

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

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

Answer: D

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-03 The Command System

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

Answer: C

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

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

Answer: D

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

- 6) Which of the following statements best describes a mixed economy? 6) _____
- A) In a mixed economy, the government and private sectors interact in determining production and allocation of goods and services.
 - B) In a mixed economy, the role of individual self-interest is relatively unimportant because government makes most of the economic decisions.
 - C) In a mixed economy, society determines production and the allocation of goods and services only through the market system.
 - D) 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.

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-06 Private Property

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-06 Private Property

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-02 Laissez-Faire Capitalism

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-04 The Market System

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-06 Private Property

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-04 The Market System

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-04 The Market System

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-04 The Market System

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-04 The Market System

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-02 Laissez-Faire Capitalism

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-07 Freedom of Enterprise and Choice

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-01 2.1 Economic Systems

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

Answer: A

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-08 Self-Interest

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

Answer: B

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-08 Self-Interest

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

Answer: D

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-09 Competition

25) The competitive market system: 25) _____

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-09 Competition

26) Competition is more likely to exist when: 26) _____

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-09 Competition

27) Which condition will encourage competition? 27) _____

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-09 Competition

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

Answer: B

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-09 Competition

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

Answer: A

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-09 Competition

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

Answer: D

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-09 Competition

- 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? 31) _____
- A) Firms will enter the industry, output will rise, and product price will rise.
 - B) Firms will leave the industry, output will fall, 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.

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-09 Competition

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-10 Markets and Prices

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-10 Markets and Prices

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-11 Technology and Capital Goods

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-11 Technology and Capital Goods

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-12 Specialization

37) The division of labour means that:

37) _____

- A) workers specialize in various production tasks.
- B) unskilled workers outnumber skilled workers.
- C) labour markets are geographically segmented.
- D) each worker performs a large number of tasks.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)

Page Ref:

Topic: 02-12 Specialization

38) Specialization and trade are beneficial to society because:

38) _____

- A) scarce resources are utilized more efficiently.
- B) a division of labour lowers prices for products.
- C) the output of economic goods may be increased with no increase in resources.
- D) all of the above are correct.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)

Page Ref:

Topic: 02-12 Specialization

39) Specialization in production is important primarily because it:

39) _____

- A) allows society to have fewer capital goods.
- B) allows society to avoid the coincidence-of-wants problem.
- C) results in greater total output.
- D) allows society to trade by barter.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

Page Ref:

Topic: 02-12 Specialization

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-12 Specialization

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-12 Specialization

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-13 Use of Money

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-13 Use of Money

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-13 Use of Money

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-13 Use of Money

BRITISH COLUMBIA
Has surplus autos
Wants lettuce

ONTARIO
Has surplus lettuce
Wants apples

ALBERTA
Has surplus apples
Wants autos

46) On the basis of the information provided it can be said that:

46) _____

- A) a coincidence of wants exists between British Columbia and Alberta.
- B) a coincidence of wants exists between British Columbia and Ontario.
- C) a coincidence of wants exists between Ontario and Alberta.
- D) no coincidence of wants exists between any two provinces.

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-13 Use of Money

47) On the basis of the information provided and assuming trade occurs between the three provinces we can expect:

47) _____

- A) Ontario to exchange lettuce with British Columbia and receive autos in return.
- B) Alberta to exchange apples with British Columbia and receive money in return.
- C) Alberta to exchange apples with Ontario and receive money in return.
- D) none of the above to occur.

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-13 Use of Money

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-13 Use of Money

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-13 Use of Money

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-05 2.2 Characteristics of the Market System

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-06 Private Property

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-15 2.3 Five Fundamental Questions

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-16 What Will Be Produced?

54) "Consumer sovereignty" refers to the:

54) _____

- A) fact that a federal agency exists to protect consumers from harmful and defective products.
- B) 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.
- C) idea that the pursuit of self-interest will prove ultimately to be in the public interest.
- D) fact that resource prices tend to be high relative to product prices in capitalistic economies.

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-16 What Will Be Produced?

55) The term consumer sovereignty means that:

55) _____

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-16 What Will Be Produced?

56) The market system is said to be characterized by "consumer sovereignty." This is because:

56) _____

- A) a large number of consumer goods are produced.
- B) the prices of consumer goods are regulated by government.
- C) of the role of consumers in determining what goods are produced.
- D) consumer goods are more profitable than investment goods.

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-16 What Will Be Produced?

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: 57) _____

- A) consumer sovereignty.
- B) derived demand.
- C) external costs and benefits.
- D) the invisible hand.

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-16 What Will Be Produced?

58) The term dollar votes means: 58) _____

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-16 What Will Be Produced?

59) Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system? 59) _____

- A) What will be produced?
- B) Who is to receive the output?
- C) How can the system accommodate change?
- D) How is the output to be produced?

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-16 What Will Be Produced?

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-17 How Will the Goods and Services Be Produced?

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-17 How Will the Goods and Services Be Produced?

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-15 2.3 Five Fundamental Questions

- 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: 63) _____
- A) Who will get the output?
 - B) What will be produced?
 - C) How will the system accommodate change?
 - D) How will the goods and services be produced?

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-18 Who Will Get the Output?

- 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: 64) _____
- A) money market through borrowing and saving by households and businesses.
 - B) private sector through the earning and spending of income.
 - C) public sector through the mechanism of central planning.
 - D) business sector through the mechanism of advertising.

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-18 Who Will Get the Output?

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-18 Who Will Get the Output?

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-15 2.3 Five Fundamental Questions

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-20 How Will the System Promote Progress?

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-20 How Will the System Promote Progress?

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

Answer: A

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-20 How Will the System Promote Progress?

- 76) Which of the following best describes the "invisible hand" concept? 76) _____
- A) Central direction by the government will improve resource allocation in a capitalistic economy.
 - 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) The desires of resource suppliers and producers to further their own self-interest will automatically further the public interest.

Answer: D

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

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

Answer: B

- Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

- 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: 80) _____
- A) the invisible hand.
 - B) derived demand.
 - C) consumer sovereignty.
 - D) profit maximization.

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

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: 81) _____

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

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

82) While in market economies the profit depends on consumer demand, production efficiency, and product quality, for command economies profit depends on: 82) _____

- A) product differentiation.
- B) product mix.
- C) quantitative production target.
- D) production cost.

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-22 The Demise of the Command System

83) The coordination problem in command economies became more difficult as: 83) _____

- A) production cost decreased.
- B) less quantitative targets were assigned to each industry.
- C) the number of industries expanded.
- D) planning techniques improved.

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-22 The Demise of the Command System

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-22 The Demise of the Command System

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

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

90) In the circular flow model:

90) _____

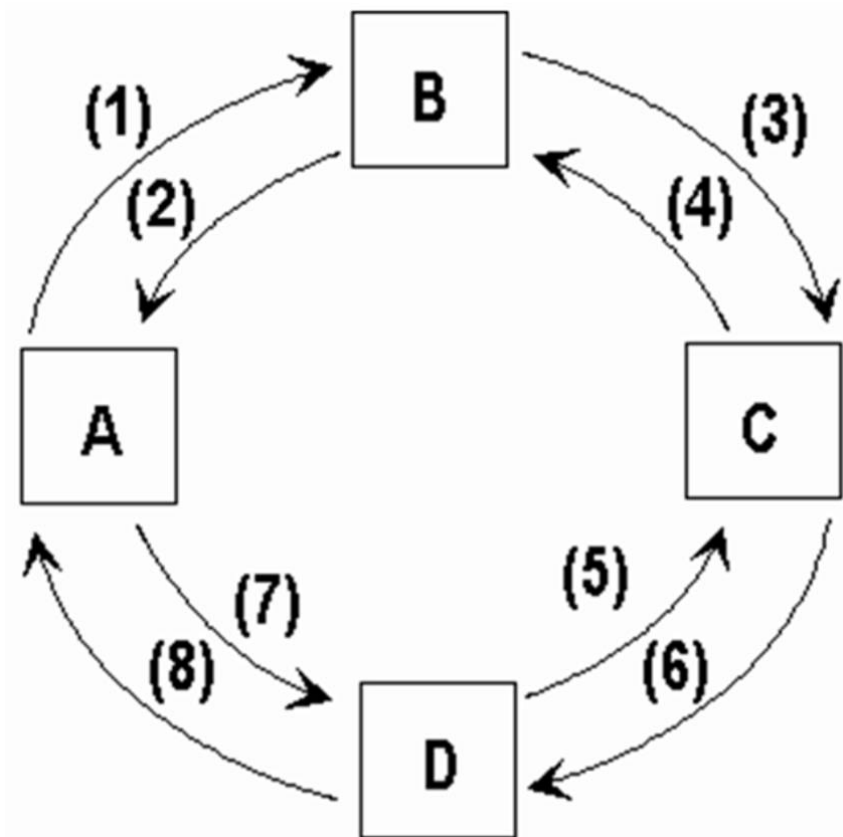
- A) households receive income through the factor market.
- B) households supply factors of production to firms.
- C) households spend income in the product market.
- D) all of the above hold true.

Answer: D

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model



91) Refer to the figure. If box B represents the factor market and flow (3) represents money income, 91) _____
 then:

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

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

Page Ref:
 Topic: 02-24 2.5 The Circular Flow Model

92) Refer to the figure. If box A represents businesses and flow (7) represents goods and services, then: 92) _____

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

Answer: C

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

93) In terms of the circular flow diagram businesses obtain revenue through the _____ market and make expenditures in the _____ market. 93) _____

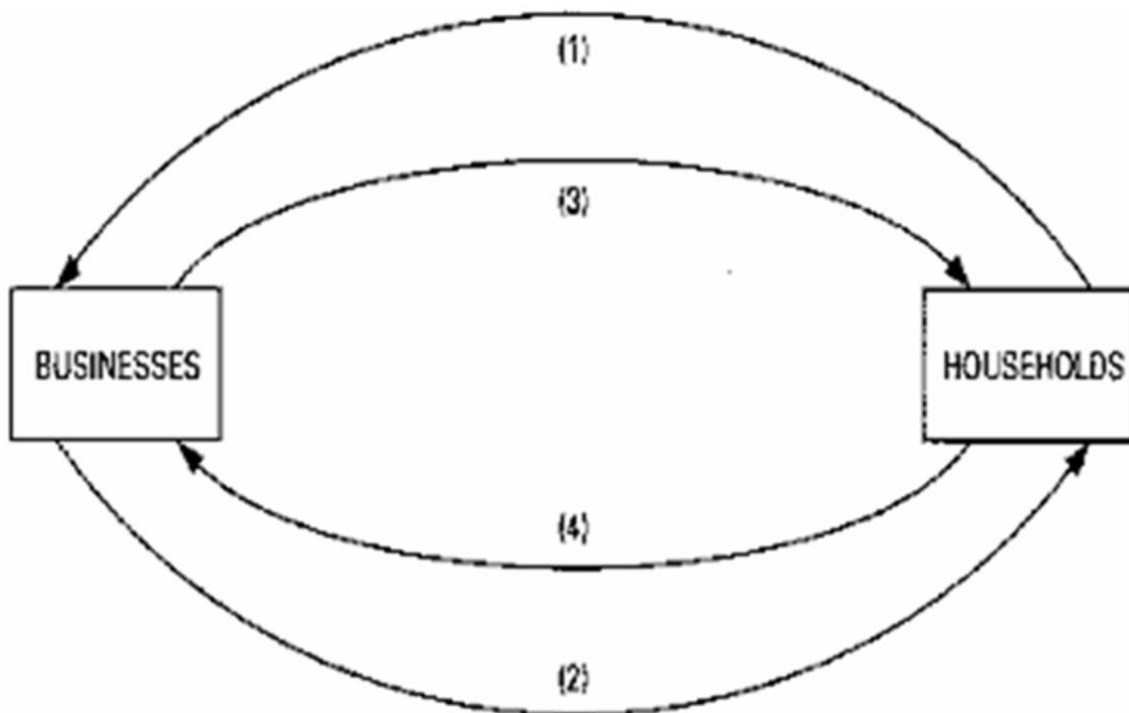
- A) product; financial
- B) product; factor
- C) factor; product
- D) capital; product

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model



94) Refer to the diagram. Arrows (1) and (2) represent:

94) _____

- A) resources and goods respectively.
- B) goods and resources respectively.
- C) money incomes and output respectively.
- D) output and money incomes respectively.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

95) Refer to the diagram. Arrows (3) and (4) represent:

95) _____

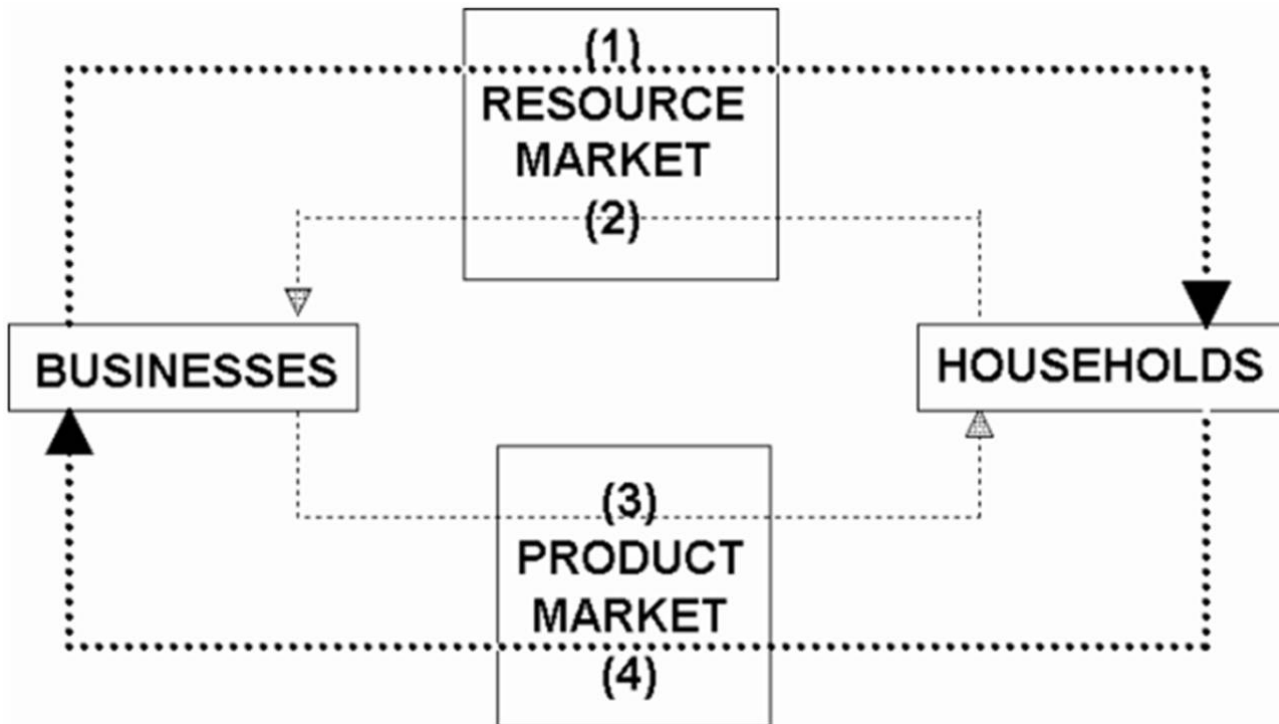
- A) resources and goods respectively.
- B) goods and services respectively.
- C) consumer expenditures and money income respectively.
- D) money incomes and consumer expenditures respectively.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model



96) Refer to the circular flow model of the economy. In the diagram flow (1) represents:

96) _____

- A) consumer expenditures.
- B) wage, rent, interest, and profit income.
- C) land, labour, capital, and entrepreneurial ability.
- D) goods and services.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

97) Refer to the circular flow model of the economy. In the diagram flow (2) represents: 97) _____

- A) consumer expenditures.
- B) land, labour, capital, and entrepreneurial ability.
- C) goods and services.
- D) wage, rent, interest, and profit income.

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

98) Refer to the circular flow model of the economy. In the diagram flow (3) represents: 98) _____

- A) consumer expenditures.
- B) goods and services.
- C) wage, rent, interest, and profit income.
- D) land, labour, capital, and entrepreneurial ability.

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

99) Refer to the circular flow model of the economy. In the diagram flow (4) represents: 99) _____

- A) land, labour, capital, and entrepreneurial ability.
- B) consumer expenditures.
- C) wage, rent, interest, and profit income.
- D) goods and services.

Answer: B

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

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

Answer: A

Explanation: A)
B)
C)
D)

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

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

Answer: True False

Explanation:

Page Ref:

Topic: 02-12 Specialization

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

Answer: True False

Explanation:

Page Ref:

Topic: 02-12 Specialization

103) Money functions as a medium of exchange in permitting the ready comparison of the relative worth of heterogeneous products. 103) _____

Answer: True False

Explanation:

Page Ref:

Topic: 02-13 Use of Money

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

Answer: True False

Explanation:

Page Ref:

Topic: 02-14 Active but Limited Government

- 105) Property rights do not encourage people to cooperate. 105) _____
Answer: True False
Explanation:
Page Ref:
Topic: 02-05 2.2 Characteristics of the Market System
- 106) Consumer sovereignty means that legislation now protects the rights of consumers to dispose of their incomes as they see fit. 106) _____
Answer: True False
Explanation:
Page Ref:
Topic: 02-16 What Will Be Produced?
- 107) The wants of consumers are expressed on the demand side of the product market. 107) _____
Answer: True False
Explanation:
Page Ref:
Topic: 02-16 What Will Be Produced?
- 108) The guiding function of prices indicates that, at equilibrium prices, neither product surpluses nor shortages can occur. 108) _____
Answer: True False
Explanation:
Page Ref:
Topic: 02-17 How Will the Goods and Services Be Produced?
- 109) The "invisible hand" refers to the many indirect controls which the federal government imposes in a system of mixed capitalism. 109) _____
Answer: True False
Explanation:
Page Ref:
Topic: 02-21 2.4 The Invisible Hand
- 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. 110) _____
Answer: True False
Explanation:
Page Ref:
Topic: 02-21 2.4 The Invisible Hand

111) In the simple circular flow model businesses are suppliers of final products.

111) _____

Answer: True False

Explanation:

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

112) Households and businesses are both suppliers in the product market.

112) _____

Answer: True False

Explanation:

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

Answer Key

Testname: UNTITLED1

- 1) D
Page Ref:
Topic: 02-03 The Command System
- 2) C
Page Ref:
Topic: 02-01 2.1 Economic Systems
- 3) D
Page Ref:
Topic: 02-01 2.1 Economic Systems
- 4) D
Page Ref:
Topic: 02-01 2.1 Economic Systems
- 5) D
Page Ref:
Topic: 02-01 2.1 Economic Systems
- 6) A
Page Ref:
Topic: 02-01 2.1 Economic Systems
- 7) C
Page Ref:
Topic: 02-06 Private Property
- 8) D
Page Ref:
Topic: 02-06 Private Property
- 9) A
Page Ref:
Topic: 02-02 Laissez-Faire Capitalism
- 10) B
Page Ref:
Topic: 02-01 2.1 Economic Systems
- 11) D
Page Ref:
Topic: 02-01 2.1 Economic Systems
- 12) D
Page Ref:
Topic: 02-04 The Market System
- 13) D
Page Ref:
Topic: 02-06 Private Property
- 14) C
Page Ref:
Topic: 02-04 The Market System
- 15) C
Page Ref:
Topic: 02-04 The Market System

Answer Key

Testname: UNTITLED1

16) B

Page Ref:

Topic: 02-04 The Market System

17) A

Page Ref:

Topic: 02-04 The Market System

18) B

Page Ref:

Topic: 02-02 Laissez-Faire Capitalism

19) C

Page Ref:

Topic: 02-07 Freedom of Enterprise and Choice

20) C

Page Ref:

Topic: 02-01 2.1 Economic Systems

21) A

Page Ref:

Topic: 02-01 2.1 Economic Systems

22) A

Page Ref:

Topic: 02-08 Self-Interest

23) B

Page Ref:

Topic: 02-08 Self-Interest

24) D

Page Ref:

Topic: 02-09 Competition

25) A

Page Ref:

Topic: 02-09 Competition

26) D

Page Ref:

Topic: 02-09 Competition

27) A

Page Ref:

Topic: 02-09 Competition

28) B

Page Ref:

Topic: 02-09 Competition

29) A

Page Ref:

Topic: 02-09 Competition

30) D

Page Ref:

Topic: 02-09 Competition

Answer Key

Testname: UNTITLED1

31) D

Page Ref:

Topic: 02-09 Competition

32) D

Page Ref:

Topic: 02-10 Markets and Prices

33) C

Page Ref:

Topic: 02-10 Markets and Prices

34) D

Page Ref:

Topic: 02-11 Technology and Capital Goods

35) B

Page Ref:

Topic: 02-11 Technology and Capital Goods

36) B

Page Ref:

Topic: 02-12 Specialization

37) A

Page Ref:

Topic: 02-12 Specialization

38) D

Page Ref:

Topic: 02-12 Specialization

39) C

Page Ref:

Topic: 02-12 Specialization

40) D

Page Ref:

Topic: 02-12 Specialization

41) C

Page Ref:

Topic: 02-12 Specialization

42) B

Page Ref:

Topic: 02-13 Use of Money

43) B

Page Ref:

Topic: 02-13 Use of Money

44) A

Page Ref:

Topic: 02-13 Use of Money

45) C

Page Ref:

Topic: 02-13 Use of Money

Answer Key

Testname: UNTITLED1

46) D

Page Ref:

Topic: 02-13 Use of Money

47) C

Page Ref:

Topic: 02-13 Use of Money

48) B

Page Ref:

Topic: 02-13 Use of Money

49) C

Page Ref:

Topic: 02-13 Use of Money

50) D

Page Ref:

Topic: 02-05 2.2 Characteristics of the Market System

51) A

Page Ref:

Topic: 02-06 Private Property

52) A

Page Ref:

Topic: 02-15 2.3 Five Fundamental Questions

53) D

Page Ref:

Topic: 02-16 What Will Be Produced?

54) B

Page Ref:

Topic: 02-16 What Will Be Produced?

55) C

Page Ref:

Topic: 02-16 What Will Be Produced?

56) C

Page Ref:

Topic: 02-16 What Will Be Produced?

57) A

Page Ref:

Topic: 02-16 What Will Be Produced?

58) D

Page Ref:

Topic: 02-16 What Will Be Produced?

59) A

Page Ref:

Topic: 02-16 What Will Be Produced?

60) A

Page Ref:

Topic: 02-17 How Will the Goods and Services Be Produced?

Answer Key

Testname: UNTITLED1

61) C

Page Ref:

Topic: 02-17 How Will the Goods and Services Be Produced?

62) A

Page Ref:

Topic: 02-15 2.3 Five Fundamental Questions

63) A

Page Ref:

Topic: 02-18 Who Will Get the Output?

64) B

Page Ref:

Topic: 02-18 Who Will Get the Output?

65) D

Page Ref:

Topic: 02-18 Who Will Get the Output?

66) B

Page Ref:

Topic: 02-15 2.3 Five Fundamental Questions

67) D

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

68) D

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

69) A

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

70) B

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

71) A

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

72) D

Page Ref:

Topic: 02-19 How Will the System Accommodate Change?

73) A

Page Ref:

Topic: 02-20 How Will the System Promote Progress?

74) B

Page Ref:

Topic: 02-20 How Will the System Promote Progress?

75) A

Page Ref:

Topic: 02-20 How Will the System Promote Progress?

Answer Key

Testname: UNTITLED1

76) D

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

77) B

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

78) A

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

79) C

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

80) A

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

81) B

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

82) C

Page Ref:

Topic: 02-22 The Demise of the Command System

83) C

Page Ref:

Topic: 02-22 The Demise of the Command System

84) C

Page Ref:

Topic: 02-22 The Demise of the Command System

85) D

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

86) C

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

87) A

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

88) A

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

89) A

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

90) D

Page Ref:

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Answer Key

Testname: UNTITLED1

91) C

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

92) C

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

93) B

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

94) A

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

95) D

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

96) B

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

97) B

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

98) B

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

99) B

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

100) A

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

101) TRUE

Page Ref:

Topic: 02-12 Specialization

102) TRUE

Page Ref:

Topic: 02-12 Specialization

103) TRUE

Page Ref:

Topic: 02-13 Use of Money

104) TRUE

Page Ref:

Topic: 02-14 Active but Limited Government

105) FALSE

Page Ref:

Topic: 02-05 2.2 Characteristics of the Market System

Answer Key

Testname: UNTITLED1

106) FALSE

Page Ref:

Topic: 02-16 What Will Be Produced?

107) TRUE

Page Ref:

Topic: 02-16 What Will Be Produced?

108) TRUE

Page Ref:

Topic: 02-17 How Will the Goods and Services Be Produced?

109) FALSE

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

110) TRUE

Page Ref:

Topic: 02-21 2.4 The Invisible Hand

111) TRUE

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model

112) FALSE

Page Ref:

Topic: 02-24 2.5 The Circular Flow Model