

Chapter 2

1. A basic characteristic of a command system is that:

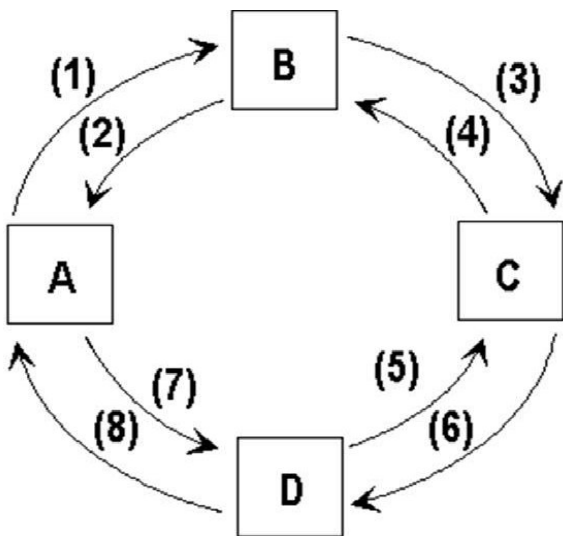
- A. wages paid to labor are higher.
- B. government owns most economic resources.
- C. free markets are never permitted in a command economy.
- D. government planners play a limited role in deciding what goods will be produced.

2. If goods and services flow clockwise in a circular economic flow diagram, then consumption expenditures flow:

- A. clockwise and revenues flow clockwise.
- B. clockwise and revenues flow counterclockwise.
- C. counterclockwise and revenues flow clockwise.
- D. counterclockwise and revenues flow counterclockwise.

3. Which is not one of the Four Fundamental Questions?

- A. How will goods and services be produced?
- B. How should the system promote progress?
- C. Who is to receive the output of the system?
- D. What goods and services should be produced by government?



4. Refer to the above figure. If box A represents businesses and flow (7) represents goods and services, then:

- A. box D is the product market and box B is the resource market.
- B. box D is the product market and box B is households.
- C. box B is the product market and box C is households.
- D. box C is the product market and box B is the resource market.

5. What to produce in a market economy is ultimately determined by the:

- A. output decisions of business firms.
- B. income plans of households.
- C. spending decisions of households.
- D. workers' technical skills.

6. By free enterprise, we mean that:

- A. products are provided free to those who can't afford to buy them.
- B. individual producers determine how to produce, but government agencies determine what will be produced.
- C. individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose.
- D. individuals are free to produce those products that government agencies determine can be produced profitably.

7. Which statement is correct?

- A. In a market system, buyers and sellers must be in face-to-face contact with each other.
- B. Prices affect the distribution of goods in a market system but not the allocation of resources.
- C. In a market system, prices serve to ration goods and services to consumers.
- D. The operation of a market system has little, if any, effect on the distribution of income in the economy.

8. Anything that is generally acceptable in exchange for goods and services is:

- A. a medium of exchange.
- B. a measure of value.
- C. a store of value.
- D. token money.

9. Advantages of specialization do not include:

- A. increased production of economic goods with no increase in resources.
- B. the more efficient use of scarce resources.
- C. increased ability to utilize the division of labor.
- D. less interdependence.

10. In a circular flow model consisting of the household sector, the business sector, product markets, and resource markets:
- A. households are sellers of products.
 - B. businesses are sellers of products.
 - C. households are buyers of productive resources.
 - D. resource markets are sellers of products.
11. Refer to the above figure. If flow (1) is the cost businesses pay to the resource market, then:
- A. (2) is the flow of productive resources.
 - B. (4) is the flow of goods and services.
 - C. (6) is the flow of money income.
 - D. (7) is the flow of revenue.
12. Refer to the above figure. If box A represents businesses and box D represents the product market in this circular flow model, then money flow in the model would be represented by:
- A. (1), (2), (3), and (4).
 - B. (5), (6), (7), and (8).
 - C. (1), (3), (6), and (8).
 - D. (7), (5), (4), and (2).
13. Which statement best describes a capitalist economy?
- A. The production of goods and services is determined primarily by markets, but the allocation of goods and services is determined primarily by government.
 - B. The production of goods and services is determined primarily by government, but the allocation of goods and services is determined primarily by markets.
 - C. The production and allocation of goods and services is determined primarily through markets.
 - D. The production and allocation of goods and services is determined primarily through government.
14. Legal and social rules that affect the ownership of property are:
- A. property rights.
 - B. the coincidence of wants.
 - C. the freedom of choice.
 - D. the freedom of enterprise.
15. Which statement is correct?
- A. The operation of a market system eventually results in an equal distribution of income.
 - B. Producers are "kings" in a market economy because they determine what is produced.
 - C. The market system is efficient at allocation of resources, but not consumer goods to their most valued uses.
 - D. Freedom of choice and enterprise are essential elements of the market system.

16. How do workers typically express self-interest?

- A. by minimizing the economic losses of other business firms
- B. by maximizing the economic profits of other business firms
- C. by seeking the highest price when purchasing a consumer product
- D. by seeking jobs with the best combination of wages and benefits

17. Advantages of specialization do not include:

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- C. increased ability to utilize the division of labor.
- D. less interdependence.

18. The use of a money for exchange:

- A. increases the use of barter.
- B. reduces consumer sovereignty.
- C. decreases the coincidence of wants.
- D. encourages more specialization in production.

19. The idea that the desires of resource suppliers and producers to further their own self-interest will automatically further the public interest is known as:

- A. consumer sovereignty.
- B. the invisible hand.
- C. derived demand.
- D. profit maximization.

20. The influential book written by Adam Smith was:

- A. The Worldly Philosophers.
- B. The Affluent Society.
- C. The Age of the Economist.
- D. The Wealth of Nations.