

***Economics Brief Edition 3rd edition McConnell Test  
Bank***

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***Brief Economics, 3e (McConnell)***

**Chapter 2 The Market System and the Circular Flow**

1) Economic systems differ according to what two main characteristics?

- A) Ownership of resources and methods of coordinating economic activity.
- B) Quantity of output produced and who receives the output.
- C) Who produces the output and what technology is used to produce it.
- D) The system of government and the quantity of natural resources available.

Answer: A

Difficulty: 2 Medium

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

2) 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.

Answer: B

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

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3) In a capitalistic economy:

- A) consumers are not sovereign.
- B) markets are not competitive.
- C) there is a reliance on the market system.
- D) the government owns the means of production.

Answer: C

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

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4) Which statement best describes a capitalist economy?

- A) The production of goods and services is determined primarily by markets, but the allocation of goods and services is determined primarily by government.
- B) The production of goods and services is determined primarily by government, but the allocation of goods and services is determined primarily by markets.
- C) The production and allocation of goods and services is determined primarily through markets.
- D) The production and allocation of goods and services is determined primarily through government.

Answer: C

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

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5) Which statement best describes a command economy?

- A) The production of goods and services is determined primarily by markets, but the allocation of goods and services is determined primarily by government.
- B) The production of goods and services is determined primarily by government, but the allocation of goods and services is determined primarily by markets.
- C) The production and allocation of goods and services is determined primarily through markets.
- D) The production and allocation of goods and services is determined primarily through government.

Answer: D

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

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6) Which would not be characteristic of a capitalist economy?

- A) Government ownership of the factors of production.
- B) Competition and unrestricted markets.
- C) Reliance on the market system.
- D) Free enterprise and choice.

Answer: A

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

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7) A basic characteristic of a command system is that:

- A) wages paid to labor are higher.
- B) government owns most economic resources.
- C) markets function mostly free from government intervention.
- D) government planners play a limited role in deciding what goods will be produced.

Answer: B

Difficulty: 2 Medium

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

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8) 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.

Answer: C

Difficulty: 2 Medium

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

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9) Another term for capitalism is the:

- A) command system.
- B) socialist economy.
- C) market system.
- D) system of inputs and outputs.

Answer: C

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

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10) Capitalism is an economic system that:

- A) produces more capital goods than consumer goods.
- B) produces more consumer goods than capital goods.
- C) is characterized by government control of markets.
- D) gives private individuals and corporations the right to own productive resources.

Answer: D

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

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11) The Soviet Union economy of the 1980s would best be classified as:

- A) a market system.
- B) pure capitalism.
- C) laissez-faire capitalism.
- D) a command system.

Answer: D

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

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12) The economy of South Korea would best be classified as:

- A) a command system.
- B) socialism.
- C) pure capitalism.
- D) a market system.

Answer: D

Difficulty: 2 Medium

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

13) The economy of North Korea would best be classified as:

- A) a laissez-faire economy.
- B) a command system.
- C) a capitalist economy.
- D) a market system.

Answer: B

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

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14) The economy of Cuba most closely approximates:

- A) laissez-faire capitalism.
- B) a command economy.
- C) pure capitalism.
- D) a market economy.

Answer: B

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

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15) Since the end of World War II:

- A) the economies of both North Korea and South Korea have grown at approximately the same rate.
- B) both North and South Korea have adopted command economies.
- C) North Korea's economy has achieved greater economic growth than South Korea.
- D) the South Korean economy has grown faster than North Korea's economy.

Answer: D

Difficulty: 2 Medium

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

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16) Which of the following statements is most accurate about the economies of North Korea and South Korea?

- A) The economies of both North Korea and South Korea have grown at approximately the same rate since Korea was divided after World War II.
- B) Since their division after World War II, South Korea has grown much faster than North Korea, but their GDP per capita remains roughly equal.
- C) Since their division after World War II, North Korea's economy has achieved greater economic growth than South Korea.
- D) Starting from similar economic positions prior to their division after World War II, South Korea's economy has grown to about 40 times the size of the North Korean economy.

Answer: D

Difficulty: 2 Medium

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

17) The market system is characterized by:

- A) extensive government constraints on individual behavior.
- B) private ownership of the means of production.
- C) government control of all production decisions.
- D) government rationing of all goods and services.

Answer: B

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

18) In a market system, well-defined property rights are important because they:

- A) reduce unnecessary investment.
- B) limit destructive economic growth.
- C) create economic problems.
- D) encourage economic activity.

Answer: D

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 19) Which is a major feature of the market system?
- A) Government-established prices in all markets.
  - B) Reallocation of all resources from private to public uses.
  - C) The right to own private property and control resource uses.
  - D) Central planning by government to provide goods and services.

Answer: C

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 20) Legal and social rules that affect the ownership of property are:
- A) property rights.
  - B) the coincidence of wants.
  - C) the division of labor.
  - D) the freedom of enterprise.

Answer: A

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 21) The institution of private property encourages:
- A) lack of maintenance because people are not forced by law to do it.
  - B) lack of easy exchange because ownership is sometimes hard to prove.
  - C) easy exchange of some property because a formal title or deed exists.
  - D) lack of incentives because the owner is responsible for maintenance costs.

Answer: C

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 22) Which is characteristic of the market system?
- A) Unselfish individuals
  - B) Centralized decision making
  - C) Free enterprise and choice
  - D) Government ownership of the means of production

Answer: C

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

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

Answer: C

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 24) Based on the Index of Economic Freedom provided by the Heritage Foundation, which of the following nations is considered *least* free?
- A) New Zealand.
  - B) Colombia.
  - C) Argentina.
  - D) Japan.

Answer: C

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

25) Which statement is correct?

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

Answer: D

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

26) The maximization of profit and the minimization of losses is the primary factor affecting the economic decision making of:

- A) workers.
- B) consumers.
- C) public officials.
- D) entrepreneurs.

Answer: D

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

27) How do workers typically express self-interest?

- A) By minimizing the economic losses of other business firms.
- B) By maximizing the economic profits of other business firms.
- C) By seeking the highest price when purchasing a consumer product.
- D) By seeking jobs with the best combination of wages and benefits.

Answer: D

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

28) In a market economy, entrepreneurs are most concerned with:

- A) maximizing utility or satisfaction from limited incomes.
- B) increasing the wages and salaries of workers.
- C) maximizing profits or minimizing losses.
- D) the selfish pursuit of money.

Answer: C

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

29) Competition is more likely to exist when:

- A) there is free entry into and exit out of industries.
- B) there is a single supplier of all goods and services.
- C) the government purchases most goods and services.
- D) products are produced by a few large firms.

Answer: A

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

30) Which condition will encourage competition?

- A) Government licensing requirements in order to enter an industry.
- B) A small number of buyers and sellers in a market.
- C) The freedom of sellers and buyers to enter or exit an industry.
- D) The government serving as the only supplier of goods to consumers.

Answer: C

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

31) Which statement is correct?

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

Answer: C

Difficulty: 3 Hard

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

32) A market system is best characterized by:

- A) extensive government intervention in economic activity.
- B) the private production of most capital goods.
- C) government regulation of all private markets.
- D) central planning and control.

Answer: B

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

33) A characteristic of the market system is:

- A) frequent use of price controls.
- B) frequent use of barter.
- C) extensive use of capital goods.
- D) low interest rates.

Answer: C

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

34) 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

Answer: D

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

35) All of the following accurately describe a market economy *except*:

- A) government establishes maximum and minimum prices for most goods and services.
- B) prices serve as a signaling mechanism to buyers and sellers.
- C) the allocation of resources is determined by their prices.
- D) the actions of buyers and sellers establish a product's price.

Answer: A

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

36) Which statement best describes a capitalist economy?

- A) Society determines production and the allocation of goods and services only through markets.
- B) Government policies determine the production and the allocation of goods and services.
- C) Government policies determine the production, but not the allocation, of goods and services.
- D) The role of individual self-interest is relatively unimportant because government makes most economic decisions.

Answer: A

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 37) The process in which workers do 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 labor.

Answer: D

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 38) How does human specialization contribute to an economy's output?
- A) It makes use of differences in abilities.
  - B) It is a process of creative destruction.
  - C) It works like an "invisible hand."
  - D) It decreases derived demand.

Answer: A

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

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

Answer: D

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 40) Advantages of specialization do not include:
- A) increased production of economic goods with no increase in resources.
  - B) the more efficient use of scarce resources.
  - C) increased ability to utilize the division of labor.
  - D) less interdependence.

Answer: D

Difficulty: 3 Hard

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 41) Which of the following *does not* explain why specialization increases output?
- A) Specialization capitalizes on differences in ability.
  - B) Specialization promotes self-sufficiency and independence.
  - C) Specialization fosters learning by doing.
  - D) Specialization saves time by eliminating shifting between tasks.

Answer: B

Difficulty: 3 Hard

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 42) A prerequisite of specialization is:
- A) a capitalistic economic system.
  - B) a medium of exchange or money system.
  - C) free enterprise.
  - D) competition.

Answer: B

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

43) Which is an example of barter?

- A) A person trading a desk for a box of tools.
- B) A person buying clothes at a used clothing store.
- C) A gift of tuition money from parents to their children.
- D) The purchase of stock on the New York Stock Exchange.

Answer: A

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

44) An economic system in which money is *not* used is a:

- A) planned economy.
- B) market economy.
- C) mixed economy.
- D) barter economy.

Answer: D

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

45) Which is necessary to make a trade in a barter economy?

- A) Money
- B) Unlimited wants
- C) A medium of exchange
- D) A coincidence of wants

Answer: D

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

46) 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.

Answer: D

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

47) The use of money for exchange:

- A) increases the use of barter.
- B) reduces consumer sovereignty.
- C) increases the importance of a coincidence of wants.
- D) encourages more specialization in production.

Answer: D

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

48) Which is the main problem with the barter system of exchange? Barter:

- A) encourages self-interest and selfishness.
- B) fosters specialization and division of labor.
- C) requires a coincidence of wants.
- D) undermines the right to leave property to one's heirs.

Answer: C

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

49) The direct exchange of goods for goods is:

- A) barter.
- B) the circular flow.
- C) the invisible hand.
- D) roundabout production.

Answer: A

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

50) Why might a company use barter rather than money to make a transaction?

- A) Barter is generally more efficient than money exchanges.
- B) Barter can enable two firms to trade when their cash flows are limited.
- C) Money requires a coincidence of wants but barter is more direct.
- D) Money is economically efficient for large transactions, but barter is preferred for smaller transactions.

Answer: B

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-02 List the main characteristics of the market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

51) Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?

- A) What goods and services will be produced?
- B) How will the goods and services be produced?
- C) How will the system promote progress?
- D) Who will get the goods and services?

Answer: A

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

52) Economic efficiency would be primarily discussed with respect to which of the fundamental questions about a competitive market economy?

- A) What goods and services will be produced?
- B) How will the goods and services be produced?
- C) How will the system promote progress?
- D) Who will get the goods and services?

Answer: B

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

53) Issues of the distribution of goods and services and incomes in a competitive market system are the primary topic of which fundamental question?

- A) What goods and services will be produced?
- B) How will the goods and services be produced?
- C) How will the system promote progress?
- D) Who will get the goods and services?

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

54) Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation?

- A) What goods and services will be produced?
- B) How will the goods and services be produced?
- C) How will the system promote progress?
- D) Who will get the goods and services?

Answer: C

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-04 Discuss how the market system adjusts to change and promotes progress.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

55) All economic systems must answer certain fundamental economic questions. Which is *not* one of these questions?

- A) Which actions should government take to reduce inflation?
- B) How will the goods and services be produced?
- C) What goods and services will be produced?
- D) Who is to receive the output?

Answer: A

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

56) Which is not one of the Four Fundamental Questions?

- A) How will goods and services be produced?
- B) How should the system promote progress?
- C) Who is to receive the output of the system?
- D) What goods and services should be produced by government?

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

57) In 2006, McDonald's introduced the "Snack Wrap" and it turned out to be a successful product. In the marketplace for fast-food products, this success would be an example of:

- A) derived demand.
- B) medium of exchange.
- C) consumer sovereignty.
- D) roundabout production.

Answer: C

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

58) In 2000, McDonald's introduced the "McSalad Shaker." It turned out to be an unsuccessful product. In the marketplace for fast-food products, this lack of success is an example of:

- A) normal profit.
- B) economic costs.
- C) consumer sovereignty.
- D) medium of exchange.

Answer: C

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

59) The introduction in 1968 of the "Big Mac" was a hit product for McDonald's. This example shows that in the market for such fast-food products:

- A) normal profits are greater than economic profits.
- B) the medium of exchange is more important than the message.
- C) consumer sovereignty is less important than specialization.
- D) the dollar votes of consumers determined which products succeed.

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

60) The process by which new products and technologies drive out existing products and techniques is known as:

- A) destructive creation.
- B) creative destruction.
- C) consumer sovereignty.
- D) capital accumulation.

Answer: B

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-04 Discuss how the market system adjusts to change and promotes progress.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

61) What to produce in a market economy is ultimately determined by the:

- A) output decisions of business firms.
- B) income plans of households.
- C) spending decisions of households.
- D) workers' technical skills.

Answer: C

Difficulty: 3 Hard

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

62) 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 purchase.
- C) there are no limits on what consumers may buy under capitalism.
- D) businesses produce with tax minimization as their primary goal.

Answer: B

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

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63) Within a market economy, some industries may be declining while other industries may be expanding. This indicates that:

- A) incomes are declining.
- B) productive resources are being reallocated.
- C) factors of production are scarce.
- D) producers are not maximizing profits.

Answer: B

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-04 Discuss how the market system adjusts to change and promotes progress.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

64) By consumer sovereignty we mean that:

- A) government is responsible for protecting consumer interests.
- B) consumers determine what goods and services are produced.
- C) businesses decide what the consumer will buy.
- D) all goods and services are produced by consumers.

Answer: B

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

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65) 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 major role of consumers in determining what goods are produced.

Answer: D

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

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66) A major feature of a market system is that:

- A) there is economic equality.
- B) there is consumer sovereignty.
- C) there is full employment.
- D) all producers make profits.

Answer: B

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

67) The failure of the McDonald's Arch Deluxe burger was an example of:

- A) an increase in demand.
- B) consumer sovereignty.
- C) technological advances.
- D) economic profit.

Answer: B

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

68) The term "dollar votes" means:

- A) inflation will occur if consumers do not 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 money.
- D) consumers "vote" for certain products to be produced by how they spend their incomes.

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

69) From society's point of view, the economic function of profits is to:

- A) equalize incomes.
- B) ensure that the rich get richer.
- C) provide revenues to pay high wages.
- D) direct resources in response to changes in the economy.

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-04 Discuss how the market system adjusts to change and promotes progress.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

70) In a market economy, the money incomes of individuals depend primarily upon:

- A) government policies in setting wages and interest rates.
- B) the value and amounts of the productive resources the individuals possess.
- C) the amount of college education the individuals have.
- D) who you know and how well you know them.

Answer: B

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

71) 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.

Answer: B

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

72) Which best describes the "invisible hand" concept?

- A) Highly detailed central direction of an economy will maximize the public's best interests.
- B) The market system works best when resources are highly substitutable.
- C) The problem of scarcity can best be overcome in a system of mixed capitalism.
- D) The desires of producers and resource suppliers to further their own self-interest will tend to promote the social interest.

Answer: D

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

73) The idea that firms and resource suppliers, while seeking to further their own self-interests in a market economy, also promote the public interest describes:

- A) the guiding function of prices.
- B) capital accumulation.
- C) the "invisible hand."
- D) "dollar votes."

Answer: C

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

74) The influential book written by Adam Smith was:

- A) *Capitalism and Freedom*.
- B) *The Affluent Society*.
- C) *The Age of the Economist*.
- D) *The Wealth of Nations*.

Answer: D

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

75) The "invisible hand" concept to describe the guiding function of prices was developed by:  
A) Jeremy Bentham.  
B) Adam Smith.  
C) Milton Friedman.  
D) David Ricardo.

Answer: B

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

76) The development of the Internet and e-mail to often replace regular mail services is an example of:  
A) roundabout production.  
B) derived demand.  
C) creative destruction.  
D) specialization.

Answer: C

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-04 Discuss how the market system adjusts to change and promotes progress.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

77) The development of MP3 players and online streaming, which significantly reduced the market for CDs, is an example of:  
A) specialization.  
B) derived demand.  
C) roundabout production.  
D) creative destruction.

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-04 Discuss how the market system adjusts to change and promotes progress.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

78) Which of the following statements is most accurate about capital accumulation in a market system?

- A) Capital accumulation is generally insufficient because consumers don't directly cast dollar votes for capital goods.
- B) The invisible hand directs the production of consumer goods, but government planning is required to effectively allocate resources to capital goods.
- C) Capital good production is the primary driver of the demand for consumer goods.
- D) Entrepreneurs and business owners cast dollar votes for capital goods based on the profitability of goods and services they sell to consumers.

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-04 Discuss how the market system adjusts to change and promotes progress.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

79) The basic economic argument for the market system is that it promotes:

- A) an efficient allocation of resources.
- B) equality in the distribution of income.
- C) personal freedom.
- D) the use of money.

Answer: A

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

80) Command systems in the Soviet Union and pre-reform China failed primarily because of:

- A) coordination and incentive problems.
- B) greater resource scarcity than in market systems.
- C) the failure to accumulate and use capital.
- D) the failure to specialize in production.

Answer: A

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

81) Which of the following *does not* explain why the command systems of the Soviet Union and Eastern Europe failed?

- A) Coordination problems
- B) Prices and profits did not fluctuate to reflect wants for a different allocation of resources.
- C) Incentive problems
- D) The failure to use money for most exchanges

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

82) Coordination problems have led to the failure of command systems. Which of the following best exemplifies this problem?

- A) Managers had no incentive to address market surpluses or shortages, as long as they met production goals.
- B) Workers were not motivated to work hard because of a lack of consumer goods to purchase.
- C) Command economies try to minimize the use of capital goods, making production less efficient.
- D) The complexity of production processes made it difficult to assure that all necessary inputs were provided at the right time and in the right amount.

Answer: D

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

83) Which of the following success indicators is present in a market system but lacking in a command system?

- A) Production targets
- B) Wages
- C) Income distribution standards
- D) Profit

Answer: D

Difficulty: 1 Easy

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 84) Which of the following statements best describes production outcomes in the Soviet Union and pre-reform China?
- A) Output was often low quality because production managers were rewarded only for meeting quantitative production targets.
  - B) Output was often high quality but insufficient in quantity because production managers were rewarded only for meeting quality standards.
  - C) Output was generally high quality and sufficient in quantity because of the well-specified economic plans.
  - D) Output was of variable quality but sufficient in quantity because market signals were only consistent in telling managers how much to produce.

Answer: A

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 85) In the circular flow model, households:

- A) buy products and resources.
- B) sell products and resources.
- C) buy products and sell resources.
- D) sell products and buy resources.

Answer: C

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 86) The circular flow model:

- A) assumes that central planning is taking place.
- B) illustrates how natural resources are created.
- C) illustrates how money is created by the banking system.
- D) illustrates the interdependence of businesses and consumers.

Answer: D

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

87) The simple circular flow model shows that workers, entrepreneurs, and the owners of land and capital offer their services through:

- A) product markets.
- B) resource markets.
- C) employment agencies.
- D) business firms.

Answer: B

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

88) Markets in which firms sell their output of goods and services are called:

- A) resource markets.
- B) product markets.
- C) command markets.
- D) mixed markets.

Answer: B

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

89) The circular flow model shows that the goods and services produced by business firms are sold through:

- A) product markets.
- B) stock markets.
- C) money markets.
- D) resource markets.

Answer: A

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

90) In a circular flow model consisting of the household sector, the business sector, product markets, and resource markets:

- A) households are sellers of products.
- B) businesses are sellers of products.
- C) households are buyers of productive resources.
- D) resource markets are sellers of products.

Answer: B

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

91) In the simple circular flow model:

- A) households are sellers of resources and demanders of products.
- B) households are sellers of products and demanders of resources.
- C) businesses are sellers of resources and demanders of products.
- D) businesses are sellers of both resources and products.

Answer: A

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

92) In product markets:

- A) households sell products to business firms.
- B) households sell resources to business firms.
- C) businesses sell resources to households.
- D) businesses sell goods and services to households.

Answer: D

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

93) The money income of households consists of the sum of:

- A) wages plus salaries plus benefits.
- B) consumption expenditures plus profits.
- C) wages plus rents plus interest plus profits.
- D) consumption expenditures plus costs of resources.

Answer: C

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

94) Which of the following would be primarily determined in the resource market?

- A) The price of compact discs.
- B) The wage rates for electricians.
- C) The number of automobiles produced.
- D) The amount of money in circulation.

Answer: B

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

95) The fact that expenditures on products and payments to owners of resources used to produce those products flow in opposite directions is known as:

- A) roundabout production.
- B) a barter economy.
- C) a pure economy.
- D) the circular flow of income.

Answer: D

Difficulty: 2 Medium

Topic: The Circular Flow Model

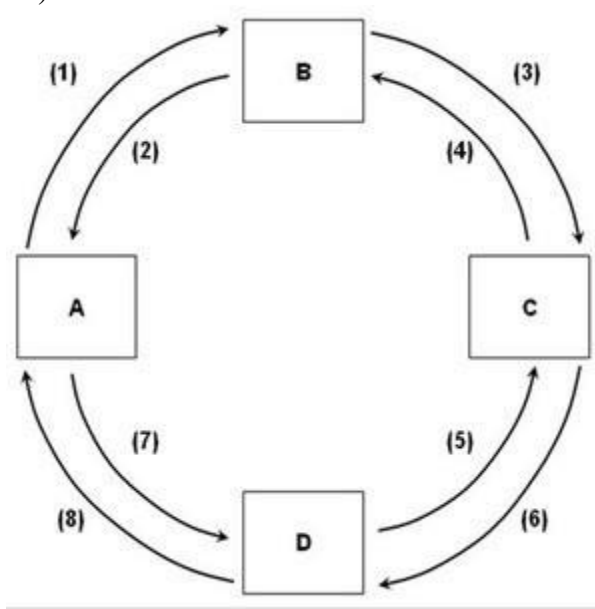
Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

96)



Refer to the above figure. If box B represents the resource 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.

Answer: C

Difficulty: 2 Medium

Topic: The Circular Flow Model

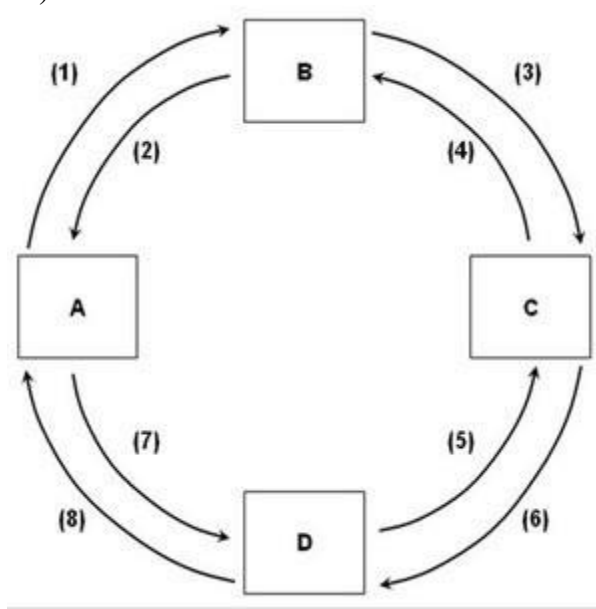
Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

97)



Refer to the above 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 resource 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 resource market.

Answer: A

Difficulty: 3 Hard

Topic: The Circular Flow Model

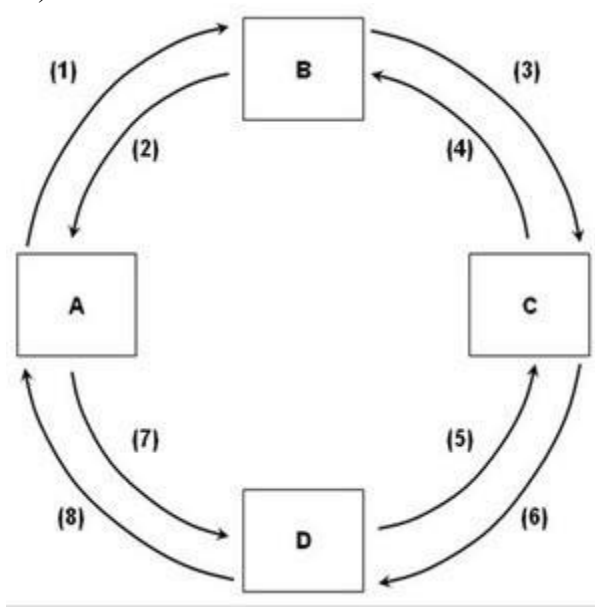
Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

98)



Refer to the above figure. If flow (1) is the cost businesses pay to the resource market, then:

A) (2) is the flow of productive resources.

B) (4) is the flow of goods and services.

C) (6) is the flow of money income.

D) (7) is the flow of revenue.

Answer: A

Difficulty: 3 Hard

Topic: The Circular Flow Model

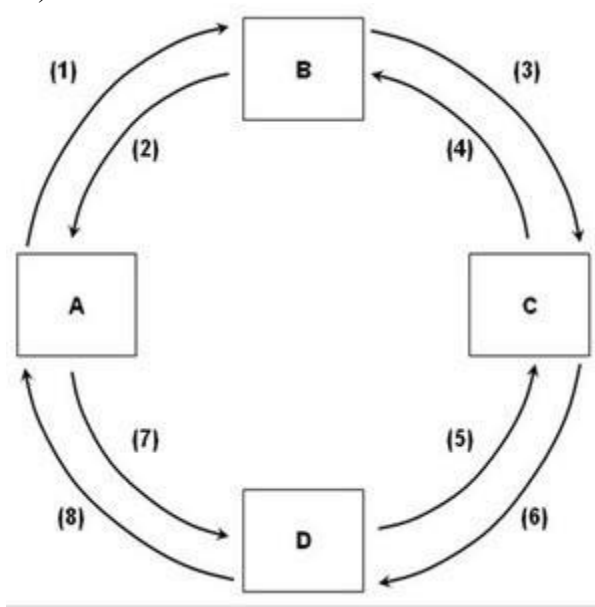
Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

99)



Refer to the above figure. If box D represents the product market and flow (6) represents consumption expenditures, then box C is:

- A) households, flow (7) is revenue, and flow (8) is goods and services.
- B) businesses, flow (7) is revenue, and flow (8) is goods and services.
- C) households, flow (7) is goods and services, and flow (8) is revenue.
- D) businesses, flow (7) is goods and services, and flow (8) is revenue.

Answer: C

Difficulty: 3 Hard

Topic: The Circular Flow Model

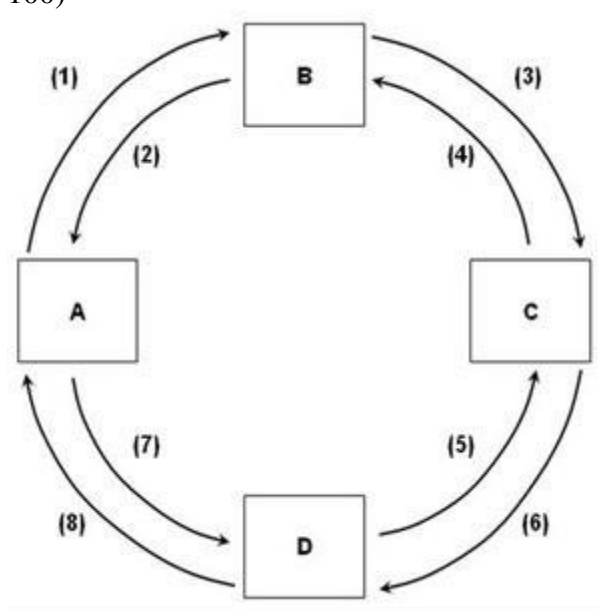
Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

100)



Refer to the above figure. If box A represents businesses and box B represents the resource market in this circular flow model, then the real flow of goods, services, and economic resources would be represented by flows:

- A) (1), (3), (6), and (8).
- B) (7), (5), (4), and (2).
- C) (1), (2), (3), and (4).
- D) (5), (6), (7), and (8).

Answer: B

Difficulty: 2 Medium

Topic: The Circular Flow Model

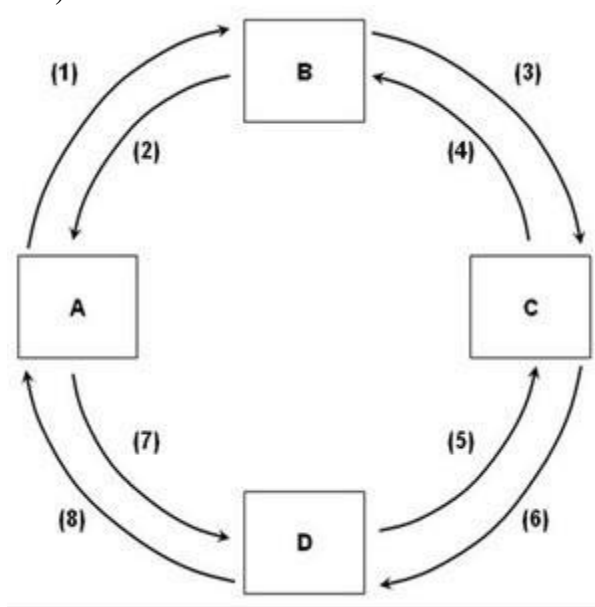
Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

101)



Refer to the above figure. If box A represents businesses and box D represents the product market in this circular flow model, then money flow in the model would be represented by:

- A) (1), (2), (3), and (4).
- B) (5), (6), (7), and (8).
- C) (1), (3), (6), and (8).
- D) (7), (5), (4), and (2).

Answer: C

Difficulty: 2 Medium

Topic: The Circular Flow Model

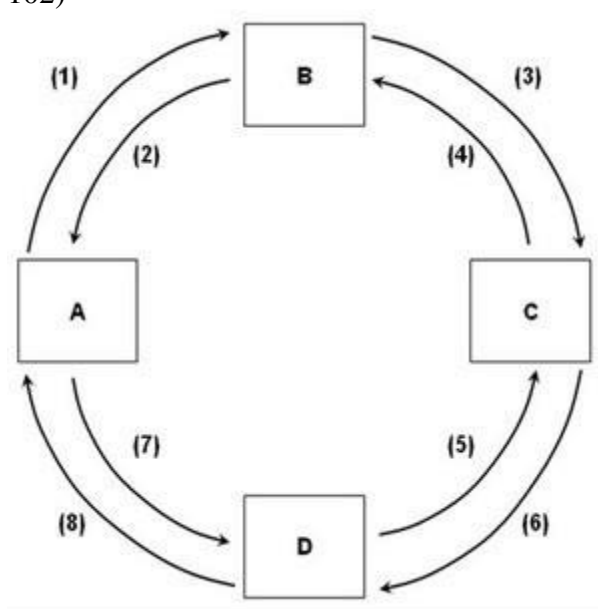
Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

102)



Refer to the above figure. If flow (8) is revenues and flow (4) is economic resources (land, labor, capital, and entrepreneurial ability), then box:

- A) A is the resource market and box B is the product market.
- B) B is the resource market and box A is the product market.
- C) C is the product market and box B is the resource market.
- D) D is the product market and box B is the resource market.

Answer: D

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

103) Assume that rents flow clockwise in a circular economic flow diagram. This implies that land flows:

- A) clockwise and capital flows counterclockwise.
- B) clockwise and profits flow counterclockwise.
- C) counterclockwise and capital flows clockwise.
- D) counterclockwise and profits flow clockwise.

Answer: D

Difficulty: 3 Hard

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

104) If goods and services flow clockwise in a circular economic flow diagram, then consumption expenditures flow:

- A) clockwise and firm revenues flow clockwise.
- B) clockwise and firm revenues flow counterclockwise.
- C) counterclockwise and firm revenues flow clockwise.
- D) counterclockwise and firm revenues flow counterclockwise.

Answer: D

Difficulty: 3 Hard

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

105) In the circular economic flow diagram, households:

- A) make consumption expenditures and pay for land, labor, and capital.
- B) make consumption expenditures and receive goods and services.
- C) buy resources and receive goods and services.
- D) receive money income and supply resources.

Answer: D

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

106) As of 2015, approximately what percentage of U.S. firms are sole proprietorships?

- A) 18 percent.
- B) 50 percent.
- C) 72 percent.
- D) 84 percent.

Answer: C

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

107) According to the text, U.S. corporations generated approximately what percentage of total sales revenue in 2015?

- A) 11 percent.
- B) 20 percent.
- C) 72 percent.
- D) 82 percent.

Answer: D

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

108) According to the text, what is the largest source of earned income for U.S. households?

- A) Wages and salaries
- B) Interest
- C) Proprietors' income
- D) Corporate profits

Answer: A

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

109) Over half of U.S. consumer expenditures are for what?

- A) Housing.
- B) Services.
- C) Nondurable goods.
- D) Durable goods.

Answer: B

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

110) A durable consumer good is expected to last for at least how long?

- A) 6 months
- B) 1 year
- C) 3 years
- D) 10 years

Answer: C

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

111) As of 2015, approximately how many households are in the United States?

- A) 75 million
- B) 125 million
- C) 210 million
- D) 320 million

Answer: B

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

112) Which of the following is *not* considered a consumption expenditure?

- A) Purchases of services
- B) Purchases of houses
- C) Purchases of nondurable goods
- D) Purchases of durable goods

Answer: B

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

113) Property rights have a positive effect in a market economy because they encourage owners to maintain their property.

Answer: TRUE

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

114) The institution of private property is supported by clear claims to ownership.

Answer: TRUE

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

115) Individual property rights are the right of the government to own, use, and dispose of resources in an economy.

Answer: FALSE

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

116) An important part of the market system is that producers and consumers consider the public interest in making production and consumption decisions.

Answer: FALSE

Difficulty: 3 Hard

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

117) More specialization in a market economy generally leads to the more efficient use of its resources.

Answer: TRUE

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

118) Specialization in production can occur based on geographic advantages.

Answer: TRUE

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

119) A division of labor enhances society's output by permitting people to take advantage of existing differences in their abilities and skills.

Answer: TRUE

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

120) Exchange by barter requires a coincidence of wants.

Answer: TRUE

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

121) One of the most important economic resources is money.

Answer: FALSE

Difficulty: 3 Hard

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

122) The concept of consumer sovereignty refers to situations in which consumers are represented on the board of directors of large corporations.

Answer: FALSE

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

123) Economic efficiency entails getting the smallest amount of output from a given level of input of scarce resources.

Answer: FALSE

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

124) In the market system, prices tend to guide resources from less important to more important uses.

Answer: TRUE

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

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125) 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.

Answer: TRUE

Difficulty: 2 Medium

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

126) It is generally agreed that a major advantage of the competitive price system is the achievement of greater efficiency.

Answer: TRUE

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

127) A market system is characterized by the private ownership of resources and the use of markets and prices to coordinate and direct economic activity.

Answer: TRUE

Difficulty: 1 Easy

Topic: Characteristics of the Market System

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

128) Command systems in the Soviet Union and Eastern Europe failed primarily because of a lack of resources.

Answer: FALSE

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

129) Command systems in the Soviet Union and Eastern Europe failed primarily because of coordination and incentive problems.

Answer: TRUE

Difficulty: 2 Medium

Topic: Four Fundamental Questions

Learning Objective: 02-03 Explain how the market system answers the four fundamental questions.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

130) In the circular flow model, households function on the selling side of the resource market and the buying side of product markets.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

131) In the circular flow model, there is a money flow of economic resources and finished goods and services and a real flow of income and consumption expenditures.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

132) The economy of the United States can best be described as pure capitalism.

Answer: FALSE

Difficulty: 1 Easy

Topic: Economic Systems

Learning Objective: 02-01 Differentiate between a command system and a market system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

133) In the U.S. economy, corporations account for about 18 percent of the firms and about 82 percent of the total sales revenue.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

134) In the U.S. economy, sole proprietorships account for over half the firms and over half of total sales revenue.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

135) In the U.S. economy, sole proprietorships account for over half the firms, but corporations account for over half of total sales revenue.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

136) In 2015, three of the world's four largest corporations were headquartered in China.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

137) In the U.S. economy, rents are the smallest source of household income.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

138) In the U.S. economy, services account for over half of all consumer expenditures.

Answer: TRUE

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

139) In the U.S. economy, housing accounts for over half of all consumer expenditures.

Answer: FALSE

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

140) Durable goods are expected to last for at least 10 years.

Answer: FALSE

Difficulty: 2 Medium

Topic: The Circular Flow Model

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

Bloom's: Remember

AACSB: Analytical Thinking

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