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:

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| --- | --- |
| 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 |

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| --- | --- |
| B.  | competition and unrestricted markets |

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| --- | --- |
| C.  | reliance on the market system |

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| --- | --- |
| D.  | free enterprise and choice |

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| 6. | Which of the following statements best describes a mixed economy?

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| --- | --- |
| A.  | In a mixed economy, society determines production and the allocation of goods and services only through the market system. |

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| --- | --- |
| 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. |

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| --- | --- |
| C.  | In a mixed economy, the government and private sectors interact in determining production and allocation of goods and services. |

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| --- | --- |
| 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:

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| --- | --- |
| 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. |

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| --- | --- |
| 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:

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| --- | --- |
| A.  | comprised of both product and resource markets. |

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| --- | --- |
| B.  | which engages in both domestic and international trade. |

|  |  |
| --- | --- |
| C.  | comprised of both extensive private markets and government involvement in the economy. |

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| D.  | which functions primarily on the basis of custom and tradition. |

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| 11. | The Canadian economy most closely approximates:

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| --- | --- |
| 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?

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| --- | --- |
| A.  | the extensive use of capital goods |

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| --- | --- |
| B.  | private ownership of property resources |

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| --- | --- |
| C.  | specialization |

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| --- | --- |
| D.  | the use of money |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. | Property rights are important because they:

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| --- | --- |
| A.  | encourage investment and growth. |

|  |  |
| --- | --- |
| B.  | are conducive to the writing of books and music. |

|  |  |
| --- | --- |
| C.  | facilitate exchange. |

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| D.  | do all of the above. |

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| 14. | The market system is an economic system that:

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| --- | --- |
| 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:

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| A.  | extensive government constraints on individual behaviour. |

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| --- | --- |
| B.  | private ownership of the means of production. |

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| --- | --- |
| C.  | government control of all production decisions. |

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| 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:

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| --- | --- |
| A.  | increase unnecessary investment. |

|  |  |
| --- | --- |
| B.  | limit destructive economic growth. |

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| --- | --- |
| C.  | create economic problems. |

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| --- | --- |
| D.  | encourage economic activity. |

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| 17. | Which is a major feature of the market system?

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| --- | --- |
| A.  | price floors and price ceilings in all markets |

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| --- | --- |
| B.  | reallocation of all resources from private to public uses |

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| --- | --- |
| 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?

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| --- | --- |
| 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:

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| A.  | products are provided free to those who can't afford to buy them. |

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| B.  | individual producers determine how to produce, but government agencies determine what will be produced. |

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| --- | --- |
| C.  | individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose. |

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| --- | --- |
| 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?

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| --- | --- |
| 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. |

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| 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?

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| --- | --- |
| 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?

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| --- | --- |
| 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 |

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| --- | --- |
| D.  | by seeking jobs with the best combination of wages and benefits |

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| 23. | Consumers express self-interest when they:

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| --- | --- |
| A.  | reduce business losses. |

|  |  |
| --- | --- |
| B.  | collect economic profits. |

|  |  |
| --- | --- |
| C.  | seek the lowest price for the product. |

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| --- | --- |
| D.  | search for jobs with the highest wage |

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| 24. | Competition means that:

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| --- | --- |
| A.  | sellers can cause artificial product scarcities and thereby manipulate market price. |

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| --- | --- |
| 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:

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| --- | --- |
| A.  | encourages innovation because government provides tax breaks and subsidies to those who develop new products or new productive techniques. |

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| --- | --- |
| B.  | discourages innovation because it is difficult to acquire additional capital in the form of new machinery and equipment. |

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| --- | --- |
| C.  | discourages innovation because firms want to get all the profits possible from existing machinery and equipment. |

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| --- | --- |
| D.  | encourages innovation because successful innovators are rewarded with economic profits. |

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| 26. | Competition is more likely to exist when:

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| --- | --- |
| A.  | there is free entry into and exit out of industries. |

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| --- | --- |
| 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?

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| --- | --- |
| 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 |

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| --- | --- |
| 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:

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| --- | --- |
| 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. |

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| --- | --- |
| 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. |

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| --- | --- |
| B.  | Prices affect the distribution of goods in a market system but not the allocation of resources. |

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| --- | --- |
| C.  | In a market system, prices serve to ration goods and services to consumers. |

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| 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:

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| --- | --- |
| A.  | extensive use of price controls. |

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| --- | --- |
| B.  | extensive use of barter. |

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| --- | --- |
| C.  | extensive use of capital goods. |

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| --- | --- |
| 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:

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| --- | --- |
| 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. |

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| --- | --- |
| 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:

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| --- | --- |
| A.  | promote the concentration of economic power in the business sector. |

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| --- | --- |
| B.  | facilitate exchange where a coincidence of wants does not exist. |

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| --- | --- |
| C.  | better synchronize the operation of resource and product markets. |

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| --- | --- |
| 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:

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| --- | --- |
| A.  | labour markets are geographically segmented. |

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| --- | --- |
| B.  | unskilled workers outnumber skilled workers. |

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| --- | --- |
| C.  | workers specialize in various production tasks. |

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| --- | --- |
| D.  | each worker performs a large number of tasks. |

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| 38. | Specialization and trade are beneficial to society because:

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| --- | --- |
| A.  | the output of economic goods may be increased with no increase in resources. |

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| --- | --- |
| B.  | scarce resources are utilized more efficiently. |

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| C.  | a division of labour lowers prices for products. |

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| D.  | all of the above are correct. |

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| 39. | Specialization in production is important primarily because it:

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| --- | --- |
| A.  | results in greater total output. |

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| --- | --- |
| B.  | allows society to avoid the coincidence-of-wants problem. |

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| C.  | allows society to trade by barter. |

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| D.  | allows society to have fewer capital goods. |

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| 40. | The division of labour enhances productivity and efficiency by:

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| --- | --- |
| A.  | allowing workers to take advantage of existing differences in their abilities and skills. |

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| --- | --- |
| 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. |

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| D.  | all of the above means. |

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| 41. | Specialization in production is economically beneficial primarily because it:

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| --- | --- |
| A.  | allows everyone to have a job which they like. |

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| --- | --- |
| B.  | permits the production of a larger output with fixed amounts of resources. |

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| --- | --- |
| C.  | facilitates trade by bartering. |

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| D.  | guarantees full employment. |

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| 42. | The use of money for exchange:

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| --- | --- |
| A.  | increases the use of barter. |

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| --- | --- |
| B.  | reduces consumer sovereignty. |

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| --- | --- |
| C.  | decreases the coincidence of wants. |

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| --- | --- |
| D.  | encourages more specialization in production. |

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| 43. | Which is the main problem with the barter system of exchange? Barter:

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| --- | --- |
| 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.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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:

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| --- | --- |
| 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? |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |
| --- | --- |
|  |    |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

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

|  |  |
| --- | --- |
| 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 |

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

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

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

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

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

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

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

|  |  |
| --- | --- |
| 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 |

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

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

Chapter 2 Key

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #1Topic: 02-03 The Command SystemType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #2Topic: 02-01 2.1 Economic SystemsType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | The economy of North Korea most closely approximates:

|  |  |
| --- | --- |
| A.  | pure capitalism |

|  |  |
| --- | --- |
| **B.**  | a command economy |

|  |  |
| --- | --- |
| C.  | market socialism |

|  |  |
| --- | --- |
| D.  | authoritarian capitalism |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #3Topic: 02-01 2.1 Economic SystemsType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. | Today, China's economy most closely approximates:

|  |  |
| --- | --- |
| A.  | pure capitalism |

|  |  |
| --- | --- |
| B.  | a command economy |

|  |  |
| --- | --- |
| **C.**  | market socialism |

|  |  |
| --- | --- |
| D.  | authoritarian capitalism |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #4Topic: 02-01 2.1 Economic SystemsType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #5Topic: 02-01 2.1 Economic SystemsType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #6Topic: 02-01 2.1 Economic SystemsType: Definition* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #7Topic: 02-06 Private PropertyType: Definition* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #8Topic: 02-06 Private PropertyType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #9Topic: 02-02 Laissez-Faire CapitalismType: Definition* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #10Topic: 02-01 2.1 Economic SystemsType: Definition* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | The Canadian economy most closely approximates:

|  |  |
| --- | --- |
| **A.**  | mixed capitalism |

|  |  |
| --- | --- |
| B.  | a command economy |

|  |  |
| --- | --- |
| C.  | market socialism |

|  |  |
| --- | --- |
| D.  | authoritarian capitalism |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #11Topic: 02-01 2.1 Economic SystemsType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-02 List the main characteristics of the market system.McConnell - Chapter 02 #12Topic: 02-04 The Market SystemType: Definition* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #13Topic: 02-06 Private PropertyType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-02 List the main characteristics of the market system.McConnell - Chapter 02 #14Topic: 02-04 The Market SystemType: Definition* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-02 List the main characteristics of the market system.McConnell - Chapter 02 #15Topic: 02-04 The Market SystemType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-02 List the main characteristics of the market system.McConnell - Chapter 02 #16Topic: 02-04 The Market SystemType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |
| --- |
| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-02 List the main characteristics of the market system.McConnell - Chapter 02 #17Topic: 02-04 The Market SystemType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

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| --- | --- |
| **C.**  | the right to own private property and control resource use |

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| --- | --- |
| D.  | central planning by government to provide goods and services |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #18Topic: 02-02 Laissez-Faire CapitalismType: 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. |

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| --- | --- |
| B.  | individual producers determine how to produce, but government agencies determine what will be produced. |

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| --- | --- |
| **C.**  | individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose. |

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| --- | --- |
| D.  | individuals are free to produce those products that government agencies determine can be produced profitably. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #19Topic: 02-07 Freedom of Enterprise and ChoiceType: 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. |

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| --- | --- |
| B.  | Producers are "kings" in a market economy because they determine what is produced. |

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| --- | --- |
| C.  | The market system is efficient at allocation of resources, but not consumer goods to their most valued uses. |

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| --- | --- |
| **D.**  | Freedom of choice and enterprise are essential elements of the market system. |

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| *Accessibility: Keyboard NavigationDifficulty: MediumLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #20Topic: 02-01 2.1 Economic SystemsType: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | Which is characteristic of the capitalistic ideology?

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| --- | --- |
| A.  | unselfish individuals |

|  |  |
| --- | --- |
| B.  | centralized decision-making |

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| --- | --- |
| **C.**  | free enterprise and choice |

|  |  |
| --- | --- |
| D.  | government ownership of the means of production |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and a market system.McConnell - Chapter 02 #21Topic: 02-01 2.1 Economic SystemsType: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. | How do workers typically express self-interest?

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| --- | --- |
| 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 |

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| --- | --- |
| **D.**  | by seeking jobs with the best combination of wages and benefits |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #22Topic: 02-08 Self-InterestType: Definition* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | Consumers express self-interest when they:

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| --- | --- |
| A.  | reduce business losses. |

|  |  |
| --- | --- |
| B.  | collect economic profits. |

|  |  |
| --- | --- |
| **C.**  | seek the lowest price for the product. |

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| --- | --- |
| D.  | search for jobs with the highest wage |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #23Topic: 02-08 Self-InterestType: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | Competition means that:

|  |  |
| --- | --- |
| A.  | sellers can cause artificial product scarcities and thereby manipulate market price. |

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| **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. |

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| --- | --- |
| D.  | there is only one seller in a market. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #24Topic: 02-09 CompetitionType: Definition* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. |

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| B.  | discourages innovation because it is difficult to acquire additional capital in the form of new machinery and equipment. |

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| --- | --- |
| C.  | discourages innovation because firms want to get all the profits possible from existing machinery and equipment. |

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| **D.**  | encourages innovation because successful innovators are rewarded with economic profits. |

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| *Accessibility: Keyboard NavigationDifficulty: MediumLearning 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 #25Topic: 02-09 CompetitionType: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | Competition is more likely to exist when:

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| --- | --- |
| **A.**  | there is free entry into and exit out of industries. |

|  |  |
| --- | --- |
| B.  | there is a single supplier of all goods and services. |

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| --- | --- |
| C.  | the government purchases most goods and services. |

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| --- | --- |
| D.  | products are produced by a few large firms. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #26Topic: 02-09 CompetitionType: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | Which condition will encourage competition?

|  |  |
| --- | --- |
| A.  | government licensing requirements in order to enter an industry |

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| --- | --- |
| 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 NavigationDifficulty: MediumLearning 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 #27Topic: 02-09 CompetitionType: 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 NavigationDifficulty: EasyLearning 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 #28Topic: 02-09 CompetitionType: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. | Competition denotes a condition where:

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| --- | --- |
| 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. |

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| --- | --- |
| D.  | a few sellers attempt to garner a larger share of the market by cutting prices. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #29Topic: 02-09 CompetitionType: 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. |

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| --- | --- |
| 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 NavigationDifficulty: MediumLearning 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 #30Topic: 02-09 CompetitionType: 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. |

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| --- | --- |
| 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 NavigationDifficulty: MediumLearning 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 #31Topic: 02-09 CompetitionType: 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. |

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| --- | --- |
| B.  | Prices affect the distribution of goods in a market system but not the allocation of resources. |

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| --- | --- |
| **C.**  | In a market system, prices serve to ration goods and services to consumers. |

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| --- | --- |
| 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 NavigationDifficulty: EasyLearning 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 #32Topic: 02-10 Markets and PricesType: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | A characteristic of the market system is:

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| --- | --- |
| A.  | extensive use of price controls. |

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| --- | --- |
| B.  | extensive use of barter. |

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| --- | --- |
| **C.**  | extensive use of capital goods. |

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| --- | --- |
| D.  | low interest rates. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #33Topic: 02-10 Markets and PricesType: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. | The development of new technology and capital goods are essential elements for the market system. This is because:

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| --- | --- |
| **A.**  | using more efficient production processes means more output for the economy. |

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| --- | --- |
| B.  | more capital goods means less future consumption goods. |

|  |  |
| --- | --- |
| C.  | the standard of living and development of new technology are inversely related. |

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| --- | --- |
| D.  | the most direct methods of production are more efficient. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning 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 #34Topic: 02-11 Technology and Capital GoodsType: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | The basic reason for the production of capital goods is to:

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| --- | --- |
| 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. |

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| --- | --- |
| **D.**  | enhance future productive efficiency. |

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| *Accessibility: Keyboard NavigationDifficulty: MediumLearning 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 #35Topic: 02-11 Technology and Capital GoodsType: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. | The process in which workers select specialized tasks to make a product is referred to as:

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| --- | --- |
| A.  | a coincidence of wants. |

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| --- | --- |
| B.  | roundabout production. |

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| --- | --- |
| C.  | freedom of choice. |

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| --- | --- |
| **D.**  | division of labour. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #36Topic: 02-12 SpecializationType: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. | The division of labour means that:

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| --- | --- |
| A.  | labour markets are geographically segmented. |

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| --- | --- |
| B.  | unskilled workers outnumber skilled workers. |

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| --- | --- |
| **C.**  | workers specialize in various production tasks. |

|  |  |
| --- | --- |
| D.  | each worker performs a large number of tasks. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #37Topic: 02-12 SpecializationType: Definition* |

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| 38. | Specialization and trade are beneficial to society because:

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| --- | --- |
| A.  | the output of economic goods may be increased with no increase in resources. |

|  |  |
| --- | --- |
| B.  | scarce resources are utilized more efficiently. |

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| --- | --- |
| C.  | a division of labour lowers prices for products. |

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| --- | --- |
| **D.**  | all of the above are correct. |

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| *Accessibility: Keyboard NavigationDifficulty: MediumLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #38Topic: 02-12 SpecializationType: Application* |

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| 39. | Specialization in production is important primarily because it:

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| --- | --- |
| **A.**  | results in greater total output. |

|  |  |
| --- | --- |
| B.  | allows society to avoid the coincidence-of-wants problem. |

|  |  |
| --- | --- |
| C.  | allows society to trade by barter. |

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| --- | --- |
| D.  | allows society to have fewer capital goods. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #39Topic: 02-12 SpecializationType: Application* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | The division of labour enhances productivity and efficiency by:

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| --- | --- |
| 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 NavigationDifficulty: MediumLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #40Topic: 02-12 SpecializationType: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | Specialization in production is economically beneficial primarily because it:

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| --- | --- |
| A.  | allows everyone to have a job which they like. |

|  |  |
| --- | --- |
| **B.**  | permits the production of a larger output with fixed amounts of resources. |

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| --- | --- |
| C.  | facilitates trade by bartering. |

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| --- | --- |
| D.  | guarantees full employment. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #41Topic: 02-12 SpecializationType: Application* |

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| 42. | The use of money for exchange:

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| --- | --- |
| 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 NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #42Topic: 02-13 Use of MoneyType: 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 NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #43Topic: 02-13 Use of MoneyType: 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 NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #44Topic: 02-13 Use of MoneyType: 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 NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #45Topic: 02-13 Use of MoneyType: Application* |

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| *McConnell - Chapter 02* |

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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: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #46Topic: 02-13 Use of MoneyType: 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: MediumLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #47Topic: 02-13 Use of MoneyType: 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.  |

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| --- | --- |
| 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: HardLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #48Topic: 02-13 Use of MoneyType: 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 NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #49Topic: 02-13 Use of MoneyType: 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  |

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| --- | --- |
| **D.**  | government determination of basic economic goals  |

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-02 List the main characteristics of the market system.McConnell - Chapter 02 #50Topic: 02-05 2.2 Characteristics of the Market SystemType: Definition* |

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| 51. | The most important consequence of property rights is that

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| A.  | they facilitate exchange. |

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| --- | --- |
| B.  | allow for freedom of choice. |

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| **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 NavigationDifficulty: EasyLearning 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 #51Topic: 02-06 Private PropertyType: 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? |

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| --- | --- |
| **D.**  | What goods and services should be produced by government? |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #52Topic: 02-15 2.3 Five Fundamental QuestionsType: Definition* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | What to produce in a market economy is ultimately determined by the:

|  |  |
| --- | --- |
| A.  | output decisions of business firms. |

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| --- | --- |
| B.  | government. |

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| --- | --- |
| **C.**  | spending decisions of households. |

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| --- | --- |
| D.  | workers' technical skills. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #53Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #54Topic: 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. |

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| --- | --- |
| **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 NavigationDifficulty: EasyMcConnell - Chapter 02 #55Topic: 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. |

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| --- | --- |
| **D.**  | of the role of consumers in determining what goods are produced. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #56Topic: 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.  |

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| --- | --- |
| D.  | the invisible hand.  |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #57Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #58Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #59Topic: 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 NavigationDifficulty: MediumMcConnell - Chapter 02 #60Topic: 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? |

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| --- | --- |
| D.  | Who is to receive the output? |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #61Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #62Topic: 02-15 2.3 Five Fundamental QuestionsType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #63Topic: 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. |

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| --- | --- |
| **C.**  | private sector through the earning and spending of income. |

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| --- | --- |
| D.  | money market through borrowing and saving by households and businesses. |

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| *Accessibility: Keyboard NavigationDifficulty: MediumMcConnell - Chapter 02 #64Topic: 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. |

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| --- | --- |
| D.  | a social consensus as to what distribution of income is most equitable. |

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| *Accessibility: Keyboard NavigationDifficulty: MediumMcConnell - Chapter 02 #65Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #66Topic: 02-15 2.3 Five Fundamental QuestionsType: 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 NavigationDifficulty: MediumMcConnell - Chapter 02 #67Topic: 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:

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| --- | --- |
| **A.**  | increase the demand for strawberry pickers. |

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| --- | --- |
| B.  | reduce the supply of strawberry pickers. |

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| --- | --- |
| C.  | reduce the supply of strawberries. |

|  |  |
| --- | --- |
| D.  | reduce the demand for strawberry pickers. |

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| *Accessibility: Keyboard NavigationDifficulty: MediumMcConnell - Chapter 02 #68Topic: 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. |

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| --- | --- |
| **B.**  | guiding function of prices. |

|  |  |
| --- | --- |
| C.  | monetary function of prices. |

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| --- | --- |
| D.  | circular flow of income. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #69Topic: 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 NavigationDifficulty: MediumMcConnell - Chapter 02 #70Topic: 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. |

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| --- | --- |
| C.  | the scarcity function of prices. |

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| --- | --- |
| **D.**  | the directing or guiding function of prices. |

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| *Accessibility: Keyboard NavigationDifficulty: MediumMcConnell - Chapter 02 #71Topic: 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?

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| --- | --- |
| **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 NavigationDifficulty: MediumMcConnell - Chapter 02 #72Topic: 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 NavigationDifficulty: MediumMcConnell - Chapter 02 #73Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #74Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #75Topic: 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 NavigationDifficulty: MediumMcConnell - Chapter 02 #76Topic: 02-21 2.4 The Invisible HandType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #77Topic: 02-21 2.4 The Invisible HandType: 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 NavigationDifficulty: MediumMcConnell - Chapter 02 #78Topic: 02-21 2.4 The Invisible HandType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #79Topic: 02-21 2.4 The Invisible HandType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #80Topic: 02-21 2.4 The Invisible HandType: 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. |

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| --- | --- |
| B.  | capital accumulation. |

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| --- | --- |
| **C.**  | the "invisible hand." |

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| D.  | dollar votes. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #81Topic: 02-21 2.4 The Invisible HandType: 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. |

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| **D.**  | quantitative production target. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #82Topic: 02-22 The Demise of the Command SystemType: 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. |

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| --- | --- |
| C.  | planning techniques improved. |

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| D.  | production cost decreased. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #83Topic: 02-22 The Demise of the Command SystemType: 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. |

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| --- | --- |
| D.  | the profit motives are extremely high. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #84Topic: 02-22 The Demise of the Command SystemType: Application* |

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| 85. | In the factor market:

|  |  |
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| A.  | businesses borrow money capital from households. |

|  |  |
| --- | --- |
| B.  | businesses sell services to households. |

|  |  |
| --- | --- |
| **C.**  | households sell resources to businesses. |

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| --- | --- |
| D.  | firms sell raw materials to households. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #85Topic: 02-24 2.5 The Circular Flow ModelType: Application* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 NavigationDifficulty: MediumMcConnell - Chapter 02 #86Topic: 02-24 2.5 The Circular Flow ModelType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #87Topic: 02-24 2.5 The Circular Flow ModelType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #88Topic: 02-24 2.5 The Circular Flow ModelType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #89Topic: 02-24 2.5 The Circular Flow ModelType: 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. |

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| --- | --- |
| **D.**  | all of the above hold true. |

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #90Topic: 02-24 2.5 The Circular Flow ModelType: 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: MediumMcConnell - Chapter 02 #91Topic: 02-24 2.5 The Circular Flow ModelType: 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: MediumMcConnell - Chapter 02 #92Topic: 02-24 2.5 The Circular Flow ModelType: 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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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #93Topic: 02-24 2.5 The Circular Flow ModelType: Definition* |

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| *McConnell - Chapter 02* |

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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: MediumMcConnell - Chapter 02 #94Topic: 02-24 2.5 The Circular Flow ModelType: 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: MediumMcConnell - Chapter 02 #95Topic: 02-24 2.5 The Circular Flow ModelType: Application* |

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| *McConnell - Chapter 02* |

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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: EasyMcConnell - Chapter 02 #96Topic: 02-24 2.5 The Circular Flow ModelType: 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: EasyMcConnell - Chapter 02 #97Topic: 02-24 2.5 The Circular Flow ModelType: 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: EasyMcConnell - Chapter 02 #98Topic: 02-24 2.5 The Circular Flow ModelType: 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: EasyMcConnell - Chapter 02 #99Topic: 02-24 2.5 The Circular Flow ModelType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #100Topic: 02-24 2.5 The Circular Flow ModelType: 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 NavigationDifficulty: MediumLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #101Topic: 02-12 SpecializationType: 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 NavigationDifficulty: EasyLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #102Topic: 02-12 SpecializationType: 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 NavigationDifficulty: MediumLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #103Topic: 02-13 Use of MoneyType: 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 NavigationDifficulty: MediumLearning Objective: 02-05 Describe the mechanics of the circular flow model.McConnell - Chapter 02 #104Topic: 02-14 Active but Limited GovernmentType: Application* |

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

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| *Accessibility: Keyboard NavigationDifficulty: EasyLearning Objective: 02-02 List the main characteristics of the market system.McConnell - Chapter 02 #105Topic: 02-05 2.2 Characteristics of the Market SystemType: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #106Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #107Topic: 02-16 What Will Be Produced?Type: Application* |

|  |  |
| --- | --- |
| 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #108Topic: 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #109Topic: 02-21 2.4 The Invisible HandType: Definition* |

|  |  |
| --- | --- |
| 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 NavigationDifficulty: EasyMcConnell - Chapter 02 #110Topic: 02-21 2.4 The Invisible HandType: Application* |

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

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #111Topic: 02-24 2.5 The Circular Flow ModelType: Application* |

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

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| *Accessibility: Keyboard NavigationDifficulty: EasyMcConnell - Chapter 02 #112Topic: 02-24 2.5 The Circular Flow ModelType: 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 |
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| 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 |