

Chapter 3—Economic Decision Makers

MULTIPLE CHOICE

1. Which of the four types of economic decision makers is most important?
- firms, because they produce all goods and services in the economy
 - households, because they demand goods and services and supply resources
 - government, because it ultimately sets and enforces the "rules of the game"
 - government, because it steps in when there is market failure
 - the rest of the world, because there are over 150 countries

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: The Household

2. Households act as suppliers when they provide
- goods and services to firms and governments
 - resources to firms and governments
 - tax payments to governments
 - the demand for only what firms supply or make available
 - money to firms in exchange for goods and services

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: The Household

3. Households act as demanders when they demand
- that corporate executives and government officials be held accountable for their actions
 - dividends from the stocks they hold
 - interest and capital gains from the bonds they hold
 - goods and services from firms and the government
 - payment for the goods and services they sell to firms and governments

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: The Household

4. The movement of households from rural to urban settings reduced the degree of specialization in household production.
- True
 - False

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: The Evolution of the Household

5. As the real wage increases, the opportunity cost of working outside the home increases.
- True
 - False

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: The Evolution of the Household

6. The movement in U.S. population from the farms to urban areas was caused primarily by
- each member of a farm family specializing in a particular set of tasks
 - a sharp increase in farm productivity

- c. a decline in the demand for labor in urban areas
- d. a sharp decline in the demand for agricultural products
- e. increased education among married women

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The study of economics, and definitions of economics
 TOP: The Evolution of the Household

7. In the United States since World War II, there has been
- a. a dramatic increase in the population living in rural areas
 - b. a decline in the number of women in the labor force
 - c. a decrease in the opportunity cost of working in the home
 - d. more specialization of production within households
 - e. a dramatic increase in the number of married women in the labor force

ANS: E PTS: 1 DIF: Easy NAT: Reflective Thinking
 LOC: The study of economics, and definitions of economics
 TOP: The Evolution of the Household

8. Which of the following is one of the chief reasons for the increased number of married women in the U.S. work force?
- a. The marginal cost of working in the labor force has increased.
 - b. Jobs provide greater independence and self-worth.
 - c. The opportunity cost of household work has increased.
 - d. The sunk cost of household appliances has risen to the point that women must work to make payments on them.
 - e. Women spend more time in the market as a result of the increasing division of labor in household production.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
 LOC: The study of economics, and definitions of economics
 TOP: The Evolution of the Household

9. Which of the following is a result of increased real wages in the United States?
- a. a decrease in the quantity of services demanded by households
 - b. an increase in the opportunity cost of remaining employed in the home
 - c. a decrease in the opportunity cost of working outside the home
 - d. a decline in the number of households providing labor outside the home
 - e. reduced use of labor-saving devices in households

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
 LOC: The study of economics, and definitions of economics
 TOP: The Evolution of the Household

10. One explanation for the increased participation of married women in the U.S. labor force is that
- a. fewer women are being trained for household work by the public school system
 - b. rapid growth in the service sector has provided additional job opportunities for women
 - c. the cost of professional day care has increased
 - d. couples are having more children
 - e. husbands earn more today than they did previously

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The study of economics, and definitions of economics
 TOP: The Evolution of the Household

11. If the real wage decreases, the opportunity cost of working in the home will
- increase
 - decrease
 - not be affected
 - increase as long as worker productivity also rises
 - increase only if households want to maintain their standard of living

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: The Evolution of the Household

12. The increased labor force participation of married women in the United States is most often explained by
- declining productivity in agricultural production
 - a rise in average household size
 - increased education and an increased demand for labor
 - the decreased opportunity cost of working in the home
 - declining productivity in household production

ANS: C PTS: 1 DIF: Hard NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: The Evolution of the Household

13. Harold, a delivery man, washes and irons his own shirts. Sarah, his boss, sends her clothes to a laundry. Which is the most plausible economic explanation for this difference?
- Harold must enjoy ironing more than Sarah does.
 - Harold must be better at ironing than Sarah is.
 - The opportunity cost of ironing is greater for Harold.
 - Harold probably has an absolute advantage in ironing.
 - Sarah has a higher opportunity cost of laundering her clothes than Harold does.

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: The Evolution of the Household

14. The term "utility" means
- satisfaction
 - a low-valued good
 - productivity
 - adaptability
 - efficiency

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Utility and consumer choice TOP: Households Maximize Utility

15. The statement "Households maximize utility" means that households
- try to be as useful as possible to the economy
 - are only interested in maximizing their earnings
 - are assumed to buy useful things before they buy luxuries
 - are only interested in acquiring material wealth
 - are assumed to do what they think will increase their satisfaction

ANS: E PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Utility and consumer choice TOP: Households Maximize Utility

16. The objective of the household is to
- maximize household wealth
 - own as much land as possible
 - save as much money as possible
 - acquire as many goods as possible
 - maximize utility

ANS: E

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Utility and consumer choice

TOP: Households Maximize Utility

17. Economists generally assume that
- firms act to maximize the dividends paid to stockholders
 - households act to maximize their wealth
 - households act to maximize utility
 - firms act to maximize revenue
 - both households and firms act to minimize expenditures

ANS: C

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Utility and consumer choice

TOP: Households Maximize Utility

18. Roxanne and Eileen live in an apartment building with a laundry room in the basement. Roxanne does her laundry at home, spending \$4 and 5 hours per week. Eileen sends her laundry out, spending \$20 and 15 minutes per week transporting the laundry. On the basis of the information given, which one of the following must be true?
- Roxanne earns more labor income than Eileen.
 - Eileen earns more total income than Roxanne.
 - Roxanne enjoys doing laundry; Eileen does not.
 - Eileen has less laundry than Roxanne.
 - Eileen and Roxanne attach different utilities to time spent doing laundry.

ANS: E

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: Utility and consumer choice

TOP: Households Maximize Utility

19. Mark and Charles are roommates at college. Each has written a 25-page term paper for the same English class. They are equally poor typists. Charles types his own paper and gets paid by Mark to type his, too. On the basis of the information given, which one of the following must be true?
- Mark is wealthier than Charles.
 - Mark needs more time to study than Charles.
 - Charles hates typing.
 - Mark and Charles have different utilities for typing but place the same value on time.
 - Mark's opportunity cost of typing is higher than Charles's.

ANS: E

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: Utility and consumer choice

TOP: Households Maximize Utility

20. Rationality in the household decision-making process means that
- all households make the same decisions
 - everyone in the household agrees on all decisions
 - households act in their own best interests
 - households want to earn as much income as possible
 - all households would make the same decisions given the same information on products qualities and prices

ANS: C

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: Utility and consumer choice

TOP: Households Maximize Utility

21. Personal income in the United States is primarily determined by selling labor services.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Resource Suppliers

22. Which resource generates the largest share of the income in the United States?
- a. labor
 - b. land
 - c. capital
 - d. entrepreneurial ability
 - e. money

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Households as Resource Suppliers

23. Which of the following is an example of an in-kind transfer?
- a. welfare payments
 - b. most Social Security benefits
 - c. unemployment compensation payments
 - d. food stamps
 - e. charitable contributions

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Resource Suppliers

24. Which of the following represents the largest source of income for U.S. households?
- a. personal interest
 - b. proprietor's income
 - c. wages and salaries
 - d. rental income
 - e. transfer payments

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Resource Suppliers

25. Luigi owns and operates a small restaurant. The income he receives from the restaurant is classified as
- a. saving
 - b. proprietor's income
 - c. wages and salaries
 - d. rental income
 - e. dividends

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Households as Resource Suppliers

26. Raghieb teaches mathematics at Camford University and receives \$40,000 per year. His spouse, Noraini, works as a self-employed computer programmer and charges \$40 per hour. Which of the following is true?
- a. Raghieb's income is personal interest; Noraini's is wages
 - b. Raghieb's income is a salary; Noraini's is personal interest
 - c. Both Raghieb and Noraini receive proprietor's income
 - d. Both Raghieb and Noraini receive wage or salary income
 - e. Raghieb's income is a salary, and Noraini's income is a proprietor's income

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Households as Resource Suppliers

27. Households supply four basic types of resources. They include all of the following *except*
- a. natural resources
 - b. final goods and services
 - c. capital
 - d. entrepreneurial ability
 - e. labor

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Resource Suppliers

28. The fastest-growing component of U.S. personal consumption is services.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Demanders of Goods and Services

29. Household income is spent on all of the following *except one*. Which is the exception?
- a. services
 - b. tax payments
 - c. durable goods
 - d. nondurable goods
 - e. dividends

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Demanders of Goods and Services

30. Which of the following is an example of a durable good?
- a. food prepared at home
 - b. food eaten at a restaurant
 - c. high-fashion clothing
 - d. binoculars
 - e. motor oil

ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Households as Demanders of Goods and Services

31. Which of the following is an example of a durable good?

- a. a cowboy
- b. a cherry pie
- c. a newspaper
- d. a hand-held calculator
- e. a pencil

ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Households as Demanders of Goods and Services

32. Which component of U.S. household spending has grown the most over the past ten years?
- a. taxes
 - b. savings
 - c. spending on services
 - d. spending on nondurable goods
 - e. spending on durable goods

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Demanders of Goods and Services

33. Which of the following is the category to which the largest portion of households' personal income is allocated?
- a. taxes collected by government
 - b. savings
 - c. purchases of services
 - d. purchases of durable goods
 - e. purchases of nondurable goods

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Demanders of Goods and Services

34. Which of the following accounts for the largest percentage of spending by households in the United States?
- a. durable goods
 - b. nondurable goods
 - c. services
 - d. insurance payments
 - e. underground activities (e.g., illegal activities)

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Households as Demanders of Goods and Services

35. A cottage industry is one that
- a. produces rural housing
 - b. takes advantage of the division of labor
 - c. uses highly specialized resources in a complex production process
 - d. produces cottage cheese
 - e. carries out production in workers' homes

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: The Evolution of the Firm

36. Which of the following did *not* occur during the Industrial Revolution?

- a. worker productivity increased
- b. factories became larger
- c. direct supervision of labor decreased
- d. division of labor increased
- e. fewer stages of production were organized in the household

ANS: C

PTS: 1

DIF: Easy

NAT: Analytic

LOC: The study of economics, and definitions of economics

TOP: The Evolution of the Firm

37. Which of the following did *not* occur during the Industrial Revolution?

- a. Production became more reliant on highly specialized equipment.
- b. A more efficient division of labor was promoted.
- c. Workers bore much of the costs of production.
- d. The transaction costs of contracting with individual resource owners were reduced.
- e. Technological development increased the productivity of most workers.

ANS: C

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics

TOP: The Evolution of the Firm

38. Sole proprietorships produce more goods and services than does any other form of business organization.

- a. True
- b. False

ANS: B

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The study of economics, and definitions of economics

TOP: Types of Firms

39. A large number of businesses are organized as sole proprietorships because it is easy for them to acquire large sums of financing.

- a. True
- b. False

ANS: B

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics

TOP: Types of Firms

40. The partnership is the least common form of business organization in the United States.

- a. True
- b. False

ANS: A

PTS: 1

DIF: Easy

NAT: Analytic

LOC: The study of economics, and definitions of economics

TOP: Types of Firms

41. A major advantage of the corporate form of business organization is the limited personal liability of the owners.

- a. True
- b. False

ANS: A

PTS: 1

DIF: Easy

NAT: Analytic

LOC: The study of economics, and definitions of economics

TOP: Types of Firms

42. A disadvantage of the corporate form of business organization is that corporate income is taxed twice.

- a. True
- b. False

ANS: A

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The study of economics, and definitions of economics TOP: Types of Firms

43. The most common form of business organization in the United States is the sole proprietorship.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

44. The least common form of business organization in the United States is the partnership.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

45. A major disadvantage of the corporate form of business is limited liability.
- a. True
 - b. False

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

46. Which of the following is a major advantage of the sole proprietorship?
- a. separation of ownership and control
 - b. limited liability for business debt
 - c. transferability of ownership and firm continuity over time
 - d. ease of start-up
 - e. ease of obtaining financing

ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

47. Which of the following is an advantage of a sole proprietorship?
- a. the ability to pool resources
 - b. limited liability
 - c. double tax exemption of the firm's earnings
 - d. ease of organization
 - e. ease of raising funds

ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

48. One disadvantage of a sole proprietorship as a form of business organization is that
- a. sole proprietorships cannot lower the transaction costs associated with contracting with resource owners
 - b. sole proprietorships are less efficient than corporations, because they are less specialized in production
 - c. owners of sole proprietorships can lose all their personal assets if the business is sued or fails
 - d. owners of sole proprietorships generally find it difficult to negotiate separation agreements with the other partners in the firm
 - e. owners of sole proprietorships generally have very little control over how they operate their businesses

ANS: C PTS: 1 DIF: Easy NAT: Analytic

LOC: The study of economics, and definitions of economics TOP: Types of Firms

49. Brian is the sole proprietor owner of Long Voyage Software, which generates maps for wilderness trips. He started the business with an initial investment of \$80,000. A faulty map caused one customer to get hopelessly lost. After her rescue and recuperation, she sued Long Voyage for \$5,000,000. Which of the following is true?
- a. The customer can be awarded only \$80,000--what the firm has available to pay.
 - b. The customer can be awarded \$5,000,000 but can get only \$80,000.
 - c. The customer can be awarded \$5,000,000, but Brian personally won't have to pay more than \$80,000.
 - d. If \$5,000,000 is awarded, Brian will have to pay none of it.
 - e. If \$5,000,000 is awarded, Brian is personally responsible for paying all of it.

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics TOP: Types of Firms

50. Suppose you own a proprietorship that is in serious financial difficulty. The assets of the company are \$100,000, but liabilities are \$175,000. You also have, however, stock in General Motors worth \$200,000. If you file bankruptcy, what amount of personal assets do you stand to lose?
- a. \$100,000
 - b. \$75,000
 - c. \$200,000
 - d. \$275,000
 - e. \$375,000

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics TOP: Types of Firms

51. Which form of business organization is the most common in the United States?
- a. sole proprietorship
 - b. partnership
 - c. corporation
 - d. nonprofit organization
 - e. S-corporation

ANS: A PTS: 1 DIF: Easy NAT: Analytic

LOC: The study of economics, and definitions of economics TOP: Types of Firms

52. Which of the following is true about sole proprietorship in the United States?
- a. It is the most common form of business organization.
 - b. It is responsible for a large portion of total production of goods and services.
 - c. It offers the owner the least personal liability of any form of business organization.
 - d. There is no opportunity cost to operating the business.
 - e. Only one individual can work in such a firm.

ANS: A PTS: 1 DIF: Easy NAT: Analytic

LOC: The study of economics, and definitions of economics TOP: Types of Firms

53. In terms of the numbers of firms in the U.S. economy, the most common type of firm is the
- a. corporation
 - b. partnership
 - c. sole proprietorship
 - d. nonprofit organization
 - e. limited partnership corporation

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

54. Which of the following is most likely to be a partnership?
- a. Uncle Mort's Red Wrigglers
 - b. the accounting firm of Hope and Williams
 - c. General Motors
 - d. the Boston Symphony Orchestra
 - e. the U.S. Post Office

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

55. All of the following are advantages of partnerships *except one*. Which is the exception?
- a. they are relatively easy to start
 - b. their profits are taxed once as personal income
 - c. their liability is limited by each partner's share of the business
 - d. a greater opportunity for specialization by the owners
 - e. a continuation of the firm if one partner dies

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

56. Messitt and McNulty spend \$50,000 each to form a law partnership. On the first day someone trips over a potted plant in their lobby and sues them for \$400,000. Which of the following is true?
- a. If a \$400,000 judgment is against the partnership, then each partner will have to pay \$200,000.
 - b. If a \$400,000 judgment is against the partnership and if McNulty cannot afford to pay any of it, then Messitt is liable for \$400,000.
 - c. Messitt's liability is limited to \$300,000 because she owns three quarters of the firm.
 - d. Each individual partner cannot be sued for more than \$200,000.
 - e. Only McNulty is personally responsible for the damages because he was the one who put the potted plant in the office.

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

57. Suppose you form a legal partnership with your best friend, and she purchases consulting services calling for a \$100,000 fee. Your business is broke, and you never wanted the consultants to work for you -- only your partner did. For how much of this debt are you legally liable?
- a. none of it
 - b. all of the \$100,000
 - c. the proportion reflected by the proportion of the business owned
 - d. only an amount equal to the assets of the business
 - e. \$50,000

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

58. Which form of business organization is the least common in the United States?
- a. sole proprietorship
 - b. partnership
 - c. corporation
 - d. nonprofit organization
 - e. conglomerate

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

59. Which of the following lists the three types of firms in the United States from smallest to largest in terms of volume of sales?
- partnerships, sole proprietorships, corporations
 - sole proprietorships, partnerships, corporations
 - sole proprietorships, corporations, partnerships
 - corporations, partnerships, sole proprietorships
 - partnerships, corporations, sole proprietorships

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

60. Owners of corporations are referred to most frequently as
- entrepreneurs
 - lien holders
 - limited partners
 - managers
 - stockholders

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

61. Often trade will not occur because
- transaction costs are too high
 - neither party has an opportunity cost
 - the benefits to one party just equal the losses to the other party
 - no one expects to gain from the trade
 - the profits of the firm are excessive

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

62. Stockholders share in the profits of a corporation
- in proportion to their years of stock ownership
 - in proportion to their ownership of stock
 - equally regardless of number of shares owned
 - only if they participate in firm management decisions
 - only if they attend stockholders' meetings

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

63. The corporate form of business organization
- is chosen by more firms than any other form of organization in the United States
 - gives firm owners limited liability
 - generates less than half of the output in the U.S. economy
 - combines the limited liability of the partnership with the personal control of the sole proprietorship
 - is the least complex form of business organization

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

64. You own stock worth an estimated \$1 million in the LPL corporation. In addition, you have personal assets worth another \$2 million. LPL becomes insolvent, with debts exceeding assets by \$15 million. Your personal wealth will decline by
- \$0
 - \$1 million
 - \$1.5 million
 - \$3 million
 - your proportion of the total outstanding stock shares times \$15 million

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Types of Firms

65. The primary reason why individuals are willing to pay entrepreneurs to organize production is
- that they have to guarantee that the entrepreneur will make a profit
 - they avoid taxation when activities are organized by someone else
 - that it is better for businesses to pay taxes than individuals
 - that it reduces transaction costs
 - that entrepreneurs are more vulnerable in the case of the owner

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

66. Which of the following is a disadvantage of the corporation compared to the sole proprietorship?
- limited liability
 - difficulty raising start-up money
 - lack of profitability
 - corporate income is taxed twice
 - corporations are more vulnerable in the case of the death of an owner

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

67. A realized capital gain is
- the difference between the price of a share of stock and what the investor paid for it (i.e., the broker's fee)
 - the difference between the original value of a piece of equipment and its depreciated value
 - an increase in the net worth of a sole proprietorship or partnership
 - an increase in the market value of a share of stock held by an individual
 - the difference between the selling price and the purchase price of a share of stock

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

68. Which form of business organization accounts for the largest proportion of business sales in the United States?
- sole proprietorship
 - partnership
 - corporation
 - nonprofit organization
 - conglomerate

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

69. In terms of total sales, the dominant form of business firm in the U.S. economy is the

- a. corporation
- b. sole proprietorship
- c. partnership
- d. nonprofit organization
- e. limited partnership corporation

ANS: A PTS: 1 DIF: Easy
 LOC: The study of economics, and definitions of economics

NAT: Analytic
 TOP: Types of Firms

70. Which category includes the largest number of firms?

- a. sole proprietorship
- b. partnership
- c. corporation
- d. S-corporation
- e. limited partnerships

ANS: A PTS: 1 DIF: Easy
 LOC: The study of economics, and definitions of economics

NAT: Analytic
 TOP: Types of Firms

71. Which of the following have their profits taxed twice?

- a. sole proprietorships
- b. partnerships
- c. corporations
- d. nonprofit institutions
- e. S-corporations

ANS: C PTS: 1 DIF: Easy
 LOC: The study of economics, and definitions of economics

NAT: Analytic
 TOP: Types of Firms

72. Nonprofit, or not-for-profit, firms

- a. maximize revenue instead of profit
- b. minimize cost rather than maximize profit
- c. often pursue goals other than profit maximization
- d. pursue profit as their main goal despite their name
- e. have no incentive to produce efficiently

ANS: C PTS: 1 DIF: Easy
 LOC: The study of economics, and definitions of economics

NAT: Reflective Thinking
 TOP: Not-for-Profit Organizations

73. The Salvation Army is an example of a(n)

- a. military organization
- b. not-for-profit organization
- c. partnership
- d. S-corporation
- e. U.S. government agency

ANS: B PTS: 1 DIF: Easy
 LOC: The study of economics, and definitions of economics

NAT: Reflective Thinking
 TOP: Not-for-Profit Organizations

74. Which of the following is *not* a not-for-profit institution?

- a. Columbia Broadcasting System (CBS)
- b. American Red Cross
- c. Salvation Army
- d. a public library
- e. a typical college or university

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Not-for-Profit Organizations

75. Household production still exists because it often requires fewer specialized resources than market production does.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Why Does Household Production Still Exist?

76. Household production increases when there is a stronger desire to avoid taxation.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Why Does Household Production Still Exist?

77. Household production is more likely to occur when
- a. it requires many specialized resources
 - b. technology makes it more costly than market production
 - c. tax avoidance is undesirable
 - d. more control over the final product is desirable
 - e. all of the above

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Why Does Household Production Still Exist?

78. Household production is more likely to occur when
- a. it requires many specialized resources
 - b. technology makes it more costly than market production
 - c. tax avoidance is undesirable
 - d. less control over the final product is desirable
 - e. the opportunity cost of household work is relatively small

ANS: E PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Why Does Household Production Still Exist?

79. Despite specialization and comparative advantage, household production still exists because for some households
- a. the opportunity cost of production at home is greater than the cost of purchasing the good in the market
 - b. production at home is less costly than purchasing the good in the market
 - c. the value of home production exceeds the sunk cost of home production
 - d. the value of home production is ignored
 - e. food and clothing expenditures represent a small portion of their total budget

ANS: B PTS: 1 DIF: Hard NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Why Does Household Production Still Exist?

80. Household production is more likely to occur when
- it requires few specialized resources
 - technology makes it more costly than market production
 - tax avoidance is undesirable
 - less control over the final product is desirable
 - the opportunity cost of household production is high

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics

TOP: Why Does Household Production Still Exist?

81. Household production is more likely to occur when
- it requires many specialized resources
 - technology makes it more costly than market production
 - tax avoidance is desirable
 - less control over the final product is desirable
 - the opportunity cost of household production is high

ANS: C PTS: 1 DIF: Easy NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics

TOP: Why Does Household Production Still Exist?

82. Which of the following is *not* a reason why some production continues in households?
- Some household production requires many specialized resources
 - The opportunity cost of household production has decreased over time
 - Household production avoids taxes
 - There have been important technological advances in household production
 - Some households prefer the ability to control production

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics

TOP: Why Does Household Production Still Exist?

83. Household production is more likely to occur when
- it requires many specialized resources
 - technology makes it easier than market production
 - tax avoidance is undesirable
 - less control over the final product is desirable
 - the opportunity cost of household production is high

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics

TOP: Why Does Household Production Still Exist?

84. You are more likely to hire a plumber to repair a leaky drain pipe
- as the tax rate on your earned income rises
 - if you already own the specialized tools required to complete the plumbing repair work
 - following an increase in the opportunity cost of your time
 - the more knowledge and experience in plumbing repair work that you possess
 - as the transaction cost of entering into a plumbing contract increases due to government regulations

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics

TOP: Why Does Household Production Still Exist?

85. You are more likely to do-it-yourself than hire a plumber to repair a leaky drain pipe
- a. as the tax rate on your earned income dramatically decreases
 - b. if the opportunity cost of your time decreases
 - c. the less knowledge and experience in plumbing repair work that you possess
 - d. if you already own the specialized tools required to complete the repair work
 - e. as the transaction cost of the do-it-yourself repair work increases

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Why Does Household Production Still Exist?

86. You are more likely to hire your teenage child to cut your lawn than a landscaping firm
- a. since the teenager is paid each time when she finishes and the landscaping firm bills your credit card each month
 - b. if the teenager has a lower opportunity cost of cutting the lawn than the landscaping firm does
 - c. because the teenager is less likely to have the specialized tools necessary to complete the job quickly
 - d. due to the bounded rationality of the diversified landscaping firm
 - e. when it does not take a substantial amount of time and effort to find a reputable landscaping firm to do the job

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Why Does Household Production Still Exist?

87. Two important roles of government in the economy are to safeguard private property and enforce contracts.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: The Role of Government

88. To serve the public interest, government sometimes promotes competition by breaking up natural monopolies.
- a. True
 - b. False

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The role of government TOP: The Role of Government

89. A public good is available to all regardless of who pays for it and who does not.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The role of government TOP: The Role of Government

90. When externalities are present, market prices do not reflect all the social costs or benefits of the activity.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking

LOC: The role of government

TOP: The Role of Government

91. It is difficult to exclude individuals from the use of public goods and services.
- a. True
 - b. False

ANS: A

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: The role of government

TOP: The Role of Government

92. Contracts are enforced by
- a. the firms that make the contracts through buy-out clauses
 - b. law firms that specialize in contract enforcement
 - c. corporations specializing in contract writing and enforcement
 - d. the government through the judicial system
 - e. both households and firms through customer relations departments

ANS: D

PTS: 1

DIF: Easy

NAT: Analytic

LOC: The role of government

TOP: The Role of Government

93. Which of the following is a reason why government is a participant in a market-oriented economy?
- a. to enforce contracts and protect private property
 - b. to promote collusion
 - c. to promote the growth of natural monopolies
 - d. to provide more inequality in the distribution of income
 - e. all of the above

ANS: A

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The role of government

TOP: The Role of Government

94. Government antitrust laws were designed to
- a. encourage the production of public goods
 - b. prevent natural monopolies
 - c. prevent collusion among firms
 - d. regulate natural monopolies
 - e. correct the outcomes of positive and negative externalities in private markets

ANS: C

PTS: 1

DIF: Easy

NAT: Analytic

LOC: The role of government

TOP: The Role of Government

95. Natural monopolies occur when
- a. government antitrust laws are too weak or not enforced
 - b. negative externalities are present
 - c. firms collude to set prices and divide the market among themselves
 - d. one firm can service the market more cheaply than two or more firms can
 - e. a public good is produced by a private firm

ANS: D

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The role of government

TOP: The Role of Government

96. Which of the following is a defining characteristic of a public good?
- a. It is produced and distributed by the government.
 - b. The decision to produce it is made by the public through the voting process.
 - c. It is produced and distributed by private firms according to government regulations.
 - d. It is freely available to everyone once it is produced.
 - e. It is purchased by one government agency from another government agency.

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The role of government TOP: The Role of Government

97. The funds to pay for police protection are usually raised through taxation because
- police protection would be hard to provide exclusively to those who voluntarily pay for it
 - people would not voluntarily pay salaries to officials who might arrest them
 - police protection is a basic necessity
 - goods financed through taxation can be guaranteed to all who pay for it
 - the government believes that those who receive the benefits from the service should pay for it

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The role of government TOP: The Role of Government

98. Which of the following is true of public goods?
- The market mechanism helps to signal the quantity that is demanded by the public.
 - Payment for consumption is efficiently provided by market prices.
 - Consumption by one person does not preclude consumption of the same good by another person.
 - The public sector is guided to produce the correct quantity by market prices.
 - Voluntary contributions will be sufficient to finance the production of public goods.

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The role of government TOP: The Role of Government

99. Some people have argued that government should provide only those goods that we would truly define as public goods. If so, which of the following should government produce?
- National Defense
 - day-care centers for children of working mothers
 - mail delivery
 - unemployment benefits
 - subsidies for agricultural products

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The role of government TOP: The Role of Government

100. A public good is one that is supplied to
- only people who pay for it
 - only people who do not pay for it
 - all people, regardless of whether they pay or not
 - the government from private firms
 - foreign governments from our federal government

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: The Role of Government

101. What is the rationale for government provision of education?
- Not all incomes are equal, but everyone has the right to education regardless of wealth.
 - Potential students consider only their personal benefits gained from education, but the rest of society benefits, too.
 - No education would be provided in the absence of government provision because everyone would consume it without paying.
 - The cost of providing education for the entire public is too large.
 - The government can provide education at a much lower cost than the private sector.

ANS: B PTS: 1
LOC: The role of government

DIF: Hard NAT: Reflective Thinking
TOP: The Role of Government

102. Externalities are defined as
- any transaction external to the firm
 - costs or benefits that fall on third parties
 - policies that firms undertake to sell products outside the country
 - managers' dealings with stockholders outside the firm
 - costs of maintaining plant and equipment to avoid the scrutiny of external auditors

ANS: B PTS: 1
LOC: The role of government

DIF: Moderate NAT: Analytic
TOP: The Role of Government

103. Which of the following would *not* be considered a role of the government?
- promoting competition
 - providing public goods
 - providing externalities
 - regulating natural monopolies
 - safeguarding private property and enforcing contracts

ANS: C PTS: 1
LOC: The role of government

DIF: Moderate NAT: Reflective Thinking
TOP: The Role of Government

104. An example of a positive externality is
- pollution because it affects people not directly involved with producing it
 - a homeowner's maintenance of a beautiful lawn because this creates a benefit for neighbors
 - creating a monopoly
 - driving a car that emits pollution
 - cigarette smoking because this imposes an indirect cost on people around the smoker

ANS: B PTS: 1
LOC: The role of government

DIF: Moderate NAT: Reflective Thinking
TOP: The Role of Government

105. Determining the most socially desirable level of income equality or inequality
- is done through markets, rather than by the government
 - is done directly by firms
 - involves normative economics
 - involves evaluation of public goods
 - involves evaluation of all externalities, both positive and negative

ANS: C PTS: 1
LOC: The role of government

DIF: Moderate NAT: Reflective Thinking
TOP: The Role of Government

106. Which of the following is *not* a government transfer program?
- unemployment compensation
 - Social Security
 - food stamps
 - Medicare
 - movement of soldiers to a different military base

ANS: E PTS: 1
LOC: The role of government

DIF: Easy NAT: Reflective Thinking
TOP: The Role of Government

107. The term "fiscal policy" refers to

- a. the amount of physical output produced by firms
- b. the means by which government policy makes firms more productive
- c. the avenue by which government influences credit markets
- d. spending and taxing by governments
- e. a tool of government that works in the opposite direction of monetary policy

ANS: D PTS: 1 DIF: Easy NAT: Analytic
 LOC: The role of government TOP: The Role of Government

108. The difference between fiscal policy and monetary policy is that
- a. fiscal policy is macroeconomic policy and monetary policy is microeconomic policy
 - b. monetary policy is macroeconomic policy and fiscal policy is microeconomic policy
 - c. fiscal policy involves regulation of natural monopolies and monetary policy involves the provision of public goods
 - d. monetary policy involves regulation of the money supply and fiscal policy involves government spending and taxing
 - e. fiscal policy involves the promotion of competition and monetary policy involves collecting money to pay for taxes

ANS: D PTS: 1 DIF: Easy NAT: Analytic
 LOC: The role of government TOP: The Role of Government

109. Which of the following is *not* a function of government?
- a. promotion of competition
 - b. stabilization to achieve the macroeconomic goals
 - c. redistribution of income through taxation and transfer payments
 - d. production of public goods
 - e. providing the economy's private goods

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: The Role of Government

110. Which of the following is *not* a goal of government programs?
- a. to enforce private property rights
 - b. to prohibit natural monopolies
 - c. to reduce pollution
 - d. to transfer money from higher-income households to the poorest households
 - e. to maintain price stability

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: The Role of Government

111. When the social cost of production is greater than the private cost, we have a
- a. positive externality
 - b. negative externality
 - c. public good
 - d. private good
 - e. positive spillover

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: The Role of Government

112. Most economists assume that the goal of elected officials is to promote the public interest.
- a. True
 - b. False

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The role of government TOP: Government's Structure and Objectives

113. Goods and services produced by the government are sold at prices that are set to recover production costs.
- a. True
 - b. False

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The role of government TOP: Government's Structure and Objectives

114. Which of the following is true about government activity in the United States?
- a. Macroeconomic policy is handled mainly at the state level.
 - b. Higher education is handled mainly at the national level.
 - c. Primary and secondary education is handled mainly at the local level.
 - d. Primary and secondary education is handled mainly at the national level.
 - e. Police and fire protection are handled mainly at the state level.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: Government's Structure and Objectives

115. Of the three levels of government in the United States,
- a. only the federal government provides public goods
 - b. only the federal government has the power to tax
 - c. local governments are primarily responsible for primary and secondary education
 - d. the federal government is primarily responsible for higher education
 - e. state governments are primarily responsible for economic stability

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: Government's Structure and Objectives

116. A common assumption that economists make about the behavior of elected officials is that they try to
- a. maximize the size of their government salaries
 - b. maximize the size of their control over the budget process
 - c. maximize the number of votes they receive in the next election
 - d. minimize the government's expenditures in order to balance the budget
 - e. conform to the wishes of special interest groups so that the government behaves as a single, consistent decision maker

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: Government's Structure and Objectives

117. Government policies are coercive, whereas markets are not. This implies that
- a. government activity will always be less efficient than market activity
 - b. households cannot maximize utility if they consume any government goods and services
 - c. market transactions result in an equal number of gainers and losers
 - d. self-interest and public interest are always in conflict
 - e. government can provide some goods and services when private markets fail to do so

ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: The role of government TOP: Government's Structure and Objectives

118. Market activity differs from government activity because
- a. markets generally force prices to below-cost levels
 - b. governments never charge for the services they provide

- c. markets do not use voluntary exchange mechanisms
- d. markets provide a direct link between benefits and costs
- e. governments have strong incentives to keep costs under strict control

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: Government's Structure and Objectives

119. When the government sells something it produces,
- a. revenue received must be greater than cost to justify government production
 - b. revenue received must equal cost because government is a nonprofit organization
 - c. the price does not always reflect the cost of producing the good
 - d. the price charged is an accurate measure of the benefits generated
 - e. it prices the good the same way a natural monopolist would

ANS: C PTS: 1 DIF: Hard NAT: Analytic
 LOC: The role of government TOP: Government's Structure and Objectives

120. In recent years, redistribution has been the fastest growing category of federal government outlays.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Hard NAT: Reflective Thinking
 LOC: The role of government TOP: Size and Growth of the U.S. Government

121. Gross Domestic Product is the market value of
- a. all exchanges made during the course of a year
 - b. all final goods produced during the course of a year
 - c. all monetary transactions during the course of a year
 - d. all the goods produced during the course of a year over and above what is required to maintain the population and the stock of capital
 - e. all final goods sold during the course of a year

ANS: B PTS: 1 DIF: Easy NAT: Analytic
 LOC: The role of government TOP: Size and Growth of the U.S. Government

122. Gross Domestic Product is the value of all
- a. goods and services produced during a particular year
 - b. goods and services sold during a particular year
 - c. final goods and services sold during a particular year
 - d. final goods and services produced during a particular year
 - e. final goods and services produced and sold during a particular year

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The role of government TOP: Size and Growth of the U.S. Government

123. Since 1930, U.S. government spending as a percent of GDP has
- a. increased
 - b. decreased
 - c. stayed the same
 - d. showed no particular trend
 - e. increased by the same percent each year

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: Size and Growth of the U.S. Government

124. In the United States, all levels of government together spend about

- a. one out of every three dollars paid for finished goods and services
- b. half of the dollars paid for defense spending
- c. the same amount as private citizens and corporations
- d. one out of every three dollars paid for education
- e. 80 percent of their budgets on transfer payments

ANS: A PTS: 1 DIF: Hard NAT: Reflective Thinking
 LOC: The role of government TOP: Size and Growth of the U.S. Government

125. What part of federal government spending has grown the most rapidly in recent years?

- a. national defense
- b. welfare
- c. interest on the national debt
- d. social security and Medicare
- e. all other forms of federal government spending

ANS: D PTS: 1 DIF: Hard NAT: Analytic
 LOC: The role of government TOP: Size and Growth of the U.S. Government

126. What part of federal government spending has grown the most slowly in recent decades?

- a. national defense
- b. welfare
- c. interest on the national debt
- d. social security and medicare
- e. all other forms of federal government spending

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The role of government TOP: Size and Growth of the U.S. Government

127. Revenue for the state governments in the United States comes primarily from income taxes.

- a. True
- b. False

ANS: B PTS: 1 DIF: Easy NAT: Analytic
 LOC: The role of government TOP: Sources of Government Revenue

128. The primary source of revenue for local governments is the property tax.

- a. True
- b. False

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: The role of government TOP: Sources of Government Revenue

129. The main source of revenue for the U.S. federal government is

- a. personal income taxes
- b. corporate income taxes
- c. sales taxes
- d. borrowing on financial markets
- e. revenue from the sale of government goods and services

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: The role of government TOP: Sources of Government Revenue

130. Which of the following accounts for the largest source of revenue for the federal government?

- a. sales tax
- b. federal property tax

- c. personal income tax
- d. corporate income tax
- e. borrowing

ANS: C PTS: 1
LOC: The role of government

DIF: Easy NAT: Analytic
TOP: Sources of Government Revenue

131. The second largest source of tax revenue for the federal government is
- a. payroll taxes
 - b. the personal income tax
 - c. the corporate income tax
 - d. excise taxes
 - e. the sales tax

ANS: A PTS: 1
LOC: The role of government

DIF: Moderate NAT: Analytic
TOP: Sources of Government Revenue

132. The largest source of federal government revenue is
- a. corporate income taxes
 - b. individual income taxes
 - c. payroll taxes
 - d. sales and excise taxes
 - e. tariffs on imported goods and other customs fees and duties

ANS: B PTS: 1
LOC: The role of government

DIF: Easy NAT: Analytic
TOP: Sources of Government Revenue

133. The excise tax on gasoline is based on the ability-to-pay principle of taxation.
- a. True
 - b. False

ANS: B PTS: 1
LOC: The role of government

DIF: Easy NAT: Analytic
TOP: Tax Principles and Tax Incidence

134. The personal income tax is based on the benefits-received principle of taxation.
- a. True
 - b. False

ANS: B PTS: 1
LOC: The role of government

DIF: Easy NAT: Analytic
TOP: Tax Principles and Tax Incidence

135. Under a regressive income tax system, individuals with higher incomes pay higher marginal tax rates.
- a. True
 - b. False

ANS: B PTS: 1
LOC: The role of government

DIF: Moderate NAT: Analytic
TOP: Tax Principles and Tax Incidence

136. Federal individual income taxes illustrate the ability-to-pay principle of taxation.
- a. True
 - b. False

ANS: A PTS: 1
LOC: The role of government

DIF: Moderate NAT: Analytic
TOP: Tax Principles and Tax Incidence

137. Gasoline taxes illustrate the benefits-received principle of taxation.

- a. True
- b. False

ANS: A PTS: 1
LOC: The role of government

DIF: Moderate NAT: Analytic
TOP: Tax Principles and Tax Incidence

138. Which of the following is a justification for taxes?

- a. the ability-to-pay principle
- b. the progressive tax principle
- c. the proportional tax principle
- d. the regressive tax principle
- e. the desire of the government to spend more funds

ANS: A PTS: 1
LOC: The role of government

DIF: Easy NAT: Analytic
TOP: Tax Principles and Tax Incidence

139. Which of the following taxes is most clearly based on the benefits-received principle of taxation?

- a. corporate income tax
- b. gasoline tax
- c. personal income tax
- d. payroll tax
- e. value added tax

ANS: B PTS: 1
LOC: The role of government

DIF: Moderate NAT: Analytic
TOP: Tax Principles and Tax Incidence

140. Which of the following is *not* based on the benefits-received principle of taxation?

- a. charging a fee for use of public golf courses
- b. differences between residential and out-of-state college tuition
- c. the excise tax on gasoline
- d. toll booths on a highway
- e. charging a fee per bag to haul away garbage

ANS: B PTS: 1
LOC: The role of government

DIF: Moderate NAT: Reflective Thinking
TOP: Tax Principles and Tax Incidence

141. Which of the following taxes is based on the ability-to-pay principle?

- a. tolls on a bridge
- b. income taxes
- c. gasoline excise taxes
- d. property taxes
- e. user fees that collect the same amount from each person

ANS: B PTS: 1
LOC: The role of government

DIF: Moderate NAT: Analytic
TOP: Tax Principles and Tax Incidence

142. Which of the following taxes is based on the benefits-received principle?

- a. corporate income taxes
- b. personal income taxes
- c. property taxes
- d. gasoline excise taxes
- e. user fees that collect the same amount from each person

ANS: D PTS: 1
LOC: The role of government

DIF: Moderate NAT: Analytic
TOP: Tax Principles and Tax Incidence

143. Taxes collected on the basis of the benefits-received principle
- provide the states with their main sources of revenue
 - tend to redistribute income from rich to poor
 - collect the same total amount from each individual
 - connect the revenue side of the budget with the spending side of the budget
 - make it possible for government to spend money on activities that markets can't provide

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: The role of government TOP: Tax Principles and Tax Incidence

144. If a state government finances treatment facilities for alcoholics out of revenues from a tax on liquor, it is
- basing its taxation on ability to pay
 - levying a proportional tax
 - able to afford fewer treatment facilities when liquor sales decrease
 - discouraging alcoholics from seeking treatment at government facilities
 - providing a service that the private sector cannot provide

ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: The role of government TOP: Tax Principles and Tax Incidence

145. The incidence of a tax refers to
- who receives the benefits from the revenue generated by the tax
 - the changes in the marginal tax rate as income increases
 - whether the tax is regressive, proportional, or progressive
 - who bears the burden of the tax
 - whether the tax is based on the ability-to-pay principle

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: Tax Principles and Tax Incidence

146. A progressive tax means
- people who make more money pay less total taxes
 - the marginal tax rate increases as income increases
 - the percentage of income paid out decreases as income increases
 - people who are poor receive the proceeds of the tax
 - the same thing as a flat-rate tax

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: Tax Principles and Tax Incidence

147. A tax is said to be progressive if
- the absolute size of the tax (in dollars) increases as income increases
 - the wealthy pay a smaller percentage of their income than the poor
 - the average tax rate falls as income rises
 - the proportion of income paid as taxes increases as income increases
 - the proceeds are used to pay for liberal political programs

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: Tax Principles and Tax Incidence

148. Consider a system in which a person earning \$10,000 pays \$1,000 in taxes, a person earning \$25,000 pays \$2,000, and someone earning \$60,000 pays \$4,000. What type of tax is this?
- progressive
 - proportional

- c. regressive
- d. property tax
- e. one based on the benefits principle of taxation

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: Tax Principles and Tax Incidence

149. Chris had a before-tax income of \$20,000 and paid taxes of \$3,000. Pat had a before-tax income of \$10,000 and paid taxes of \$1,000. Based on this information, which of the following is correct?
- a. the tax system is regressive
 - b. the tax system is proportional
 - c. the tax system is progressive
 - d. the tax system is based on the benefits received
 - e. there is insufficient information to answer the question

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: Tax Principles and Tax Incidence

150. In the following situation, the tax system is

Taxable income	\$1,000	\$2,000	\$4,000	\$8,000
Tax payments	\$10	\$30	\$90	\$270

- a. progressive throughout all levels of income
- b. progressive between \$1,000 and \$2,000 of income but regressive above \$2,000
- c. regressive throughout all levels of income
- d. regressive between \$1,000 and \$2,000 of income but progressive above \$2,000
- e. proportional throughout all levels of income

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: Tax Principles and Tax Incidence

151. In the following situation the tax system is

Taxable income	\$5,000	\$10,000	\$20,000
Tax payments	\$500	\$600	\$1,600

- a. progressive
- b. proportional
- c. regressive
- d. based on the benefits received
- e. there is insufficient information to answer the question

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: The role of government TOP: Tax Principles and Tax Incidence

152. Which of the following would indicate that an income tax is progressive?

- a. high-income people pay \$3,000; low-income people pay \$1,000
- b. low-income people pay \$3,000; high-income people pay \$1,000
- c. high-income and low-income people all pay \$1000 each
- d. high-income people pay 20 percent of their income in taxes; low-income people pay 10 percent
- e. both high-income and low-income people pay 10 percent of their income in taxes

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking

LOC: The role of government

TOP: Tax Principles and Tax Incidence

153. In the following situation the tax system is

Taxable income	\$1,000	\$3,000	\$9,000	\$27,000
Taxes	\$100	\$200	\$400	\$800

- a. progressive through all levels of income
- b. proportional throughout all levels of income
- c. regressive throughout all levels of income
- d. based on the benefits-received principle
- e. there is insufficient information to answer the question

ANS: C

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: The role of government

TOP: Tax Principles and Tax Incidence

154. A tax collects \$3,000 per year from a family with an income of \$25,000 and takes \$4,000 per year from a family with an income of \$50,000. This tax plan is

- a. regressive
- b. proportional
- c. progressive
- d. based on the ability-to-pay principle
- e. impossible to determine with the information provided

ANS: A

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: The role of government

TOP: Tax Principles and Tax Incidence

155. Mr. Thomson has a before-tax income of \$20,000 and paid taxes of \$2,000. Ms. Lynch had a before-tax income of \$10,000 and paid taxes of \$1,500. Based on this information, which of the following is correct?

- a. The tax system is progressive.
- b. The tax system is proportional.
- c. The tax system is regressive.
- d. The tax system is based on the benefits received.
- e. There is insufficient information to answer the question.

ANS: C

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: The role of government

TOP: Tax Principles and Tax Incidence

156. During recent elections, consumer groups in various states attempted to get the sales tax on all medicines and drugs removed. They argued that such a tax is "severely regressive." What is the economic interpretation of their statement?

- a. The poor get ill more often than do the rich.
- b. The poor pay higher prices for medicine and drugs than do the rich.
- c. The poor pay a higher percentage of their income for medicine and drugs than do the rich.
- d. All consumers pay too much money for medicine and drugs.
- e. The sales tax discourages the poor from seeking medical treatment.

ANS: C

PTS: 1

DIF: Moderate

NAT: Reflective Thinking

LOC: The role of government

TOP: Tax Principles and Tax Incidence

157. Which of the following would indicate that a tax is regressive?

- a. High-income people pay \$5,000; low-income people pay \$2,000.
- b. High-income and low-income people pay \$200 each.
- c. High-income people pay 20 percent of their income in taxes; low-income people pay 10

percent.

- d. Both high-income and low-income people pay 10 percent of their income in taxes.
- e. Low-income people are exempt from the tax.

ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: The role of government TOP: Tax Principles and Tax Incidence

158. In the United States, the individual income tax is best described as a

- a. regressive tax
- b. proportional tax
- c. flat tax
- d. progressive tax
- e. repressive tax

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: Tax Principles and Tax Incidence

159. The value of a country's imports cannot exceed the value of its exports.

- a. True
- b. False

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: International trade and finance TOP: International Trade

160. In recent decades, international trade has been

- a. a constant percentage of U.S. GDP
- b. a declining fraction of U.S. GDP
- c. an increasing fraction of U.S. GDP
- d. declining as measured by total dollars spent
- e. constant as measured by total dollars spent

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: International trade and finance TOP: International Trade

161. The overall U.S. balance of payments

- a. shows a deficit
- b. shows a surplus
- c. is the merchandise trade balance
- d. equals exports minus imports
- e. shows how deficits in one account are exactly offset by surpluses in other accounts

ANS: E PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: International trade and finance TOP: International Trade

162. If the value of the euro increases relative to the U.S. dollar, then French goods will be less expensive in the U.S.

- a. True
- b. False

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: International trade and finance TOP: Exchange Rates

163. Import quotas on sugar result in lower sugar prices in the United States.

- a. True
- b. False

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: International trade and finance TOP: Trade Restrictions

164. Which of the following best defines foreign exchange?
- a. a trade between two countries
 - b. the market where exporting and importing activities take place
 - c. the price of a currency relative to another currency
 - d. the currency of another country used for trading
 - e. the dollars that the United States uses to buy goods from other countries

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: International trade and finance TOP: Exchange Rates

165. If one dollar is initially equal in value to one euro and demand for euros increases, then each dollar will be worth
- a. more than one euro, and European imports will be cheaper in the United States
 - b. less than one euro, and European imports will be more expensive in the United States
 - c. more than one euro, and European imports will be more expensive in the United States
 - d. less than one euro, and European imports will be cheaper in the United States
 - e. the same as the euro, and there will be no change in the values of imports or exports

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: International trade and finance TOP: Exchange Rates

166. An import quota taxes an import but does not set a limit on how much may be imported.
- a. True
 - b. False

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: International trade and finance TOP: Trade Restrictions

167. Import restrictions usually benefit domestic producers at the expense of domestic consumers.
- a. True
 - b. False

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: International trade and finance TOP: Trade Restrictions

168. A tariff is
- a. a tax on imports
 - b. a legal limit on quantities of goods that can be imported
 - c. a voluntary limit on quantities of goods that can be imported
 - d. a quality restriction on imports
 - e. a subsidy for exports

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: International trade and finance TOP: Trade Restrictions

169. Which of the following is true of import tariffs and quotas?
- a. They benefit domestic producers.
 - b. Domestic consumers gain because they purchase the output of domestic firms.
 - c. Specialization and comparative advantage are advanced by tariffs and quotas.
 - d. They tend to expand the volume of world trade.
 - e. Because they increase the output levels of domestic firms, they tend to lower domestic prices.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: International trade and finance TOP: Trade Restrictions

170. Restricting imports of Brazilian shoes will
- raise the price of both Brazilian and domestically produced shoes
 - raise the price of Brazilian shoes but lower the price of domestically produced shoes
 - lower the price of Brazilian shoes but raise the price of domestically produced shoes
 - lower the price of both Brazilian and domestically produced shoes
 - benefit the producers of shoes in Brazil

ANS: A PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: International trade and finance TOP: Trade Restrictions

171. Trade restrictions result in all of the following *except* one. Which is the exception?
- higher prices
 - fewer choices
 - improved quality
 - misallocation of resources
 - reduced competition

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: International trade and finance TOP: Trade Restrictions

172. Trade restrictions can take any of the following forms *except* one. Which is the exception?
- tariffs
 - free trade agreements
 - quotas
 - voluntary trade restrictions
 - health and safety restrictions

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: International trade and finance TOP: Trade Restrictions

173. Firms
- are where entrepreneurs combine resources
 - are economic units formed by profit-seeking entrepreneurs
 - are assumed to try to maximize profit
 - reward entrepreneurs with profits, which are sales revenue minus the cost of production
 - All of the answers are correct.

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: The Evolution of the Firm

174. Which of the following would not describe two thirds of the for-profit businesses in the United States as measured by sheer number of firms?
- small retail businesses
 - small service operations
 - part-time home-based businesses
 - small farms
 - multinational corporation

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Types of Firms

175. A cooperative, or “co-op” for short, is a single-owner firm.

- a. True
- b. False

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Cooperatives

176. One thing that is not true about cooperatives is that they
- a. put out raw materials, like wool and cotton, to rural households that turn it into finished products
 - b. pool resources to buy and sell more efficiently
 - c. try to minimize costs
 - d. operate with limited liability of members
 - e. enjoy tax-exempt status

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Cooperatives

177. Which of the following is not an example of a business operated by a consumer cooperative?
- a. grocery store
 - b. apartment building
 - c. Sunkist, a farm cooperative owned and operated by citrus growers
 - d. health plan
 - e. electric power facility

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Cooperatives

178. A group of farmers in southwestern Pennsylvania selling locally raised natural beef would be identified as a
- a. not-for-profit organization
 - b. S corporation
 - c. producer cooperative
 - d. sole proprietorship
 - e. cottage industry

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Cooperatives

179. Katie had a before-tax income of \$40,000 and paid taxes of \$6,000. Rinji had a before-tax income of \$35,000 and paid taxes of \$5,250. Based on this information, the tax system is
- a. There is insufficient information to answer the question.
 - b. progressive
 - c. based on the benefits received
 - d. regressive
 - e. proportional

ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: The role of government TOP: Tax Principles and Tax Incidence

180. Whether we look at marginal tax rates or average tax rates, the U.S. income tax is
- a. progressive
 - b. based on the benefits received
 - c. proportional
 - d. regressive
 - e. All of the answers are correct.

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ANS: A

PTS: 1

DIF: Easy

NAT: Analytic

LOC: The role of government

TOP: Tax Principles and Tax Incidence

181. International trade occurs because the opportunity cost of producing specific goods differs across
- a. firms
 - b. individuals
 - c. regions of the U.S.
 - d. countries
 - e. households

ANS: D

PTS: 1

DIF: Easy

NAT: Analytic

LOC: International trade and finance

TOP: International Trade