Test Bank for Essentials of Economics 10th Schiller

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Chapter 02_Test Bank KEY

1. In order to measure what a country produces, we:
A. Summarize total output in physical terms.
B. Count units of output.
C. Count the weight of different products.
D. Summarize the monetary value of output.

Using monetary value instead of physical units to compare total output, the accounting is easier.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

2. GDP can be found by:
A. Adding the monetary value of all final goods and services produced during a given period of time.
B. Adding the physical amount of all final goods and services produced during a given period of time.
C. Taking the difference between exports and imports during a given period of time.
D. Adding the value of all final output produced and measuring it in constant prices during a given period of time.

GDP is a summary measure of a nation’s output.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
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3. Ceteris paribus GDP most closely measures:
A. Output per worker.
B. A summary of the world's output.
C. The total value of all final goods and services produced within a nation's borders in a given year.
D. The rate of change in capital stock.

GDP can be found by adding the monetary value of all final goods and services.

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4. The output of cell phones can be added to the output of refrigerators in order to compute GDP by:

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A. Multiplying the output of each by the corresponding prices and adding these dollar values.
B. Dividing the output of each by price and adding these dollar values.
C. Adding up the physical number of cell phones and refrigerators produced.
D. Dividing dollar values of output for each by price and adding the results.

By multiplying the physical output of each good by its price the total value of each good produced can be determined.

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5. Country's GDP is:
A. The sum of the physical amounts of goods and services in the economy.
B. A dollar measure of output produced within a nation's borders during a given time period.
C. A measure of the per capita economic growth rate of the economy.
D. A physical measure of the capital stock of the economy.

GDP enables us to sum production of all goods and services

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Learning Objective: 02-01 Explain how an economy's size is measured.
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6. Which of the following is NOT included in U.S. GDP?
A. Toys produced by a U.S. firm located in China.
B. Beer brewed in Colorado and purchased by a German tourist.
C. A car made by a Japanese auto producer in Kansas.
D. Corn grown in Iowa and exported to Africa.

GDP measures only those products produced within a nation's borders.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

7. Which of the following is NOT included in U.S. GDP?
A. The construction of new homes to replace those destroyed by fires in California.
B. The salary of the President of the United States.
C. Shoes produced abroad and imported by a U.S. company.
D. The purchase of U.S. soybeans by a food manufacturer in Canada.

To be counted in GDP goods must be produced within a nation's borders.

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Difficulty: 3 Hard
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8. The value of output produced in the United States in current prices measures:
A. GDP growth.
B. Real GDP.
C. Per capita GDP.
D. Nominal GDP.

Nominal GDP is the value of output measured in current prices.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
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9. Nominal GDP measures the:
A. Inflation-adjusted value of output.
B. Real value of output per worker.
C. Value of output produced in current prices.
D. Value of output produced in constant prices.

Nominal GDP is the value of output in the U.S. in current prices.

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Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
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10. Nominal GDP is affected by changes in:
A. Output only.
B. Output and prices.
C. Income transfers.
D. Prices only.

Nominal GDP measures the value of output produced in current prices.

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11. Changes in real GDP serve as a better measure of the health of the economy than changes in nominal GDP because real GDP is affected by changes in:
A. Output only.
B. Prices and output.

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C. Prices only.
D. Average wages.

Real GDP is the inflation adjusted value of GDP.

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Difficulty: 2 Medium
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Topic: WHAT AMERICA PRODUCES

12. The inflation-adjusted value of final goods and services produced in the United States measures:
A. Nominal GDP.
B. Real GDP.
C. Per capita GDP.
D. GDP per worker.

Real GDP is adjusted for inflation.

AACSB: Analytic
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Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

13. Real GDP is a more accurate measure of economic growth than nominal GDP because:
A. Nominal GDP is a total dollar measurement.
B. Nominal GDP only increases because of an increase in production.
C. Nominal GDP can increase due to an increase in production or prices or both.
D. Real GDP is a measurement of the overall price level.

Real GDP adjust for changes in price or inflation.

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Difficulty: 2 Medium
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Topic: WHAT AMERICA PRODUCES

14. Which of the following is the best measure of an increase in actual output?
A. Nominal GDP.
B. Real GDP.
C. Per capita GDP.
D. GDP per dollar.

Real GDP is the best measure because it adjusts for changes in price due to inflation.

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Blooms: Remember
Difficulty: 1 Easy

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15. Which of the following countries currently has the largest GDP?
A. Japan.
B. China.
C. Britain.
D. United States.

Because of the vast natural resources, the U.S. has the largest GDP.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

16. The economy of the United States is important because it:
A. Produces as much output as China, Japan, and Western Europe combined.
B. Produces about 20 percent of total world output.
C. Exceeds the combined production of all other countries in the world.
D. Accounts for over 20 percent of total world population.

Of the $80 trillion of global output in 2012, the U.S. had $15 trillion in output.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

17. U.S. GDP for 2015 was approximately:
A. $11 trillion.
B. $100 billion.
C. $ 18 trillion.
D. $20 trillion.

Refer to 2012 statistical data in Chapter 2, p. 33.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

18. To compare the standard of living of one country to another, economists use:
A. Per capita GDP.
B. Real GDP.
C. Nominal GDP.
D. Output per worker.

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Per capita is an indicator of how much each person would receive of output if output would be divided equally.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

19. Per capita GDP is the most practical way to:
A. Measure how much income households receive.
B. Measure how much output can be consumed on a sustainable basis.
C. Measure how much output is potentially available to the average person.
D. Analyze the growth rate of the economy over time.

Per capita GDP is an indicator of how much each person would receive of output if output would be divided equally.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

20. In 2015, per capita GDP in the United States was approximately:
A. $41,000.

B. $53,000.

C. $35,000.
D. $51,000.

Refer to 2012 statistical data in Chapter 2.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

21. Per capita GDP will always rise when:
A. The population rises.
B. The rate of economic growth increases.
C. There is an increase in the rate at which the economy's labor force grows.
D. The rate of economic growth exceeds the rate of population growth.

When GDP growth exceeds population growth per capita GDP will rise.

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Blooms: Understand
Difficulty: 2 Medium

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Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

22. If output growth exceeds population growth for a country, then:
A. Average living standards will increase.
B. GDP must have grown at a very rapid rate.
C. Per capita GDP will decrease.
D. This country must have overcome the problem of scarcity.

Economic growth keeps adding to our standard of living.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

23. If all of our GDP were distributed equally across the United States, each individual would receive:
A. Their current income divided by the U.S. population.
B. The market value of final goods and services produced in the U.S. per year.
C. The value of total world output divided by the population.
D. The market value of final goods and services produced in the U.S. per year divided by the population.

Per capita GDP is an indicator of how much output each person would get if all output were divided evenly among the population.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

24. When comparing GDP per capita globally, which list ranks countries correctly from largest to smallest?
A. China, Mexico, Germany.
B. Japan, Mexico, Haiti.
C. Mexico, France, India.
D. Greece, Japan, Indonesia.

See Figure 2.1 in text.

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25. Country A and Country B both recorded an increase in real GDP of 5 percent per year from 1980 to 2012. During this time, the population for Country A grew at 6 percent per year and the population for Country B grew at 4 percent. Which of the following is true during this period?
A. Per capita GDP was the same for both Country A and Country B.
B. Per capita GDP decreased for Country B only.
C. Per capita GDP decreased for both Country A and Country B.
D. Per capita GDP decreased for Country A only.

Even though both countries have experienced the same percent of growth, because the percentage of growth for Country A was larger they will have to spread the output over more people.

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Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

26. Country D and Country E both recorded an increase in real GDP of 4 percent per year from 1997 to 2012. During this time, the population for Country D grew at 3 percent per year and the population for Country E grew at 2 percent. Which of the following is true during this period?
A. Per capita GDP decreased for both Country D and Country E.
B. Per capita GDP increased for both Country D and Country E.
C. Per capita GDP increased for Country D only.
D. Per capita GDP decreased for Country E only.

Since the percentage of growth in population is lower that the percentage of growth in real GDP, both countries experience per capita increases.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

27. Economic growth implies that:
A. Prices have risen.
B. Total value of the output produced has increased.
C. Per capita GDP has declined.
D. Resources are limited.

Continued economic growth implies more output per person.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
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28. Economic growth:

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A. Is an increase in output or real GDP.
B. Causes a contraction in the production possibilities curve.
C. Involves reduced capacity in the short run.
D. Cannot be sustained over time.

Economic growth is an increase in output, (real GDP) an expansion of production possibilities.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

29. Ceteris paribus, economic growth involves an:
A. Increase in imports.
B. Expansion of production possibilities.
C. Increase in GDP due to inflation.
D. Increase in government spending.

Economic growth will expand production possibilities outward.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

30. On average, U.S. real GDP has grown roughly _____ percent per year.
A. One.
B. Three.
C. Seven.
D. Five.

Due to America's abundance, real GDP increases by 3 percent per year.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

31. Which of the following statements is true?
A. Nominal GDP is a good measure of social welfare.
B. GDP per capita is a complete measure of social welfare.
C. Crime and pollution reduce social welfare which reduces GDP.
D. GDP is not necessarily the best measure of social welfare.

GDP is simply a measure of the volume of goods and services produced.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

32. A country's total output includes all of the following except:
A. Household consumption.
B. Business investment.
C. Imports.
D. Government services.

Total output is measured by what is produced within a country.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

33. According to your textbook, which of the following spending categories ranks the contribution to GDP in correct order (from largest to smallest for the United States)?
A. Consumer goods, total government purchases, investment goods, exports.
B. Consumer goods, investment goods, total government purchases, exports.
C. Investment goods, consumer goods, total government purchases, exports.
D. Total government purchases, consumer goods, investment goods, exports.

See Figure 2.2 in the text book.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

34. Suppose during a year an economy produces $6 trillion of consumer goods, $1 trillion of investment goods, $2 trillion in government services, and has $3 trillion of exports and $2 trillion of imports. GDP would be:
A. $8 trillion.
B. $10 trillion.
C. $12 trillion.
D. $14 trillion.

Imports must first be subtracted from exports.

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Learning Objective: 02-01 Explain how an economy's size is measured.
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35. Suppose during a year an economy produces $10 trillion of consumer goods, $4 trillion of investment goods, $6 trillion in government services, and has $4 trillion of exports and $5 trillion of imports. GDP would be:
A. $19 trillion.
B. $21 trillion.
C. $24 trillion.
D. $29 trillion.

Imports must first be subtracted from exports.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

36. The largest component of U.S. GDP is:
A. Government services at the federal, state and local levels combined.
B. Business investment.
C. Household consumption.
D. Net exports.

Consumer goods dominate the U.S. mix of output.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

37. Consumer goods:
A. Account for over two-thirds of total U.S. output.
B. Include nondurable goods but not durable goods.
C. Account for a smaller portion of GDP than government services.
D. Include durable and nondurable goods but not services.

See Figure 2.2 in the text book.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

38. Consumer goods:
A. Account for half of total U.S. output.
B. Include expenditures for durable goods, nondurable goods, and services.
C. Include government expenditure on welfare and food stamps.
D. Account for the smallest portion of U.S. GDP.

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The vast array of products consumers purchase is classified as either durable goods, nondurable goods, or services.

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Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

39. Which of the following components of consumer spending is the most cyclical?
A. Services.
B. Agricultural goods.
C. Nondurable goods.
D. Durable goods.

Because they are big ticket items and last 3-5 years, durable goods are most cyclical.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

40. Which of the following is included in investment, according to economists?
A. Production of plant and machinery.
B. Purchases of corporate stock.
C. Money put into a pension fund.
D. Dollars spent in the stock market.

Investments include plants, machinery, equipment and inventories held for later sale to consumers.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

41. Investment includes all of the following EXCEPT:
A. The production of new factories.
B. The purchase of new machinery and equipment.
C. Money in a retirement fund.
D. Business inventories.

Economic investments enhance our capacity to produce.

AACSB: Analytic
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Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

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42. Which of the following is NOT an example of investment, according to economists?
A. A business builds a new factory.
B. A private college buys a new copy machine to replace an old worn out machine.
C. A family buys $10,000 worth of bonds.
D. A department store buys additional men's jeans just before Christmas.

Economic investments enhance our capacity to produce.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

43. Which of the following is an example of investment, as a component of GDP?
A. The purchase of a truck by a delivery company.
B. The purchase of Ford stock by an individual saving for retirement.
C. The purchase of land by an individual.
D. The purchase of bridges and dams by the government.

GDP is the measurement of all final goods and services.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Topic: WHAT AMERICA PRODUCES

44. Which of the following expenditures is the most important in expanding a country's production possibilities?
A. Consumer goods.
B. Investment goods.
C. Government services.
D. Net exports.

Investment goods are critical to continuing growth.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

45. Which of the following is NOT true about investment goods?
A. They add to the nation's stock of capital.
B. They can be used to replace worn-out equipment.
C. They can expand the nation's production possibilities.
D. They increase the retirement benefits for individuals.

Economic investment enhances our capacity to produce.

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Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

46. According to your textbook, for the United States, investment accounts for approximately _____ percent of GDP.
A. 13.
B. 25.
C. 35.
D. 70.

See Figure 2.2 in the text book.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

47. Which of the following is true about government services as a component of GDP?
A. It includes welfare benefits.
B. It includes spending on national defense.
C. It includes Social Security benefits.
D. It includes federal government spending but not state and local spending.

Only that part of federal spending used to acquire resources and produce service is counted in GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

48. Government services:
A. Are larger than consumption in the United States.
B. Includes the dollars spent on income transfers.
C. Includes federal, state, and local government purchases of goods and services.
D. Equals approximately $10 trillion per year in the United States.

These branches of government build highways, write law, and police the streets to name just a few items.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

49. Which of the following is not included in GDP as part of government services?

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A. Social Security benefits.
B. Military equipment.
C. Highways and bridges.
D. Education.

Social Security is an income transfer; therefore it is not a part of output.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

50. As a portion of GDP, government purchases include:
A. Food stamps.
B. National defense expenditures.
C. Unemployment benefits.
D. Welfare checks.

National defense spending is production of real goods and services. The others are transfer payments.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

51. Government income transfers are NOT included in the calculation of GDP because:
A. It is difficult to measure the value of these payments.
B. Most of these payments are paid to foreign immigrants.
C. These payments do not have an impact on the WHAT question.
D. These payments do not reflect the production of goods and services.

Only that part of federal spending used to acquire resources and produce services is counted in GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: WHAT AMERICA PRODUCES

52. Income transfers include:
A. Food provided by a privately funded food bank.
B. Housing provided at a reduced cost by the government.
C. Free medical care provided by a retired doctor.
D. The money saved when clothing is purchased on sale.

Reduced cost housing is a type of transfer payment.

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AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

53. The goods and services sold to foreign buyers are:
A. Imports.
B. Exports.
C. Income transfers.
D. Externalities.

Goods and services that are shipped abroad are exports.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

54. Exports represent:
A. Goods and services sold to foreigners.
B. Goods and services bought from foreigners.
C. A larger number than imports for the United States.
D. A negative number when calculating GDP.

Goods and service that are shipped abroad.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
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55. The goods and services purchased from foreign sources are:
A. Investment.
B. Exports.
C. Imports.
D. Income transfers.

Imports are goods and services which are purchased from foreign sources.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
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56. Imports:
A. Are goods and services sold to foreigners.
B. Increase the value of GDP.
C. Are a larger dollar value than exports for the United States.

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D. Equal exports in dollar value for most countries.

We import more goods and service than we export.

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Topic: WHAT AMERICA PRODUCES

57. GDP is the sum of consumption, investment, government purchases, and:
A. The factors of production.
B. Net exports.
C. Saving.
D. Capital stock.

Exports are factored into GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
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58. U.S. net exports are:
A. Equal to the value of exports minus the value of imports.
B. Positive if the U.S. imports more than it exports.
C. A larger portion of GDP than investment.
D. Always equal to zero.

The value of exports minus the value of imports equals net exports.

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Blooms: Remember
Difficulty: 1 Easy
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59. Net exports measures the:
A. Total dollar value of U.S. exports.
B. Dollar amount of imports.
C. Quantity of goods produced abroad.
D. Dollar value of exports minus the dollar value of imports.

U.S. net exports are equal to the value of exports minus the value of imports.

AACSB: Analytic
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60. The decline in employment in the farm sector in the U.S. during the 1900s can be attributed primarily to:
A. New technology that made it possible to grow more food with fewer workers.
B. An increase in the importance of the manufacturing sector.
C. Competition from imported agricultural products.
D. A decline in the amount of food consumption per person.

New technology makes it possible to grow more food with fewer workers.

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Blooms: Understand
Difficulty: 2 Medium
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Topic: WHAT AMERICA PRODUCES

61. Over the last century in the United States there has been an increase in _____ as a percentage of total output.
A. Construction and mining.
B. Farming.
C. Manufacturing.
D. Services.

The relative decline in manufacturing is due primarily to the rapid expansion of the service sector.

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Difficulty: 2 Medium
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Topic: WHAT AMERICA PRODUCES

62. Over the last century in the United States there has been an increase in _____ as a percentage of total output.
A. Manufacturing, government, and services.
B. Farming, international trade, and manufacturing.
C. Services, government, and international trade.
D. Services, farming, and construction.

The service industry and the government generate over 70 percent of total output. About one-eighth of the output Americans produce is exported.

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Difficulty: 2 Medium
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63. Currently, the U.S. economy is best described as:
A. A service economy.
B. A manufacturing economy.

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C. An agricultural economy.
D. A government economy.

The trend for growth in the service industry is predicted to grow. Ninety-eight percent of net job growth between 2015 and 2025 will be in service industries.

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Difficulty: 2 Medium
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Topic: WHAT AMERICA PRODUCES

64. Which of the following sectors contributes the largest amount to the U.S. GDP?
A. Farming.
B. Manufacturing.
C. Services.
D. Exports.

The service sector generates over 70-percent of total output.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

65. Which sector is expected to grow most rapidly for the United States in the future?
A. Farming since Americans are getting fatter.
B. Services since Americans have high relative incomes.
C. Manufacturing since Americans demand more and more luxury items.
D. Mining since Americans use a lot of natural resources.

The service industry is predicted to contribute 98 percent of job growth in the next ten year.

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Difficulty: 2 Medium
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Topic: WHAT AMERICA PRODUCES

66. Which of the following plays an increasingly important role in the U.S. economy?
A. International trade.
B. Manufacturing.
C. Farming.
D. Construction and mining.

Advances in communications and transportation technologies make international trade and investment easier.

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Topic: WHAT AMERICA PRODUCES

67. The growth of international trade for the United States has been enhanced by:
A. An increase in trade barriers.
B. Improved communication and transportation technologies.
C. A decline in the government and services sectors.
D. An increase in domestic manufacturing.

Advances in communications and transportation technologies make international trade and investment easier.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

68. The factors of production include all of the following EXCEPT:
A. Money.
B. Land.
C. Labor.
D. Entrepreneurship.

Money is not a factor of production.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

69. The factors of production:
A. Are unlimited for the United States since the country is so wealthy.
B. Include land, capital, and money.
C. Are the resource inputs used to produce goods and services.
D. Include consumption, investment and government spending.

The factors of production are: Land, Labor, Capital and Entrepreneurship.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
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70. Which of the following statements is true?
A. A country's GDP includes all output produced by its factors of production.
B. A country's GDP includes all output produced within its borders.
C. A country's GDP is equal to its exports minus its imports.

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D. A country's GDP is equal to all output produced and consumed within its borders.

GDP measures all output produced within a county's border.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

71. Which of the following is NOT a reason why the United States is able to produce such high levels of GDP?
A. Abundant factors of production.
B. Labor-intensive production process.
C. High levels of investment in human capital.
D. High quality of capital.

The high productivity of the U.S. economy results from using highly educated workers in a capital-intensive production process.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

72. Which of the following contribute to high levels of U.S. production?
A. Abundant factors of production.
B. Labor-intensive production.
C. Barriers to trade.
D. Immigration restrictions.

America's greater economic strength is explained by the abundance of factors of production.

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Blooms: Understand
Difficulty: 2 Medium
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73. Capital intensive means:
A. The production process uses a high ratio of capital to labor inputs.
B. The production process uses a high ratio of labor to capital inputs.
C. The production process is inefficient because it requires too much capital.
D. That there are fewer jobs for workers and the economy will begin to decline.

The use of capital goods is at a higher level than the use of labor.

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Difficulty: 2 Medium

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Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

74. A capital-intensive production process:
A. Reduces productivity because few workers are being employed.
B. Is necessary if a country has few factors of production.
C. Uses a high ratio of capital to labor inputs.
D. Is used in poor countries.

America invests each year in better plants and equipment.

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Blooms: Understand
Difficulty: 2 Medium
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75. American production is described as capital intensive, which means that:
A. Foreign investment is relatively small.
B. The ratio of machinery to labor is high.
C. The ratio of labor to machinery is high.
D. Government control of production processes is high.

In the production of goods, more capital goods are used than labor.

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Blooms: Analyze
Difficulty: 2 Medium
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76. Productivity measures:
A. Output per worker.
B. The dollar value of investment.
C. Final goods minus intermediate goods.
D. The total amount of goods produced in the United States.

Productivity defines how much a worker is capable of producing.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

77. The productivity of American workers reflects all of the following EXCEPT:
A. Capital intensity of the production process.
B. Investment in human capital.
C. High quality of capital.
D. Scarcity of plant and equipment.

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America invests in better plants and equipment and educated workers.

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78. Which of the following does NOT contribute to an increase in productivity?
A. Technological advances.
B. High quality of capital.
C. High quantity of labor.
D. Highly skilled labor.

Quantity of workers does not contribute to an increase in productivity. It is the quality of the workers that is most important.

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Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
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79. Education and job training are part of:
A. Business investment spending.
B. Consumer spending on durables since the impact is long lasting.
C. Human capital investment.
D. Income transfers.

Human capital refers to workers' productive capabilities.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
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80. Factor mobility refers to:
A. How easily factors of production can be reallocated.
B. The quantity of resources a country has.
C. How rapidly resources depreciate.
D. The quality of the factors of production.

Continuing ability to produce the goods and services that consumers demand also depends on the ability to reallocate resources from one industry to another.

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81. When World War II ended some resources moved easily from the production of military goods to the production of consumer goods which is referred to in economics as:
A. Production equality.
B. Capital adaptation.
C. Resource flexibility.
D. Factor mobility.

Factor mobility is the agility in reallocating resources from one industry to another.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
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82. The primary way to distinguish among corporations, partnerships, and proprietorships is by observing:
A. Ownership characteristics.
B. The size of the industry.
C. The number of firms in each classification.
D. The size of profits.

A single proprietorship is a firm owned by one individual. A partnership is owned by a small number of individuals.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
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83. Sole proprietorships:
A. Are each owned by many individual stockholders.
B. Are owned by one individual.
C. Account for most business sales and assets.
D. Are the least common type of business firm.

The characteristic of a proprietorship is one owner.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

84. Proprietorships:
A. Dominate market transactions.
B. Are owned by many individual stockholders.
C. Are known for their large assets.
D. Are the most common type of business firm.

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In terms of numbers, the single proprietorship is the most common type of business firm in America.

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Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

85. Most businesses in the U.S. are classified as:
A. Corporations.
B. Partnerships.
C. Proprietorships.
D. Non-profit.

In terms of numbers, the single proprietorship is the most common type of business firm in America.

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Blooms: Understand
Difficulty: 2 Medium
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Topic: HOW AMERICA PRODUCES

86. In the United States, corporations:
A. Dominate market transactions.
B. Are owned by one or two people.
C. Are the most common type of business firm.
D. Typically have less than $10,000 in assets.

Corporations account for almost 90 percent of all business sales.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

87. Which of the following is NOT true about U.S. corporations?
A. The owners have limited liability for the actions of the company.
B. They account for the majority of business sales.
C. The typical asset size is in excess of $4 million.
D. They are the most common type of business firm.

Proprietorships are the most common type of business firm.

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88. In the United States, government regulation is primarily designed to:
A. Protect the environment through government ownership of natural resources.
B. Prevent businesses from competing with each other.
C. Protect labor, consumers, and the environment.
D. Determine all the answers to the WHAT, HOW and FOR WHOM questions.

Government lays the foundation for market transactions, protecting consumers, labor and the environment.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: HOW AMERICA PRODUCES

89. Which of the following is NOT viewed as a role for the U.S. government?
A. Providing a legal framework for business.
B. Owning the factors of production.
C. Protecting consumers from exploitation.
D. Protecting the environment.

In a mixed economic system, the factors of production are owned by individuals.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
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90. The government has an impact on the HOW to produce question when it does all of the following EXCEPT:
A. Limits environmental pollution.
B. Forbids the use of child labor.
C. Sets a minimum wage.
D. Follows a policy of laissez faire.

If the government followed the doctrine of laissez faire (hands off); it would not be involved in the HOW to produce question.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 3 Hard
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91. A monopoly is:
A. A firm that produces the entire market supply of a particular good or service.
B. Not likely to charge a high price because if it does consumers will switch to a different product.
C. Rarely affected by government regulation since there is only one firm in the industry.

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D. The most common type of U.S. business firm.

A monopoly is a sole producer of a good and could dictate price, quality, and the quantity of the product.

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Blooms: Remember
Difficulty: 1 Easy
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Topic: HOW AMERICA PRODUCES

92. A firm that produces the entire market supply of a certain good or service is known as:
A. A competitive firm.
B. An oligopoly.
C. A monopsony.
D. A monopoly.

A monopoly is a sole producer of a good and could dictate price, quality and the quantity of the product.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
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93. A market characterized as a monopoly:
A. Prices tend to be lower and output tends to be higher.
B. Output tends to be lower and prices tend to be higher.
C. Quality and output tend to be higher.
D. Prices tend to be lower and quality tends to be higher.

Monopolies may control price, quantity, and quality of a good's production.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
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94. The term externalities refers to:
A. Black-market economic activity.
B. Some costs and benefits of a market activity borne by a third party.
C. The impact on markets of goods imported from foreign countries.
D. Illegal economic activity.

An example of an externality is pollution. The cost of pollution is borne by a third party who was not responsible for causing the pollution.

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95. The dumping of chemicals into a lake, which contaminates the drinking water, is an example of:
A. Income transfers.
B. A monopoly.
C. An externality.
D. Factor mobility.

In this case the cost of drinking water is borne by an innocent third party; who was not involved in the pollution of the lake, but must pay for clean drinking water.

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Topic: HOW AMERICA PRODUCES

96. If government intervention forces the economy inside the production possibilities curve, there is:
A. Market failure.
B. Government failure.
C. An externality.
D. Income inequality.

There is no guarantee that government regulation of HOW goods are produced always makes us better off.

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97. Too much government regulation might do all of the following EXCEPT:
A. Inhibit production.
B. Raise product prices.
C. Limit consumer choices.
D. Cause market failure.

Government intervention causes government failures.

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98. The basic economic issue concerning the FOR WHOM question is specifically interpreted to mean, who:
A. Gets the available jobs.
B. Gets to consume the goods and services that are produced.
C. Inherits the accumulated wealth in the economy.
D. Produces the goods and services.

The FOR WHOM question helps divide the "economic pie" of goods and service among consumers.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

99. Which of the following is least likely to determine individual income in a market economy?
A. The quantity of resources owned.
B. The quality of resources owned.
C. The prices of resources in the marketplace.
D. The government.

The government takes a laissez faire position in the distribution of income in a market economy.

AACSB: Analytic
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Blooms: Understand
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Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

100. Which of the following statements is true concerning income inequality?
A. Income is distributed equally in poor countries.
B. Rich countries have greater income inequality than poor countries.
C. The government has no mechanism for altering income inequality.
D. A free market economy produces an unequal distribution of income.

Markets reward individuals on the basis of their contribution to output.

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Topic: FOR WHOM AMERICA PRODUCES

101. Which question does the "distribution of income" relate to most directly?
A. For whom is output produced?
B. How is output produced?
C. What output is produced?
D. Why is output produced?

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The FOR WHOM question answers the way total personal income is divided.

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Topic: FOR WHOM AMERICA PRODUCES

102. In terms of income distribution, if a person moves from the lowest fifth of households to the highest fifth over many years, this is known as:
A. Income migration.
B. Income mobility.
C. Global migration.
D. Union membership.

Income mobility takes into consideration how long a person stays in any one income level.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

103. The purpose of the U.S. tax-transfer system is to:
A. Eliminate the economic power of the rich.
B. Preserve the Social Security system for future generations.
C. Furnish lower income households with more goods and services than the market alone provides.
D. Equalize all household incomes in the U.S.

The mechanism for re-slicing the income pie is taxes and income transfers.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
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Topic: FOR WHOM AMERICA PRODUCES

104. By definition, a progressive tax:
A. Generates greater tax revenues from the poor.
B. Imposes a higher tax rate as income increases.
C. Imposes a lower tax rate as income increases.
D. Implies that the same tax rate is paid at all income levels.

A progressive tax makes after-tax incomes more equal than before-tax incomes.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

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105. Which of the following is true about the income-transfer system in the United States?
A. The system provides more output for lower-income households than the market alone provides.
B. Transfer payments solve the problem of income inequality.
C. The system does not affect the distribution of income because of regressive taxes.
D. The system is actually progressive and gives more income to rich households.

Income transfers give lower-income households more of the income pie than they got in the marketplace.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

106. Income transfers include all of the following EXCEPT:
A. Food stamps.
B. Medicaid.
C. Wages.
D. Welfare benefits.

Wages are not income transfers.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

107. One News Wire article in the text, "Income Share of the Rich," reports: "In most developing countries the top tenth of all households receives 30-50 percent of all income." Which of the following forms of government intervention is designed to reduce this market situation?
A. Antitrust laws.
B. Public goods.
C. Laissez-faire.
D. Income transfers.

Income-transfer system gives lower-income households more output than the market itself would provide.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

108. GDP is a measure of the market value of final goods and services produced within a nation's borders in a given period.

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TRUE

GDP measures the market value of final goods and services produced within a nation's borders in a given period.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

109. In periods of rising prices, real GDP will always rise more rapidly than nominal GDP.

FALSE

Nominal GDP will rise more rapidly than real GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

110. Per capita GDP measures the distribution of income within a country.

FALSE

Per Capita GDP measures the distribution of income each person would get if all output were divided evenly among the population.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

111. Growth in GDP per capita is achieved when population grows more rapidly than GDP.

FALSE

Growth in GDP per capita occurs when GDP grows more rapidly than population.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

112. Economic growth is desirable because it usually creates more jobs and income.

TRUE

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Growth is essential to maintain or increase production possibilities.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

113. One reason that GDP is not the best measure of social welfare is because it does not include volunteer activities.

TRUE

Social welfare does not contribute to production.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

114. Consumer goods account for approximately 70 percent of total U.S. output.

TRUE

Consumer goods dominate the U.S. mix of output.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

115. Since investment spending in the United States is a smaller percentage of GDP than consumer spending, it is not essential for economic growth.

FALSE

Investment is essential for economic growth.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

116. If an individual purchases stock in the stock market, this is included in the economic definition of investment as a component of GDP.

FALSE

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Individual purchases of stock do not contribute to economic growth. This personal investment is not an economic investment.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

117. In the United States, all of the state and local governments combined use more of our scarce resources than does the federal government.

TRUE

State and local governments use far more of our scarce resources than does the federal government.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

118. In the United States, net exports account for two-thirds of GDP.

FALSE

Net exports account only for a small portion of GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

119. If the United States imports more than it exports, this implies that the country uses more goods and services than it produces.

TRUE

Imports represent goods and service that are used by Americans but are not produced in the U.S.

AACSB: Analytic
Blooms: Analyze
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

120. The manufacturing share of output has increased in the United States since World War II.

FALSE

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The manufacturing and agricultural shares have decreased while the services share has increased.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

121. A capital-intensive production process increases the level of output per worker.

TRUE

Capital goods greatly assist in increasing the level of output per person.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

122. The reason that U.S. productivity is so high is because the United States has more natural resources and a larger population than any other country in the world.

FALSE

Population does not contribute to productivity.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

123. The United States has invested heavily in human capital by promoting education and skill training.

TRUE

More than other places in the world, the US has higher rates of high school and college graduation.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

124. U.S. corporations account for the majority of output in the country even though proprietorships outnumber corporations.

TRUE

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Corporations dominate market transactions, accounting for almost 90 percent of all business sales.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

125. In a monopoly situation, government regulation is incapable of improving market outcomes.

FALSE

Government regulations are intended to protect the interests of consumers, preventing firms from becoming too powerful.

AACSB: Analytic
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: HOW AMERICA PRODUCES

126. Externalities are costs or benefits of a market activity borne by a third party.

TRUE

The cost or benefits of externalities are spread to innocent third parties.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: HOW AMERICA PRODUCES

127. Incomes are distributed more equally in poor countries than in rich ones because of transfer payments.

FALSE

Most poor countries do not have a system of transfer payments like welfare.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

128. The U.S. federal income tax is an example of a progressive tax.

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TRUE

A progressive tax makes after-tax incomes more equal than before-tax incomes.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: HOW AMERICA PRODUCES

129. The U.S. tax-transfer system gives more output to lower-income households than does the market alone.

TRUE

The income-transfer system gives lower-income households more output than the market itself would provide.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: HOW AMERICA PRODUCES

130. Why is using real GDP a better measurement of GDP than using nominal GDP?

GDP is based on both physical output and prices. From one year to the next either rising prices or an increase in physical output could cause nominal GDP to increase. GDP numbers must be adjusted for inflation. These inflation adjustments delete the effects of rising prices by valuing output in constant prices. This is result of real GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

131. Investment goods are a different type of output. Discuss the types of investment goods and its relationship to production possibilities.

Investment goods include the plant, machinery, and equipment that are produced for use in the business sector. These investments are often used to replace worn-out equipment and factories, which maintains production possibilities.

Investment goods increase and improve the stock of capital. This expands production possibilities.

Inventory is also counted as investment goods.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

132. What does the government do to protect consumers from monopolies? List specific steps the government takes to protect consumers.

Government tries to prevent individual firms from dominating specific markets. Antitrust laws prohibit mergers or acquisitions that threaten competition The U.S. Department of Justice and the Federal Trade Commission also regulate pricing practices advertising claims and other behavior that might put consumers at an unfair disadvantage in product markets.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: HOW AMERICA PRODUCES

133. China is incorrectly regarded, by many, as the largest economy in terms of GDP. In fact it is the US that has the largest GDP in the world. List some of the reasons why this is so.

The US has a smaller population than China. However, due to capital intensive productivity and a highly skilled workforce combined with the other factors of production, the US leads the world in production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

134. Explain the importance of consumer durable goods spending as it related to the economy.

Durable goods spending by consumers will increase when the economy is good. When consumers are confident about the economy, they will purchase the expensive big ticket items. When the economy is doing poorly, durable good spending declines because consumers are worried about their incomes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: WHAT AMERICA PRODUCES

135. Give some examples of nondurable goods.

Gasoline, food, clothing, medicine.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.

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Topic: WHAT AMERICA PRODUCES

136. What specific programs are available through government for the poor to provide financial assistance?

Taxes collected by the government are redistributed to the poor through income transfers. These would include food stamps, welfare benefits and Medicaid. Multiple Choice Questions

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: WHAT AMERICA PRODUCES

137. Which of these in NOT included in GDP?
A. government transfer payments to Social Security beneficiaries
B. consumer spending on durable and nondurable gods
C. business investment in new equipment
D. net exports

A is the correct answer because there is no production associated with government transfer payments.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

138. GDP is the total value of all _____ goods and services produced within a nation's borders in a given time period.
A. final
B. unfinished
C. intermediate
D. non-exported

GDP only includes *final* goods and services.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain how an economy's size is measured.
Topic: WHAT AMERICA PRODUCES

139. _____ GDP is adjusted for inflation.
A. Nominal
B. Real
C. Current
D. Per capita

"Real" means adjusted for inflation.

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AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

140. In the United States, per capita GDP is:
A. determined by dividing total GDP by total population.
B. four times the world average.
C. a measure of how much output each person in an economy would get if all of the output of the economy was divided up evenly.
D. All of the above are true.

All of these describe per capita GDP, which is calculated as GDP divided by population.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

141. Which type of output leads to increased output in the future?
A. Consumption.
B. Investment.
C. Government services.
D. Net exports.

Investments sacrifice current consumption so that resources may be used for future output.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: WHAT AMERICA PRODUCES

142. The United States' economy is the largest in the world because
A. it has a high quantity and quality of capital resources.
B. the government directs resources to the most desirable outcomes.
C. it has abundant natural and human resources.
D. Both A and C are correct.

The United States benefits from an abundance of the factors or production—including land (natural resources) and labor (human resources), as well as having capital resources in sufficient quantity and quality to raise productivity levels.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why the U.S. economy can produce so much.
Topic: WHAT AMERICA PRODUCES

143. Durable goods:

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A. are goods produced with minerals and metals.
B. tend to be big-ticket items like cars.
C. include clothes, food, and gasoline.
D. Both A and B are durable goods.

Durable goods are larger purchases that tend to last for three years or longer.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

144. Consumer goods account for more than _____ of total U.S. output.
A. one-third
B. one-half
C. two-thirds
D. nine-tenths

Consumer spending represents about two-thirds of total U.S. output.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.
Topic: WHAT AMERICA PRODUCES

145. In a market economy, an individual's income depends on:

A. the quantity and quality of resources owned.

B. the price that those resources command in the market.

C. Both A and B are true.

D. Neither A nor B are true.

Both of these statements are true of an individual's income.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

146. Which of these statements about income distribution in the United States is correct?
A. People often move up and down the income ladder.

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B. The poorest fifth of households account for 3 percent of total income.
C. The richest fifth of households account for 51 percent of total income.
D. All of these statements are correct.

All of these statements are true of income distribution in the United States.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Describe how (un)equally incomes are distributed.
Topic: FOR WHOM AMERICA PRODUCES

Chapter 02_Test Bank Summary

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