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Foundations of Microeconomics, 8e **(Bade)**
Chapter 2 The U.S. and Global Economies

2.1 What, How, and For Whom?

1) Items that are purchased by individuals for their own enjoyment are called
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) exports of goods and services.
E) private goods.
Answer: A
Topic: Consumption goods and services
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

2) Items bought by individuals to provide personal enjoyment are termed
A) consumption goods.
B) personal goods.
C) consumption or investment goods.
D) standard goods.
E) pleasure goods.
Answer: A
Topic: Consumption goods and services
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

3) What would be an example of a consumption good?
A) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
B) The local driver's license office purchases a new digital camera and printer.
C) Rhianna gets a haircut.
D) Jake buys an iPhone.
E) Donald Trump purchases furniture for his office.
Answer: D
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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4) Which of the following is a consumption good or service?
A) a personal computer purchased in order to play games at home
B) a United Airline ticket counter
C) the Endeavor space shuttle
D) a United Parcel Service truck delivering Christmas gifts
E) a satellite dish installed by Cox Cable to download programs that are then distributed through its cable system
Answer: A
Topic: Consumption goods and services
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

5) What would be an example of a consumption service?
A) Rhianna gets a haircut.
B) Jake buys an iPhone.
C) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
D) The local driver's license office purchases a new digital camera and printer.
E) Donald Trump purchases furniture for his office.
Answer: A
Topic: Consumption goods and services
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

6) The largest share of total production in the United States is
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) exported goods and services.
E) imported goods and services.
Answer: A
Topic: Consumption goods and services
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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7) Items bought by businesses to help produce other goods and services are called
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) exports of goods and services.
E) productive goods.
Answer: B
Topic: Capital goods
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

8) Which of the following is NOT a consumption good?
A) Nike swimming trunks
B) marriage counseling services
C) a UPS truck
D) a Subway sandwich
E) a U.S. government bond
Answer: C
Topic: Capital goods
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

9) An item that is purchased to increase businesses' productive resources is
A) an export.
B) a government good.
C) a capital good.
D) a consumption good.
E) a productive good.
Answer: C
Topic: Capital goods
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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10) What would be an example of capital good?
A) Jeanette buys a new dress.
B) The local driver's license office purchases a new digital camera and printer.
C) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
D) Apple sells computers to Japan.
E) Rhianna gets a haircut.
Answer: C
Topic: Capital goods
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

11) The difference between consumption and capital goods is that
A) only big corporations can afford capital goods.
B) capital goods are used to produce additional goods while consumption goods are not.
C) capital goods are provided by the government.
D) consumption goods can be enjoyed by many people at the same time.
E) it is illegal to export capital goods.
Answer: B
Topic: Consumption and capital goods
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

12) Which of the following is NOT an example of a capital good?
A) a miner's cap
B) a GPS tracking device
C) an airport kiosk
D) a U.S. government bond
E) a stethoscope
Answer: D
Topic: Capital goods
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

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13) Goods and services bought by the government account for about _____ percent of total production.
A) 2
B) 8
C) 17
D) 35
E) 67
Answer: C
Topic: Government goods and services
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

14) What would be an example of a government good?
A) Jake buys an iPhone.
B) The local driver's license office purchases a new digital camera and printer.
C) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
D) Donald Trump purchases furniture for his office.
E) Rhianna gets a haircut.
Answer: B
Topic: Government goods and services
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

15) Goods produced in the United States and sold in other countries are called
A) exports.
B) imports.
C) foreign goods.
D) capital goods.
E) capital account goods.
Answer: A
Topic: Exports
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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16) An export good is a good produced
A) in the United States and sold to foreigners living in the United States.
B) by foreigners in the United States and purchased by U.S. households.
C) in another country and purchased by U.S. residents.
D) in the United States and sold in other countries.
E) in another country and purchased by foreigners not residing in the United States.
Answer: D
Topic: Exports
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

17) Computers and insurance coverage produced in the United States and sold to people in other nations are categorized as
A) U.S. consumption goods and services.
B) foreign capital goods.
C) U.S. government goods and services.
D) U.S. exports of goods and services.
E) U.S. imports of goods and services.
Answer: D
Topic: Exports
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

18) The Colorado Ski Shop sold 60 ski jackets to a Belgian company's headquarters located in Paris, France. The ski jackets are a
A) U.S. export good.
B) capital good.
C) government good.
D) U.S. consumption service.
E) U.S. import.
Answer: A
Topic: Exports
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
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19) Over the past 70 years, which of the following has occurred?
i. The service sector has grown so that now about 80 percent of workers are now employed in the service industry.
ii. The manufacturing sector has shrunk, so now about 20 percent of workers are now employed in the production of goods.
iii. The percentage of workers employed in the service industry has increased steadily.
A) i, ii and iii
B) i and iii
C) ii only
D) i only
E) ii and iii
Answer: A
Topic: Changes in what we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

20) Which of the following is NOT considered one of the factors of production?
A) land
B) labor
C) capital
D) technology
E) entrepreneurship
Answer: D
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

21) Which of the following correctly lists the categories of factors of production?
A) land, labor, capital, and entrepreneurship
B) land, buildings, capital, and entrepreneurship
C) labor, machines, buildings, capital, and entrepreneurship
D) forests, fish, buildings, capital, and entrepreneurship
E) labor, money, stocks, and bonds
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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22) Which of the following is NOT a factor of production?
A) money
B) capital
C) land
D) entrepreneurial ideas
E) labor
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

23) Goods and services are produced by using four factors of production:
A) land, labor, capital, and entrepreneurship.
B) land, labor, money, and equipment.
C) natural resources, human resources, financial assets, and entrepreneurial resources.
D) labor, human capital, physical capital, and financial capital.
E) land, labor, capital, and money.
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

24) Factors of production are the
A) goods that are bought by individuals and used to provide personal enjoyment.
B) goods that are bought by businesses to produce productive resources.
C) productive resources used to produce goods and services.
D) productive resources used by government to increase the productivity of consumption.
E) goods and services produced by the economy.
Answer: C
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
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25) The productive resource that includes all the "gifts of nature" is called
A) land.
B) labor.
C) capital.
D) entrepreneurship.
E) land if undeveloped and capital if developed.
Answer: A
Topic: Land
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

26) Economists classify energy and water as part of which factor of production?
A) land
B) labor
C) capital
D) entrepreneurship
E) land if undeveloped and capital if developed
Answer: A
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

27) As a factor of production, oil reserves are counted as
A) land.
B) labor.
C) capital.
D) entrepreneurship.
E) financial capital.
Answer: A
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
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28) Over time, the percentage of total employment in services has _____ and in agriculture, employment has _____.
A) increased; increased
B) decreased; increased
C) stayed about the same; decreased
D) stayed about the same; increased
E) increased; decreased
Answer: E
Topic: Labor
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

29) Which of the following has been the largest contributor to increases in the quantity of labor in the Unites States during the past 50 years?
A) The proportion of men taking paid jobs has increased.
B) The proportion of women taking paid jobs has increased.
C) The proportion of young adults entering college has decreased.
D) The proportion of seniors taking early retirement has decreased.
E) None of the above because the quantity of labor has actually decreased.
Answer: B
Topic: Labor
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

30) The concept of human capital describes
A) human skills, that is, the quality of labor.
B) human population, that is, the quantity of labor.
C) the number of machines per employed worker.
D) the number of workers per operating machine.
E) the number of machines (capital) that have been produced by people (humans).
Answer: A
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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31) Which factor of production does human capital enhance?
i. land
ii. labor
iii. capital
A) i only
B) ii only
C) iii only
D) i and ii
E) i, ii, and iii
Answer: B
Topic: Labor, human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

32) Human capital can be increased through
A) investment in new technology.
B) education, on-the-job training, and work experience.
C) investment in new machinery.
D) decreases in population.
E) increasing the nation's production of consumption goods.
Answer: B
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

33) The United States possesses a large amount of human capital. As a result of this fact, in the United States there is a
A) large amount of machinery and equipment.
B) large number of people and a great deal of land.
C) highly skilled and educated labor force.
D) large number of kind and generous humans.
E) large amount of machinery (capital) that is run by people (humans).
Answer: C
Topic: Labor, human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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34) Jan is attending college and studying to be an investment broker. To improve her chances of employment following college, she has interned at a top brokerage firm during the last two summers. Jan's internship has increased her
A) natural labor.
B) human capital.
C) consumption services.
D) natural resources.
E) entrepreneurship capital.
Answer: B
Topic: Labor, human capital
Skill: Level 4: Applying models
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

35) Which of the following is NOT directly related to human capital?
A) a college education
B) a summer internship
C) knowledge of computer programing
D) an MRI machine
E) an understanding of real estate markets
Answer: D
Topic: Human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

36) Human capital _____ as you work. As a result, the _____ of goods and services _____.
A) increases; quantity; increases.
B) declines; quality; increases.
C) improves; quality; does not change.
D) does not change; quality; does not change.
E) decreases; quantity; decreases.
Answer: A
Topic: Human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
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37) Capital, as a factor of production, refers to
A) money, stocks, and bonds.
B) the production technology used by firms.
C) the tools and instruments used to produce other goods and services.
D) the production factors imported from abroad.
E) stocks and bonds, but not money.
Answer: C
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

38) The total value of capital in the United States is around
A) $50 trillion.
B) $10 trillion.
C) $79 trillion.
D) $100 trillion.
E) $145 trillion.
Answer: A
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

39) Capital is a factor of production. Which of the following is an example of capital?
i. $1,000 in money
ii. 100 shares of Microsoft stock
iii. $10,000 in bonds issued by General Motors
iv. a drill press in your local machine shop
A) i and ii
B) ii only
C) iii only
D) iv only
E) ii and iii
Answer: D
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
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40) Capital is a factor of production. An example of capital as a factor of production is
A) money.
B) stocks.
C) bonds.
D) machines.
E) education.
Answer: D
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

41) One of the productive resources is capital. Capital includes
A) money borrowed from a bank.
B) a company's stocks and bonds.
C) tools, buildings, and machine tools.
D) toys, t-shirts, CD players, and pencils.
E) money in a savings account at a bank.
Answer: C
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

42) A newspaper printing press is an example of
A) a capital good.
B) a factor of production.
C) something that influences labor productivity.
D) a good that was once an output of the production process.
E) All of the above are correct.
Answer: E
Topic: Capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

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43) Which of the following is NOT considered capital?
A) an assembly line at a General Motors plant
B) a computer used by your instructor for presentations in class
C) stocks and bonds that are sold by Pepsico
D) the furniture in the President's office
E) a nail gun used for building houses
Answer: C
Topic: How do we produce?
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

44) Entrepreneurship, as a factor of production, refers to
A) the technology used by firms.
B) the human capital accumulated by workers.
C) the value of the firm's stock.
D) the human resource that organizes labor, land, and capital.
E) the capital the firm uses.
Answer: D
Topic: Entrepreneurship
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

45) The productive resource that organizes labor, land, and capital is
A) human capital.
B) financial capital.
C) entrepreneurship.
D) government.
E) capital.
Answer: C
Topic: Entrepreneurship
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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46) Payments to the factors of production are
A) rent, mortgage, interest, and bonds.
B) rent, interest, bonds, and profit or loss.
C) rent, wages, interest, and profit or loss.
D) rent, wages, profit or loss, and bonus.
E) land, labor, capital, and entrepreneurship.
Answer: C
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

47) _____ paid for the use of land; _____ paid for the services of labor; and _____ paid for the use of capital.
A) Rent is; wages are; interest is
B) Rent is; interest is; wages are
C) Interest is; wages are; profit is
D) Mortgages are; interest is; wages are
E) Rent is; wages are; profit is
Answer: A
Topic: Resource payments
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

48) The income paid for the use of land is called
A) rent.
B) wages.
C) interest.
D) profit.
E) land capital.
Answer: A
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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49) The income paid to labor is called
A) rent.
B) wages.
C) interest.
D) profit.
E) human capital.
Answer: B
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

50) Which factor of production is paid "interest"?
A) land
B) labor
C) capital
D) entrepreneurship
E) human capital
Answer: C
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

51) The owners of the resource _____ are paid _____.
A) land; wages
B) labor; profit
C) capital; rent
D) capital; interest
E) entrepreneurship; wages
Answer: D
Topic: Resource payments
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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52) Which factor of production is paid "profit"?
A) land
B) labor
C) capital
D) entrepreneurship
E) human capital
Answer: D
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

53) The functional distribution of income measures which of the following?
A) how federal tax revenues are related to the business function that employs taxpayers
B) the distribution of earnings by the factors of production
C) the proportion of income generated by the four types of expenditures on goods and services
D) the distribution of income among households
E) the distribution of income among nations
Answer: B
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

54) In the United States, the productive factor that, as a group, receives the largest fraction of the nation's total income is
A) labor.
B) capital.
C) consumption goods and services.
D) entrepreneurship.
E) land.
Answer: A
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
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55) According to the functional distribution of income, in the United States,
A) capital earns most of the income.
B) labor earns most of the income.
C) land earns most of the income.
D) entrepreneurs earn most of the income.
E) the income earned by capital and labor are approximately equal.
Answer: B
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

56) The data show that more than 60 percent of the total income earned in the United States goes to
A) labor.
B) land.
C) capital.
D) entrepreneurship.
E) profit.
Answer: A
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

57) The majority of the income earned in the United States is paid in
A) rent.
B) wages.
C) interest.
D) profit.
E) dividends.
Answer: B
Topic: Functional distribution of income
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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58) The personal distribution of income measures which of the following?
A) how federal tax revenues are related to the type of businesses that employs the taxpayers
B) the distribution of earnings by the factors of production
C) proportion of income generated by the four types of expenditures on goods and services
D) the distribution of income among households
E) the distribution of income among nations
Answer: D
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

59) In the United States, the poorest 20 percent of households earn roughly _____ percent of total income.
A) 20
B) 10
C) 15
D) 3
E) 0.5
Answer: D
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

60) The personal distribution of income in the United States shows that
A) income is equally distributed.
B) the poorest 20 percent of individuals receive approximately 20 percent of total income.
C) the richest 20 percent of individuals receive approximately 50 percent of total income.
D) the poorest 60 percent of individuals receive approximately 50 percent of total income.
E) the richest 20 percent of individuals receive approximately 25 percent of total income.
Answer: C
Topic: Personal distribution of income
Skill: Level 3: Using models
Section: Checkpoint 2.1
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61) The richest 20 percent of individuals in the United States receive about _____ of the nation's total income.
A) 21 percent
B) 51 percent
C) 91 percent
D) 99 percent
E) 23 percent
Answer: B
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

62) When the total U.S. production of goods and services is divided into consumption goods and services, capital goods, government goods and services, and export goods and services, the largest component is
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) export goods and services.
E) capital goods and government goods and services tie for the largest component.
Answer: A
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

63) An example of a capital good is
A) a fiber optic cable TV system.
B) an insurance policy.
C) a haircut.
D) an iPod.
E) a slice of pizza.
Answer: A
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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64) Goods and services produced in the United States and sold in other countries are called
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) export goods and services.
E) import goods and services.
Answer: D
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

65) Which of the following correctly lists the categories of factors of production?
A) machines, buildings, land, and money
B) hardware, software, land, and money
C) capital, money, and labor
D) owners, workers, and consumers
E) land, labor, capital, and entrepreneurship
Answer: E
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

66) In economics, the factor of production "land" includes all of the following EXCEPT
A) energy.
B) plastics.
C) wild plants.
D) animals, birds, and fish.
E) oil.
Answer: B
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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67) Human capital is
A) solely the innate ability we are born with.
B) the money humans have saved.
C) the knowledge humans accumulate through education and experience.
D) machinery that needs human supervision.
E) any type of machinery.
Answer: C
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

68) When Ethan continues his education beyond high school, he is increasing his
A) capital.
B) wage rate.
C) human capital.
D) quantity of labor.
E) rent.
Answer: C
Topic: Human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

69) _____ is the human resource that organizes labor, land, and capital.
A) Human capital
B) Human skill
C) A gift of nature
D) Entrepreneurship
E) Profit
Answer: D
Topic: Entrepreneurship
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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70) Wages are paid to _____ and interest is paid to _____.
A) entrepreneurs; capital
B) labor; capital
C) labor; land
D) entrepreneurs; land
E) labor; entrepreneurs
Answer: B
Topic: Payments for the factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

71) The income earned by entrepreneurs is
A) interest.
B) wages.
C) profit or loss.
D) rent, wages, and interest.
E) a mixture of rent, wages, interest, and profit.
Answer: C
Topic: Profit
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

72) Dividing the nation's income among the factors of production, the largest percentage is paid to
A) labor.
B) land.
C) capital.
D) entrepreneurship.
E) labor and capital, with each receiving about 41 percent of the total income.
Answer: A
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
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73) _____ earned the highest amount of income among the factors of production in the United States.
A) Labor
B) Capital
C) Land
D) Entrepreneurship
E) Investment
Answer: A
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

74) In the United States, the richest 20 percent of households receive about _____ percent of total income.
A) 4
B) 15
C) 23
D) 50
E) 33
Answer: D
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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75) In the United States, the poorest 20 percent of households receive about _____ percent of total income.
A) 3
B) 15
C) 23
D) 49
E) 20
Answer: A
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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76) The personal distribution of income shows
A) that labor receives the largest percentage of total income.
B) how profit accounts for the largest fraction of total income.
C) that the richest 20 percent of households receive 23 percent of total income.
D) that interest accounts for most of the income of the richest 20 percent of households.
E) that the poorest 20 percent of households receive less than 4 percent of total income.
Answer: E
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

2.2 The Global Economy

1) Compared to the world, the rate of U.S. population growth is
A) slower than in the world as a whole.
B) about the same as in the world as a whole.
C) much faster than in the world as a whole.
D) incomparable because U.S. residents are born with a much greater chance of accumulating a lot of human capital.
E) incomparable because we do not have accurate world population statistics.
Answer: A
Topic: World population
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

2) Approximately _____ people live in the United States and _____ people live in the world.
A) 410 million; 8 billion
B) 310 million; 7 billion
C) 210 million; 5 billion
D) 310 million; 3 billion
E) 210 million; 6 billion
Answer: B
Topic: The people
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
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3) The most people live in _____ economies and the fewest people live in _____ economies.
A) developing; emerging market
B) advanced; emerging market
C) advanced; developing
D) emerging market; developing
E) developing; advanced
Answer: A
Topic: The countries
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

4) When describing the IMF broad country classification, the most accurate statement is that
A) the category with the greatest number of countries is the advanced economies.
B) the emerging market economies are countries that were, until the early 1990s, part of the Soviet Union or its satellites.
C) most of the nations in Western Europe are considered emerging market economies.
D) most of the world's population lives in advanced economies.
E) about 50 percent of the world's population live in the advanced economies and the other 50 percent live in the emerging market and developing economies.
Answer: B
Topic: Classification of economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

5) Which of the following is NOT classified as an advanced economy?
A) South Korea
B) Australia
C) Russia
D) Hong Kong
E) the United Kingdom
Answer: C
Topic: Advanced economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
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6) Canada is classified by the International Monetary Fund as
A) an advanced economy.
B) a developing economy.
C) a transition economy.
D) an emerging market economy.
E) a natural-resource based economy.
Answer: A
Topic: Advanced economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

7) _____ economies include _____.
A) Advanced; France, Australia and South Korea
B) Advanced; the United States, Taiwan and Russia
C) Advanced; Russia, Canada and Singapore
D) Emerging; Taiwan, Russia and Singapore
E) Emerging; Saudi Arabia, Poland and Taiwan
Answer: A
Topic: Advanced economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

8) Most countries in the world are classified as
A) advanced.
B) in transition.
C) developing.
D) industrialized.
E) emerging market.
Answer: C
Topic: Developing economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
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9) Most of the world's population lives in
A) advanced economies.
B) developing economies.
C) transition economies.
D) emerging market economies.
E) island nations.
Answer: B
Topic: Developing economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

10) Which of the following is true?
i. The advanced economies account for more than half of global production.
ii. Almost four out of every five people in the world live in the developing economies.
iii. In the advanced economies, agriculture accounts for a larger part of total production than in the developing economies.
A) Only i and ii
B) Only ii and iii
C) Only i and iii
D) Only i
E) i, ii, and iii
Answer: A
Topic: Developing economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

11) Nigeria would be classified by the International Monetary Fund as
A) an advanced economy.
B) a developing economy.
C) a transition economy.
D) an emerging market economy.
E) a resource-based economy.
Answer: B
Topic: Developing economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
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12) _____ economies include _____.
A) Developing; Saudi Arabia and South Africa
B) Developing; Poland and Russia
C) Developing; China and Poland
D) Emerging; Poland and Brazil
E) Emerging; China and Canada
Answer: A
Topic: Developing economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

13) Poland is classified as
A) an advanced economy.
B) a developing economy.
C) a transition economy.
D) an emerging market economy.
E) private economy.
Answer: D
Topic: Emerging market economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

14) The majority of the value of production in the world economy is produced in
A) all of the developing economies taken together.
B) all of Africa and the Middle East taken together.
C) China and other Asian developing economies.
D) all of the advanced economies taken together.
E) all of the emerging market economies taken together.
Answer: D
Topic: What in the global economy
Skill: Level 1: Definition
Section: Checkpoint 2.2
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15) Which of the following correctly describes how the "global pie is baked"?
A) Advanced economies account for about 50 percent of the value of the world's production.
B) The United States' share of economic pie is increasing while China's share is decreasing.
C) The increase in manufacturing has taken place in mainly the advanced economies.
D) Asia accounts for about 40 percent of the global pie.
E) Emerging economies account for about 25 percent of the global pie.
Answer: A
Topic: What in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

16) Physical capital differences across countries can be seen in the fact that
A) more advanced economies typically have more sophisticated technology.
B) furniture factories in China use machines like those in North Carolina.
C) students in India study the same subjects as those in the United States.
D) advanced economies produce 53 percent of the world's income.
E) the iPhone's components are produced in 30 countries.
Answer: A
Topic: How in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

17) The charitable organization Creating Hope International trains women in Afghanistan to become tailors. This effort reduces
A) physical capital differences between advanced and developing economies.
B) entrepreneurship differences between advanced and developing economies.
C) agricultural differences between advanced and developing economies.
D) manufacturing differences between advanced and developing economies.
E) human capital differences between advanced and developing economies.
Answer: E
Topic: How in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
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18) Which of the following is an example of an effort to decrease physical capital differences between an advanced and a developing economy?
A) American troops build roads in Afghanistan.
B) Through World Vision, women and children in Africa receive education.
C) Peace Corps volunteers teach English around the world.
D) Creating Hope International trains women in Afghanistan to become tailors.
E) Habitat for Humanity builds houses for low income families in the United States.
Answer: A
Topic: How in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

19) Of the following, the country with the highest average income per day in the world is
A) Japan.
B) the United States.
C) France.
D) Germany.
E) China.
Answer: B
Topic: Income in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

20) Income equality has
A) increased within countries but has narrowed across countries.
B) not changed in the advanced economies over the past 50 years.
C) narrowed within countries but increased across countries.
D) increased in developing economies as manufacturing has decreased.
E) decreased in the United States as manufacturing has increased.
Answer: A
Topic: Income in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
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21) The world population is approximately _____ people.
A) 6.8 million
B) 2 trillion
C) 6.8 billion
D) 6.8 trillion
E) 680 million
Answer: C
Topic: Population
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

22) Which of the following statements is true?
A) Income inequality within most countries has increased during the past 20 years.
B) Income inequality across the entire world has decreased during the past 20 years.
C) Income inequality within most countries and across the entire world has not changed much during the past 20 years.
D) Both A and B are correct.
E) None of the above is correct.
Answer: D
Topic: Income in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

23) The percentage of the world's population that lives in the advanced economies is
A) more than 71 percent.
B) between 51 percent and 70 percent.
C) between 31 percent and 50 percent.
D) between 20 percent and 30 percent.
E) less than 20 percent.
Answer: E
Topic: Population
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
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24) Which of following groups of countries are *all* advanced economies?
A) Australia, Brazil, and the United States
B) Hong Kong, Japan, France, and the United Kingdom
C) Italy, the United States, China, and Russia
D) Singapore, Russia, France, and Chad
E) Mexico, Canada, Germany, and Egypt
Answer: B
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

25) The emerging market economies are
A) the largest grouping including the nations of China and India.
B) in transition from state-owned production to free markets.
C) most of the nations of Western Europe.
D) the nations that are currently agricultural in nature.
E) the nations with the highest standards of living.
Answer: B
Topic: Emerging market economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

26) As a percentage of total world production, production in the 29 advanced economies is about _____ percent of total world production and in the 118 developing economies is about _____ percent of total world production.
A) 53; 39
B) 23; 62
C) 53; 12
D) 30; 46
E) 19; 73
Answer: A
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
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27) Compared to the developing economies, the advanced economies have _____ human capital and _____ physical capital.
A) more; more
B) more; less
C) the same; the same
D) less; more
E) less; less
Answer: A
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

28) In the advanced economies, _____ of the factories use advanced capital equipment, and in the developing economies, _____ of the factories use advanced capital equipment.
A) virtually all; virtually all
B) some; some
C) virtually all; none
D) some; none of
E) virtually all; some
Answer: E
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

29) Among the United States, Canada, Russia, India, and the United Kingdom, the country with the highest average income per person is
A) the United States.
B) Russia.
C) India.
D) Canada.
E) the United Kingdom.
Answer: A
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
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2.3 The Circular Flows

1) _____ the owners of the factors of production, while _____ what amounts of those factors to hire.
A) Households are; firms determine
B) Households are; the government determines
C) The government is; firms determine
D) Firms are; households determine
E) Firms are; the government determines
Answer: A
Topic: Households vs. firms
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

2) What two groups of decision makers are represented in the basic circular flow model?
A) governments and financial institutions
B) lenders and borrowers
C) wholesalers and retailers
D) bankers and regulators
E) households and firms
Answer: E
Topic: Circular flow
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

3) Dan missed class the day the professor covered the circular flow model. Dan asked his friend Joan to explain markets to him. Joan correctly stated that a market
A) requires a physical location for buyers and sellers to get together.
B) is any arrangement that brings buyers and sellers together.
C) must include a written contract between buyers and sellers.
D) is only a place to purchase groceries.
E) must have many buyers and only one seller, who is willing to sell to all the buyers.
Answer: B
Topic: Markets
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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4) The decisions of firms and households are
A) coordinated by markets.
B) made independently of one another.
C) controlled by but not totally coordinated by the government.
D) unexplainable by the circular flow model.
E) coordinated by but not totally controlled by the government.
Answer: A
Topic: Markets
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

5) The circular flow model is used to show the
A) flow of renewable natural resources.
B) recycling process of production materials.
C) expansions and contractions of economic activity.
D) flow of expenditures and incomes in the economy.
E) flow of supply and the flow of demand.
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

6) The circular flow model shows the
A) distribution of income and consumption goods across income levels.
B) combinations of the factors of production needed to produce goods and services.
C) flow of expenditure and incomes that arise from the households', firms', and governments' decisions.
D) flow of natural resources from firms to the private market to government and back to firms.
E) distribution of income to the different factors of production.
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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7) The circular flow model shows the flow of
A) expenditure and income throughout the economy.
B) only money throughout the economy.
C) only funds in stock and bond markets.
D) only tax payments and government expenditures.
E) goods markets and factor markets as they move through the economy.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

8) In the circular flow model, there are two types of markets: the _____ market and the _____ market.
A) producers; consumers
B) households; firms
C) service; goods
D) goods; factor
E) supply; demand
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

9) In the circular flow model, consumption goods are bought and sold in the
A) goods market.
B) financial market.
C) factor markets.
D) government market.
E) monetary flows.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
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10) In the circular flow model, which of the following is on the buying side in the goods market?
i. firms
ii. households
iii. federal, state, and local governments
A) i only
B) ii only
C) iii only
D) i and ii
E) ii and iii
Answer: E
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

11) In the circular flow model, which of the following is on the selling side in the goods market?
A) federal, state, and local governments
B) only households
C) exporters
D) only firms
E) both firms and households
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

12) The circular flow model shows that goods and services flow from
A) businesses to households.
B) households to business.
C) the factor market to businesses.
D) the goods market to businesses.
E) the factor markets to the goods markets.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
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13) As the circular flow model points out, a choice that households make is how
A) many resources a firm will hire.
B) many goods and services are produced.
C) many goods and services are purchased.
D) much labor is hired.
E) much the government will collect in taxes and how much the government will spend on transfer payments.
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

14) In the circular flow model, which of the following owns the factors of production?
A) only federal, state, and local governments
B) only households
C) only firms
D) both firms and households
E) firms, households, and all levels of government
Answer: B
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

15) In the circular flow model, the factor markets are the markets in which
A) consumption goods and services are bought and sold.
B) government goods and services are provided.
C) land, labor, capital, and entrepreneurship are bought and sold.
D) investment goods and services are bought and sold.
E) governments impose all their taxes.
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
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16) A money flow in the circular flow diagram is
i. the government's collection of taxes.
ii. Chevrolet's production of SUVs.
iii. Nike's payment of wages to its workers.
A) i and iii
B) i, ii and iii
C) i only
D) ii only
E) ii and iii
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

17) A real flow in the circular flow diagram is
i. a firm's payments of wages to its workers.
ii. a household's purchase of a new car.
iii. a farmer's use of land to grow corn.
A) ii and iii
B) i only
C) i and iii
D) ii only
E) i, ii and iii
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

18) An example of a real flow in the circular flow diagram is
A) a household's supply of work effort at its new business.
B) the government's payment of wages to a soldier.
C) Nike's payment of wages to workers in China.
D) your county's collection of property taxes.
E) a teacher's salary at the local high school.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
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19) An example of a money flow in the circular flow diagram is
A) a student's payment of tuition to her university.
B) the government's operation of the court system.
C) the government's financing of the national debt.
D) a firm's production of goods to sell to a foreign country.
E) a farmer's use of land to grow wheat.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

20) As the circular flow model shows, the factors of production flow from
A) firms to households through the factor market.
B) households to firms through the factor market.
C) firms to households through the goods market.
D) households to firms through the goods market.
E) the goods market through firms to the factor markets.
Answer: B
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

21) In the circular flow model, the factors of production flow in the
A) same direction as do the rents, wages, interest, and profits.
B) opposite direction as do the rents, wages, interest, and profits.
C) opposite direction as does the government.
D) same direction as does the goods market.
E) opposite direction as does the goods market.
Answer: B
Topic: Circular flow model
Skill: Level 4: Applying models
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22) In the goods market, firms _____ and households _____.
A) purchase goods and services; supply goods and services
B) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services
C) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
D) supply goods and services; purchase goods and services
E) hire land, labor, capital, and entrepreneurship services; supply goods and services
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

23) In the factor market, firms _____ and households _____.
A) hire land, labor, capital, and entrepreneurship services; purchase goods and services
B) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services
C) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
D) purchase goods and services; supply goods and services
E) supply goods and services; purchase goods and services
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

24) Which of the following transactions takes place in factor markets?
A) Henry receives a commission from his employer for selling a new automobile.
B) Jake purchases 1,000 shares of stock in the Wal-Mart Corporation through his online trading account.
C) Sam enters the winning bid on a grand piano at a local auction.
D) Justin receives $30 in exchange for mowing his neighbor's lawn.
E) Lucille receives a $500 check from the U.S. Social Security Administration.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Application of knowledge

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25) Which markets are depicted in the basic circular flow model?
A) the goods market and the stock market
B) the factor market and the bond market
C) the goods market and the factor market
D) the money market and the foreign exchange market
E) the stock market and the bond market
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

26) In the circular flow model, which of the following flows in the opposite direction from the flow of factors of production?
A) finished goods and services
B) wages, rent, interest, and profit
C) interests payments of Federal, state, and local governments
D) firm's profit incentives
E) the goods market
Answer: B
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

27) Terri is enrolled in her first economics course. She is required to give a presentation about the circular flow. Which of the following statements should she include in her presentation?
A) Households choose the amount of the factors of production to provide the firms.
B) Firms choose the amount of the factors of production to provide households.
C) Households receive wages for the amount of entrepreneurship they provide firms.
D) Firms pay wages for the amount of entrepreneurship they provide households.
E) The flows of goods and services and payments for the goods and services flow in the same direction.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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28) Aaron locked himself out of his house and had to pay $40 to Brianna, who works for Lucky Locksmith, to open his door. Based on this transaction in the economy and using concepts from the circular flow model, which of the following is true?
A) Brianna earned income from supplying her labor services.
B) Aaron earned income from supplying his labor services.
C) Brianna purchased goods and services.
D) Aaron acted as a firm in this transaction.
E) Aaron supplied goods and services.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

29) In the circular flow model,
A) the government is represented as a separate market.
B) the government buys goods and services from firms.
C) goods and services are sold by households and purchased by firms.
D) factor markets are where goods rather than services are bought and sold.
E) the government has no direct interaction with either households or firms.
Answer: B
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

30) In the circular flow model with the government sector, transfers
A) flow in the same direction as do taxes.
B) flow in the opposite direction as do taxes.
C) to households flow in the same direction as do expenditures on goods and services.
D) to firms flow in the same direction as do rent, wages, interest, and profits.
E) flow only through the goods market.
Answer: B
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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31) In the circular flow model with the government sector, taxes
A) flow in the opposite direction as do transfers.
B) flow in the same direction as do transfers.
C) on households flow in the same direction as do the goods and services.
D) on firms flow in the same direction as do factors of production.
E) flow from the goods market to the factor markets.
Answer: A
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

32) Which of the following is NOT shown explicitly in the circular flow model?
A) the government's purchases in the goods market
B) the taxes the government collects from households
C) the government's interaction with firms
D) the legal system
E) the transfers the government makes to households
Answer: D
Topic: Circular flow and the government
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

33) Which of the following is a function of the U.S. federal government?
A) providing the legal and social framework for economic activity
B) distributing private goods and services
C) deciding for whom firms should produce goods and services
D) deciding how much to produce of private goods and services
E) determining what wages firms will pay their workers
Answer: A
Topic: Federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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34) Which of the following is NOT a function of the federal government?
A) collecting property taxes
B) making social security and welfare payments
C) making transfers to state and local governments
D) providing public goods and services
E) imposing a personal income tax
Answer: A
Topic: Functions of the federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

35) Of the following, the largest single component of U.S. federal government expenditures is spent on
A) interest paid on the national debt.
B) Medicare and Medicaid.
C) national defense.
D) purchases of goods and services for purposes other than national defense.
E) transfers to state and local governments.
Answer: B
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

36) The largest component of federal government spending is for
A) national defense.
B) Medicare and Medicaid.
C) education.
D) prisons.
E) interest on the national debt.
Answer: B
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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37) Of the following, the federal government obtains most revenue from
A) excise taxes.
B) sales taxes.
C) corporate income taxes.
D) Social Security taxes.
E) property taxes.
Answer: D
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

38) The two biggest items of the U.S. federal government revenue that together account for over approximately 80 percent of total federal government revenue are
A) personal income taxes and Social Security taxes.
B) personal income taxes and corporate income taxes.
C) corporate income taxes and Social Security taxes.
D) corporate income taxes and property taxes.
E) personal income taxes and sales taxes.
Answer: A
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

39) Of the following, the federal government's largest source of revenue is the
A) sales tax.
B) property tax.
C) corporate income tax.
D) social security tax.
E) transfers from state and local governments.
Answer: D
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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40) Tax revenues are transferred from
A) state governments to the federal government.
B) local governments to state and federal governments.
C) one state government to other state governments.
D) the federal government to state and local governments.
E) the state and local governments to the federal government.
Answer: D
Topic: Federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

41) Of the following, the largest source of revenue for the federal government is the
A) personal income tax.
B) transfers from state and local governments.
C) corporation income tax.
D) lottery.
E) revenue from the sale of public lands.
Answer: A
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

42) Income taxes paid by corporations are
A) the major source of revenue for the federal government.
B) the major source of revenue for state governments.
C) the major source of revenue for local governments.
D) about 9 percent of the federal government's revenue.
E) the major source of expenditure by the federal government.
Answer: D
Topic: Federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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43) The national debt is the total amount the _____ government has borrowed to make expenditures that _____ tax revenue.
A) state and local; are less than
B) federal; are less than
C) federal; exceed
D) state and local; exceed
E) federal; are equal to
Answer: C
Topic: National debt
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

44) The national debt is the total amount the _____ government has _____ to make expenditures that exceed tax revenue.
A) state and local; borrowed
B) federal; taxed U.S. citizens
C) state and local; taxed U.S. citizens
D) federal; borrowed
E) federal; loaned
Answer: D
Topic: National debt
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

45) The total amount the federal government has borrowed to make expenditures that exceed tax revenue is called
A) personal income taxes.
B) federal expenditures.
C) total government spending.
D) the net government revenue.
E) the national debt.
Answer: E
Topic: National debt
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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46) If there is a national debt, we can conclude that the federal government has
A) borrowed in the past.
B) purchased more goods and services than were needed.
C) spent money foolishly.
D) loaned funds to U.S. taxpayers in the past.
E) loaned funds to other nations in the past.
Answer: A
Topic: National debt
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

47) State and local governments finance expenditures mainly from
A) tax revenue.
B) funds provided by the federal government.
C) government bonds issued at the state level.
D) private bank loans.
E) lottery funds.
Answer: A
Topic: State and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

48) Of the following, the largest source of tax revenue collected by state and local governments comes from
A) individual income taxes.
B) corporate income taxes.
C) death taxes.
D) sales taxes.
E) lottery revenues.
Answer: D
Topic: State and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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49) Which of the following are sources of revenue for state and local governments?
i. property taxes
ii. sales taxes
iii. transfers from the federal government
A) i and ii
B) ii and iii
C) i and iii
D) i, ii and iii
E) i only
Answer: D
Topic: State and local governments
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

50) Property taxes are a major source of revenue for
A) state and local governments.
B) the federal governments.
C) the federal, state, and local governments.
D) firms wanting to relocate their operations.
E) consumers.
Answer: A
Topic: State and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

51) The largest category of state and local government expenditures is
A) public welfare.
B) highways.
C) education.
D) interest on their debt.
E) social security.
Answer: C
Topic: State and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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52) State and local governments spend about _____ of their expenditures on education.
A) 14 percent
B) 19 percent
C) 34 percent
D) 59 percent
E) 74 percent
Answer: C
Topic: State and local governments
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

53) Households and firms in the U.S. economy interact with those in the rest of the world in the _____ market and in the _____ market.
A) goods; factor
B) goods; financial
C) government; goods
D) financial; factor
E) firm; government
Answer: B
Topic: Circular flow model, international flows
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

54) An example of a U.S. export is
A) a TV made in China sold to a buyer in Azerbaijan.
B) matchbooks made in Mexico sold to a buyer in New Jersey.
C) pasta made in Italy sold to buyers in Spain.
D) diamonds mined in Africa sold to buyers in South America.
E) a washing machine made in Indiana sold to a buyer in France.
Answer: E
Topic: Circular flow model, international flows
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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55) Within the circular flow model, economists define households as
A) families with at least 2 children.
B) families living in their own houses.
C) individuals or groups living together.
D) married or engaged couples.
E) individuals or groups within the same legally defined family.
Answer: C
Topic: Households
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

56) A market is defined as
A) the physical place where goods (but not services) are sold.
B) the physical place where goods *and* services are sold.
C) any arrangement that brings buyers and sellers together.
D) a place where money is exchanged for goods.
E) another name for a store.
Answer: C
Topic: Markets
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

57) In the circular flow model,
A) only firms sell in markets.
B) only households buy from markets.
C) some firms only sell and some firms only buy.
D) the money used to buy goods and the goods themselves travel in the same direction.
E) both firms and households buy or sell in different markets.
Answer: E
Topic: Markets
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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58) _____ choose(s) the quantities of goods and services to produce, while _____ choose(s) the quantities of goods and services to buy
A) Households; firms
B) Firms; households and the government
C) The government; firms
D) Firms; only households
E) Households; the government
Answer: B
Topic: Households vs. firms
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

59) _____ choose the quantities of factors of production to hire and _____ choose the quantities of goods and services to produce.
A) Entrepreneurs; firms
B) Firms; firms
C) Markets; markets
D) Factor markets; goods markets
E) Firms; households
Answer: B
Topic: Households vs. firms
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

60) In the circular flow model, rent, wages, interest, and profit paid flow from _____ through _____ to _____.
A) households; goods markets; firms as payment for goods
B) firms; factor markets; households
C) firms; goods markets; households
D) households; factor markets; firms
E) firms; goods markets; firms
Answer: B
Topic: Households vs. firms
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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61) A circular flow model shows the interrelationship between the _____ markets and the _____ markets.
A) household; goods
B) household; factor
C) business; household
D) expenditure; income
E) goods; factor
Answer: E
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

62) In the circular flow model, the expenditures on goods and services flow in the
A) same direction as goods and services in all cases.
B) same direction as goods and services ONLY IF they both flow through the goods market.
C) same direction as goods and services ONLY IF they both flow through the factor market.
D) opposite direction as goods and services.
E) same direction as factor markets.
Answer: D
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

63) Households receive transfers from _____, and firms receive transfers from _____.
A) government; government
B) firms; households
C) government; government and households
D) firms and government; government
E) government; no one
Answer: A
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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64) Of the following, the largest source of revenue for the federal government is
A) personal income taxes.
B) sales taxes.
C) corporate income taxes.
D) property taxes.
E) lottery revenue.
Answer: A
Topic: Federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

65) _____ are the largest components of state and local government revenue.
A) Transfers from federal government and corporate income taxes
B) Transfers from federal government and sales taxes
C) Individual income taxes and corporate income taxes
D) Individual income taxes and sales taxes
E) Corporate income taxes and lottery income
Answer: B
Topic: State and local governments
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

66) U.S. exports of goods and services flow to households and firms in _____, and U.S. financial inflows of capital flow to households and firms in _____.
A) the United States; the United States
B) the United States; the rest of the world
C) the rest of the world; the United States
D) the rest of the world; the rest of the world
E) the United States; the rest of the world and the United States
Answer: C
Topic: Circular flow model, international flows
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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2.4 Integrative Questions

1) If a product becomes more popular and consumers want more produced, which of the following best describes what happens to move more factors of production into that industry?
A) An agency of the Federal government directs the movement of factors.
B) The chief executive officers or presidents of corporations require that factors leave one industry and move to the other industry.
C) Factor owners voluntarily move their factors because they want to satisfy the interests of consumers.
D) Wages, rent, interest, and profit increase in that industry, thereby giving factors the incentive to move to that industry.
E) Consumers increase their demand for the products and, as a result, the taxes the producers must pay decrease enabling the producers to hire more factors of production.
Answer: D
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Analytic skills

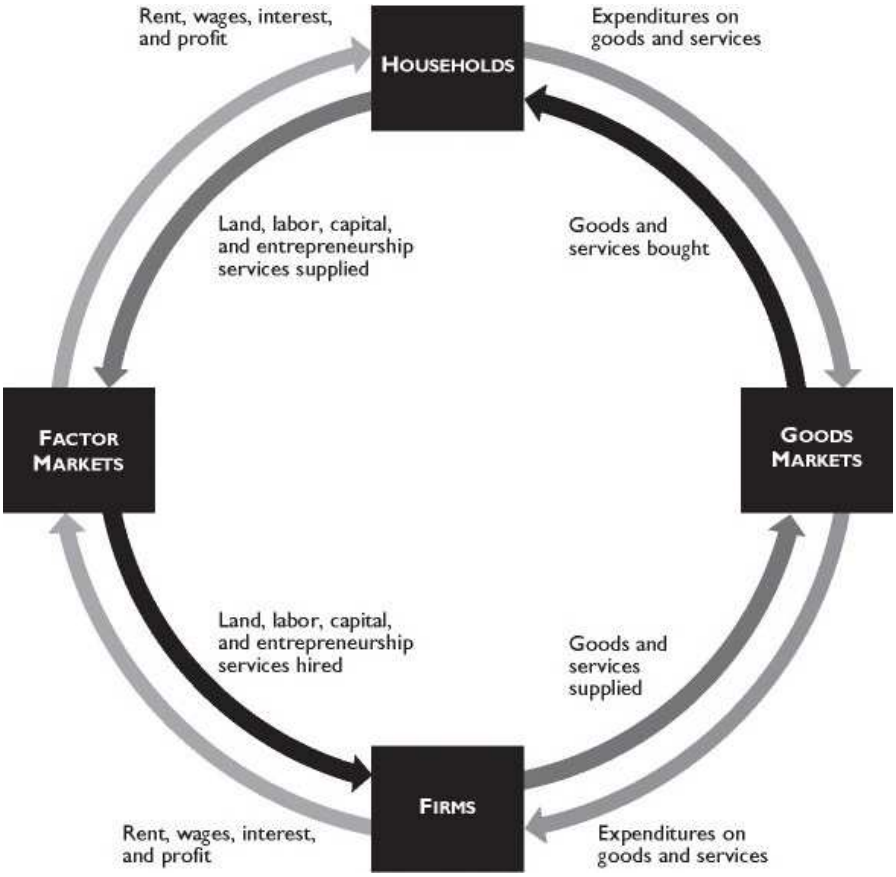
2) What determines the income flows that households receive?
A) an agency of the Federal government
B) what they choose to produce, how much is sold, and the price received when sold
C) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
D) financial institutions such as banks
E) what they choose to consume
Answer: C
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Reflective thinking

3) What determines the revenue flows received by businesses?
A) an agency of the Federal government
B) what they choose to produce, how much is sold, and the price received when sold
C) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
D) financial institutions such as banks
E) what they pay the factors of production they employ
Answer: B
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Reflective thinking

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2.5 Chapter Figures



The figure above shows the circular flow model.

1) In the figure above, which of the following represents a real flow of a factor of production?
A) labor
B) wages
C) goods bought
D) services sold
E) firms' expenditures on factors of production
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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2) In the figure above, which of the following represents a money flow?
A) goods purchased
B) interest
C) capital
D) services sold
E) goods supplied
Answer: B
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

3) In the figure above, which of the following represents a real flow?
A) expenditures on real estate services
B) profit
C) capital
D) wages
E) both B and D
Answer: C
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

4) In the figure above, which of the following transactions take place in the factor markets?
i. Michael, a student, orders a computer from Dell online.
ii. Peter gets a job at a Wal-Mart store.
iii. Apple Computer opens a new store in Georgia.
A) ii and iii
B) only i
C) only ii
D) only iii
E) i and ii
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

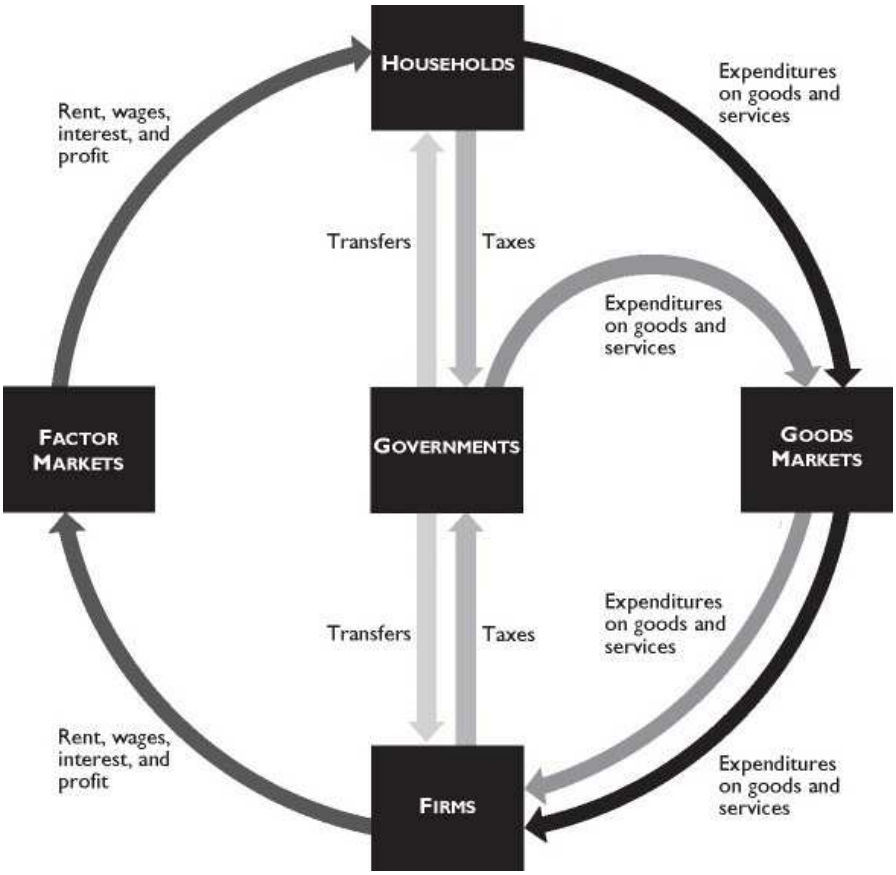
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5) Margo orders a MacBook Pro computer from The Apple Store online to use it in her graphic design business. How will this be reflected in the figure above?
A) as a flow of a factor of production
B) as a flow of goods and services bought
C) as expenditures on goods and services
D) as goods and services supplied
E) It won't be shown in the figure because this transaction takes place neither in goods markets nor in factor markets.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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The figure above shows governments in the circular flow.

6) In the figure above, households
A) receive transfers directly from governments.
B) buy goods and services from governments in goods markets.
C) receive transfers from governments through factor markets.
D) sell factors of production to governments.
E) pay taxes to governments through factor markets.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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7) In the figure above, firms
A) pay taxes directly to governments.
B) sell goods and services to governments in goods markets.
C) receive transfers from governments through factor markets.
D) own factors of production.
E) do all of the above.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

8) In the figure above, governments
A) collect taxes.
B) coordinate economic activities of households and firms.
C) hire factors of production.
D) own factors of production.
E) sell goods and services to household.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

9) In the figure above, which of the following is true?
i. Governments coordinate economic activities of households and firms.
ii. Governments buy goods and services in goods markets.
iii. Households pay taxes directly to firms.
A) only ii
B) only i
C) only iii
D) i and ii
E) ii and iii
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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10) Social Security tax is deducted from your paycheck. In the figure above, this will be shown as
A) taxes flowing from households to governments.
B) taxes flowing from firms to governments.
C) taxes flowing from households to firms.
D) wages flowing from firms to households.
E) wages flowing from firms to governments.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

2.6 Essay: What, How, and For Whom?

1) It is conventional to divide the nation's total production into four categories. Name and explain the four categories. In the United States, which category accounts for the largest share and the smallest share of the nation's total production?
Answer: The four categories of production are consumption goods and services, capital goods, government goods and services, and export goods and services. The division is based upon who purchases the goods and services. For instance, consumption goods and services are purchased by individuals for their own enjoyment whereas export goods and services are purchased by foreigners. In the United States, the largest of these four components is consumption goods and services. In 2011, consumption goods and services accounted for 61 percent of the total production. The smallest components were capital goods and export goods and services, which each accounted for 11 percent of the total production.
Topic: What we produce
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Written and oral communication

2) Explain the difference between consumption and capital goods.
Answer: A difference lies in the identity of the purchaser. Consumption goods (and services) are purchased by households and investment goods are purchased by firms. Households buy consumption goods to use for personal enjoyment. They contribute to the person's standard of living. Firms buy capital goods to use as a factor of production. Capital goods are used along with the other factors of production, to help produce additional goods and services.
Topic: Consumption and capital goods
Skill: Level 3: Using models
Section: Checkpoint 2.1
Status: Old
AACSB: Written and oral communication

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3) Identify the four factors of production, and tell what type of income is earned by each factor.
Answer: The factors of production are land, which represents all the gifts of nature; labor, the work effort people put into producing goods and service; capital, goods that have been produced and are used as a productive resource to help produce other goods and services; and entrepreneurship, the human resource that organizes all the other factors of production. Land earns rent, labor earns wages, capital earns interest, and entrepreneurship earns profit or losses.
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

4) What are the payments each factor of production receives?
Answer: Rent is paid for the use of land. Wages are paid for the services of labor. Interest is paid for the use of productive capital. Entrepreneurs earn a profit.
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

5) What is meant by the term "human capital"?
Answer: Human capital refers to the skills people possess. These skills help increase the quality of labor. Human capital can be increased through education, on the job training, and experience. The knowledge and skill gained from these improvements are called human capital.
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

6) What effect, if any, will a good college education have on your human capital? Explain your answer.
Answer: Human capital refers to the skills people possess. These skills can be gained through education, on the job training, and experience. Thus your college education is increasing your human capital.
Topic: Human capital
Skill: Level 3: Using models
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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7) Explain the differences between "human capital," "financial capital," and "capital."
Answer: Human capital is the knowledge and skills people obtain from education, on-the-job training, and work experience. Financial capital is money, stocks, and bonds. Capital is tools, instruments, machines, buildings, and anything that had to be produced prior to production of the desired goods and services.
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

8) What is the difference between "capital" and "financial capital"? Which is a factor of production?
Answer: "Capital" is the actual physical good, such as a factory, an assembly line, or a computer server. "Financial capital" is stocks, bonds, or money. Financial capital is used to fund the purchase of the (physical) capital. Financial capital is NOT a factor of production because it is not used to help produce goods and services. Capital, however, is a factor of production because capital is used to help produce goods and services.
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

9) What is the difference between the functional and the personal distribution of income?
Answer: The functional distribution of income shows how total income is divided among the factors of production. The personal distribution of income shows how total income is divided among households.
Topic: Distributions of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

10) In the United States, which factor of production earns the largest share of the nation's total income?
Answer: The largest fraction of the nation's total income is earned by labor. In the United States, wages paid to labor account for about 69 percent of the nation's total income.
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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11) In the United States, how does the income received by the richest 20 percent of individuals compare with the income received by the other 80 percent?
Answer: In the United States, the richest 20 percent of individuals receive about 51 percent of the nation's total income. Thus the other 80 percent of individuals receive the remainder, about 49 percent of the nation's income. So the richest 20 percent of the individuals receive almost the same amount as the other 80 percent of people.
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

2.7 Essay: The Global Economy

1) Compare and contrast the world population with that of the United States. Is the United States becoming a larger or a smaller part of the world's population?
Answer: The U.S. population was approximately 311 million in 2011. It is growing at a rate of about one person in every 12 seconds. The world population in 2011 was about 7 billion and is growing at a rate of 30 people in the same 12 seconds. Hence the United States is becoming a smaller fraction of the world's population.
Topic: Population
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

2) How many and what fraction of the world's people live in advanced economies? In emerging market and developing economies?
Answer: There are approximately 7 billion people in the world. Of the 7 billion people, almost 1 billion or 15 percent, live in advanced economies. About 85 percent, or nearly 5.8 billion people live in emerging market and developing economies.
Topic: Population
Skill: Level 1: Definition
Section: Checkpoint 2.2
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3) The International Monetary Fund divides nations into three groups. What are the three groups and what are the characteristics of each group?
Answer: The International Monetary Fund divides nations into "advanced economies," "developing economies," and "emerging market economies." Advanced economies are the countries or regions that have the highest living standards. Industrialized nations such as the United States, Canada, and Japan are included, as are the newly industrialized Asian economies. Developing economies are the countries that have yet to achieve a high standard of living. Nations in Africa, Central America, and South America fall into this category. The emerging market economies are nations that are changing how they organize their economies. In the past, their economic system relied upon state-ownership of capital and direct government management of the economy. They now are moving to more reliance upon a system of free enterprise, that is, a system similar to what exists in the United States. Emerging market economies are Russia and the other nations in Eastern and Central Europe that used to be Russian satellites.
Topic: Classification of countries
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Written and oral communication

4) Discuss the distribution of income around the world. Which countries have the highest average incomes? Which countries have the lowest average incomes? How has the distribution of income changed in recent years?
Answer: Income is distributed unequally, with residents in the advanced economies having the highest average incomes. The highest living standard is in the United States, where the average income is $129 per day. Canada, Japan, the United Kingdom, and the Euro zone are close behind. In the poorest regions of the world, India and Africa, incomes are much lower. The average income is only $3 per day in India. The distribution of world income has become more equal in recent years because income in some very poor nations, especially China, has grown rapidly.
Topic: Distributions of income
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Written and oral communication

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5) Discuss the differences between developing and emerging market economies.
Answer: Although the average income in emerging market economies is less than that in advanced economies, developing countries generally have lower levels of income than emerging market economies. Emerging market economies are in some ways as developed as the advanced economies because they often have a well-trained labor force and a reasonable capital stock, both of which are typically missing in developing economies. But emerging market economies are struggling to raise their living standards. The main difference between emerging market economies and other economies is their economic system. Emerging market economies operated under state-owned production for many years and are now moving towards a free market system. Developing economies generally do not have the same history of a very long period of time operating under a system of state-owned production.
Topic: Developing and emerging market economies
Skill: Level 5: Critical thinking
Section: Checkpoint 2.2
Status: Old
AACSB: Written and oral communication

2.8 Essay: The Circular Flows

1) What is a market? Must a market have a single physical location?
Answer: A market is any arrangement that allows buyers and sellers to get together and transact their business. Although some markets have a physical location, such as a farmers' market where buyers and sellers of fresh corn can meet face-to-face, markets do not require an actual location. Indeed, many markets, such as the local market for apartments, do not have a single physical location. Nonetheless, buyers and sellers (tenants and landlords) arrange purchases and sales (the rental of apartments and houses) through means other than meeting in one central location.
Topic: Markets
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

2) Explain the structure of the circular flow model.
Answer: Households own the factors of production and sell the services from them to firms in the factor market. Income earned by households in the factor market is used to purchase goods and services from firms in the goods market. And the revenue the firms gain by selling the goods and services in the goods market is used to pay for the services of the factors of production they hire in the factor markets.
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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3) How are the roles of the household different in the goods market and in the factor markets?
Answer: In the goods market, households are buyers. They purchase the goods and services produced by the firms. In exchange for the goods and services, households pay firms. In the factor market, households are sellers. They provide the services from land, labor, capital, and entrepreneurship to the firms. In the factor markets, households receive payments from firms.
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

4) Describe the circular flow of the economy by discussing the two markets where households and firms meet.
Answer: Firms and households meet in two markets: the goods market and the factors market. In the goods markets, households buy the goods and services that firms sell. In this market, households give firms money in exchange for the goods and services. In the factors market, households sell the services of the factors of production to firms, which buy the services of these factors. In the factors market, firms pay households money in exchange for the productive resources. Hence households earn their incomes in the factors market and spend their incomes in the goods market. And firms earn their revenue in the goods market and pay their costs in the factors market.
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

5) Explain how public goods provided by the federal government differ from public goods provided by the state and local governments.
Answer: The federal government provides goods and services such as national defense and the legal system. These are goods and services that benefit the entire nation or else substantial parts of it. The state and local governments provide mainly education and highways, which benefit primarily residents within the state or locality.
Topic: Functions of state and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
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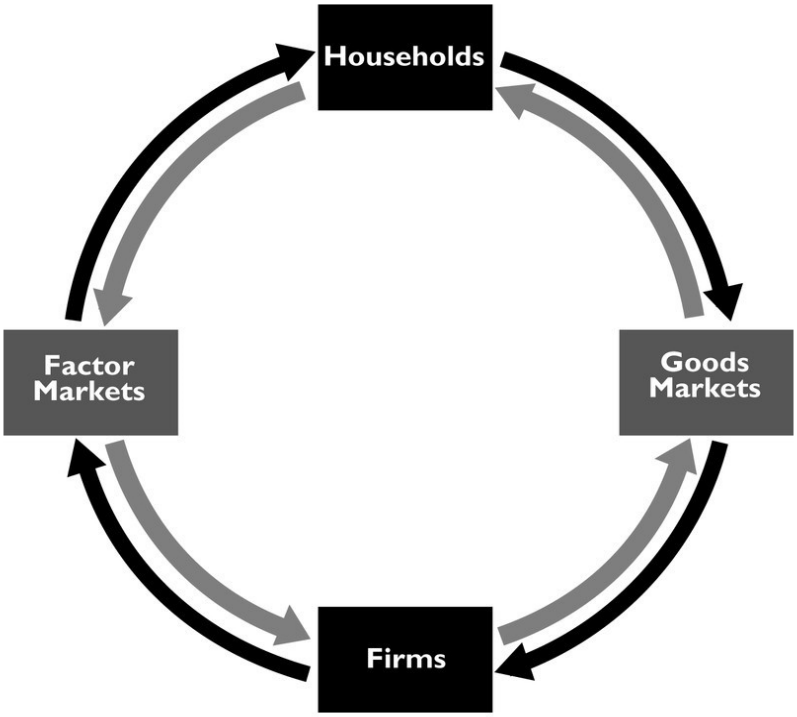
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6) Describe the government's flows in the circular flow model of the economy.
Answer: The government has several flows in the circular flow model. First, the government taxes households and firms. Hence, funds flow from households and firms to the government. Second, the government transfers income back to households, via payments such as social security. In this case, funds flow from the government to households. The government also purchases goods and services from firms in the goods market. In this case, goods and services flow to the government and payments flow to firms.
Topic: Circular flow and the government
Skill: Level 2: Using definitions
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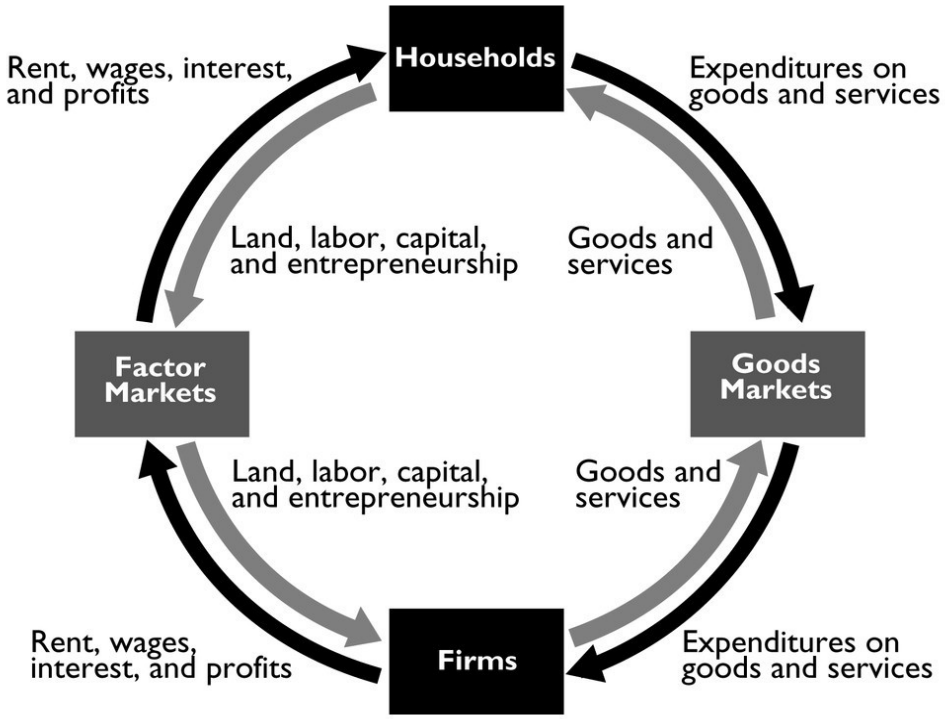
7) Label the flows in the simplified circular flow diagram that ignores the government.



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Answer:

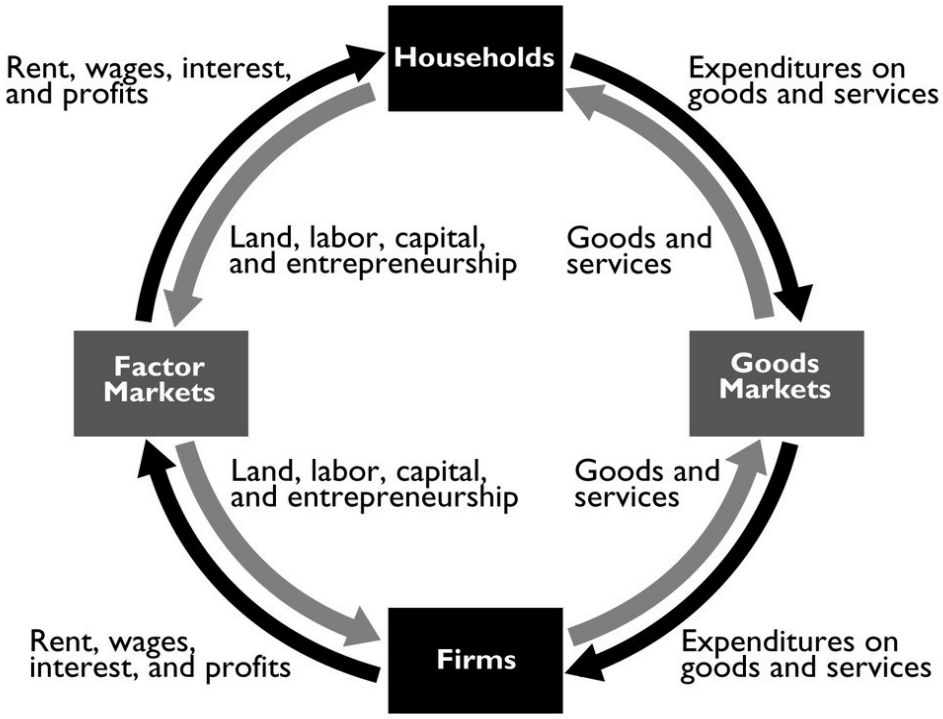


The figure above shows the labeled flows.
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Skill: Level 2: Using definitions
Section: Checkpoint 2.3
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8) Draw a circular flow diagram with households and firms and without government. Label the markets and the flows in the circular flow diagram.
Answer:



A circular flow diagram with the markets and flows labeled is in the figure above.
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

9) Explain how the largest sources of state tax revenues differs from the largest sources of federal tax revenues.
Answer: The two largest sources of federal tax revenues are from the personal income tax and Social Security taxes. Most state tax revenues are from sales and property taxes. There are no federal property or sales taxes. There is no state social security tax. And, although there are state income taxes, they do not take in as much revenue as do other state taxes.
Topic: Tax receipts
Skill: Level 1: Definition
Section: Checkpoint 2.3
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10) What are the two largest sources of tax revenues for the U.S. federal government?
Answer: The largest source of tax revenue for the U.S. federal government is personal income taxes, that is, the income taxes that individuals pay. The second largest source of revenue is social security taxes. Personal income taxes account for about 41 percent of the federal government's revenue and social security taxes account for about 40 percent, so together these two sources of revenue are 81 percent of the federal government's total tax revenues.
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

11) What is the largest source of tax revenue for the U.S. federal government and what is the largest expenditure item of the U.S. federal government?
Answer: The largest source of tax revenue for the U.S. federal government is personal income taxes, that is, the income taxes that individuals pay. The largest expenditure of the U.S. federal government is spending on Medicare and Medicaid.
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
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