  | | --- | --- | | B. | there is a single supplier of all goods and services. |  |  |  | | --- | --- | | C. | the government purchases most goods and services. |  |  |  | | --- | --- | | D. | products are produced by a few large firms. | |

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| 27. | Which condition will encourage competition?      |  |  | | --- | --- | | A. | government licensing requirements in order to enter an industry |  |  |  | | --- | --- | | B. | a small number of buyers and sellers in a market |  |  |  | | --- | --- | | C. | the freedom of sellers and buyers to enter or exit an industry |  |  |  | | --- | --- | | D. | the government serving as the only supplier of goods to consumers | |

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| 28. | A purely competitive economy assumes the existence in each industry of a:      |  |  | | --- | --- | | A. | large number of small firms facing a large number of small buyers. |  |  |  | | --- | --- | | B. | few large firms facing a large number of small buyers. |  |  |  | | --- | --- | | C. | large number of small firms facing a few large buyers. |  |  |  | | --- | --- | | D. | few small firms facing a few small buyers. | |

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| 29. | Competition denotes a condition where:      |  |  | | --- | --- | | A. | there is only one seller in a market. |  |  |  | | --- | --- | | B. | a given product can be purchased at a range of prices. |  |  |  | | --- | --- | | C. | there are many independent buyers and sellers in a market. |  |  |  | | --- | --- | | D. | a few sellers attempt to garner a larger share of the market by cutting prices. | |

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| 30. | If competitive industry Y is incurring substantial losses, we can expect that output will:      |  |  | | --- | --- | | A. | expand, product price will rise, and losses will tend to disappear. |  |  |  | | --- | --- | | B. | contract, product price will fall, and losses will increase. |  |  |  | | --- | --- | | C. | contract, product price will rise, and losses will tend to disappear. |  |  |  | | --- | --- | | D. | expand, product price will fall, and losses will tend to disappear. | |

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| 31. | Suppose industry A is realizing substantial economic profits. Which of the following best describes the adjustment process which would bring about a new equilibrium?      |  |  | | --- | --- | | A. | Firms will leave the industry, output will fall, and product price will rise. |  |  |  | | --- | --- | | B. | Firms will enter the industry, output will rise, and product price will rise. |  |  |  | | --- | --- | | C. | Firms will leave the industry, output will rise, and product price will fall. |  |  |  | | --- | --- | | D. | Firms will enter the industry, output will rise, and product price will fall. | |

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| 32. | Which statement is correct?      |  |  | | --- | --- | | A. | In a market system, buyers and sellers must be in face-to-face contact with each other. |  |  |  | | --- | --- | | B. | Prices affect the distribution of goods in a market system but not the allocation of resources. |  |  |  | | --- | --- | | C. | In a market system, prices serve to ration goods and services to consumers. |  |  |  | | --- | --- | | D. | The operation of a market system has little, if any, effect on the distribution of income in the economy. | |

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| 33. | A characteristic of the market system is:      |  |  | | --- | --- | | A. | extensive use of price controls. |  |  |  | | --- | --- | | B. | extensive use of barter. |  |  |  | | --- | --- | | C. | extensive use of capital goods. |  |  |  | | --- | --- | | D. | low interest rates. | |

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| 34. | The development of new technology and capital goods are essential elements for the market system. This is because:      |  |  | | --- | --- | | A. | using more efficient production processes means more output for the economy. |  |  |  | | --- | --- | | B. | more capital goods means less future consumption goods. |  |  |  | | --- | --- | | C. | the standard of living and development of new technology are inversely related. |  |  |  | | --- | --- | | D. | the most direct methods of production are more efficient. | |

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| 35. | The basic reason for the production of capital goods is to:      |  |  | | --- | --- | | A. | promote the concentration of economic power in the business sector. |  |  |  | | --- | --- | | B. | facilitate exchange where a coincidence of wants does not exist. |  |  |  | | --- | --- | | C. | better synchronize the operation of resource and product markets. |  |  |  | | --- | --- | | D. | enhance future productive efficiency. | |

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| 36. | The process in which workers select specialized tasks to make a product is referred to as:      |  |  | | --- | --- | | A. | a coincidence of wants. |  |  |  | | --- | --- | | B. | roundabout production. |  |  |  | | --- | --- | | C. | freedom of choice. |  |  |  | | --- | --- | | D. | division of labour. | |

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| 37. | The division of labour means that:      |  |  | | --- | --- | | A. | labour markets are geographically segmented. |  |  |  | | --- | --- | | B. | unskilled workers outnumber skilled workers. |  |  |  | | --- | --- | | C. | workers specialize in various production tasks. |  |  |  | | --- | --- | | D. | each worker performs a large number of tasks. | |

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| 38. | Specialization and trade are beneficial to society because:      |  |  | | --- | --- | | A. | the output of economic goods may be increased with no increase in resources. |  |  |  | | --- | --- | | B. | scarce resources are utilized more efficiently. |  |  |  | | --- | --- | | C. | a division of labour lowers prices for products. |  |  |  | | --- | --- | | D. | all of the above are correct. | |

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| 39. | Specialization in production is important primarily because it:      |  |  | | --- | --- | | A. | results in greater total output. |  |  |  | | --- | --- | | B. | allows society to avoid the coincidence-of-wants problem. |  |  |  | | --- | --- | | C. | allows society to trade by barter. |  |  |  | | --- | --- | | D. | allows society to have fewer capital goods. | |

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| 40. | The division of labour enhances productivity and efficiency by:      |  |  | | --- | --- | | A. | allowing workers to take advantage of existing differences in their abilities and skills. |  |  |  | | --- | --- | | B. | avoiding the time loss involved in shifting from one production task to another. |  |  |  | | --- | --- | | C. | allowing workers to develop skills by working on one, or a limited number, of tasks. |  |  |  | | --- | --- | | D. | all of the above means. | |

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| 41. | Specialization in production is economically beneficial primarily because it:      |  |  | | --- | --- | | A. | allows everyone to have a job which they like. |  |  |  | | --- | --- | | B. | permits the production of a larger output with fixed amounts of resources. |  |  |  | | --- | --- | | C. | facilitates trade by bartering. |  |  |  | | --- | --- | | D. | guarantees full employment. | |

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| 42. | The use of money for exchange:      |  |  | | --- | --- | | A. | increases the use of barter. |  |  |  | | --- | --- | | B. | reduces consumer sovereignty. |  |  |  | | --- | --- | | C. | decreases the coincidence of wants. |  |  |  | | --- | --- | | D. | encourages more specialization in production. | |

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| 43. | Which is the main problem with the barter system of exchange? Barter:      |  |  | | --- | --- | | A. | encourages self-interest and selfishness. |  |  |  | | --- | --- | | B. | fosters specialization and division of labour. |  |  |  | | --- | --- | | C. | requires a coincidence of wants. |  |  |  | | --- | --- | | D. | undermines the right to bequeath. | |

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| 44. | \_\_\_\_\_ helps avoid the problems posed by the lack of double coincidence of wants.      |  |  | | --- | --- | | A. | Barter |  |  |  | | --- | --- | | B. | Trade |  |  |  | | --- | --- | | C. | Money |  |  |  | | --- | --- | | D. | Freedom of choice | |

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| 45. | Consider a barter situation where you have pens and you want pencils. To achieve your objective there must be a(n):      |  |  | | --- | --- | | A. | use of capital goods. |  |  |  | | --- | --- | | B. | entry and exit from the market. |  |  |  | | --- | --- | | C. | large number of sellers. |  |  |  | | --- | --- | | D. | coincidence of wants. | |

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| 46. | On the basis of the information provided it can be said that:       |  |  | | --- | --- | | A. | no coincidence of wants exists between any two provinces. |  |  |  | | --- | --- | | B. | a coincidence of wants exists between British Columbia and Ontario. |  |  |  | | --- | --- | | C. | a coincidence of wants exists between Ontario and Alberta. |  |  |  | | --- | --- | | D. | a coincidence of wants exists between British Columbia and Alberta. | |

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| 47. | On the basis of the information provided and assuming trade occurs between the three provinces we can expect:       |  |  | | --- | --- | | A. | Alberta to exchange apples with Ontario and receive money in return. |  |  |  | | --- | --- | | B. | Alberta to exchange apples with British Columbia and receive money in return. |  |  |  | | --- | --- | | C. | Ontario to exchange lettuce with British Columbia and receive autos in return. |  |  |  | | --- | --- | | D. | none of the above to occur. | |

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| 48. | Given the information provided and assuming trade does occur between the provinces, we can expect:       |  |  | | --- | --- | | A. | that there is no means by which British Columbia can obtain lettuce while specializing in the production of autos. |  |  |  | | --- | --- | | B. | that money will not be needed to accomplish the desired exchanges. |  |  |  | | --- | --- | | C. | money to flow counterclockwise from British Columbia to Ontario to Alberta. |  |  |  | | --- | --- | | D. | money to flow clockwise from British Columbia to Alberta to Ontario. | |

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| 49. | Which is assumed to be most limited in scope under a market system?       |  |  | | --- | --- | | A. | freedom of enterprise |  |  |  | | --- | --- | | B. | freedom of choice |  |  |  | | --- | --- | | C. | competition |  |  |  | | --- | --- | | D. | government | |

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| 50. | Which of the following is not a part of a market system?       |  |  | | --- | --- | | A. | private property |  |  |  | | --- | --- | | B. | freedom of enterprise and choice |  |  |  | | --- | --- | | C. | competition in product and resource markets |  |  |  | | --- | --- | | D. | government determination of basic economic goals | |

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| 51. | The most important consequence of property rights is that      |  |  | | --- | --- | | A. | they facilitate exchange. |  |  |  | | --- | --- | | B. | allow for freedom of choice. |  |  |  | | --- | --- | | C. | they encourage people to cooperate by helping to ensure that only mutually agreeable economic transactions take place. |  |  |  | | --- | --- | | D. | they allow for a division of labour. | |

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| 52. | Which is not one of the Five Fundamental Questions?      |  |  | | --- | --- | | A. | How will the goods and services be produced? |  |  |  | | --- | --- | | B. | How will the system accommodate change? |  |  |  | | --- | --- | | C. | Who will get the goods and services? |  |  |  | | --- | --- | | D. | What goods and services should be produced by government? | |

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| 53. | What to produce in a market economy is ultimately determined by the:      |  |  | | --- | --- | | A. | output decisions of business firms. |  |  |  | | --- | --- | | B. | government. |  |  |  | | --- | --- | | C. | spending decisions of households. |  |  |  | | --- | --- | | D. | workers' technical skills. | |

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| 54. | "Consumer sovereignty" refers to the:       |  |  | | --- | --- | | A. | fact that resource prices tend to be high relative to product prices in capitalistic economies. |  |  |  | | --- | --- | | B. | idea that the pursuit of self-interest will prove ultimately to be in the public interest. |  |  |  | | --- | --- | | C. | notion that the decisions of producers and resource suppliers with respect to the kinds and amounts of goods produced must be appropriate to consumer demands. |  |  |  | | --- | --- | | D. | fact that a federal agency exists to protect consumers from harmful and defective products. | |

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| 55. | The term consumer sovereignty means that:      |  |  | | --- | --- | | A. | consumers are controlled by the actions of the marketplace. |  |  |  | | --- | --- | | B. | what is produced is ultimately determined by what consumers buy. |  |  |  | | --- | --- | | C. | there are no limits on what consumers may buy under capitalism. |  |  |  | | --- | --- | | D. | businesses produce with consumer satisfaction as their primary goal. | |

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| 56. | The market system is said to be characterized by "consumer sovereignty." This is because:      |  |  | | --- | --- | | A. | a large number of consumer goods are produced. |  |  |  | | --- | --- | | B. | the prices of consumer goods are regulated by government. |  |  |  | | --- | --- | | C. | consumer goods are more profitable than investment goods. |  |  |  | | --- | --- | | D. | of the role of consumers in determining what goods are produced. | |

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| 57. | "The 'dollar votes' of consumers ultimately determine the composition of output and the allocation of resources in a market economy." This statement best describes the concept of:       |  |  | | --- | --- | | A. | derived demand. |  |  |  | | --- | --- | | B. | external costs and benefits. |  |  |  | | --- | --- | | C. | consumer sovereignty. |  |  |  | | --- | --- | | D. | the invisible hand. | |

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| 58. | The term dollar votes means:      |  |  | | --- | --- | | A. | inflation will occur if consumers don't spend wisely. |  |  |  | | --- | --- | | B. | voters may be offered dollars to help elect certain political candidates. |  |  |  | | --- | --- | | C. | government is responsible for determining what will be considered legal tender. |  |  |  | | --- | --- | | D. | consumers "vote" for certain products to be produced by how they spend their incomes. | |

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| 59. | Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How is the output to be produced? |  |  |  | | --- | --- | | C. | How can the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| 60. | Economic efficiency would be primarily discussed in response to which of the fundamental questions about a competitive market economy?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | How will the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| 61. | Which fundamental question about a competitive market system primarily focuses on the cost of producing the good and services?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | How will the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| 62. | The issues of distribution of goods and services and incomes in a competitive market system are the primary topic of which fundamental question?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | How will the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| 63. | In the market system, the statement of "Wages, interest, rent, and profit are crucial determinants of the size of each person's income." is an indication of:      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | Who will get the output? |  |  |  | | --- | --- | | D. | How will the system accommodate change? | |

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| 64. | For whom is a given mix of goods and services to be produced? How, in other words, is the product to be distributed among people when such commodities and services are available? In a market economy, this problem is resolved primarily in the:      |  |  | | --- | --- | | A. | public sector through the mechanism of central planning. |  |  |  | | --- | --- | | B. | business sector through the mechanism of advertising. |  |  |  | | --- | --- | | C. | private sector through the earning and spending of income. |  |  |  | | --- | --- | | D. | money market through borrowing and saving by households and businesses. | |

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| 65. | In a market economy the distribution of income would be determined primarily by      |  |  | | --- | --- | | A. | consumer needs and preferences. |  |  |  | | --- | --- | | B. | the quantities and prices of the resources which households supply. |  |  |  | | --- | --- | | C. | government regulations which provide a minimum income for all. |  |  |  | | --- | --- | | D. | a social consensus as to what distribution of income is most equitable. | |

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| 66. | Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | How will the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| 67. | If an increase occurs in the demand for product X, we would expect all of the following to occur except:      |  |  | | --- | --- | | A. | an increase in the profits of industry X. |  |  |  | | --- | --- | | B. | an increase in the demand for resources employed by industry X. |  |  |  | | --- | --- | | C. | an increase in the output of industry X. |  |  |  | | --- | --- | | D. | a decrease in the prices of resources employed in industry X. | |

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| 68. | An increase in demand for strawberries is most likely to:      |  |  | | --- | --- | | A. | increase the demand for strawberry pickers. |  |  |  | | --- | --- | | B. | reduce the supply of strawberry pickers. |  |  |  | | --- | --- | | C. | reduce the supply of strawberries. |  |  |  | | --- | --- | | D. | reduce the demand for strawberry pickers. | |

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| 69. | The market system communicates changes in supply and demand and elicits appropriate responses from businesses and resource suppliers. This is known as the:      |  |  | | --- | --- | | A. | rationing function of prices. |  |  |  | | --- | --- | | B. | guiding function of prices. |  |  |  | | --- | --- | | C. | monetary function of prices. |  |  |  | | --- | --- | | D. | circular flow of income. | |

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| 70. | Which of the following best describes the "guiding function" of competitive prices?      |  |  | | --- | --- | | A. | Profitable industries tend to contract and unprofitable industries tend to expand. |  |  |  | | --- | --- | | B. | The market system will always generate economic profits for firms which use the least costly production technology. |  |  |  | | --- | --- | | C. | The market system can negotiate reallocations of resources which are appropriate to changes in consumer tastes, technology, and resource supplies. |  |  |  | | --- | --- | | D. | When prices are in equilibrium, product shortages or surpluses cannot occur. | |

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| 71. | Assume the demand for product Y increases and the subsequent market system responses result in the production of more Y. This illustrates:      |  |  | | --- | --- | | A. | that the concept of derived demand is inapplicable. |  |  |  | | --- | --- | | B. | that consumer sovereignty is inoperative in this economy. |  |  |  | | --- | --- | | C. | the scarcity function of prices. |  |  |  | | --- | --- | | D. | the directing or guiding function of prices. | |

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| 72. | Which statement accurately summarizes the relationship between the prices of goods and their relative scarcity?      |  |  | | --- | --- | | A. | The price of a good is a direct function of the relative scarcity of the good. |  |  |  | | --- | --- | | B. | The price of a good is an inverse function of the relative scarcity of the good. |  |  |  | | --- | --- | | C. | The price of a good is independent of the relative scarcity of the good. |  |  |  | | --- | --- | | D. | High prices lead to greater relative scarcity. | |

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| 73. | The most efficient combination of resources in producing any output is that combination which:      |  |  | | --- | --- | | A. | comes closest to using the same quantities of land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | B. | can be obtained for the smallest money outlay. |  |  |  | | --- | --- | | C. | uses the smallest total quantity of all resources. |  |  |  | | --- | --- | | D. | conserves most on the use of labour. | |

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| 74. | The development of the Internet and e-mail to replace regular mail services in many cases would be an example of:      |  |  | | --- | --- | | A. | roundabout production. |  |  |  | | --- | --- | | B. | derived demand. |  |  |  | | --- | --- | | C. | creative destruction. |  |  |  | | --- | --- | | D. | specialization. | |

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| 75. | The development of MP3 players that significantly reduce the market for CDs and DVDs would be an example of:      |  |  | | --- | --- | | A. | specialization. |  |  |  | | --- | --- | | B. | derived demand. |  |  |  | | --- | --- | | C. | roundabout production. |  |  |  | | --- | --- | | D. | creative destruction. | |

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| 76. | Which of the following best describes the "invisible hand" concept?      |  |  | | --- | --- | | A. | The desires of resource suppliers and producers to further their own self-interest will automatically further the public interest. |  |  |  | | --- | --- | | B. | The nonsubstitutability of resources gives rise to a conflict between private and public interests and the need for government intervention. |  |  |  | | --- | --- | | C. | Mixed capitalism is the best system for overcoming the scarce resources-unlimited wants problem. |  |  |  | | --- | --- | | D. | Central direction by the government will improve resource allocation in a capitalistic economy. | |

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| 77. | The "invisible hand" concept suggests that:      |  |  | | --- | --- | | A. | changes in product demands are only randomly reflected in changes in the demands for resources. |  |  |  | | --- | --- | | B. | profit maximization is inconsistent with an efficient allocation of resources. |  |  |  | | --- | --- | | C. | government action is necessary to correct for market failures. |  |  |  | | --- | --- | | D. | when firms maximize their profits, society's domestic output will also be maximized. | |

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| 78. | The "invisible hand" concept suggests that:      |  |  | | --- | --- | | A. | market failures imply the need for a national economic plan. |  |  |  | | --- | --- | | B. | big businesses are inherently more efficient than small businesses. |  |  |  | | --- | --- | | C. | the competitiveness of a capitalistic market economy invariably diminishes over time. |  |  |  | | --- | --- | | D. | given competition, private and public interests will tend to coincide. | |

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| 79. | The "invisible hand" refers to the:      |  |  | | --- | --- | | A. | fact that our tax system redistributes income from rich to poor. |  |  |  | | --- | --- | | B. | notion that, under competition, decisions motivated by self-interest promote the social interest. |  |  |  | | --- | --- | | C. | tendency of monopolistic sellers to raise prices above competitive levels. |  |  |  | | --- | --- | | D. | fact that government controls the functioning of the market system. | |

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| 80. | The idea that the desires of resource suppliers and producers to further their own self-interest will automatically further the public interest is known as:      |  |  | | --- | --- | | A. | consumer sovereignty. |  |  |  | | --- | --- | | B. | the invisible hand. |  |  |  | | --- | --- | | C. | derived demand. |  |  |  | | --- | --- | | D. | profit maximization. | |

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| 81. | The idea that firms and resource suppliers in seeking to further their own self-interests in a competitive market economy also simultaneously promotes the public or social interest is a description of:      |  |  | | --- | --- | | A. | the guiding function of prices. |  |  |  | | --- | --- | | B. | capital accumulation. |  |  |  | | --- | --- | | C. | the "invisible hand." |  |  |  | | --- | --- | | D. | dollar votes. | |

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| 82. | While in market economies the profit depends on consumer demand, production production efficiency, and product quality, for command economies profit depends on:      |  |  | | --- | --- | | A. | production cost. |  |  |  | | --- | --- | | B. | product differentiation. |  |  |  | | --- | --- | | C. | product mix. |  |  |  | | --- | --- | | D. | quantitative production target. | |

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| 83. | The coordination problem in command economies became more difficult as:      |  |  | | --- | --- | | A. | the number of industries expanded. |  |  |  | | --- | --- | | B. | less quantitative targets were assigned to each industry. |  |  |  | | --- | --- | | C. | planning techniques improved. |  |  |  | | --- | --- | | D. | production cost decreased. | |

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| 84. | As opposed to the market system, in command economies:      |  |  | | --- | --- | | A. | the reward for innovation is extensive. |  |  |  | | --- | --- | | B. | the reward for innovation does not exist. |  |  |  | | --- | --- | | C. | meeting the production targets are extremely important. |  |  |  | | --- | --- | | D. | the profit motives are extremely high. | |

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| 85. | In the factor market:      |  |  | | --- | --- | | A. | businesses borrow money capital from households. |  |  |  | | --- | --- | | B. | businesses sell services to households. |  |  |  | | --- | --- | | C. | households sell resources to businesses. |  |  |  | | --- | --- | | D. | firms sell raw materials to households. | |

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| 86. | The simple circular flow model shows that:      |  |  | | --- | --- | | A. | households are on the demand side of both product and factor markets. |  |  |  | | --- | --- | | B. | businesses are on the supply side of both product and factor markets. |  |  |  | | --- | --- | | C. | households are on the supply side of the factor market and on the demand side of the product market. |  |  |  | | --- | --- | | D. | businesses are on the demand side of the product market and on the supply side of the factor market. | |

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| 87. | The two basic markets shown by the simple circular flow model are:      |  |  | | --- | --- | | A. | capital goods and consumer goods. |  |  |  | | --- | --- | | B. | free and controlled. |  |  |  | | --- | --- | | C. | product and factor. |  |  |  | | --- | --- | | D. | household and business. | |

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| 88. | In the simple circular flow model:      |  |  | | --- | --- | | A. | households are demanders of factors of production. |  |  |  | | --- | --- | | B. | businesses are suppliers of final products. |  |  |  | | --- | --- | | C. | households are suppliers of final products. |  |  |  | | --- | --- | | D. | there are real flows of goods, services, and factors, but not money flows. | |

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| 89. | Households and businesses are:      |  |  | | --- | --- | | A. | both buyers in the factor market. |  |  |  | | --- | --- | | B. | both suppliers in the product market. |  |  |  | | --- | --- | | C. | suppliers in the factor and product markets respectively. |  |  |  | | --- | --- | | D. | suppliers in the product and factor markets respectively. | |

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| 90. | In the circular flow model:      |  |  | | --- | --- | | A. | households supply factors of production to firms. |  |  |  | | --- | --- | | B. | households receive income through the factor market. |  |  |  | | --- | --- | | C. | households spend income in the product market. |  |  |  | | --- | --- | | D. | all of the above hold true. | |

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| 91. | Refer to the figure. If box B represents the factor market and flow (3) represents money income, then:      |  |  | | --- | --- | | A. | box A is the product market and box C is households. |  |  |  | | --- | --- | | B. | box C is the product market and box A is households. |  |  |  | | --- | --- | | C. | box D is the product market and box C is households. |  |  |  | | --- | --- | | D. | box C is the product market and box D is households. | |

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| 92. | Refer to the figure. If box A represents businesses and flow (7) represents goods and services, then:      |  |  | | --- | --- | | A. | box D is the product market and box B is the factor market. |  |  |  | | --- | --- | | B. | box D is the product market and box B is households. |  |  |  | | --- | --- | | C. | box B is the product market and box C is households. |  |  |  | | --- | --- | | D. | box C is the product market and box B is the factor market. | |

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| 93. | In terms of the circular flow diagram businesses obtain revenue through the \_\_\_\_\_ market and make expenditures in the \_\_\_\_\_ market.      |  |  | | --- | --- | | A. | product; financial |  |  |  | | --- | --- | | B. | factor; product |  |  |  | | --- | --- | | C. | product; factor |  |  |  | | --- | --- | | D. | capital; product | |

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| 94. | Refer to the diagram. Arrows (1) and (2) represent:      |  |  | | --- | --- | | A. | goods and resources respectively. |  |  |  | | --- | --- | | B. | money incomes and output respectively. |  |  |  | | --- | --- | | C. | output and money incomes respectively. |  |  |  | | --- | --- | | D. | resources and goods respectively. | |

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| 95. | Refer to the diagram. Arrows (3) and (4) represent:      |  |  | | --- | --- | | A. | goods and services respectively. |  |  |  | | --- | --- | | B. | money incomes and consumer expenditures respectively. |  |  |  | | --- | --- | | C. | resources and goods respectively. |  |  |  | | --- | --- | | D. | consumer expenditures and money income respectively. | |

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| 96. | Refer to the circular flow model of the economy. In the diagram flow (1) represents:      |  |  | | --- | --- | | A. | wage, rent, interest, and profit income. |  |  |  | | --- | --- | | B. | land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | goods and services. |  |  |  | | --- | --- | | D. | consumer expenditures. | |

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| 97. | Refer to the circular flow model of the economy. In the diagram flow (2) represents:      |  |  | | --- | --- | | A. | wage, rent, interest, and profit income. |  |  |  | | --- | --- | | B. | land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | goods and services. |  |  |  | | --- | --- | | D. | consumer expenditures. | |

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| 98. | Refer to the circular flow model of the economy. In the diagram flow (3) represents:      |  |  | | --- | --- | | A. | wage, rent, interest, and profit income. |  |  |  | | --- | --- | | B. | land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | goods and services. |  |  |  | | --- | --- | | D. | consumer expenditures. | |

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| 99. | Refer to the circular flow model of the economy. In the diagram flow (4) represents:      |  |  | | --- | --- | | A. | wage, rent, interest, and profit income. |  |  |  | | --- | --- | | B. | land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | goods and services. |  |  |  | | --- | --- | | D. | consumer expenditures. | |

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| 100. | In terms of the circular flow diagram households make expenditures in the \_\_\_\_\_ market and receive income through the \_\_\_\_\_ market.      |  |  | | --- | --- | | A. | product; financial |  |  |  | | --- | --- | | B. | factor; product |  |  |  | | --- | --- | | C. | product; factor |  |  |  | | --- | --- | | D. | capital; product | |

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| 101. | Specialization may be conducive to an expansion of total output even though the individuals involved may have identical abilities.    True    False |

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| 102. | A division of labour enhances society's output by permitting people to take advantage of existing differences in their abilities and skills.    True    False |

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| 103. | Money functions as a medium of exchange in permitting the ready comparison of the relative worth of heterogeneous products.    True    False |

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| 104. | Government alters the distribution of income by market intervention, in which case it modifies the prices established by market forces.    True    False |

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| 105. | Property rights do not encourage people to cooperate.    True    False |

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| 106. | Consumer sovereignty means that legislation now protects the rights of consumers to dispose of their incomes as they see fit.    True    False |

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| 107. | The wants of consumers are expressed on the demand side of the product market.    True    False |

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| 108. | The guiding function of prices indicates that, at equilibrium prices, neither product surpluses nor shortages can occur.    True    False |

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| 109. | The "invisible hand" refers to the many indirect controls which the federal government imposes in a system of mixed capitalism.    True    False |

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| 110. | In a competitive market economy, firms and resource suppliers will seek to further their own self-interest, but at the same time, as if guided by an "invisible hand," they will promote the public interest.    True    False |

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| 111. | In the simple circular flow model businesses are suppliers of final products.    True    False |

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| 112. | Households and businesses are both suppliers in the product market.    True    False |

Chapter 2 Key

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| 1. | The command system is also known as:      |  |  | | --- | --- | | A. | the market system. |  |  |  | | --- | --- | | B. | pure capitalism. |  |  |  | | --- | --- | | C. | market socialism. |  |  |  | | --- | --- | | **D.** | socialism or communism. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #1 Topic: 02-03 The Command System Type: Application* |

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| 2. | The economy of the former Soviet Union was best described as:      |  |  | | --- | --- | | A. | authoritarian capitalism. |  |  |  | | --- | --- | | B. | mixed capitalism. |  |  |  | | --- | --- | | **C.** | a command economy. |  |  |  | | --- | --- | | D. | market socialism. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #2 Topic: 02-01 2.1 Economic Systems Type: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | The economy of North Korea most closely approximates:      |  |  | | --- | --- | | A. | pure capitalism |  |  |  | | --- | --- | | **B.** | a command economy |  |  |  | | --- | --- | | C. | market socialism |  |  |  | | --- | --- | | D. | authoritarian capitalism | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #3 Topic: 02-01 2.1 Economic Systems Type: Application* |

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| 4. | Today, China's economy most closely approximates:      |  |  | | --- | --- | | A. | pure capitalism |  |  |  | | --- | --- | | B. | a command economy |  |  |  | | --- | --- | | **C.** | market socialism |  |  |  | | --- | --- | | D. | authoritarian capitalism | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #4 Topic: 02-01 2.1 Economic Systems Type: Application* |

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| 5. | Which would not be characteristic of a capitalist economy?      |  |  | | --- | --- | | **A.** | government ownership of the means of production |  |  |  | | --- | --- | | B. | competition and unrestricted markets |  |  |  | | --- | --- | | C. | reliance on the market system |  |  |  | | --- | --- | | D. | free enterprise and choice | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #5 Topic: 02-01 2.1 Economic Systems Type: Application* |

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| 6. | Which of the following statements best describes a mixed economy?      |  |  | | --- | --- | | A. | In a mixed economy, society determines production and the allocation of goods and services only through the market system. |  |  |  | | --- | --- | | B. | In a mixed economy, government policies determine the production and the allocation of goods and services, but each individual is free to pursue his or her own self-interest. |  |  |  | | --- | --- | | **C.** | In a mixed economy, the government and private sectors interact in determining production and allocation of goods and services. |  |  |  | | --- | --- | | D. | In a mixed economy, the role of individual self-interest is relatively unimportant because government makes most of the economic decisions. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #6 Topic: 02-01 2.1 Economic Systems Type: Definition* |

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| 7. | The private ownership of property resources and use of prices to direct and coordinate economic activity is characteristic of:      |  |  | | --- | --- | | A. | a command system. |  |  |  | | --- | --- | | **B.** | a market system. |  |  |  | | --- | --- | | C. | communism. |  |  |  | | --- | --- | | D. | socialism. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #7 Topic: 02-06 Private Property Type: Definition* |

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| 8. | In a capitalistic economy:      |  |  | | --- | --- | | A. | consumers can never be sovereign. |  |  |  | | --- | --- | | B. | markets can never be competitive. |  |  |  | | --- | --- | | **C.** | there is a reliance on the market system. |  |  |  | | --- | --- | | D. | the government owns the means of production. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #8 Topic: 02-06 Private Property Type: Application* |

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| 9. | The term "laissez faire" suggests that:      |  |  | | --- | --- | | A. | land and other natural resources should be privately owned, but capital should be publicly owned. |  |  |  | | --- | --- | | B. | land and other natural resources should be publicly owned, but capital equipment should be privately owned. |  |  |  | | --- | --- | | **C.** | government should not interfere with the operation of the economy. |  |  |  | | --- | --- | | D. | government action is necessary if the economy is to achieve full employment and full production. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #9 Topic: 02-02 Laissez-Faire Capitalism Type: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | The term "mixed economy" refers to an economy:      |  |  | | --- | --- | | A. | comprised of both product and resource markets. |  |  |  | | --- | --- | | B. | which engages in both domestic and international trade. |  |  |  | | --- | --- | | **C.** | comprised of both extensive private markets and government involvement in the economy. |  |  |  | | --- | --- | | D. | which functions primarily on the basis of custom and tradition. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #10 Topic: 02-01 2.1 Economic Systems Type: Definition* |

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| 11. | The Canadian economy most closely approximates:      |  |  | | --- | --- | | **A.** | mixed capitalism |  |  |  | | --- | --- | | B. | a command economy |  |  |  | | --- | --- | | C. | market socialism |  |  |  | | --- | --- | | D. | authoritarian capitalism | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #11 Topic: 02-01 2.1 Economic Systems Type: Application* |

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| 12. | Which of the following is unique to a market economy system?      |  |  | | --- | --- | | A. | the extensive use of capital goods |  |  |  | | --- | --- | | **B.** | private ownership of property resources |  |  |  | | --- | --- | | C. | specialization |  |  |  | | --- | --- | | D. | the use of money | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-02 List the main characteristics of the market system. McConnell - Chapter 02 #12 Topic: 02-04 The Market System Type: Definition* |

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| 13. | Property rights are important because they:      |  |  | | --- | --- | | A. | encourage investment and growth. |  |  |  | | --- | --- | | B. | are conducive to the writing of books and music. |  |  |  | | --- | --- | | C. | facilitate exchange. |  |  |  | | --- | --- | | **D.** | do all of the above. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #13 Topic: 02-06 Private Property Type: Application* |

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| 14. | The market system is an economic system that:      |  |  | | --- | --- | | A. | produces more consumer goods than capital goods. |  |  |  | | --- | --- | | B. | produces more capital goods than consumer goods. |  |  |  | | --- | --- | | **C.** | gives private individuals and institutions the right to own resources used in production. |  |  |  | | --- | --- | | D. | gives the government the right to tax individuals and corporations for the production of capital goods. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-02 List the main characteristics of the market system. McConnell - Chapter 02 #14 Topic: 02-04 The Market System Type: Definition* |

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| 15. | The market system is characterized by:      |  |  | | --- | --- | | A. | extensive government constraints on individual behaviour. |  |  |  | | --- | --- | | **B.** | private ownership of the means of production. |  |  |  | | --- | --- | | C. | government control of all production decisions. |  |  |  | | --- | --- | | D. | government rationing of all goods and services. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-02 List the main characteristics of the market system. McConnell - Chapter 02 #15 Topic: 02-04 The Market System Type: Application* |

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| 16. | In a market system, well-defined property rights are important because they:      |  |  | | --- | --- | | A. | increase unnecessary investment. |  |  |  | | --- | --- | | B. | limit destructive economic growth. |  |  |  | | --- | --- | | C. | create economic problems. |  |  |  | | --- | --- | | **D.** | encourage economic activity. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-02 List the main characteristics of the market system. McConnell - Chapter 02 #16 Topic: 02-04 The Market System Type: Application* |

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| 17. | Which is a major feature of the market system?      |  |  | | --- | --- | | A. | price floors and price ceilings in all markets |  |  |  | | --- | --- | | B. | reallocation of all resources from private to public uses |  |  |  | | --- | --- | | **C.** | the right to own private property and control resource use |  |  |  | | --- | --- | | D. | central planning by government to provide goods and services | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-02 List the main characteristics of the market system. McConnell - Chapter 02 #17 Topic: 02-04 The Market System Type: Application* |

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| 18. | Which is a major feature of pure capitalism?      |  |  | | --- | --- | | A. | price floors and price ceilings in markets |  |  |  | | --- | --- | | B. | reallocation of resources from private to public uses |  |  |  | | --- | --- | | **C.** | the right to own private property and control resource use |  |  |  | | --- | --- | | D. | central planning by government to provide goods and services | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #18 Topic: 02-02 Laissez-Faire Capitalism Type: Definition* |

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| 19. | By free enterprise, we mean that:      |  |  | | --- | --- | | A. | products are provided free to those who can't afford to buy them. |  |  |  | | --- | --- | | B. | individual producers determine how to produce, but government agencies determine what will be produced. |  |  |  | | --- | --- | | **C.** | individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose. |  |  |  | | --- | --- | | D. | individuals are free to produce those products that government agencies determine can be produced profitably. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #19 Topic: 02-07 Freedom of Enterprise and Choice Type: Definition* |

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| 20. | Which statement is correct?      |  |  | | --- | --- | | A. | The operation of a market system eventually results in an equal distribution of income. |  |  |  | | --- | --- | | B. | Producers are "kings" in a market economy because they determine what is produced. |  |  |  | | --- | --- | | C. | The market system is efficient at allocation of resources, but not consumer goods to their most valued uses. |  |  |  | | --- | --- | | **D.** | Freedom of choice and enterprise are essential elements of the market system. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #20 Topic: 02-01 2.1 Economic Systems Type: Application* |

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| 21. | Which is characteristic of the capitalistic ideology?      |  |  | | --- | --- | | A. | unselfish individuals |  |  |  | | --- | --- | | B. | centralized decision-making |  |  |  | | --- | --- | | **C.** | free enterprise and choice |  |  |  | | --- | --- | | D. | government ownership of the means of production | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. McConnell - Chapter 02 #21 Topic: 02-01 2.1 Economic Systems Type: Definition* |

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| 22. | How do workers typically express self-interest?      |  |  | | --- | --- | | A. | by minimizing the economic losses of other business firms |  |  |  | | --- | --- | | B. | by maximizing the economic profits of other business firms |  |  |  | | --- | --- | | C. | by seeking the highest price when purchasing a consumer product |  |  |  | | --- | --- | | **D.** | by seeking jobs with the best combination of wages and benefits | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #22 Topic: 02-08 Self-Interest Type: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | Consumers express self-interest when they:      |  |  | | --- | --- | | A. | reduce business losses. |  |  |  | | --- | --- | | B. | collect economic profits. |  |  |  | | --- | --- | | **C.** | seek the lowest price for the product. |  |  |  | | --- | --- | | D. | search for jobs with the highest wage | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #23 Topic: 02-08 Self-Interest Type: Application* |

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| 24. | Competition means that:      |  |  | | --- | --- | | A. | sellers can cause artificial product scarcities and thereby manipulate market price. |  |  |  | | --- | --- | | **B.** | there are large numbers of independently acting buyers and sellers in each market. |  |  |  | | --- | --- | | C. | a given product can be purchased at a number of different prices. |  |  |  | | --- | --- | | D. | there is only one seller in a market. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #24 Topic: 02-09 Competition Type: Definition* |

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| 25. | The competitive market system:      |  |  | | --- | --- | | A. | encourages innovation because government provides tax breaks and subsidies to those who develop new products or new productive techniques. |  |  |  | | --- | --- | | B. | discourages innovation because it is difficult to acquire additional capital in the form of new machinery and equipment. |  |  |  | | --- | --- | | C. | discourages innovation because firms want to get all the profits possible from existing machinery and equipment. |  |  |  | | --- | --- | | **D.** | encourages innovation because successful innovators are rewarded with economic profits. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #25 Topic: 02-09 Competition Type: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | Competition is more likely to exist when:      |  |  | | --- | --- | | **A.** | there is free entry into and exit out of industries. |  |  |  | | --- | --- | | B. | there is a single supplier of all goods and services. |  |  |  | | --- | --- | | C. | the government purchases most goods and services. |  |  |  | | --- | --- | | D. | products are produced by a few large firms. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #26 Topic: 02-09 Competition Type: Application* |

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| 27. | Which condition will encourage competition?      |  |  | | --- | --- | | A. | government licensing requirements in order to enter an industry |  |  |  | | --- | --- | | B. | a small number of buyers and sellers in a market |  |  |  | | --- | --- | | **C.** | the freedom of sellers and buyers to enter or exit an industry |  |  |  | | --- | --- | | D. | the government serving as the only supplier of goods to consumers | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #27 Topic: 02-09 Competition Type: Application* |

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| 28. | A purely competitive economy assumes the existence in each industry of a:      |  |  | | --- | --- | | **A.** | large number of small firms facing a large number of small buyers. |  |  |  | | --- | --- | | B. | few large firms facing a large number of small buyers. |  |  |  | | --- | --- | | C. | large number of small firms facing a few large buyers. |  |  |  | | --- | --- | | D. | few small firms facing a few small buyers. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #28 Topic: 02-09 Competition Type: Definition* |

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| 29. | Competition denotes a condition where:      |  |  | | --- | --- | | A. | there is only one seller in a market. |  |  |  | | --- | --- | | B. | a given product can be purchased at a range of prices. |  |  |  | | --- | --- | | **C.** | there are many independent buyers and sellers in a market. |  |  |  | | --- | --- | | D. | a few sellers attempt to garner a larger share of the market by cutting prices. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #29 Topic: 02-09 Competition Type: Definition* |

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| 30. | If competitive industry Y is incurring substantial losses, we can expect that output will:      |  |  | | --- | --- | | A. | expand, product price will rise, and losses will tend to disappear. |  |  |  | | --- | --- | | B. | contract, product price will fall, and losses will increase. |  |  |  | | --- | --- | | **C.** | contract, product price will rise, and losses will tend to disappear. |  |  |  | | --- | --- | | D. | expand, product price will fall, and losses will tend to disappear. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #30 Topic: 02-09 Competition Type: Application* |

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| 31. | Suppose industry A is realizing substantial economic profits. Which of the following best describes the adjustment process which would bring about a new equilibrium?      |  |  | | --- | --- | | A. | Firms will leave the industry, output will fall, and product price will rise. |  |  |  | | --- | --- | | B. | Firms will enter the industry, output will rise, and product price will rise. |  |  |  | | --- | --- | | C. | Firms will leave the industry, output will rise, and product price will fall. |  |  |  | | --- | --- | | **D.** | Firms will enter the industry, output will rise, and product price will fall. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #31 Topic: 02-09 Competition Type: Application* |

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| 32. | Which statement is correct?      |  |  | | --- | --- | | A. | In a market system, buyers and sellers must be in face-to-face contact with each other. |  |  |  | | --- | --- | | B. | Prices affect the distribution of goods in a market system but not the allocation of resources. |  |  |  | | --- | --- | | **C.** | In a market system, prices serve to ration goods and services to consumers. |  |  |  | | --- | --- | | D. | The operation of a market system has little, if any, effect on the distribution of income in the economy. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #32 Topic: 02-10 Markets and Prices Type: Application* |

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| 33. | A characteristic of the market system is:      |  |  | | --- | --- | | A. | extensive use of price controls. |  |  |  | | --- | --- | | B. | extensive use of barter. |  |  |  | | --- | --- | | **C.** | extensive use of capital goods. |  |  |  | | --- | --- | | D. | low interest rates. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #33 Topic: 02-10 Markets and Prices Type: Definition* |

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| 34. | The development of new technology and capital goods are essential elements for the market system. This is because:      |  |  | | --- | --- | | **A.** | using more efficient production processes means more output for the economy. |  |  |  | | --- | --- | | B. | more capital goods means less future consumption goods. |  |  |  | | --- | --- | | C. | the standard of living and development of new technology are inversely related. |  |  |  | | --- | --- | | D. | the most direct methods of production are more efficient. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-04 Explain the operation of the "Invisible Hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output. McConnell - Chapter 02 #34 Topic: 02-11 Technology and Capital Goods Type: Definition* |

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| 35. | The basic reason for the production of capital goods is to:      |  |  | | --- | --- | | A. | promote the concentration of economic power in the business sector. |  |  |  | | --- | --- | | B. | facilitate exchange where a coincidence of wants does not exist. |  |  |  | | --- | --- | | C. | better synchronize the operation of resource and product markets. |  |  |  | | --- | --- | | **D.** | enhance future productive efficiency. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-04 Explain the operation of the "Invisible Hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output. McConnell - Chapter 02 #35 Topic: 02-11 Technology and Capital Goods Type: Application* |

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| 36. | The process in which workers select specialized tasks to make a product is referred to as:      |  |  | | --- | --- | | A. | a coincidence of wants. |  |  |  | | --- | --- | | B. | roundabout production. |  |  |  | | --- | --- | | C. | freedom of choice. |  |  |  | | --- | --- | | **D.** | division of labour. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #36 Topic: 02-12 Specialization Type: Definition* |

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| 37. | The division of labour means that:      |  |  | | --- | --- | | A. | labour markets are geographically segmented. |  |  |  | | --- | --- | | B. | unskilled workers outnumber skilled workers. |  |  |  | | --- | --- | | **C.** | workers specialize in various production tasks. |  |  |  | | --- | --- | | D. | each worker performs a large number of tasks. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #37 Topic: 02-12 Specialization Type: Definition* |

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| 38. | Specialization and trade are beneficial to society because:      |  |  | | --- | --- | | A. | the output of economic goods may be increased with no increase in resources. |  |  |  | | --- | --- | | B. | scarce resources are utilized more efficiently. |  |  |  | | --- | --- | | C. | a division of labour lowers prices for products. |  |  |  | | --- | --- | | **D.** | all of the above are correct. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #38 Topic: 02-12 Specialization Type: Application* |

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| 39. | Specialization in production is important primarily because it:      |  |  | | --- | --- | | **A.** | results in greater total output. |  |  |  | | --- | --- | | B. | allows society to avoid the coincidence-of-wants problem. |  |  |  | | --- | --- | | C. | allows society to trade by barter. |  |  |  | | --- | --- | | D. | allows society to have fewer capital goods. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #39 Topic: 02-12 Specialization Type: Application* |

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| 40. | The division of labour enhances productivity and efficiency by:      |  |  | | --- | --- | | A. | allowing workers to take advantage of existing differences in their abilities and skills. |  |  |  | | --- | --- | | B. | avoiding the time loss involved in shifting from one production task to another. |  |  |  | | --- | --- | | C. | allowing workers to develop skills by working on one, or a limited number, of tasks. |  |  |  | | --- | --- | | **D.** | all of the above means. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #40 Topic: 02-12 Specialization Type: Definition* |

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| 41. | Specialization in production is economically beneficial primarily because it:      |  |  | | --- | --- | | A. | allows everyone to have a job which they like. |  |  |  | | --- | --- | | **B.** | permits the production of a larger output with fixed amounts of resources. |  |  |  | | --- | --- | | C. | facilitates trade by bartering. |  |  |  | | --- | --- | | D. | guarantees full employment. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #41 Topic: 02-12 Specialization Type: Application* |

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| 42. | The use of money for exchange:      |  |  | | --- | --- | | A. | increases the use of barter. |  |  |  | | --- | --- | | B. | reduces consumer sovereignty. |  |  |  | | --- | --- | | C. | decreases the coincidence of wants. |  |  |  | | --- | --- | | **D.** | encourages more specialization in production. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #42 Topic: 02-13 Use of Money Type: Application* |

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| 43. | Which is the main problem with the barter system of exchange? Barter:      |  |  | | --- | --- | | A. | encourages self-interest and selfishness. |  |  |  | | --- | --- | | B. | fosters specialization and division of labour. |  |  |  | | --- | --- | | **C.** | requires a coincidence of wants. |  |  |  | | --- | --- | | D. | undermines the right to bequeath. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #43 Topic: 02-13 Use of Money Type: Application* |

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| 44. | \_\_\_\_\_ helps avoid the problems posed by the lack of double coincidence of wants.      |  |  | | --- | --- | | A. | Barter |  |  |  | | --- | --- | | B. | Trade |  |  |  | | --- | --- | | **C.** | Money |  |  |  | | --- | --- | | D. | Freedom of choice | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #44 Topic: 02-13 Use of Money Type: Application* |

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| 45. | Consider a barter situation where you have pens and you want pencils. To achieve your objective there must be a(n):      |  |  | | --- | --- | | A. | use of capital goods. |  |  |  | | --- | --- | | B. | entry and exit from the market. |  |  |  | | --- | --- | | C. | large number of sellers. |  |  |  | | --- | --- | | **D.** | coincidence of wants. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #45 Topic: 02-13 Use of Money Type: Application* |

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| 46. | On the basis of the information provided it can be said that:       |  |  | | --- | --- | | **A.** | no coincidence of wants exists between any two provinces. |  |  |  | | --- | --- | | B. | a coincidence of wants exists between British Columbia and Ontario. |  |  |  | | --- | --- | | C. | a coincidence of wants exists between Ontario and Alberta. |  |  |  | | --- | --- | | D. | a coincidence of wants exists between British Columbia and Alberta. | |

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| *Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #46 Topic: 02-13 Use of Money Type: Application* |

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| 47. | On the basis of the information provided and assuming trade occurs between the three provinces we can expect:       |  |  | | --- | --- | | **A.** | Alberta to exchange apples with Ontario and receive money in return. |  |  |  | | --- | --- | | B. | Alberta to exchange apples with British Columbia and receive money in return. |  |  |  | | --- | --- | | C. | Ontario to exchange lettuce with British Columbia and receive autos in return. |  |  |  | | --- | --- | | D. | none of the above to occur. | |

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| *Difficulty: Medium Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #47 Topic: 02-13 Use of Money Type: Application* |

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| 48. | Given the information provided and assuming trade does occur between the provinces, we can expect:       |  |  | | --- | --- | | A. | that there is no means by which British Columbia can obtain lettuce while specializing in the production of autos. |  |  |  | | --- | --- | | B. | that money will not be needed to accomplish the desired exchanges. |  |  |  | | --- | --- | | **C.** | money to flow counterclockwise from British Columbia to Ontario to Alberta. |  |  |  | | --- | --- | | D. | money to flow clockwise from British Columbia to Alberta to Ontario. | |

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| *Difficulty: Hard Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #48 Topic: 02-13 Use of Money Type: Application* |

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| 49. | Which is assumed to be most limited in scope under a market system?       |  |  | | --- | --- | | A. | freedom of enterprise |  |  |  | | --- | --- | | B. | freedom of choice |  |  |  | | --- | --- | | C. | competition |  |  |  | | --- | --- | | **D.** | government | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #49 Topic: 02-13 Use of Money Type: Definition* |

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| 50. | Which of the following is not a part of a market system?       |  |  | | --- | --- | | A. | private property |  |  |  | | --- | --- | | B. | freedom of enterprise and choice |  |  |  | | --- | --- | | C. | competition in product and resource markets |  |  |  | | --- | --- | | **D.** | government determination of basic economic goals | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-02 List the main characteristics of the market system. McConnell - Chapter 02 #50 Topic: 02-05 2.2 Characteristics of the Market System Type: Definition* |

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| 51. | The most important consequence of property rights is that      |  |  | | --- | --- | | A. | they facilitate exchange. |  |  |  | | --- | --- | | B. | allow for freedom of choice. |  |  |  | | --- | --- | | **C.** | they encourage people to cooperate by helping to ensure that only mutually agreeable economic transactions take place. |  |  |  | | --- | --- | | D. | they allow for a division of labour. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. McConnell - Chapter 02 #51 Topic: 02-06 Private Property Type: Application* |

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| 52. | Which is not one of the Five Fundamental Questions?      |  |  | | --- | --- | | A. | How will the goods and services be produced? |  |  |  | | --- | --- | | B. | How will the system accommodate change? |  |  |  | | --- | --- | | C. | Who will get the goods and services? |  |  |  | | --- | --- | | **D.** | What goods and services should be produced by government? | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #52 Topic: 02-15 2.3 Five Fundamental Questions Type: Definition* |

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| 53. | What to produce in a market economy is ultimately determined by the:      |  |  | | --- | --- | | A. | output decisions of business firms. |  |  |  | | --- | --- | | B. | government. |  |  |  | | --- | --- | | **C.** | spending decisions of households. |  |  |  | | --- | --- | | D. | workers' technical skills. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #53 Topic: 02-16 What Will Be Produced? Type: Application* |

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| 54. | "Consumer sovereignty" refers to the:       |  |  | | --- | --- | | A. | fact that resource prices tend to be high relative to product prices in capitalistic economies. |  |  |  | | --- | --- | | B. | idea that the pursuit of self-interest will prove ultimately to be in the public interest. |  |  |  | | --- | --- | | **C.** | notion that the decisions of producers and resource suppliers with respect to the kinds and amounts of goods produced must be appropriate to consumer demands. |  |  |  | | --- | --- | | D. | fact that a federal agency exists to protect consumers from harmful and defective products. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #54 Topic: 02-16 What Will Be Produced? Type: Definition* |

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| 55. | The term consumer sovereignty means that:      |  |  | | --- | --- | | A. | consumers are controlled by the actions of the marketplace. |  |  |  | | --- | --- | | **B.** | what is produced is ultimately determined by what consumers buy. |  |  |  | | --- | --- | | C. | there are no limits on what consumers may buy under capitalism. |  |  |  | | --- | --- | | D. | businesses produce with consumer satisfaction as their primary goal. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #55 Topic: 02-16 What Will Be Produced? Type: Definition* |

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| 56. | The market system is said to be characterized by "consumer sovereignty." This is because:      |  |  | | --- | --- | | A. | a large number of consumer goods are produced. |  |  |  | | --- | --- | | B. | the prices of consumer goods are regulated by government. |  |  |  | | --- | --- | | C. | consumer goods are more profitable than investment goods. |  |  |  | | --- | --- | | **D.** | of the role of consumers in determining what goods are produced. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #56 Topic: 02-16 What Will Be Produced? Type: Application* |

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| 57. | "The 'dollar votes' of consumers ultimately determine the composition of output and the allocation of resources in a market economy." This statement best describes the concept of:       |  |  | | --- | --- | | A. | derived demand. |  |  |  | | --- | --- | | B. | external costs and benefits. |  |  |  | | --- | --- | | **C.** | consumer sovereignty. |  |  |  | | --- | --- | | D. | the invisible hand. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #57 Topic: 02-16 What Will Be Produced? Type: Definition* |

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| 58. | The term dollar votes means:      |  |  | | --- | --- | | A. | inflation will occur if consumers don't spend wisely. |  |  |  | | --- | --- | | B. | voters may be offered dollars to help elect certain political candidates. |  |  |  | | --- | --- | | C. | government is responsible for determining what will be considered legal tender. |  |  |  | | --- | --- | | **D.** | consumers "vote" for certain products to be produced by how they spend their incomes. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #58 Topic: 02-16 What Will Be Produced? Type: Definition* |

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| 59. | Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?      |  |  | | --- | --- | | **A.** | What will be produced? |  |  |  | | --- | --- | | B. | How is the output to be produced? |  |  |  | | --- | --- | | C. | How can the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #59 Topic: 02-16 What Will Be Produced? Type: Application* |

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| 60. | Economic efficiency would be primarily discussed in response to which of the fundamental questions about a competitive market economy?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | **B.** | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | How will the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #60 Topic: 02-17 How Will the Goods and Services Be Produced? Type: Application* |

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| 61. | Which fundamental question about a competitive market system primarily focuses on the cost of producing the good and services?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | **B.** | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | How will the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #61 Topic: 02-17 How Will the Goods and Services Be Produced? Type: Application* |

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| 62. | The issues of distribution of goods and services and incomes in a competitive market system are the primary topic of which fundamental question?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | How will the system accommodate change? |  |  |  | | --- | --- | | **D.** | Who is to receive the output? | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #62 Topic: 02-15 2.3 Five Fundamental Questions Type: Application* |

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| 63. | In the market system, the statement of "Wages, interest, rent, and profit are crucial determinants of the size of each person's income." is an indication of:      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | **C.** | Who will get the output? |  |  |  | | --- | --- | | D. | How will the system accommodate change? | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #63 Topic: 02-18 Who Will Get the Output? Type: Application* |

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| 64. | For whom is a given mix of goods and services to be produced? How, in other words, is the product to be distributed among people when such commodities and services are available? In a market economy, this problem is resolved primarily in the:      |  |  | | --- | --- | | A. | public sector through the mechanism of central planning. |  |  |  | | --- | --- | | B. | business sector through the mechanism of advertising. |  |  |  | | --- | --- | | **C.** | private sector through the earning and spending of income. |  |  |  | | --- | --- | | D. | money market through borrowing and saving by households and businesses. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #64 Topic: 02-18 Who Will Get the Output? Type: Application* |

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| 65. | In a market economy the distribution of income would be determined primarily by      |  |  | | --- | --- | | A. | consumer needs and preferences. |  |  |  | | --- | --- | | **B.** | the quantities and prices of the resources which households supply. |  |  |  | | --- | --- | | C. | government regulations which provide a minimum income for all. |  |  |  | | --- | --- | | D. | a social consensus as to what distribution of income is most equitable. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #65 Topic: 02-18 Who Will Get the Output? Type: Application* |

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| 66. | Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation?      |  |  | | --- | --- | | A. | What will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | **C.** | How will the system accommodate change? |  |  |  | | --- | --- | | D. | Who is to receive the output? | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #66 Topic: 02-15 2.3 Five Fundamental Questions Type: Application* |

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| 67. | If an increase occurs in the demand for product X, we would expect all of the following to occur except:      |  |  | | --- | --- | | A. | an increase in the profits of industry X. |  |  |  | | --- | --- | | B. | an increase in the demand for resources employed by industry X. |  |  |  | | --- | --- | | C. | an increase in the output of industry X. |  |  |  | | --- | --- | | **D.** | a decrease in the prices of resources employed in industry X. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #67 Topic: 02-19 How Will the System Accommodate Change? Type: Application* |

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| 68. | An increase in demand for strawberries is most likely to:      |  |  | | --- | --- | | **A.** | increase the demand for strawberry pickers. |  |  |  | | --- | --- | | B. | reduce the supply of strawberry pickers. |  |  |  | | --- | --- | | C. | reduce the supply of strawberries. |  |  |  | | --- | --- | | D. | reduce the demand for strawberry pickers. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #68 Topic: 02-19 How Will the System Accommodate Change? Type: Application* |

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| 69. | The market system communicates changes in supply and demand and elicits appropriate responses from businesses and resource suppliers. This is known as the:      |  |  | | --- | --- | | A. | rationing function of prices. |  |  |  | | --- | --- | | **B.** | guiding function of prices. |  |  |  | | --- | --- | | C. | monetary function of prices. |  |  |  | | --- | --- | | D. | circular flow of income. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #69 Topic: 02-19 How Will the System Accommodate Change? Type: Definition* |

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| 70. | Which of the following best describes the "guiding function" of competitive prices?      |  |  | | --- | --- | | A. | Profitable industries tend to contract and unprofitable industries tend to expand. |  |  |  | | --- | --- | | B. | The market system will always generate economic profits for firms which use the least costly production technology. |  |  |  | | --- | --- | | **C.** | The market system can negotiate reallocations of resources which are appropriate to changes in consumer tastes, technology, and resource supplies. |  |  |  | | --- | --- | | D. | When prices are in equilibrium, product shortages or surpluses cannot occur. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #70 Topic: 02-19 How Will the System Accommodate Change? Type: Definition* |

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| 71. | Assume the demand for product Y increases and the subsequent market system responses result in the production of more Y. This illustrates:      |  |  | | --- | --- | | A. | that the concept of derived demand is inapplicable. |  |  |  | | --- | --- | | B. | that consumer sovereignty is inoperative in this economy. |  |  |  | | --- | --- | | C. | the scarcity function of prices. |  |  |  | | --- | --- | | **D.** | the directing or guiding function of prices. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #71 Topic: 02-19 How Will the System Accommodate Change? Type: Application* |

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| 72. | Which statement accurately summarizes the relationship between the prices of goods and their relative scarcity?      |  |  | | --- | --- | | **A.** | The price of a good is a direct function of the relative scarcity of the good. |  |  |  | | --- | --- | | B. | The price of a good is an inverse function of the relative scarcity of the good. |  |  |  | | --- | --- | | C. | The price of a good is independent of the relative scarcity of the good. |  |  |  | | --- | --- | | D. | High prices lead to greater relative scarcity. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #72 Topic: 02-19 How Will the System Accommodate Change? Type: Application* |

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| 73. | The most efficient combination of resources in producing any output is that combination which:      |  |  | | --- | --- | | A. | comes closest to using the same quantities of land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | **B.** | can be obtained for the smallest money outlay. |  |  |  | | --- | --- | | C. | uses the smallest total quantity of all resources. |  |  |  | | --- | --- | | D. | conserves most on the use of labour. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #73 Topic: 02-20 How Will the System Promote Progress? Type: Definition* |

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| 74. | The development of the Internet and e-mail to replace regular mail services in many cases would be an example of:      |  |  | | --- | --- | | A. | roundabout production. |  |  |  | | --- | --- | | B. | derived demand. |  |  |  | | --- | --- | | **C.** | creative destruction. |  |  |  | | --- | --- | | D. | specialization. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #74 Topic: 02-20 How Will the System Promote Progress? Type: Application* |

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| 75. | The development of MP3 players that significantly reduce the market for CDs and DVDs would be an example of:      |  |  | | --- | --- | | A. | specialization. |  |  |  | | --- | --- | | B. | derived demand. |  |  |  | | --- | --- | | C. | roundabout production. |  |  |  | | --- | --- | | **D.** | creative destruction. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #75 Topic: 02-20 How Will the System Promote Progress? Type: Application* |

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| 76. | Which of the following best describes the "invisible hand" concept?      |  |  | | --- | --- | | **A.** | The desires of resource suppliers and producers to further their own self-interest will automatically further the public interest. |  |  |  | | --- | --- | | B. | The nonsubstitutability of resources gives rise to a conflict between private and public interests and the need for government intervention. |  |  |  | | --- | --- | | C. | Mixed capitalism is the best system for overcoming the scarce resources-unlimited wants problem. |  |  |  | | --- | --- | | D. | Central direction by the government will improve resource allocation in a capitalistic economy. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #76 Topic: 02-21 2.4 The Invisible Hand Type: Definition* |

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| 77. | The "invisible hand" concept suggests that:      |  |  | | --- | --- | | A. | changes in product demands are only randomly reflected in changes in the demands for resources. |  |  |  | | --- | --- | | B. | profit maximization is inconsistent with an efficient allocation of resources. |  |  |  | | --- | --- | | C. | government action is necessary to correct for market failures. |  |  |  | | --- | --- | | **D.** | when firms maximize their profits, society's domestic output will also be maximized. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #77 Topic: 02-21 2.4 The Invisible Hand Type: Application* |

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| 78. | The "invisible hand" concept suggests that:      |  |  | | --- | --- | | A. | market failures imply the need for a national economic plan. |  |  |  | | --- | --- | | B. | big businesses are inherently more efficient than small businesses. |  |  |  | | --- | --- | | C. | the competitiveness of a capitalistic market economy invariably diminishes over time. |  |  |  | | --- | --- | | **D.** | given competition, private and public interests will tend to coincide. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #78 Topic: 02-21 2.4 The Invisible Hand Type: Application* |

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| 79. | The "invisible hand" refers to the:      |  |  | | --- | --- | | A. | fact that our tax system redistributes income from rich to poor. |  |  |  | | --- | --- | | **B.** | notion that, under competition, decisions motivated by self-interest promote the social interest. |  |  |  | | --- | --- | | C. | tendency of monopolistic sellers to raise prices above competitive levels. |  |  |  | | --- | --- | | D. | fact that government controls the functioning of the market system. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #79 Topic: 02-21 2.4 The Invisible Hand Type: Definition* |

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| 80. | The idea that the desires of resource suppliers and producers to further their own self-interest will automatically further the public interest is known as:      |  |  | | --- | --- | | A. | consumer sovereignty. |  |  |  | | --- | --- | | **B.** | the invisible hand. |  |  |  | | --- | --- | | C. | derived demand. |  |  |  | | --- | --- | | D. | profit maximization. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #80 Topic: 02-21 2.4 The Invisible Hand Type: Definition* |

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| 81. | The idea that firms and resource suppliers in seeking to further their own self-interests in a competitive market economy also simultaneously promotes the public or social interest is a description of:      |  |  | | --- | --- | | A. | the guiding function of prices. |  |  |  | | --- | --- | | B. | capital accumulation. |  |  |  | | --- | --- | | **C.** | the "invisible hand." |  |  |  | | --- | --- | | D. | dollar votes. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #81 Topic: 02-21 2.4 The Invisible Hand Type: Definition* |

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| 82. | While in market economies the profit depends on consumer demand, production production efficiency, and product quality, for command economies profit depends on:      |  |  | | --- | --- | | A. | production cost. |  |  |  | | --- | --- | | B. | product differentiation. |  |  |  | | --- | --- | | C. | product mix. |  |  |  | | --- | --- | | **D.** | quantitative production target. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #82 Topic: 02-22 The Demise of the Command System Type: Application* |

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| 83. | The coordination problem in command economies became more difficult as:      |  |  | | --- | --- | | **A.** | the number of industries expanded. |  |  |  | | --- | --- | | B. | less quantitative targets were assigned to each industry. |  |  |  | | --- | --- | | C. | planning techniques improved. |  |  |  | | --- | --- | | D. | production cost decreased. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #83 Topic: 02-22 The Demise of the Command System Type: Application* |

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| 84. | As opposed to the market system, in command economies:      |  |  | | --- | --- | | A. | the reward for innovation is extensive. |  |  |  | | --- | --- | | **B.** | the reward for innovation does not exist. |  |  |  | | --- | --- | | C. | meeting the production targets are extremely important. |  |  |  | | --- | --- | | D. | the profit motives are extremely high. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #84 Topic: 02-22 The Demise of the Command System Type: Application* |

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| 85. | In the factor market:      |  |  | | --- | --- | | A. | businesses borrow money capital from households. |  |  |  | | --- | --- | | B. | businesses sell services to households. |  |  |  | | --- | --- | | **C.** | households sell resources to businesses. |  |  |  | | --- | --- | | D. | firms sell raw materials to households. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #85 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 86. | The simple circular flow model shows that:      |  |  | | --- | --- | | A. | households are on the demand side of both product and factor markets. |  |  |  | | --- | --- | | B. | businesses are on the supply side of both product and factor markets. |  |  |  | | --- | --- | | **C.** | households are on the supply side of the factor market and on the demand side of the product market. |  |  |  | | --- | --- | | D. | businesses are on the demand side of the product market and on the supply side of the factor market. | |

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| *Accessibility: Keyboard Navigation Difficulty: Medium McConnell - Chapter 02 #86 Topic: 02-24 2.5 The Circular Flow Model Type: Definition* |

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| 87. | The two basic markets shown by the simple circular flow model are:      |  |  | | --- | --- | | A. | capital goods and consumer goods. |  |  |  | | --- | --- | | B. | free and controlled. |  |  |  | | --- | --- | | **C.** | product and factor. |  |  |  | | --- | --- | | D. | household and business. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #87 Topic: 02-24 2.5 The Circular Flow Model Type: Definition* |

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| 88. | In the simple circular flow model:      |  |  | | --- | --- | | A. | households are demanders of factors of production. |  |  |  | | --- | --- | | **B.** | businesses are suppliers of final products. |  |  |  | | --- | --- | | C. | households are suppliers of final products. |  |  |  | | --- | --- | | D. | there are real flows of goods, services, and factors, but not money flows. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #88 Topic: 02-24 2.5 The Circular Flow Model Type: Definition* |

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| 89. | Households and businesses are:      |  |  | | --- | --- | | A. | both buyers in the factor market. |  |  |  | | --- | --- | | B. | both suppliers in the product market. |  |  |  | | --- | --- | | **C.** | suppliers in the factor and product markets respectively. |  |  |  | | --- | --- | | D. | suppliers in the product and factor markets respectively. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #89 Topic: 02-24 2.5 The Circular Flow Model Type: Definition* |

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| 90. | In the circular flow model:      |  |  | | --- | --- | | A. | households supply factors of production to firms. |  |  |  | | --- | --- | | B. | households receive income through the factor market. |  |  |  | | --- | --- | | C. | households spend income in the product market. |  |  |  | | --- | --- | | **D.** | all of the above hold true. | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #90 Topic: 02-24 2.5 The Circular Flow Model Type: Definition* |

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| *McConnell - Chapter 02* |

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| 91. | Refer to the figure. If box B represents the factor market and flow (3) represents money income, then:      |  |  | | --- | --- | | A. | box A is the product market and box C is households. |  |  |  | | --- | --- | | B. | box C is the product market and box A is households. |  |  |  | | --- | --- | | **C.** | box D is the product market and box C is households. |  |  |  | | --- | --- | | D. | box C is the product market and box D is households. | |

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| *Difficulty: Medium McConnell - Chapter 02 #91 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 92. | Refer to the figure. If box A represents businesses and flow (7) represents goods and services, then:      |  |  | | --- | --- | | **A.** | box D is the product market and box B is the factor market. |  |  |  | | --- | --- | | B. | box D is the product market and box B is households. |  |  |  | | --- | --- | | C. | box B is the product market and box C is households. |  |  |  | | --- | --- | | D. | box C is the product market and box B is the factor market. | |

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| *Difficulty: Medium McConnell - Chapter 02 #92 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 93. | In terms of the circular flow diagram businesses obtain revenue through the \_\_\_\_\_ market and make expenditures in the \_\_\_\_\_ market.      |  |  | | --- | --- | | A. | product; financial |  |  |  | | --- | --- | | B. | factor; product |  |  |  | | --- | --- | | **C.** | product; factor |  |  |  | | --- | --- | | D. | capital; product | |

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| 94. | Refer to the diagram. Arrows (1) and (2) represent:      |  |  | | --- | --- | | A. | goods and resources respectively. |  |  |  | | --- | --- | | B. | money incomes and output respectively. |  |  |  | | --- | --- | | C. | output and money incomes respectively. |  |  |  | | --- | --- | | **D.** | resources and goods respectively. | |

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| *Difficulty: Medium McConnell - Chapter 02 #94 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 95. | Refer to the diagram. Arrows (3) and (4) represent:      |  |  | | --- | --- | | A. | goods and services respectively. |  |  |  | | --- | --- | | **B.** | money incomes and consumer expenditures respectively. |  |  |  | | --- | --- | | C. | resources and goods respectively. |  |  |  | | --- | --- | | D. | consumer expenditures and money income respectively. | |

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| *Difficulty: Medium McConnell - Chapter 02 #95 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 96. | Refer to the circular flow model of the economy. In the diagram flow (1) represents:      |  |  | | --- | --- | | **A.** | wage, rent, interest, and profit income. |  |  |  | | --- | --- | | B. | land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | goods and services. |  |  |  | | --- | --- | | D. | consumer expenditures. | |

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| *Difficulty: Easy McConnell - Chapter 02 #96 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 97. | Refer to the circular flow model of the economy. In the diagram flow (2) represents:      |  |  | | --- | --- | | A. | wage, rent, interest, and profit income. |  |  |  | | --- | --- | | **B.** | land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | goods and services. |  |  |  | | --- | --- | | D. | consumer expenditures. | |

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| *Difficulty: Easy McConnell - Chapter 02 #97 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 98. | Refer to the circular flow model of the economy. In the diagram flow (3) represents:      |  |  | | --- | --- | | A. | wage, rent, interest, and profit income. |  |  |  | | --- | --- | | B. | land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | **C.** | goods and services. |  |  |  | | --- | --- | | D. | consumer expenditures. | |

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| *Difficulty: Easy McConnell - Chapter 02 #98 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 99. | Refer to the circular flow model of the economy. In the diagram flow (4) represents:      |  |  | | --- | --- | | A. | wage, rent, interest, and profit income. |  |  |  | | --- | --- | | B. | land, labour, capital, and entrepreneurial ability. |  |  |  | | --- | --- | | C. | goods and services. |  |  |  | | --- | --- | | **D.** | consumer expenditures. | |

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| *Difficulty: Easy McConnell - Chapter 02 #99 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 100. | In terms of the circular flow diagram households make expenditures in the \_\_\_\_\_ market and receive income through the \_\_\_\_\_ market.      |  |  | | --- | --- | | A. | product; financial |  |  |  | | --- | --- | | B. | factor; product |  |  |  | | --- | --- | | **C.** | product; factor |  |  |  | | --- | --- | | D. | capital; product | |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #100 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 101. | Specialization may be conducive to an expansion of total output even though the individuals involved may have identical abilities.    **TRUE** |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #101 Topic: 02-12 Specialization Type: Application* |

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| 102. | A division of labour enhances society's output by permitting people to take advantage of existing differences in their abilities and skills.    **TRUE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #102 Topic: 02-12 Specialization Type: Application* |

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| 103. | Money functions as a medium of exchange in permitting the ready comparison of the relative worth of heterogeneous products.    **TRUE** |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #103 Topic: 02-13 Use of Money Type: Application* |

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| 104. | Government alters the distribution of income by market intervention, in which case it modifies the prices established by market forces.    **TRUE** |

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| *Accessibility: Keyboard Navigation Difficulty: Medium Learning Objective: 02-05 Describe the mechanics of the circular flow model. McConnell - Chapter 02 #104 Topic: 02-14 Active but Limited Government Type: Application* |

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| 105. | Property rights do not encourage people to cooperate.    **FALSE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy Learning Objective: 02-02 List the main characteristics of the market system. McConnell - Chapter 02 #105 Topic: 02-05 2.2 Characteristics of the Market System Type: Application* |

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| 106. | Consumer sovereignty means that legislation now protects the rights of consumers to dispose of their incomes as they see fit.    **FALSE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #106 Topic: 02-16 What Will Be Produced? Type: Definition* |

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| 107. | The wants of consumers are expressed on the demand side of the product market.    **TRUE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #107 Topic: 02-16 What Will Be Produced? Type: Application* |

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| 108. | The guiding function of prices indicates that, at equilibrium prices, neither product surpluses nor shortages can occur.    **TRUE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #108 Topic: 02-17 How Will the Goods and Services Be Produced? Type: Application* |

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| 109. | The "invisible hand" refers to the many indirect controls which the federal government imposes in a system of mixed capitalism.    **FALSE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #109 Topic: 02-21 2.4 The Invisible Hand Type: Definition* |

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| 110. | In a competitive market economy, firms and resource suppliers will seek to further their own self-interest, but at the same time, as if guided by an "invisible hand," they will promote the public interest.    **TRUE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #110 Topic: 02-21 2.4 The Invisible Hand Type: Application* |

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| 111. | In the simple circular flow model businesses are suppliers of final products.    **TRUE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #111 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

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| 112. | Households and businesses are both suppliers in the product market.    **FALSE** |

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| *Accessibility: Keyboard Navigation Difficulty: Easy McConnell - Chapter 02 #112 Topic: 02-24 2.5 The Circular Flow Model Type: Application* |

Chapter 2 Summary

|  |  |
| --- | --- |
| *Category* | *# of Questions* |
| Accessibility: Keyboard Navigation | 101 |
| Difficulty: Easy | 83 |
| Difficulty: Hard | 1 |
| Difficulty: Medium | 28 |
| Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system. | 12 |
| Learning Objective: 02-02 List the main characteristics of the market system. | 7 |
| Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress. | 17 |
| Learning Objective: 02-04 Explain the operation of the "Invisible Hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output. | 2 |
| Learning Objective: 02-05 Describe the mechanics of the circular flow model. | 18 |
| McConnell - Chapter 02 | 116 |
| Topic: 02-01 2.1 Economic Systems | 9 |
| Topic: 02-02 Laissez-Faire Capitalism | 2 |
| Topic: 02-03 The Command System | 1 |
| Topic: 02-04 The Market System | 5 |
| Topic: 02-05 2.2 Characteristics of the Market System | 2 |
| Topic: 02-06 Private Property | 4 |
| Topic: 02-07 Freedom of Enterprise and Choice | 1 |
| Topic: 02-08 Self-Interest | 2 |
| Topic: 02-09 Competition | 8 |
| Topic: 02-10 Markets and Prices | 2 |
| Topic: 02-11 Technology and Capital Goods | 2 |
| Topic: 02-12 Specialization | 8 |
| Topic: 02-13 Use of Money | 9 |
| Topic: 02-14 Active but Limited Government | 1 |
| Topic: 02-15 2.3 Five Fundamental Questions | 3 |
| Topic: 02-16 What Will Be Produced? | 9 |
| Topic: 02-17 How Will the Goods and Services Be Produced? | 3 |
| Topic: 02-18 Who Will Get the Output? | 3 |
| Topic: 02-19 How Will the System Accommodate Change? | 6 |
| Topic: 02-20 How Will the System Promote Progress? | 3 |
| Topic: 02-21 2.4 The Invisible Hand | 8 |
| Topic: 02-22 The Demise of the Command System | 3 |
| Topic: 02-24 2.5 The Circular Flow Model | 18 |
| Type: Application | 72 |
| Type: Definition | 40 |