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Chapter: Chapter 2: Economic Decision Making and Economic Systems

Multiple Choice

1. The three basic economic decisions are:
A) what to produce, how to produce, and what prices to charge.
B) how to produce, who should produce, and what they should be paid.
C) what to produce, how to produce, and who receives what has been produced.
D) what goods and services should be consumed, what these goods and services should cost, and how much people should earn.

Ans: C
Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

2. The basic economic decisions are faced:
A) in every economy because of scarcity.
B) in every economy because every society has a formal government.
C) only in market economies since no decision making is allowed in planned economies.
D) only in advanced economies where enough goods and services are produced to force people to make choices.

Ans: A
Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

3. Which of the following is NOT one of the three basic economic decisions?
A) How goods and services should be produced.
B) To whom the goods and services should be distributed.
C) What goods and services should be produced and in what quantities.
D) When goods and services should be produced, and when their producers should be paid.

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Ans: D
Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
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4. The basic economic decisions:
A) apply only to less-developed economies where scarcity is a real problem.
B) relate to what is to be produced and how well it satisfies consumer demand.
C) are decisions about production and distribution that must be made by every society.
D) differ in every society; that is, some societies face only one basic decision while others face two or three.

Ans: C
Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

5. Which of the following is NOT a basic economic decision that must be made by every society?
A) What goods and services will be produced.
B) What goods and services consumers will need most.
C) Who will receive the goods and services that are produced.
D) What factors of production and methods will be used in producing goods and services.

Ans: B
Difficulty: Easy
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

6. The way a society is organized to make the basic economic decisions is referred to as its:
A) output strategy.
B) economic system.
C) production network.
D) social-economic structure.

Ans: B

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Difficulty: Easy
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

7. Decisions about what goods and services will be produced, how they will be produced, and who will get them, must be made in:
A) all economies.
B) market economies, but not in planned economies.
C) socialist economies, but not in capitalist economies.
D) economies based on individual decision making, but not in economies based on collective decision making.

Ans: A
Difficulty: Easy
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

8. With reference to the basic economic decisions, all economies must determine:
A) what goods and services households want to purchase.
B) what methods and techniques to use to produce goods and services.
C) how taxes will be used to redistribute income among the population.
D) how much control elected officials have in deciding what goods and services to produce.

Ans: B
Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

9. A society's economic system is defined by:
A) the degree of scarcity it faces.
B) the way in which basic economic decisions are made.
C) the forms into which its businesses are legally organized.
D) its type of government; that is, whether it has a dictatorship or a democracy.

Ans: B
Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions and Economic Systems

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LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

10. Which of the following statements best describes the relationship among scarcity, economic decisions, and economic systems?
A) The economic system that a society chooses determines whether or not it faces a scarcity problem.
B) The choice of an economic system depends on which basic economic decisions a society must make.
C) Scarcity forces a society to choose an economic system which, in turn, defines which economic decisions it must make.
D) Scarcity imposes basic economic decisions on a society that are made through the type of economic system it chooses.

Ans: D
Difficulty: Hard
Topic: Scarcity, the Basic Economic Decisions and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

11. The economic systems of people such as some early Native American tribes that were small, focused on agriculture, and operated with production methods not changed for generations are best characterized as:
A) mixed economies
B) market economies.
C) command economies.
D) traditional or agrarian economies.

Ans: D
Difficulty: Easy
Topic: Scarcity, The Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

12. You would expect a society with a traditional economy to have most of its economic activity directed toward:
A) agriculture.
B) manufacturing.

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C) production of services.
D) real estate management.

Ans: A
Difficulty: Medium
Topic: Scarcity, The Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

13. Which of the following statements about traditional economies is true?
A) Workers' responsibilities tend to be tied to long-standing family or gender roles.
B) They often rely on barter, or the direct exchange of goods and services, to meet people's needs.
C) They typically rely on historical, social, political, or religious arrangements to decide what to produce and how it will be distributed.
D) All of these answer choices are correct.

Ans: D
Difficulty: Medium
Topic: Scarcity, The Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

14. Which of the following statements describing a market economy is FALSE?
A) Households only buy and businesses only sell.
B) Price is the language through which buyers and sellers communicate.
C) The basic economic decisions are made by households and businesses.
D) Households and businesses interact in markets to make economic decisions.

Ans: A
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

15. In a market economy the three basic economic decisions are made by the:
A) government, based on voter preferences.
B) interaction of individual buyers and sellers based on prices.
C) government, based on the power of government office holders.
D) interaction of individual buyers and sellers based on the effectiveness of advertising.

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Ans: B
Difficulty: Easy
Topic: MARKET ECONOMIES
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16. In a market economy, the willingness and ability of buyers to purchase goods and services helps to:
A) set the prices of those goods and services.
B) determine who gets the goods and services.
C) determine what goods and services will be produced and in what quantities.
D) all of these answer choices are correct.

Ans: D
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

17. For a pure market economy to work:
A) buyers and sellers must be able to communicate through prices.
B) business owners must be free to make their own decisions and operate with a profit motive.
C) individuals must have private property rights to own and dispose of goods, services, and resources.
D) all of these answer choices are correct.

Ans: D
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

18. Private property rights:
A) are one of the defining elements of capitalism.
B) are essential to the operation of a market economy.
C) allow individuals to own and use resources, goods, and services as they choose.
D) all of these answer choices are correct.

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Ans: D
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

19. Free enterprise refers to the right of:
A) businesses to make their own decisions and operate with a profit motive.
B) society to demand that certain essential products be made available free of charge.
C) businesses that produce products that help the poor to be exempt from paying taxes.
D) none of these choices are correct.

Ans: A
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

20. An economic system with free enterprise, private property rights, and economic decision-making in a market environment is:
A) socialism.
B) capitalism.
C) individualism.
D) none of these choices are correct.

Ans: B
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

21. In a circular flow model of a market economy, households:
A) are sellers and businesses are buyers in input markets.
B) are sellers and businesses are buyers in output markets.
C) buy resources from businesses in output markets.
D) buy goods and services from businesses in input markets.

Ans: A

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Difficulty: Medium
Topic: MARKET ECONOMIES
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22. In a circular flow model of a market economy, households:
A) are buyers and businesses are sellers in input markets.
B) are buyers and businesses are sellers in output markets.
C) sell resources to businesses in output markets.
D) sell goods and services to businesses in input markets.

Ans: B
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

23. In a circular flow model of a market economy, businesses:
A) sell goods to households in output markets.
B) buy goods from households in output markets.
C) sell resources to households in output markets.
D) buy resources from households in output markets.

Ans: A
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

24. Which of the following transactions would occur in a resource market?
A) Taking a job designing websites.
B) Renting an automobile while on vacation.
C) Taking your dog to the vet for a check-up.
D) Purchasing a computer to do your class assignments.

Ans: A
Difficulty: Medium

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Topic: MARKET ECONOMIES
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25. Which of the following transactions would occur in a product market?
A) Getting a job at the local ice cream shop.
B) Paying tuition at a local college so that you can take an art course that you'd really enjoy.
C) Contracting with someone to develop a website for a business you run out of your home.
D) Selling a machine you designed to a manufacturer so that it can lower its costs of production.

Ans: B
Difficulty: Hard
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

26. In the circular flow model:
A) resources go from businesses to households in input markets.
B) income flows to households from businesses in output markets.
C) households are buyers and businesses are sellers in input markets.
D) businesses are sellers and households are buyers in output markets.

Ans: D
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

27. According to the circular flow model, money flows from households to businesses in:
A) input markets.
B) output markets.
C) both input and output markets.
D) neither input nor output markets.

Ans: B
Difficulty: Easy

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Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

28. According to the circular flow model, money flows from businesses to households in:
A) input markets.
B) output markets.
C) both input and output markets.
D) neither input nor output markets.

Ans: A
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

29. According to the circular flow model, money flows from households to businesses, and resources flow from households to businesses in:
A) input markets.
B) output markets.
C) input markets and output markets, respectively.
D) output markets and input markets, respectively.

Ans: D
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

30. According to the circular flow model, land, labor, capital, and entrepreneurship flow from:
A) households to businesses in input markets.
B) businesses to households in input markets.
C) households to businesses in output markets.
D) businesses to households in output markets.

Ans: A
Difficulty: Medium
Topic: MARKET ECONOMIES

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LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

31. According to the circular flow model, rent, wages, interest, and profit flow from:
A) households to businesses in input markets.
B) businesses to households in input markets.
C) households to businesses in output markets.
D) businesses to households in output markets.

Ans: B
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

32. According to the circular flow model, payments for goods and services flow from:
A) households to businesses in input markets.
B) businesses to households in input markets.
C) households to businesses in output markets.
D) businesses to households in output markets.

Ans: C
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

33. An example of a transaction in an input market is:
A) the rental of a building to a firm.
B) the purchase of land by a business.
C) an individual offering labor to a business.
D) all of these answer choices are correct.

Ans: D
Difficulty: Easy
Topic: MARKET ECONOMIES
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strengths and weaknesses.

34. An example of a transaction in an output market is:
A) the purchase of labor services by a business.
B) the purchase of a new home by an individual.
C) the purchase of a building by an auto dealership.
D) all of these answer choices are correct.

Ans: B
Difficulty: Easy
Topic: MARKET ECONOMIES
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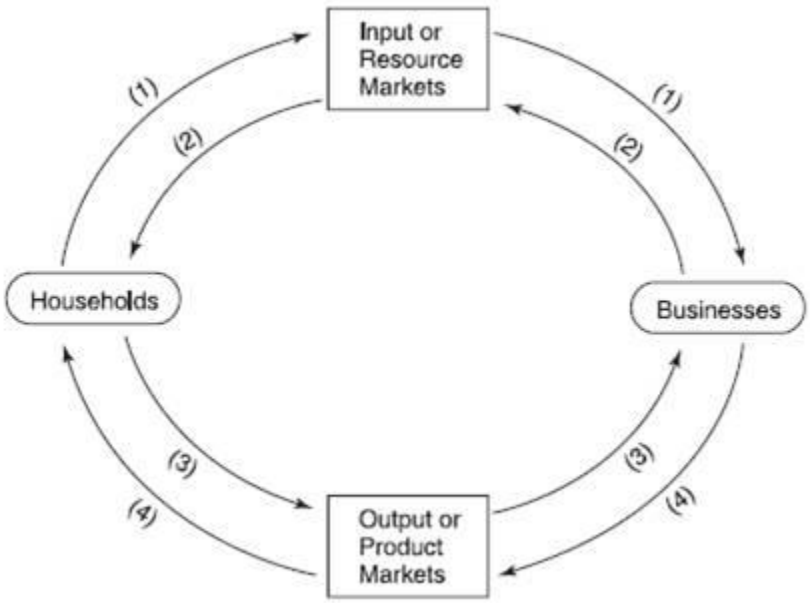
Reference: Ref 2-1

Circular flow model.



35. The flow of land, labor, capital, and entrepreneurship is shown by line:
A) (1).

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B) (2).
C) (3).
D) (4).

Ans: A
Refer To: Ref 2-1
Difficulty: Medium
Topic: MARKET ECONOMIES
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36. The flow of expenditures on goods and services is shown by line:
A) (1).
B) (2).
C) (3).
D) (4).

Ans: C
Refer To: Ref 2-1
Difficulty: Medium
Topic: MARKET ECONOMIES
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37. The flow of wages, rent, interest, and profit is shown by line:
A) (1).
B) (2).
C) (3).
D) (4).

Ans: B
Refer To: Ref 2-1
Difficulty: Medium
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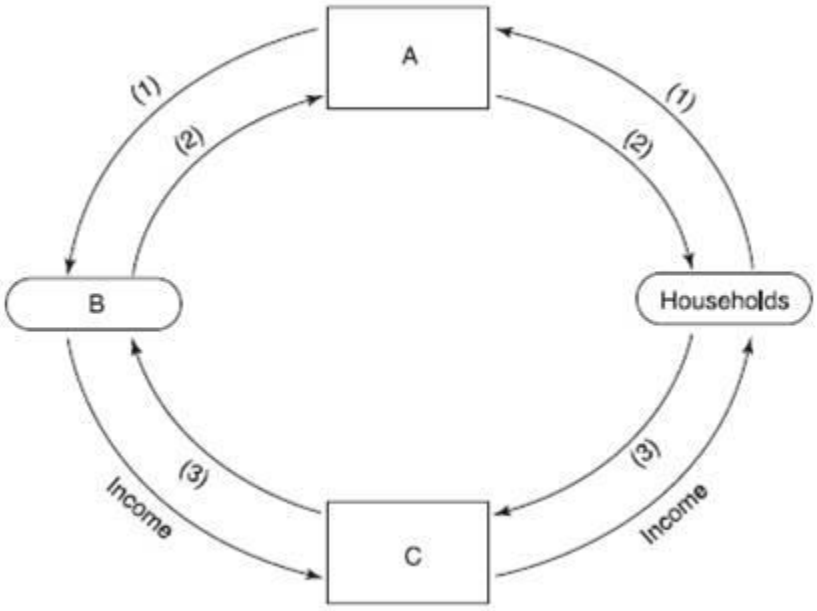
38. The flow of food, bicycles, and other products to their final users is shown by line:
A) (1).
B) (2).
C) (3).
D) (4).

Ans: D
Refer To: Ref 2-1
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

Reference: Ref 2-2

Circular flow model.



39. Product, or output, markets are shown by:
A) box A.
B) box B.
C) box C.
D) line (2).

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Ans: A
Refer To: Ref 2-2
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

40. Resource, or input, markets are shown by:
A) box A.
B) box B.
C) box C.
D) box A and box C.

Ans: C
Refer To: Ref 2-2
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

41. Lines (1) and (3) show, respectively, the flows of:
A) factors of production, and goods and services.
B) goods and services, and factors of production.
C) expenditures on goods and services, and factors of production.
D) expenditures on goods and services, and goods and services.

Ans: C
Refer To: Ref 2-2
Difficulty: Hard
Topic: MARKET ECONOMIES
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42. Lines (2) and (3):
A) both show real flows.
B) both show money flows.
C) show a real flow, and a money flow, respectively.
D) show a money flow, and a real flow, respectively.

Ans: A
Refer To: Ref 2-2
Difficulty: Hard
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

43. Lines (1) and (2):
A) both show a real flow.
B) both show a money flow.
C) show a real flow, and a money flow, respectively.
D) show a money flow, and a real flow, respectively.

Ans: D
Refer To: Ref 2-2
Difficulty: Hard
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

44. In a pure market economy, the government would be represented by:
A) box A.
B) box C.
C) boxes A and C.
D) none of these answer choices are correct.

Ans: D
Refer To: Ref 2-2
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

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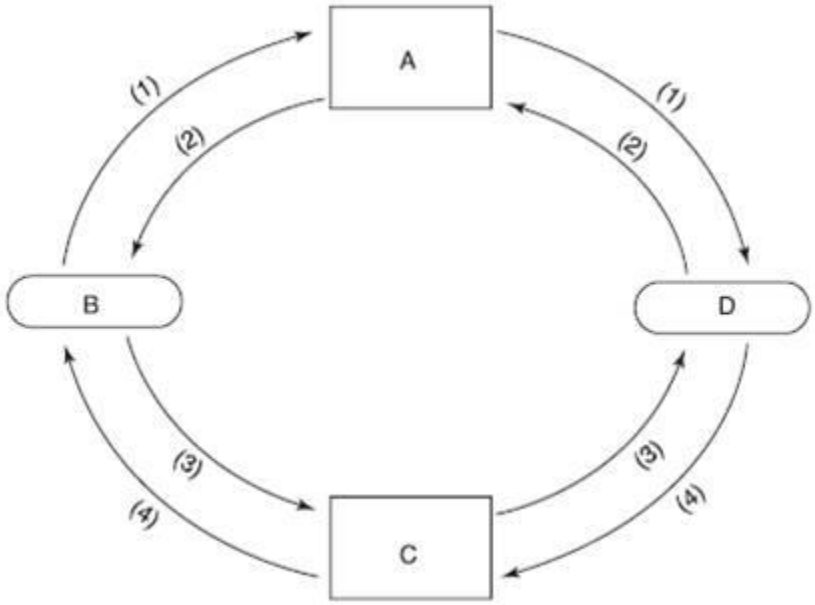
Reference: Ref 2-3

Circular flow model.



45. If line (4) represents the flow of resources, then households are represented by:
A) box A.
B) box B.
C) box C.
D) box D.

Ans: D
Refer To: Ref 2-3
Difficulty: Medium
Topic: MARKET ECONOMIES
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46. If line 3 represents the flow of income to resource owners, then line 1 represents the flow of:

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A) resources in input markets.
B) goods and services in output markets.
C) payments by households for goods and services.
D) none of these answer choices are correct.

Ans: B
Refer To: Ref 2-3
Difficulty: Hard
Topic: MARKET ECONOMIES
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47. If line 2 represents the flow of payments to businesses for goods and services, then line 4 represents the flow of:
A) resources in input markets.
B) goods and services in output markets.
C) payments to resource owners by businesses.
D) none of these choices are correct.

Ans: A
Refer To: Ref 2-3
Difficulty: Hard
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

48. In a pure market economy, individual buyers can force large sellers to change their products:
A) only by having the government require that the products be changed.
B) because in this type of economy one person is as powerful as one business.
C) only by forming groups and deciding by vote not to buy the sellers' products.
D) through the combined effect of each person's decision about how to spend his or her money.

Ans: D
Difficulty: Medium
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49. The least-cost method of production is the method that:
A) is most efficient.
B) uses the smallest total number of resources.
C) uses the cheapest factors of production, regardless of their productivity.
D) minimizes the cost on a company's most important resource rather than the costs on its less important resources.

Ans: A
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

50. A good is produced efficiently when it is produced:
A) at the lowest possible cost.
B) at the lowest possible quality.
C) with the smallest number of resources.
D) with equal amounts of the four factors of production.

Ans: A
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

51. When deciding on a method of production, a firm in a pure market economy selects the method that:
A) minimizes cost.
B) is most efficient.
C) maximizes profit.
D) all of these answers are correct.

Ans: D
Difficulty: Medium
Topic: MARKET ECONOMIES
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52. By producing its product using the least-cost method, a seller is:
A) using the smallest number of resources.
B) necessarily producing the poorest quality product.
C) producing in the way that allows for the greatest profit.
D) all of these answer choices are correct.

Ans: C
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

53. In a pure market economy, who receives goods and services is determined by the:
A) sellers who have produced those goods and services.
B) availability of government income support payments.
C) value judgments of those administering each particular market.
D) ability to pay for those goods and services from income earned in resource markets.

Ans: D
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

54. In a market system, income received by people determines:
A) to whom goods and services that are produced will go.
B) how goods and services will be produced.
C) what quantities of goods and services will be produced.
D) the prices of goods and services.

Ans: A
Difficulty: Easy
Topic: MARKET ECONOMIES
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55. In an economy based on individual decision making, goods and services are produced:
A) using the least-cost method of production.
B) by individuals rather than by business firms.
C) in response to the wishes of any single buyer in the market.
D) all of these answer choices are correct.

Ans: A
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

56. The strength of a market system is:
A) it encourages businesses to produce in an efficient manner.
B) it encourages people to acquire skills that are valued by employers.
C) information passes directly between buyers and sellers, facilitating rapid adaptation of economic processes to changing conditions.
D) all of these answers are correct.

Ans: D
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

57. In a market system:
A) profit and income incentives cause resources to be used inefficiently.
B) prices reflect the values of buyers and sellers rather than government planners.
C) production and distribution decisions reflect the value judgments of sellers but not buyers.
D) all of these answer choices are correct.

Ans: B

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Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

58. Market economies tend to produce goods and services efficiently because:
A) profit incentives are a driving force behind business production decisions.
B) information required for production decisions passes directly between buyers and sellers via prices.
C) all of these answers are correct.
D) none of these answers are correct.

Ans: C
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

59. A drawback of the market system in dealing with the basic economic questions is:
A) it depersonalizes economic decision-making.
B) it produces high incomes for people with highly valued skills, and owners of highly valued resources.
C) it does not protect people with inadequate knowledge about products.
D) power is always concentrated on the side of businesses and consumers have no influence on business decisions.

Ans: C
Difficulty: Hard
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

60. When a market system causes a problem or cannot achieve a goal set by society there is:

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A) mercantilism.
B) market failure.
C) market socialism.
D) no alternative but to go to a purely planned economy.

Ans: B
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

61. Cost-minimizing efforts by businesses that lead to pollution or inferior products are examples of:
A) project risk.
B) market failure.
C) command breakdown.
D) all of these answers are correct.

Ans: B
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

62. Market failure occurs when:
A) the price system fails to equalize income differentials between individuals.
B) public policy produces a problem for society or fails to achieve society's goals.
C) the price system produces a problem for society or fails to achieve society's goals.
D) government intervention in a market distorts price signals and produces inefficiency.

Ans: C
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

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63. Which of the following is an example of market failure?
A) Workers are treated unequally because of race, gender, or other discrimination.
B) Buyers lack adequate information to make knowledgeable decisions about which goods and services to purchase.
C) Competition drives sellers out of markets, leaving buyers with fewer sellers from whom to purchase and causing them to pay higher prices.
D) All of these answers are correct.

Ans: D
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

64. The economic system in which the basic economic questions are answered through markets with some government intervention is a:
A) mixed economy.
B) market economy.
C) planned economy.
D) centralized economy.

Ans: A
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

65. An example of government intervention in input markets would be:
A) antidiscrimination laws.
B) collective bargaining laws.
C) wage-and-hour legislation.
D) all of these answers are correct.

Ans: D
Difficulty: Easy
Topic: MARKET ECONOMIES

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LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

66. An example of government intervention in output markets would be:
A) antidiscrimination laws.
B) consumer protection laws.
C) corporate income taxation.
D) none of these answers are correct.

Ans: B
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

67. Direct government intervention in the household sector would include:
A) welfare payments.
B) laws protecting competition.
C) tariffs and quotas on imports.
D) none of these answers are correct.

Ans: A
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

68. Which of the following statements about government intervention in the U.S. economy is FALSE?
A) Businesses in industries such as pharmaceuticals and food production are subject to government regulations.
B) Government intervention occurs in the business sector, the household sector, output markets, and input markets.
C) Government tax and expenditure programs are generally not considered forms of intervention into the economy.
D) Government intervention into the economy includes setting the legal framework within

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which businesses and households must operate when dealing with one another.

Ans: C
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

69. In a planned economy:
A) free enterprise is the prevailing philosophy.
B) goods and services are usually produced more efficiently than in a market system.
C) value judgments of individual buyers and sellers are more important than value judgments of planners.
D) how goods and services are produced is determined by what resources planners make available to producers.

Ans: D
Difficulty: Easy
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

70. A country that allows no market activity in making the basic economic choices has a:
A) mixed economy.
B) capitalistic economy.
C) free enterprise economy.
D) purely planned economy.

Ans: D
Difficulty: Easy
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

71. An economic system where many of the factors of production are collectively owned and there is an attempt to equalize incomes is:
A) socialism.
B) capitalism.
C) absolutism.
D) mixed capitalism.

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Ans: A
Difficulty: Easy
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

72. A socialist system:
A) shares the same essential features as capitalism, but attempts to equalize the distribution of income.
B) has collective ownership of many factors of production and attempts to equalize the distribution of income.
C) depends exclusively on planning to decide what goods and services will be produced, and exclusively on markets to decide how they will be distributed.
D) none of these answers are correct.

Ans: B
Difficulty: Medium
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

73. An advantage of a planned economy is:
A) greater control over unemployment.
B) faster achievement of certain social goals.
C) greater control over the distribution of goods and services.
D) all of these answers are correct.

Ans: D
Difficulty: Medium
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

74. Planning failure occurs when:
A) government planners pursue noneconomic goals rather than economic goals.
B) the price system produces a problem for society or fails to achieve society's goals.
C) government intervention in a market distorts price signals and produces inefficiency.

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D) centralized decision making produces a problem for society or fails to achieve society's goals.

Ans: D
Difficulty: Hard
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

75. A weakness of a planned economy is:
A) goods and services most valued by buyers may not be produced.
B) government planners may be unable to effectively plan due to the complexity of resource allocation decisions.
C) air and water pollution may result from planners' failures to take the environment into account in many of their decisions.
D) all of these answers are correct.

Ans: D
Difficulty: Medium
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

76. A mixed economy is one:
A) that depends on both market and centralized decision making.
B) where businesses decide what to produce and households decide what to buy.
C) that is talked about in classrooms, but no mixed economies exist in the real world.
D) none of these answers are correct.

Ans: A
Difficulty: Medium
Topic: MIXED ECONOMICS
LO 2.4: Explain mixed economies and some of the changes in the world’s planned economies.

77. An advantage of classifying economies according to the degree to which they depend on markets or planning is that it allows us to:
A) focus on how societies deal with the economic decisions caused by scarcity.
B) map how a country's approach to making the basic economic choices changes over time.
C) sort economies according to the degree to which they depend on individual or collective

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decision making when dealing with the basic economic choices.
D) all of these answers are correct.

Ans: D
Difficulty: Hard
Topic: MIXED ECONOMICS
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

78. The world's economies:
A) are all either capitalist or socialist.
B) differ from one another in terms of how they mix individual and collective decision making.
C) are either capitalist in advanced societies or socialist in developing societies.
D) are strictly individual or collective in how they make decisions, with little or no mixing of the two approaches.

Ans: B
Difficulty: Medium
Topic: MIXED ECONOMICS
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

79. Which of the following countries would rely most on a market based decision-making process?
A) Cuba.
B) China.
C) England.
D) United States.

Ans: D
Difficulty: Easy
Topic: MIXED ECONOMICS
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

80. Which of the following countries would rely most on central planning for economic decisions?
A) Cuba.
B) Sweden.
C) England.

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D) United States.

Ans: A
Difficulty: Easy
Topic: MIXED ECONOMICS
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

81. Beginning in the mid-1980s, the Soviet Union, China, and other planned economies:
A) increased their dependence on centralized decision making.
B) formed into a single super-economy to reduce the scarcity problem.
C) moved toward greater use of free markets and individual decision making.
D) turned their decision-making authority over to public officials in successful western economies.

Ans: C
Difficulty: Easy
Topic: Mixed Economies
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

82. The granting to individuals the property rights to factors of production that were once collectively owned, or owned by the state, is:
A) referred to as privatization.
B) an important element in the transformation from a planned to a market economy.
C) necessary if individuals, rather than the state, are to organize resources and take risks.
D) all of these answers are correct.

Ans: D
Difficulty: Medium
Topic: Mixed Economies
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

83. The transition from a planned to a market-oriented economy:
A) requires that property rights be redefined to allow private ownership.
B) occurs smoothly and quickly once the decision to make the transition is made.
C) always leads to political stability as a result of people acting in their own best interests.
D) all of these answer choices are correct.

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Ans: A
Difficulty: Hard
Topic: Mixed Economies
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

84. Experience with economic and political changes in Eastern Europe and the former Soviet Union shows that:
A) the market ideology will never be accepted outside the United States.
B) changes in economic and social institutions necessary to transform a planned economy to a market economy occur quickly and smoothly.
C) the transformation from a planned economy to a market economy may be accompanied by severe inflation, and a heightened sense of insecurity.
D) none of these answer choices are correct.

Ans: C
Difficulty: Medium
Topic: Mixed Economies
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

85. The idea of individual decision making popularized by Adam Smith in the late 1700s provided the foundation for:
A) mercantilism.
B) U.S. capitalism.
C) Chinese socialism.
D) the economy of the former Soviet Union.

Ans: B
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

86. The economic system where the interests of the state are placed ahead of the interests of individual is:
A) mercantilism.
B) pure capitalism.
C) mixed capitalism.

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D) radical individualism.

Ans: A
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

87. Laissez-faire capitalism:
A) is concerned with placing the interests of the state above the interests of individuals.
B) holds that, for the sake of fairness, the state should decide how much income people will receive.
C) holds that individual decision making with minimal government intervention will maximize the interests of society.
D) all of these answer choices are correct.

Ans: C
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

88. According to the invisible hand doctrine:
A) only laissez-faire capitalism provides the reward of profit.
B) laissez-faire capitalism is improved when government intervenes in decision making.
C) the interests of society are best served if producers decide which goods and services buyers should want.
D) in a system of free and open competition, it is in producers' best interests to provide buyers with what they want, which best serves the interests of society.

Ans: D
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

89. An assumption of laissez-faire capitalism is that the wealth of a nation will be increased:

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A) by maintaining minimal government interference in its economy.
B) by relying on free and open competition to regulate business dealings.
C) if individuals are left relatively free to pursue their economic interests.
D) all of these answer choices are correct.

Ans: D
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

90. The invisible hand doctrine is most closely associated with:
A) socialism.
B) mercantilism.
C) managed capitalism.
D) laissez-faire capitalism.

Ans: D
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

91. The British Industrial Revolution was marked by:
A) a shift from agriculture to manufacturing.
B) the advent of better technology and larger outputs.
C) a shift from home production to factory-based production.
D) all of these answer choices are correct.

Ans: D
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
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92. The "dark side" of the Industrial Revolution included all of the following EXCEPT:
A) low pay.
B) long hours.
C) poor working conditions.
D) exclusion of women and children from the workforce.

Ans: D
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

93. After the Civil War, the industrial boom in the U.S. was propelled by changes in:
A) agriculture and real estate.
B) agriculture and the service industry.
C) communications and transportation.
D) communications and the service industry.

Ans: C
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

94. Which of the following developments brought about by the industrial boom in the U.S. led to calls for greater government intervention in the marketplace?
A) the advent of large, powerful monopolies.
B) low wages for workers and the use of child labor.
C) long hours and poor working conditions for workers.
D) all of these answer choices are correct.

Ans: D
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

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95. "Muckrakers" were:
A) machines that were put into early coal mines, causing many workers to lose their jobs.
B) workers in British steel mills that demanded, and received, the first pro-labor legislation ever passed.
C) legislators who passed laws favoring special interest groups in return for large campaign contributions.
D) authors, journalists, and others who drew public attention to social, labor, and other problems in the early 20th century.

Ans: D
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

96. The government programs and legislative reforms initiated during the 1930s to reduce the problems of the Great Depression were termed:
A) Reaganomics.
B) the New Deal.
C) laissez-faire intervention.
D) the Employment Act proposals.

Ans: B
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

97. Which of the following was NOT an objective of the New Deal?
A) Providing jobs for the unemployed.
B) Providing income to older adults through Social Security.
C) Preventing fraudulent banking and investment practices.
D) Lowering agricultural prices, so people could afford to eat.

Ans: D
Difficulty: Hard
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

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98. Legislation giving the federal government the responsibility to provide an environment for achieving full employment, full production, and stable prices was:
A) the Sherman Act.
B) the Employment Act of 1946.
C) a significant part of the New Deal reforms.
D) part of the regulatory wave of the 1960s and 1970s.

Ans: B
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

99. The Employment Act of 1946 gave the federal government the power to change each of the following to influence the economy, EXCEPT:
A) taxes.
B) court rulings.
C) budget deficits.
D) government expenditures.

Ans: B
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

100. Which of the following statements is correct?
A) The U.S. enacted a policy of deregulation in the 1960s that continues to the present.
B) A wave of increased regulatory activity began in the 1960s and continues to the present.
C) A period of deregulation occurred in the 1960s and early 1970s, followed by reregulation in the late 1970s and 1980s.
D) Regulatory activity increased in the 1960s and early 1970s, and was followed by deregulation in the late 1970s and 1980s.

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Ans: D
Difficulty: Hard
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

101. Which of the following recent developments in the U.S. economy is true?
A) The Employment Act was declared unconstitutional.
B) The deregulatory trend of the late 1970s and 1980s reversed in the 1990s.
C) The government has taken over all corporations that produce goods for defense.
D) The debt of the federal government was eliminated during the George W. Bush administration.

Ans: B
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

102. Which of the following is NOT one of the three basic economic decisions?
A) Who will receive goods and services.
B) How goods and services will be produced.
C) When and where goods and services will be produced.
D) What and how many goods and services will be produced.

Ans: C
Difficulty: Easy
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

103. In a pure market economy, buyers and sellers communicate their intentions to one another through:
A) planners.

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B) prices paid or charged.
C) individuals elected to public office.
D) negotiations overseen by government agencies.

Ans: B
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

104. In a pure market economy:
A) households buy and businesses sell resources.
B) goods and services are distributed to those who can afford them.
C) what is produced is based on what businesses think is best for society.
D) goods and services are produced using the smallest total number of resources.

Ans: B
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

105. Which of the following occurs in a pure market economy?
A) Businesses are guaranteed a profit.
B) Government has an important role in the circular flow model.
C) Households are sellers and businesses are buyers in resource markets.
D) Collective decision making is valued more highly than individual decision making.

Ans: C
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

Reference: Ref 2-4

Circular flow model.

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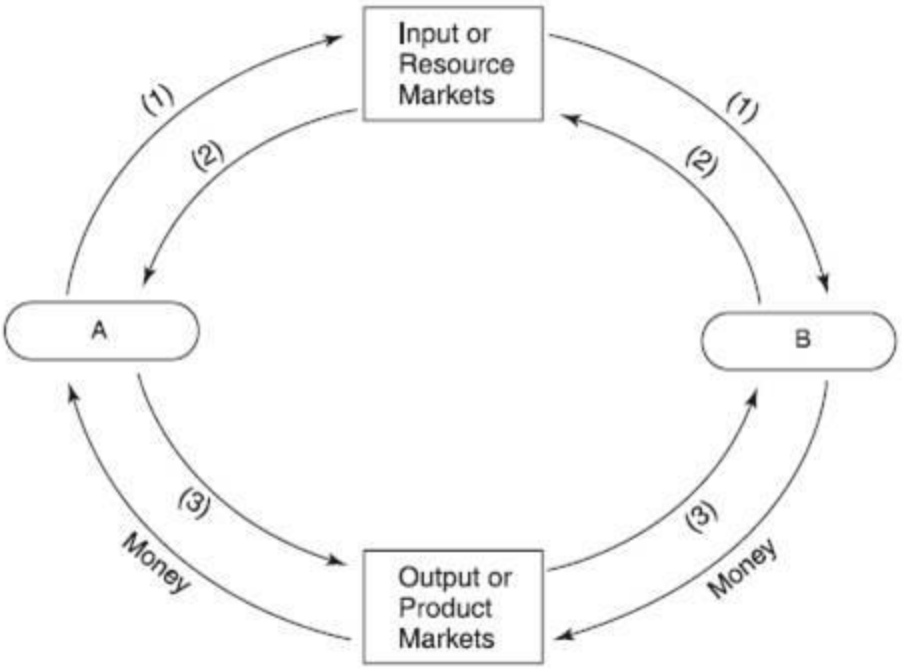

106. The economic system in which all of the basic decisions are made through a centralized authority, such as a government agency, is termed a:
A) mixed economy.
B) planned economy.
C) capitalistic economy.
D) market socialist economy.

Ans: B
Difficulty: Easy

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Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

107. A lack of incentives to protect the environment when producing goods and services is a weakness of:
A) a pure market economy.
B) a pure planned economy.
C) both a pure market economy and a pure planned economy.
D) neither a pure market economy nor a pure planned economy.

Ans: C
Difficulty: Medium
Topic: Economic Systems, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

108. Since the mid-1990s, the economies of Eastern Europe, the former Soviet Union, and China have depended:
A) completely on central planning.
B) completely on individual decision making.
C) less on individual decision making than before.
D) more on individual decision making than before.

Ans: D
Difficulty: Easy
Topic: Mixed Economies
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

109. The economic system, important in Britain in the 17th and 18th centuries, in which national economic interests outweighed individuals' economic interests, was:
A) mercantilism.
B) market socialism.
C) laissez-fair capitalism.
D) a free enterprise system.

Ans: A
Difficulty: Easy

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Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

110. Which of the following statements about the U.S. economy is true?
A) A major current concern is over the size of the federal debt.
B) The Sherman Act was passed to ensure there would be full employment.
C) The New Deal programs decreased government's role in the economy during the 1930s.
D) The Employment Act of 1946 was passed to control poor working conditions.

Ans: A
Difficulty: Medium
Topic: The U.S. Economic System
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

Reference: Ref 2-5

Use the following figure.



111. The type of economy advocated by Adam Smith in *The Wealth of Nations* would operate at or near point:
A) A
B) C
C) D
D) F

Ans: D
Refer To: Ref 2-5
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and

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major periods in U.S. history.

112. The change in the U.S. economy following the Employment Act of 1946 might best be illustrated by a movement from point:
A) B to point A.
B) E to point D.
C) F to point D.
D) F to point A.

Ans: B
Refer To: Ref 2-5
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

True/False

113. One of the basic economic decisions facing every society is how goods and services should be produced.

Ans: True
Difficulty: Easy
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

114. Highly-developed economies must make the basic economic choices, whereas less-developed economies produce so little that no choices are possible.

Ans: False
Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

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115. "Traditional economies" is a term used to describe economic systems based largely on custom or ritual.

Ans: True
Difficulty: Easy
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

116. Price is the language through which buyers and sellers communicate their intentions to one another in a pure market economy.

Ans: True
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

117. Households buy goods and services in output markets and sell factors of production in input markets.

Ans: True
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

118. The least-cost method of production is the method that uses resources most efficiently.

Ans: True
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

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119. The value judgments of persons running households and businesses play virtually no role in economic decision making in a pure market economy.

Ans: False
Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

120. A mixed economy combines government intervention and individual decision making.

Ans: True
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

121. In a planned economy, economic decisions are made by individual buyers and sellers.

Ans: False
Difficulty: Easy
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

122. A lack of incentives to protect the environment is a weakness of both market economies and planned economies.

Ans: True
Difficulty: Medium
Topic: Scarcity, the basic economic decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

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123. In a socialist economy, goods and services go only to those who can pay for them with money earned from resources they own.

Ans: False
Difficulty: Easy
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

124. A socialist system favors collective ownership of society's factors of production.

Ans: True
Difficulty: Easy
Topic: Planned Economies
LO 2.3: Describe how economic decisions are made in a planned economy and its strengths and weaknesses.

125. There is no difference between a market economy and a planned economy in how income is distributed.

Ans: False
Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

126. Scarcity is a problem in a market economy but not a planned economy.

Ans: False
Difficulty: Easy
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

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127. In a mercantilist system, individual economic decisions are carried out with minimum government interference.

Ans: False
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

128. *The Wealth of Nations*, first published in 1776, strongly advocates mercantilism.

Ans: False
Difficulty: Easy
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

129. The invisible hand doctrine was Adam Smith's idea that allowing competing sellers to act in their own best interest advances the economic interests of all society.

Ans: True
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

130. The Sherman and Clayton Acts were passed to help maintain U.S. laborers' living and working conditions.

Ans: False
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM

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LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

131. The Employment Act of 1946 gave the federal government the right and responsibility to provide an environment for the achievement of full employment, full production, and price stability.

Ans: True
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

132. Over the years, government's intervention in the economy has increased, but the increase has not been smooth or continuous.

Ans: True
Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

Short Answer

133. Briefly explain each of the three basic economic decisions every society must make.
Ans: Every society must make a decision regarding what goods get produced, how those goods are produced, and who receives the distribution of the goods once they are produced.

Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

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134. Why are private property rights and free enterprise more important in a market economy than in a planned economy?
Ans: Free enterprise helps create economic growth in a market economy, and free enterprise cannot happen without the presence of private property rights. Entrepreneurs will not take risks to earn rewards if that benefit is not going to be returned to them.

Difficulty: Hard
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

135. Explain how economic decision making differs between a market economy and a planned economy.
Ans: In a market economy, decisions are made based on the interaction between consumers and producers. In a planned economy, decisions are made by the government.

Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

136. What role do prices play in the communication between buyers and sellers in a market economy?
Ans: Prices aggregate information and relay that information from one side of the market to the other. Prices inform consumers of a producer's willingness to accept, and prices inform producers of a consumer's willingness to pay.

Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

137. Why is it in the best interest of a business in a market economy to use the least-cost method of production?
Ans: A firm's profits are the difference between the price it receives for a good and its costs of

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production. Therefore, focusing on least-cost will help a firm to maximize profits.

Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

138. In your opinion, do firms in a market economy respond to consumer preferences, or create consumer preferences? Why?
Ans: Both. Firms respond to preferences by modifying current goods or producing new goods that consumers want. At the same time, a firm's marketing efforts will help shape consumers' understanding of their own needs and wants.

Difficulty: Medium
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

139. Why would you expect goods produced in a market economy to better reflect the value judgments of buyers and sellers than goods produced in a planned economy?
Ans: Prices reflect the values imposed on goods by producers and consumers. In a planned economy, it is not clear if the amount of type of good that is being produced has any relationship to the value placed on it by those who will consume it.

Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

140. What is market failure and what is planning failure?
Ans: Market failure is the failure of the market to provide the socially optimal level of production, while planning failure is a problem created by the government in deciding upon the amount of a good to produce.

Difficulty: Medium
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems

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LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

141. Do you agree or disagree with the statement that "in economic matters, individual decision making is always preferable to decisions made by planners?" Why?
Ans: I agree, because individuals (in general) know how to plan their own consumption better than the government can do.

Difficulty: Hard
Topic: Scarcity, the Basic Economic Decisions, and Economic Systems
LO 2.1: Introduce the basic economic decisions that must be made in every society because of scarcity and how those decisions are made in various economic systems.

142. What are some arguments for and some arguments against government intervention in an economy?
Ans: Government intervention in a market is beneficial in the presence of market failure, or the inability of a market to provide a particular good. Government intervention is not good when the government policy intrudes on the market's ability to produce efficiently.

Difficulty: Hard
Topic: MARKET ECONOMIES
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

143. Why is privatization essential for the shift from a centrally planned economy to a market economy?
Ans: Without the idea of privatization of property rights, individuals have no incentive to carry out the entrepreneurial activities required in a market system.

Difficulty: Medium
Topic: Mixed Economies
LO 2.4: Explain mixed economies and some of the changes in the world's planned economies.

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144. What is the difference between mercantilism and laissez-faire capitalism?
Ans: In a mercantilist economy, the interests of the individual are subordinate to the needs of the government, and in laissez-faire capitalism, the interests of the government are subordinate to the needs of the individual.

Difficulty: Medium
Topic: The U.S. Economic System
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

145. What is the invisible hand doctrine and what type of economic system does it support?
Ans: The invisible hand supports market economies by suggesting that markets can adjust without intervention; rather, they can adjust as if an "invisible hand" is helping the market move toward the equilibrium.

Difficulty: Hard
Topic: Market Economies
LO 2.2: Explain the basic philosophy, structure, and operation of a market economy and its strengths and weaknesses.

146. Why would it be incorrect to say the U.S. economy has always operated as laissez-faire capitalism?
Ans: Yes, because there have been times, such as during the Great Depression or during a World War, when the needs of the individual were less important than the needs of the government (or the society as a whole).

Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

147. What type of economic system best describes the U.S. economy in the 21st century? Why?
Ans: The US has primarily a mixed economy: there is a significant amount of private enterprise, with individuals receiving rewards for taking on risk However, the government is not afraid to intervene in markets where it thinks it can be successful.

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Difficulty: Medium
Topic: THE U.S. ECONOMIC SYSTEM
LO 2.5: Consider how the U.S. economic system was influenced by its British foundations and major periods in U.S. history.

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