

Chapter 2—The Economy: Myth and Reality

TRUE/FALSE

1. The United States is the largest national economy in the world.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: The American Economy: A Thumbnail Sketch

2. The U.S. economy is unique for both its size and prosperity.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
 LOC: Measuring the Economy TOP: The American Economy: A Thumbnail Sketch

3. The *factors of production* include all goods and services produced in an economy.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: The American Economy: A Thumbnail Sketch

4. *Outputs* include goods but not services.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: The American Economy: A Thumbnail Sketch

5. Population density varies little between the fifty states.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: The American Economy: A Thumbnail Sketch

6. Prosperity in the United States is evenly distributed across the fifty states.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Measuring the Economy TOP: The American Economy: A Thumbnail Sketch

7. In the United States, all property is privately owned.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: The American Economy: A Thumbnail Sketch

8. Gross domestic product is the money value of all final goods and services produced in an economy in a year.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

9. Gross domestic product is the money value of manufacturing production in a year.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

10. GDP is a measure of the total output of an economy.

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

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

11. Real GDP is the dollar value of all goods and services produced in an economy.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

12. Government production accounts for about half of all GDP in the United States.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic

LOC: The role of government

TOP: The American Economy: A Thumbnail Sketch

13. The United States is one of the most marketized economies in the world.

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

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

14. The United States is one of the least marketized economies in the world.

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

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

15. The U.S. economy is relatively open in terms of economic activity related to international trade.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic

LOC: Measuring the Economy

TOP: The American Economy: A Thumbnail Sketch

16. The U.S. economy is relatively closed in terms of economic activity related to exports and imports.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic

LOC: Measuring the Economy

TOP: The American Economy: A Thumbnail Sketch

17. An open economy produces most of the goods and services that it needs, with few imports and exports.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The American Economy: A Thumbnail Sketch

18. An open economy is one in which exports and imports constitute a large share of GDP.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The American Economy: A Thumbnail Sketch

19. The U.S. economy rarely grows.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: Measuring the Economy TOP: The American Economy: A Thumbnail Sketch

20. Real GDP per capita in the U.S. grows over time.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The American Economy: A Thumbnail Sketch

21. In 2009, per capita real GDP was roughly half its value in 1960.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The American Economy: A Thumbnail Sketch

22. A recession is a period of time in which the total output of the economy falls.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The American Economy: A Thumbnail Sketch

23. A recession is a period of time in which real GDP falls.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The American Economy: A Thumbnail Sketch

24. The U.S. economy has grown steadily over the years.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: Reading and interpreting graphs TOP: The American Economy: A Thumbnail Sketch

25. A recession is a period of time in which the total output of the economy rises.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The American Economy: A Thumbnail Sketch

26. Unemployment in the United States varies considerably over time.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The American Economy: A Thumbnail Sketch

27. Recessions are periods of declining economic activity.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The American Economy: A Thumbnail Sketch

28. Over the last several years the United States has had lower unemployment rates than most European countries.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The American Economy: A Thumbnail Sketch

29. Roughly 145 million people in the United States hold jobs.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: Labor markets TOP: The Inputs: Labor and Capital

30. Teenage employment in the United States has risen in the last two decades.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

31. A minority of American women work outside of the home.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

32. Approximately half of all U.S. workers are employed by various levels of government.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

33. The federal government employs more civilians than state and local governments.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: Labor markets TOP: The Inputs: Labor and Capital

34. The majority of American workers are employed in the manufacturing sector.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

35. The majority of American workers are employed in the service sector of the economy.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

36. Workers earn less than half of the income generated by the production process.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: The Inputs: Labor and Capital

37. Workers earn more than half of the income generated by the production process.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: The Inputs: Labor and Capital

38. The total market value of capital assets in the United States is over \$30 trillion dollars.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The Inputs: Labor and Capital

39. Profits account for about 30 cents out of each dollar spent on goods in the United States.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The Inputs: Labor and Capital

40. Consumer spending accounts for about 70 percent of GDP.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Outputs: What Does America Produce?

41. American households spend more of their incomes on goods than on services.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: Utility and consumer choice TOP: The Outputs: What Does America Produce?

42. There are about 5 million business firms in the United States.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: Oligopoly TOP: The Central Role of Business Firms

43. The nationality of a company and a product is easily determined.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: International trade and finance TOP: The Central Role of Business Firms

44. Multinational businesses produce and sell goods around the world.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: International trade and finance TOP: The Central Role of Business Firms

45. Government is unnecessary in a free enterprise economy such as the United States.
- ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government
46. One important role for government as referee is in defining and enforcing property rights.
- ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government
47. *Antitrust laws* are designed to promote competition.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: Monopolistic Competition TOP: What's Missing from the Picture? Government
48. Government spending plays no role in meeting our social and public needs.
- ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government
49. National defense made up the largest portion of federal expenditures in 2009.
- ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: Monetary and fiscal policy TOP: What's Missing from the Picture? Government
50. Government in the United States spends more as a percentage of GDP than in most other industrialized nations.
- ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: What's Missing from the Picture? Government
51. The personal income tax is the single largest source of revenue for the federal government.
- ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: What's Missing from the Picture? Government
52. The corporate income tax is the single largest source of revenue for the federal government.
- ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: Monetary and fiscal policy TOP: What's Missing from the Picture? Government
53. The federal government receives most of its revenue from personal income taxes and payroll taxes.
- ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: Monetary and fiscal policy TOP: What's Missing from the Picture? Government
54. Transfer payments are money received as grants from government.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: What's Missing from the Picture? Government

55. A tax is progressive if the ratio of taxes to income rises as income rises.

ANS: T PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: What's Missing from the Picture? Government

56. A tax is progressive if it raises a greater fraction of total tax revenue every year.

ANS: F PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: What's Missing from the Picture? Government

57. A tax must be progressive if an individual with a higher income pays more dollars in taxes than an individual with a lower income.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: What's Missing from the Picture? Government

58. Education accounts for the largest share of state and local government spending.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: Monetary and fiscal policy TOP: What's Missing from the Picture? Government

59. The government's budget accounts for about 80 percent of GDP in the United States.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
LOC: Reading and interpreting graphs TOP: What's Missing from the Picture? Government

60. In a mixed economy, there is some public influence over the workings of free markets.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Conclusion: It's a Mixed Economy

61. A mixed economy is one that combines public and private ownership of property.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Conclusion: It's a Mixed Economy

62. The United States is an example of a mixed economy.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and Applying Economic Models

TOP: Conclusion: It's a Mixed Economy

MULTIPLE CHOICE

1. The United States economy is
 - a. the third largest in the world.
 - b. larger than all other national economies combined.
 - c. second largest in the world, behind Japan.
 - d. largest in the world.

ANS: D

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Measuring the Economy

TOP: The American Economy: A Thumbnail Sketch

2. How does the U.S. economy rank in size?
 - a. first in economic output
 - b. second in economic output
 - c. third in economic output
 - d. fourth in economic output
 - e. fifth in economic output

ANS: A

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Measuring the Economy

TOP: The American Economy: A Thumbnail Sketch

3. The United States has the largest economy in the world because
 - a. it has the most land to work with.
 - b. it has a large population.
 - c. American workers are very productive.
 - d. both b and c are correct.

ANS: D

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Measuring the Economy

TOP: The American Economy: A Thumbnail Sketch

4. Inputs, or factors of production, include
 - a. labor.
 - b. machinery.
 - c. natural resources.
 - d. all of the above.

ANS: D

PTS: 1

DIF: Easy

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

5. On a world scale, how populous is the U.S. economy?
 - a. first
 - b. second
 - c. third
 - d. fourth
 - e. fifth

ANS: C

PTS: 1

DIF: Easy

NAT: Analytic

6. The working population of the United States is approximately
- 145 million
 - 290 million
 - 300 million
 - 1.3 billion

ANS: A PTS: 1

DIF: Moderate NAT: Analytic

LOC: Labor markets

TOP: The American Economy: A Thumbnail Sketch

7. If California were a separate economy, it would be the ____ largest economy on earth.
- second
 - third
 - fifth
 - eighth

ANS: D PTS: 1

DIF: Moderate NAT: Analytic

LOC: Measuring the Economy

TOP: The American Economy: A Thumbnail Sketch

8. Capitalism and free enterprise are common, and the United States
- has just begun to move in that direction after years of central planning.
 - has gone further in that direction than almost any other country.
 - is becoming more "free," but is not as capitalistic as many others.
 - is considering a major change to "free up" its economy as many others have.
 - is leading the move toward greater central planning and control.

ANS: B PTS: 1

DIF: Easy

NAT: Analytic

LOC: Markets, market failure, and externalities

TOP: The American Economy: A Thumbnail Sketch

9. Government ownership of property and resources in the United States is
- about as common as it is in European countries.
 - widespread; the United States is a leader in the amount of government ownership of resources.
 - relatively rare; the United States is mostly privatized.
 - rare, but has been increasing rapidly as the United States catches up to other countries.

ANS: C PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Markets, market failure, and externalities

TOP: The American Economy: A Thumbnail Sketch

10. Gross domestic product is
- the largest industry in an economy.
 - the money value of all final goods and services produced in a year.
 - the volume of goods and services which are subject to international trade.
 - goods and services produced by private companies.
 - non-market production of goods and services.

ANS: B PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

11. The United States produces ____ of what it consumes, and consumes ____ of what it produces.
- a. little, little
 - b. little, most
 - c. most, little
 - d. most, most

ANS: D

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Supply and demand

TOP: The American Economy: A Thumbnail Sketch

12. In 2009, about what percentage of goods and services sold in the United States was imported?
- a. 4%
 - b. 13%
 - c. 20%
 - d. 88%

ANS: B

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: International trade and finance

TOP: The American Economy: A Thumbnail Sketch

13. Imports from China represent ____ of total U.S. imports.
- a. less than 20%
 - b. approximately 40%
 - c. approximately 60%
 - d. more than 80%

ANS: A

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: International trade and finance

TOP: The American Economy: A Thumbnail Sketch

14. Which of the following is the best definition of openness?
- a. The average of imports expressed as a share of GDP.
 - b. The average of goods traded in markets expressed as a share of GDP.
 - c. The average of imports and exports expressed as a share of GDP.
 - d. The average trade balance expressed as a share of GDP.
 - e. The average of exports expressed as a share of GDP.

ANS: C

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

15. How does the United States compare to other advanced, industrialized economies on the issue of openness?
- a. It is completely closed.
 - b. It is one of the less open of them.
 - c. It is about average in openness.
 - d. It is one of the more open of them.
 - e. It is the most open of them.

ANS: B

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Reading and interpreting graphs

TOP: The American Economy: A Thumbnail Sketch

16. As of 2009, annual imports to the U.S. were approximately ____ and annual exports from the U.S. were approximately ____.
- a. \$0.6 trillion; \$1.5 trillion
 - b. \$2.0 trillion; \$0.6 trillion
 - c. \$2.0 trillion; \$1.5 trillion
 - d. \$1.5 trillion; \$2.0 trillion
 - e. \$2.0 trillion; \$2.0 trillion

ANS: C

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: International trade and finance

TOP: The American Economy: A Thumbnail Sketch

17. Which of the following is the most closed economy?
- a. the Netherlands
 - b. the United States
 - c. Germany
 - d. Russia
 - e. Canada

ANS: D

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Reading and interpreting graphs

TOP: The American Economy: A Thumbnail Sketch

18. Which of the following is the most open economy?
- a. Germany
 - b. the Netherlands
 - c. the United States
 - d. Japan
 - e. Canada

ANS: B

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Reading and interpreting graphs

TOP: The American Economy: A Thumbnail Sketch

19. Which of the following is the most closed economy?.
- a. Germany
 - b. Canada
 - c. Mexico
 - d. the United States

ANS: D

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Reading and interpreting graphs

TOP: The American Economy: A Thumbnail Sketch

20. Gross Domestic Product in 2009 was almost five times larger than it was in 1960 but it is important to note that
- a. none of the growth represented more output.
 - b. measurement of output omitted any effect of inflation.
 - c. the population grew substantially over the same time period.
 - d. graphs of output were unable to display such growth.

ANS: C

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Measuring the Economy

TOP: The American Economy: A Thumbnail Sketch

21. According to the data on real U.S. GDP,

- a. economic growth has been irregular, with periodic downturns.
- b. economic growth has been consistent, with few downturns.
- c. economic growth has been extremely rapid, but with major collapses.
- d. economic growth has been elusive, but downturns have been eliminated.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Reading and interpreting graphs TOP: The American Economy: A Thumbnail Sketch

22. Economic progress is best measured by
- a. the growth rate of prices over time.
 - b. the growth rate of GDP per capita
 - c. the amount of time it takes a worker to work to afford certain goods and services.
 - d. the growth rate in the population.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Productivity and growth TOP: The American Economy: A Thumbnail Sketch

23. Along with changes in the level of economic activity, measured by GDP, what other economic variable tends to rise and fall as a consequence?
- a. precipitation
 - b. regulation
 - c. circulation
 - d. unemployment

ANS: D PTS: 1 DIF: Easy NAT: Analytic
 LOC: Measuring the Economy TOP: The American Economy: A Thumbnail Sketch

24. Why does unemployment tend to change when the level of output changes?
- a. Persons wish to buy things, and if output falls, people need to work less to earn the income to buy the smaller output.
 - b. Labor is an input, and if output falls, employers need fewer workers to make it, so the employment falls.
 - c. When output rises, persons are more interested in buying, and will work more to earn the income to buy things.
 - d. Persons face the option of buying or working, so that when they do more of one, the other necessarily falls.
 - e. When companies replace workers with machines, output rises, and people take time off from work to buy before returning to employment.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Labor markets TOP: The American Economy: A Thumbnail Sketch

25. Per capita GDP can be defined as
- a. GDP per working person.
 - b. GDP per unit of capital.
 - c. GDP per person.
 - d. GDP per unit of unemployment.

ANS: C PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: The American Economy: A Thumbnail Sketch

26. Economic fluctuations are defined as
- alternating periods of significant GDP growth and decline.
 - events only encountered in developing countries.
 - periods of stable economic growth.
 - alternating periods of unemployment falling above and below zero.

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

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

27. A recession can best be defined as a period of time in which
- total output of the economy falls.
 - total output of the economy rises very slowly.
 - total unemployment falls.
 - total international trade fails to rise.
 - Both a and c

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

LOC: The Study of economics, and definitions in economics

TOP: The American Economy: A Thumbnail Sketch

28. Which of the following is true about the United States?
- There has only been one recession in U.S. history.
 - There have been recessions every couple of years throughout U.S. history.
 - Recessions have never occurred in the United States.
 - Recessions have occurred periodically in U.S. history.
 - Recessions in the United States have generally been worse than in other countries.

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

LOC: Reading and interpreting graphs TOP: The American Economy: A Thumbnail Sketch

29. What is the approximate number of Americans who have jobs?
- 145 million
 - 200 million
 - 290 million
 - 310 million
 - 3.1 billion

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

LOC: Labor markets TOP: The Inputs: Labor and Capital

30. One of the most important changes in the composition of the labor force in the United States has been
- the major increase in the number of women who work outside the home.
 - the drop in the number of men who only work part-time.
 - the steady decline in the number of women who work.
 - the increase in the ratio of male workers to female workers.
 - the major increase in the number of men who work away from the home or farm.

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

LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

31. Which of the following groups has had declining labor force participation over the last 30 years?
- a. Women
 - b. Men
 - c. Teenagers
 - d. Americans

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

32. In the United States, most workers
- a. work for government of some sort.
 - b. produce raw materials for manufacturing.
 - c. work in agriculture and farming.
 - d. produce services rather than goods.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Inputs: Labor and Capital

33. Most American workers
- a. are employed in the goods-producing sector.
 - b. are employed by government.
 - c. are employed in the service-producing sector.
 - d. are employed in the agricultural sector.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

34. Which of the following areas employed more workers in 2009?
- a. educational and health services
 - b. business and professional services
 - c. retail trade
 - d. manufacturing companies

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

35. All industrialized countries have become "service economies." Which factor helps explain this shift?
- a. Trade unionism and failure of the manufacturing sector to grow.
 - b. Information age and labor saving innovation in manufacturing.
 - c. Non availability of industrial labor with required skills.
 - d. Absence of competition in the service sector.

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Inputs: Labor and Capital

36. Which factor of production accounts for the highest percentage of the income that the production process generates in the US?
- a. Capital
 - b. Natural Resource
 - c. Land

d. Labor

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Productivity and growth TOP: The Inputs: Labor and Capital

37. The portion of income which is earned in the form of wages for labor is about
- a. 12%
 - b. 30%
 - c. 51%
 - d. 70%

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Inputs: Labor and Capital

38. The average hourly wage (excluding benefits) in the United States is currently
- a. \$7.25
 - b. \$9.75
 - c. \$12.00
 - d. \$19.00

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Inputs: Labor and Capital

39. For those workers who are given fringe benefits such as health insurance and pensions, the additional income this amounts to over and above the average hourly wage is approximately
- a. 12%
 - b. 30%
 - c. 51%
 - d. 70%

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of incentives TOP: The Inputs: Labor and Capital

40. How do the wages in the United States compare to those in northern Europe?
- a. U.S. wage rates are higher than those of all northern European nations.
 - b. Northern Europe's average wage rates are higher.
 - c. U.S. wage rates are higher than those in Germany and the Netherlands.
 - d. they are similar.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Costs of production TOP: The Inputs: Labor and Capital

41. The payments to owners of capital include
- a. interest and profits.
 - b. debt and taxes.
 - c. wages and salaries.
 - d. expenses and bonuses.
 - e. All of the above are correct.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Gains from trade, specialization and trade

TOP: The Inputs: Labor and Capital

42. Most Americans
- have accurate perceptions of the level of corporate profits.
 - underestimate corporate profits.
 - overestimate corporate profits.
 - believe that corporations earn zero profit.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Reading and interpreting graphs TOP: The Inputs: Labor and Capital

43. Consumer spending accounts for what share of GDP?
- 20%
 - 40%
 - 70%
 - 90%

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Utility and consumer choice TOP: The Outputs: What Does America Produce?

44. The typical American family spends about ____ percent of its budget on goods, and the remainder on services.
- 20
 - 32
 - 68
 - 70

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Utility and consumer choice TOP: The Outputs: What Does America Produce?

45. Nonconsumption spending accounts for roughly what percent of total output of goods and services?
- 20%
 - 30%
 - 40%
 - 60%

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Utility and consumer choice TOP: The Outputs: What Does America Produce?

46. The United States has approximately
- 80,000 businesses.
 - 5.1 million businesses.
 - 12.8 million businesses.
 - 27.5 million businesses.

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Oligopoly TOP: The Central Role of Business Firms

47. According to Robert Reich, secretary of Labor in the Clinton administration,
- the identity of American companies is clear, and laws should be written accordingly.
 - foreign companies are clearly different from American companies.

- c. multinational companies have clear bases of operations, which form their identity.
- d. it is almost impossible to define the nationality of a multinational company.
- e. identifying the country of origin of a product is almost impossible, but essential for proper regulation.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
 LOC: International trade and finance TOP: The Central Role of Business Firms

48. In the United States each year, approximately
- a. 50% of all businesses fail.
 - b. 25% of all businesses fail.
 - c. 10% of all businesses fail.
 - d. 5% of all businesses fail.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Markets, market failure, and externalities
 TOP: The Central Role of Business Firms

49. A firm that does business all over the world is called a(n)
- a. multinational corporation.
 - b. international conglomerate.
 - c. competitive corporation.
 - d. government-owned business.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: The Central Role of Business Firms

50. An industry can be defined as
- a. the group of all firms that sell a product.
 - b. any company that produces and sells something.
 - c. the set of buyers of a particular good or service.
 - d. the top companies that sell something.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: The Study of economics, and definitions in economics
 TOP: The Central Role of Business Firms

51. Government plays a role in which type of economy?
- a. only free market economies like the United States
 - b. only socialist economies
 - c. only mixed economies
 - d. all economies

ANS: D PTS: 1 DIF: Easy NAT: Analytic
 LOC: The role of government TOP: What's Missing from the Picture? Government

52. The role of government in a market economy includes all of the following except
- a. providing services such as national defense.
 - b. collecting taxes.
 - c. extensive ownership of productive resources.

d. making and enforcing laws.

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

DIF: Moderate NAT: Analytic
TOP: What's Missing from the Picture? Government

53. Comparing the United States to other economies, the United States is one of the ____ economy in the world.
- a. most government-supervised
 - b. most privatized
 - c. most government-owned
 - d. least privatized

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Markets, market failure, and externalities
TOP: What's Missing from the Picture? Government

54. Which of the following illustrates government acting as a referee?
- a. taxing high income persons
 - b. enforcing contract provisions between buyer and seller
 - c. buying new weapons for defense
 - d. mailing checks to social security recipients
 - e. collecting data on imports and exports

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government

55. As Americans have become more health conscious, rules about food labels have become more complex and stringent. This is an example of government acting as
- a. regulator.
 - b. redistributor.
 - c. taxer.
 - d. defender.
 - e. referee.

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government

56. Which of the following is a valid reason to consider government regulation?
- a. Seeking some social objective that markets do not achieve.
 - b. Fear that capitalism will prove too productive.
 - c. Desire on the part of government to be useful.
 - d. Requests for protection from an industry.
 - e. All of the above.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government

57. When government defines and enforces property rights, this is an example of government as
- a. referee.
 - b. regulator of business.
 - c. buyer of goods and services.

- d. tax collector.
- e. redistributor.

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

DIF: Moderate NAT: Analytic
TOP: What's Missing from the Picture? Government

58. Antitrust laws are designed to
- a. preserve competition.
 - b. protect the environment.
 - c. protect the public's trust in the government.
 - d. all of the above.

ANS: A PTS: 1
LOC: Perfect competition

DIF: Easy NAT: Analytic
TOP: What's Missing from the Picture? Government

59. America's antitrust laws are used to protect competition against possible encroachment by monopoly. This is an example of government as
- a. regulator of businesses.
 - b. buyer of goods and services.
 - c. tax collector.
 - d. redistributor.

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

DIF: Easy NAT: Analytic
TOP: What's Missing from the Picture? Government

60. During fiscal year 2009, the most recent mentioned in the text, the federal government spent approximately
- a. \$1.7 billion
 - b. \$1.8 trillion
 - c. \$3.5 trillion
 - d. \$14.0 trillion

ANS: C PTS: 1
LOC: Monetary and fiscal policy

DIF: Easy NAT: Analytic
TOP: What's Missing from the Picture? Government

61. The largest single portion of the federal budget is devoted to
- a. National defense.
 - b. Medicare and Medicaid.
 - c. Social Security and unemployment compensation.
 - d. Education.
 - e. Interest payments on the national debt.

ANS: C PTS: 1
LOC: Monetary and fiscal policy

DIF: Moderate NAT: Analytic
TOP: What's Missing from the Picture? Government

62. The largest single portion of state and local budgets is devoted to
- a. State and local defense.
 - b. Health and public welfare programs.
 - c. State and local unemployment compensation.
 - d. Education.
 - e. Interest payments on state and local debt.

ANS: D PTS: 1
LOC: Monetary and fiscal policy

DIF: Moderate NAT: Analytic
TOP: What's Missing from the Picture? Government

63. Compared to people in other nations, people in the United States pay
- much higher taxes.
 - somewhat higher taxes, on average.
 - about the same amount taxes.
 - lower taxes.

ANS: D PTS: 1
LOC: Monetary and fiscal policy

DIF: Moderate NAT: Analytic
TOP: What's Missing from the Picture? Government

64. The FairTax idea centers on a national sales tax to replace other taxes including federal income tax. If such a flat tax were enacted, what would happen to the role of government as redistributor?
- It would decrease as tax rates increased and income taxes became more progressive.
 - It would increase as tax rates decreased and income taxes became more representative.
 - It would decrease as progressive income taxes ended.
 - It would increase as regressive income taxes ended.
 - It would be largely unchanged.

ANS: C PTS: 1
LOC: Efficiency and equity

DIF: Difficult NAT: Reflective
TOP: What's Missing from the Picture? Government

65. In the U.S., the share of taxes ____ during the early years of George W. Bush's presidency and ____ since then.
- decreased; increased somewhat
 - decreased; further decreased
 - increased; further increased
 - increased; decreased somewhat
 - increased; remained constant

ANS: A PTS: 1
LOC: Reading and interpreting graphs

DIF: Easy NAT: Analytic
TOP: What's Missing from the Picture? Government

66. A transfer payment is a sum of money
- spent by government for new goods and services.
 - shifted between members of a household.
 - given by government without a good or service in exchange.
 - moved between companies for goods and services.
 - required to pay taxes.

ANS: C PTS: 1
LOC: The Study of economics, and definitions in economics
TOP: What's Missing from the Picture? Government

DIF: Moderate NAT: Analytic

67. The concept of government as redistributor is
- approved by many, but questioned by many as well.
 - generally rejected as against "the American way."
 - largely approved by a vast majority of Americans.
 - unnecessary in the United States because income disparities are small.

e. a conservative idea that many liberals reject.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government

68. In 2005, President Bush promoted a plan to privatize Social Security through allowing workers to create personal savings accounts. How will this affect the government's role as a redistributor of income?
- a. it will be diminished.
 - b. it will not be affected.
 - c. it will be strengthened.
 - d. the government does not redistribute income in the U.S.

ANS: A PTS: 1 DIF: Difficult NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government

69. A central government collected taxes totaling \$120 billion in the previous year. Its expenditure during the year was roughly the same. This is an example of a
- a. balanced budget.
 - b. surplus budget.
 - c. deficit budget.
 - d. zero budget.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government

70. The government redistributes income to the poor, primarily through
- a. progressive taxes.
 - b. transfer payments.
 - c. government purchases.
 - d. both a and b.

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government

71. Progressive income taxes are designed to
- a. make the distribution of income less equal.
 - b. leave unchanged the distribution of income.
 - c. let the market determine the distribution of income after taxes.
 - d. make the distribution of income more equal.

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Efficiency and equity TOP: What's Missing from the Picture? Government

72. Annual incomes of James, Jack, and Stanley are \$30,000, \$50,000, and \$80,000 and their tax rates are 10%, 20%, and 30% respectively. Which tax structure is this an example of?
- a. Proportional tax
 - b. Progressive tax
 - c. Regressive tax
 - d. Digressive tax

ANS: B PTS: 1 DIF: Moderate NAT: Analytic

73. A mixed economy is one in which
- a mixture of businesses exist and function.
 - there is a mixture of public influence over government.
 - government plays a dominant role, and private markets are secondary.
 - there is some public influence over free markets.

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Conclusion: It's a Mixed Economy

74. The United States is a fairly good example of
- a mixed economy.
 - a pure market system.
 - a government-dominated economy.
 - a manufacturing economy.
 - a transitioning economy.

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Markets, market failure, and externalities
TOP: Conclusion: It's a Mixed Economy

75. All of the following are associated with a mixed economy except
- some public influence over the workings of free markets.
 - public ownership mixed in with private property.
 - homogenization.
 - different countries blending the state and market sectors in different ways.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Conclusion: It's a Mixed Economy

76. In a mixed economy
- all economies choose the same mix of private and public involvement in the economy.
 - the government is more important than the private sector in generating output.
 - there is some government influence over the workings of the free market.
 - all of the above.

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Conclusion: It's a Mixed Economy

ESSAY

1. The U.S. economy is the largest in the world. What two factors primarily explain this? What makes the U.S. economy unique?

ANS:

Sheer size of the country, with a population of over 300 million and a labor force of 145 million, contributes to the large production. But this cannot be the only element, or India's GDP would be three times as large. Efficiency is the second factor the U.S. economic system transforms inputs into output in a much more productive fashion. U.S. success is attributable to the free enterprise market system.

What makes the U.S. economy unique is its combination of prosperity and population. While there are several countries that are rich in terms of per capita GDP, they are relatively small because of their small population and geographic size. Other countries have immense populations, but have not achieved economic prosperity in terms of per capita GDP.

PTS: 1 DIF: Moderate NAT: Reflective LOC: Measuring the Economy

2. Differentiate between an open and a closed economy? Do you agree that US economy is more open among the advanced industrial countries in the world?

ANS:

An economy is called relatively open if its exports and imports constitute a large share of its GDP. An economy is considered relatively closed if they constitute a small share.

No. The United States stands out as among the most closed economies of the advanced, industrial nations. We export and import a smaller share of GDP than nearly all advanced industrial nations.

PTS: 1 DIF: Easy NAT: Analytic LOC: Measuring the Economy

3. What important changes have occurred in the composition of the labor force since 1960? Is the popular image of the American worker as a factory worker accurate? Describe the types of jobs Americans are working in today.

ANS:

The most important change is the increasing participation of women, who composed 30 percent of the labor force in 1960 but now account for almost half. This has led to discussions of wage discrimination against women and questions of parental leave. A second trend is a declining percentage of teenagers in the labor force, after peaking in the early 1970s. Teenagers typically hold entry-level jobs, suggesting why these jobs must be increasingly filled by other segments of the labor force (McDonalds may be hiring the elderly not just for public relations but due to the unavailability of youthful workers).

In 2009, about 68 percent of American workers were employed in service-related industries, whereas only about 14 percent produced goods. Service workers included about 16.5 million in educational and health services, about 17.7 million in business and professional services, and over 15 million in retail trade. Manufacturing companies in the United States employed only 12 million people, and almost a third of those worked in offices rather than in the factory.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: Markets, market failure, and externalities

4. Between 1960 and 2009 U.S. GDP, measured in dollars of constant purchasing power, expanded about 5.0 times. However, the standard of living only increased by 2.7 times over this period. Explain the difference.

ANS:

GDP growth includes the effects of inflation and population growth, meaning there are more labor inputs in the economy. The standard of living is better measured by real GDP per capita. To obtain the standard of living from GDP, one must correct for the effect of population growth.

PTS: 1 DIF: Moderate NAT: Analytic LOC: Measuring the Economy

5. List five major economic activities of government, and give an example of each.

ANS:

1. Government as referee. Example: enforcing contracts, or supervising truth-in-lending laws.
2. Regulating business. Example: anti-trust laws, environmental laws.
3. Expenditures. Example: government pensions, national defense.
4. Taxes. Example: income, sales, property taxes.
5. Government as redistributor. Example: poverty programs, social security.

PTS: 1 DIF: Easy NAT: Analytic LOC: The role of government

6. Is the image of the typical American worker as a blue-collar worker true? Substantiate your answer with facts.

ANS:

The Homer Simpson image of the typical American worker as a blue-collar worker is really quite misleading. The majority of American workers—like workers in all developed countries—produce services, not goods. In 2009, almost 68 percent of all non-farm workers in the United States were employed by private service industries, whereas only 14 percent produced goods. By contrast, manufacturing companies in the United States employed only 12 million people, and almost a third of those worked in offices rather than in the factory.

PTS: 1 DIF: Moderate NAT: Analytic LOC: Labor markets

7. How does the United States compare to other nations on a per capita scale as far as government production and taxation?

ANS:

Government production as a share of GDP is relatively low compared with other countries. Perhaps more surprising is that U.S. citizens are perhaps the most lightly taxed, at 30 percent of GDP. The cry for "No more taxes" may reflect a concern with government inefficiency, but Americans are mistaken if they believe their tax burden is high compared to other countries.

PTS: 1 DIF: Moderate NAT: Reflective LOC: Productivity and growth

8. It is often asserted that the United States no longer manufactures anything, instead it imports manufactured goods from countries like China. Critically evaluate this claim.

ANS:

If the claim were true then the share of GDP that the U.S. imports would have to be extremely high given the share of goods versus services in the U.S. economy. If we look at the data, only about 13 percent of U.S. GDP is imported and imports from China account for about one fifth of this. That means that over 80 percent of what Americans consume is made in the United States. Therefore this claim is false.

PTS: 1 DIF: Moderate NAT: Reflective
LOC: International trade and finance

9. A nation's citizens often dislike the economy's distribution of income. Explain two methods for creating a more equal distribution of income.

ANS:

One method is to override the market distribution to force a more equal distribution of incomes. A second method, that is used to varying degrees in virtually all of the private-enterprise economies, is to use transfer payments, sums of money that individuals receive from the government without providing any goods or services in return. By taxing wealthier individuals and giving transfer payments to poorer individuals, a more equal distribution of after-tax income may be achieved.

PTS: 1 DIF: Easy NAT: Reflective LOC: Efficiency and equity

10. What you mean by business cycles? What are their consequences?

ANS:

Business cycles are periodic upswings and downswings in economic growth. One important consequence of these ups and downs in economic growth is that employment varies considerably from one year to the next.

PTS: 1 DIF: Easy NAT: Analytic
LOC: Markets, market failure, and externalities

11. All industrialized countries have become "service economies" in recent decades. Explain the reasons behind this shift.

ANS:

To a considerable degree, this shift to services reflects the arrival of the "Information Age." Activities related to computers, to research, to the transmission of information by teaching and publication, and other information-related activities are providing many of the new jobs. Technological change has also made it possible to produce more and more manufactured products using fewer and fewer workers. Such labor-saving innovation in manufacturing has allowed a considerable share of the labor force to move out of goods-producing jobs and into services.

PTS: 1 DIF: Moderate NAT: Analytic LOC: Productivity and growth

12. Define the following terms:

- a. Recession
- b. Mixed economy
- c. Transfer payments
- d. Progressive taxation

ANS:

- a. A recession is a period of time during which the total output of the economy falls.
- b. A mixed economy is one with some public influence over the workings of free markets. There may also be some public ownership mixed in with private property.
- c. Transfer payments are sums of money that certain individuals receive as outright grants from the government rather than as payments for services rendered.
- d. A tax is progressive if the ratio of taxes to income rises as income rises.

PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics