

## Chapter 2

*Student:* \_\_\_\_\_

1. The command system is also known as:
  - A. the market system.
  - B. pure capitalism.
  - C. market socialism.
  - D. socialism or communism.
  
2. The economy of the former Soviet Union was best described as:
  - A. authoritarian capitalism.
  - B. mixed capitalism.
  - C. a command economy.
  - D. market socialism.
  
3. The economy of North Korea most closely approximates:
  - A. pure capitalism
  - B. a command economy
  - C. market socialism
  - D. authoritarian capitalism

4. Today, China's economy most closely approximates:
- A. pure capitalism
  - B. a command economy
  - C. market socialism
  - D. authoritarian capitalism
5. Which would not be characteristic of a capitalist economy?
- A. government ownership of the means of production
  - B. competition and unrestricted markets
  - C. reliance on the market system
  - D. free enterprise and choice
6. Which of the following statements best describes a mixed economy?
- A. In a mixed economy, society determines production and the allocation of goods and services only through the market system.
  - B. In a mixed economy, government policies determine the production and the allocation of goods and services, but each individual is free to pursue his or her own self-interest.
  - C. In a mixed economy, the government and private sectors interact in determining production and allocation of goods and services.
  - D. In a mixed economy, the role of individual self-interest is relatively unimportant because government makes most of the economic decisions.

7. The private ownership of property resources and use of prices to direct and coordinate economic activity is characteristic of:
- A. a command system.
  - B. a market system.
  - C. communism.
  - D. socialism.
8. In a capitalistic economy:
- A. consumers can never be sovereign.
  - B. markets can never be competitive.
  - C. there is a reliance on the market system.
  - D. the government owns the means of production.
9. The term "laissez faire" suggests that:
- A. land and other natural resources should be privately owned, but capital should be publicly owned.
  - B. land and other natural resources should be publicly owned, but capital equipment should be privately owned.
  - C. government should not interfere with the operation of the economy.
  - D. government action is necessary if the economy is to achieve full employment and full production.

10. The term "mixed economy" refers to an economy:

- A. comprised of both product and resource markets.
- B. which engages in both domestic and international trade.
- C. comprised of both extensive private markets and government involvement in the economy.
- D. which functions primarily on the basis of custom and tradition.

11. The Canadian economy most closely approximates:

- A. mixed capitalism
- B. a command economy
- C. market socialism
- D. authoritarian capitalism

12. Which of the following is unique to a market economy system?

- A. the extensive use of capital goods
- B. private ownership of property resources
- C. specialization
- D. the use of money

13. Property rights are important because they:

- A. encourage investment and growth.
- B. are conducive to the writing of books and music.
- C. facilitate exchange.
- D. do all of these.

14. The market system is an economic system that:

- A. produces more consumer goods than capital goods.
- B. produces more capital goods than consumer goods.
- C. gives private individuals and institutions the right to own resources used in production.
- D. gives the government the right to tax individuals and corporations for the production of capital goods.

15. The market system is characterized by:

- A. extensive government constraints on individual behaviour.
- B. private ownership of the means of production.
- C. government control of all production decisions.
- D. government rationing of all goods and services.

16. In a market system, well-defined property rights are important because they:

- A. increase unnecessary investment.
- B. limit destructive economic growth.
- C. create economic problems.
- D. encourage economic activity.

17. Which is a major feature of the market system?

- A. price floors and price ceilings in all markets
- B. reallocation of all resources from private to public uses
- C. the right to own private property and control resource use
- D. central planning by government to provide goods and services

18. Which is a major feature of pure capitalism?

- A. price floors and price ceilings in markets
- B. reallocation of resources from private to public uses
- C. the right to own private property and control resource use
- D. central planning by government to provide goods and services

19. 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.

20. 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.

21. Which is characteristic of the capitalistic ideology?

- A. unselfish individuals
- B. centralized decision-making
- C. free enterprise and choice
- D. government ownership of the means of production

22. 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

23. Consumers express self-interest when they:

- A. reduce business losses.
- B. collect economic profits.
- C. seek the lowest price for the product.
- D. search for jobs with the highest wage

24. Competition means that:

- A. sellers can cause artificial product scarcities and thereby manipulate market price.
- B. there are large numbers of independently acting buyers and sellers in each market.
- C. a given product can be purchased at a number of different prices.
- D. there is only one seller in a market.

25. The competitive market system:

- A. encourages innovation because government provides tax breaks and subsidies to those who develop new products or new productive techniques.
- B. discourages innovation because it is difficult to acquire additional capital in the form of new machinery and equipment.
- C. discourages innovation because firms want to get all the profits possible from existing machinery and equipment.
- D. encourages innovation because successful innovators are rewarded with economic profits.

26. Competition is more likely to exist when:

- A. there is free entry into and exit out of industries.
- B. there is a single supplier of all goods and services.
- C. the government purchases most goods and services.
- D. products are produced by a few large firms.

27. Which condition will encourage competition?

- A. government licensing requirements in order to enter an industry
- B. a small number of buyers and sellers in a market
- C. the freedom of sellers and buyers to enter or exit an industry
- D. the government serving as the only supplier of goods to consumers



28. A purely competitive economy assumes the existence in each industry of a:
- A. large number of small firms facing a large number of small buyers.
  - B. few large firms facing a large number of small buyers.
  - C. large number of small firms facing a few large buyers.
  - D. few small firms facing a few small buyers.
29. Competition denotes a condition where:
- A. there is only one seller in a market.
  - B. a given product can be purchased at a range of prices.
  - C. there are many independent buyers and sellers in a market.
  - D. a few sellers attempt to garner a larger share of the market by cutting prices.
30. If competitive industry Y is incurring substantial losses, we can expect that output will:
- A. expand, product price will rise, and losses will tend to disappear.
  - B. contract, product price will fall, and losses will increase.
  - C. contract, product price will rise, and losses will tend to disappear.
  - D. expand, product price will fall, and losses will tend to disappear.
31. Suppose industry A is realizing substantial economic profits. Which of the following best describes the adjustment process which would bring about a new equilibrium?
- A. Firms will leave the industry, output will fall, and product price will rise.
  - B. Firms will enter the industry, output will rise, and product price will rise.
  - C. Firms will leave the industry, output will rise, and product price will fall.
  - D. Firms will enter the industry, output will rise, and product price will fall.

32. 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.

33. A characteristic of the market system is:

- A. extensive use of price controls.
- B. extensive use of barter.
- C. extensive use of capital goods.
- D. low interest rates.

34. The development of new technology and capital goods are essential elements for the market system. This is because:

- A. using more efficient production processes means more output for the economy.
- B. more capital goods means less future consumption goods.
- C. the standard of living and development of new technology are inversely related.
- D. the most direct methods of production are more efficient.

35. The basic reason for the production of capital goods is to:

- A. promote the concentration of economic power in the business sector.
- B. facilitate exchange where a coincidence of wants does not exist.
- C. better synchronize the operation of resource and product markets.
- D. enhance future productive efficiency.

36. The process in which workers select specialized tasks to make a product is referred to as:

- A. a coincidence of wants.
- B. roundabout production.
- C. freedom of choice.
- D. division of labour.

37. The division of labour means that:

- A. labour markets are geographically segmented.
- B. unskilled workers outnumber skilled workers.
- C. workers specialize in various production tasks.
- D. each worker performs a large number of tasks.

38. Specialization and trade are beneficial to society because:

- A. the output of economic goods may be increased with no increase in resources.
- B. scarce resources are utilized more efficiently.
- C. a division of labour lowers prices for products.
- D. all of these are correct.

39. Specialization in production is important primarily because it:

- A. results in greater total output.
- B. allows society to avoid the coincidence-of-wants problem.
- C. allows society to trade by barter.
- D. allows society to have fewer capital goods.

40. The division of labour enhances productivity and efficiency by:

- A. allowing workers to take advantage of existing differences in their abilities and skills.
- B. avoiding the time loss involved in shifting from one production task to another.
- C. allowing workers to develop skills by working on one, or a limited number, of tasks.
- D. all of these means.

41. Specialization in production is economically beneficial primarily because it:

- A. allows everyone to have a job which they like.
- B. permits the production of a larger output with fixed amounts of resources.
- C. facilitates trade by bartering.
- D. guarantees full employment.

42. The use of 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.

43. Which is the main problem with the barter system of exchange? Barter:

- A. encourages self-interest and selfishness.
- B. fosters specialization and division of labour.
- C. requires a coincidence of wants.
- D. undermines the right to bequeath.

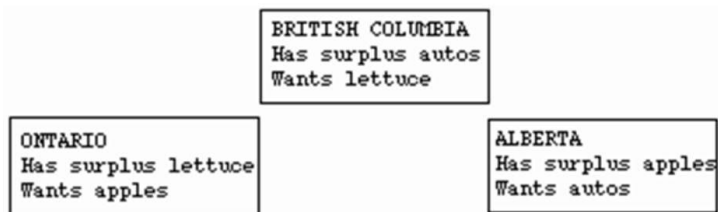
44. \_\_\_\_\_ helps avoid the problems posed by the lack of double coincidence of wants.

- A. Barter
- B. Trade
- C. Money
- D. Freedom of choice

45. Consider a barter situation where you have pens and you want pencils. To achieve your objective there must be a(n):

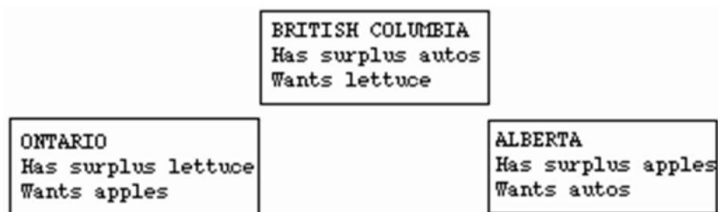
- A. use of capital goods.
- B. entry and exit from the market.
- C. large number of sellers.
- D. coincidence of wants.

46. On the basis of the information provided it can be said that:



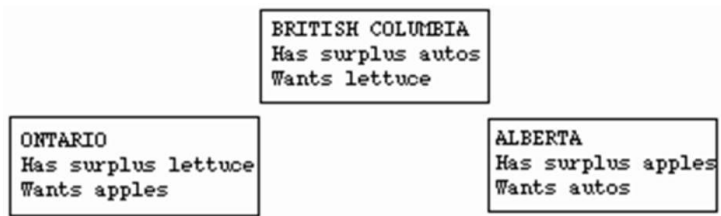
- A. no coincidence of wants exists between any two provinces.
- B. a coincidence of wants exists between British Columbia and Ontario.
- C. a coincidence of wants exists between Ontario and Alberta.
- D. a coincidence of wants exists between British Columbia and Alberta.

47. On the basis of the information provided and assuming trade occurs between the three provinces we can expect:



- A. Alberta to exchange apples with Ontario and receive money in return.
- B. Alberta to exchange apples with British Columbia and receive money in return.
- C. Ontario to exchange lettuce with British Columbia and receive autos in return.
- D. none of these to occur.

48. Given the information provided and assuming trade does occur between the provinces, we can expect:



- A. that there is no means by which British Columbia can obtain lettuce while specializing in the production of autos.
  - B. that money will not be needed to accomplish the desired exchanges.
  - C. money to flow counterclockwise from British Columbia to Ontario to Alberta.
  - D. money to flow clockwise from British Columbia to Alberta to Ontario.
49. Which is assumed to be most limited in scope under a market system?
- A. freedom of enterprise
  - B. freedom of choice
  - C. competition
  - D. government
50. Which of the following is not a part of a market system?
- A. private property
  - B. freedom of enterprise and choice
  - C. competition in product and resource markets
  - D. government determination of basic economic goals

51. The most important consequence of property rights is that
- A. they facilitate exchange.
  - B. allow for freedom of choice.
  - C. they encourage people to cooperate by helping to ensure that only mutually agreeable economic transactions take place.
  - D. they allow for a division of labour.
52. Which is not one of the Five Fundamental Questions?
- A. How will the goods and services be produced?
  - B. How will the system accommodate change?
  - C. Who will get the goods and services?
  - D. What goods and services should be produced by government?
53. What to produce in a market economy is ultimately determined by the:
- A. output decisions of business firms.
  - B. government.
  - C. spending decisions of households.
  - D. workers' technical skills.



54. "Consumer sovereignty" refers to the:

- A. fact that resource prices tend to be high relative to product prices in capitalistic economies.
- B. idea that the pursuit of self-interest will prove ultimately to be in the public interest.
- C. notion that the decisions of producers and resource suppliers with respect to the kinds and amounts of goods produced must be appropriate to consumer demands.
- D. fact that a federal agency exists to protect consumers from harmful and defective products.

55. The term consumer sovereignty means that:

- A. consumers are controlled by the actions of the marketplace.
- B. what is produced is ultimately determined by what consumers buy.
- C. there are no limits on what consumers may buy under capitalism.
- D. businesses produce with consumer satisfaction as their primary goal.

56. The market system is said to be characterized by "consumer sovereignty." This is because:

- A. a large number of consumer goods are produced.
- B. the prices of consumer goods are regulated by government.
- C. consumer goods are more profitable than investment goods.
- D. of the role of consumers in determining what goods are produced.

57. "The 'dollar votes' of consumers ultimately determine the composition of output and the allocation of resources in a market economy." This statement best describes the concept of:

- A. derived demand.
- B. external costs and benefits.
- C. consumer sovereignty.
- D. the invisible hand.

58. The term dollar votes means:

- A. inflation will occur if consumers don't spend wisely.
- B. voters may be offered dollars to help elect certain political candidates.
- C. government is responsible for determining what will be considered legal tender.
- D. consumers "vote" for certain products to be produced by how they spend their incomes.

59. Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?

- A. What will be produced?
- B. How is the output to be produced?
- C. How can the system accommodate change?
- D. Who is to receive the output?

60. Economic efficiency would be primarily discussed in response to which of the fundamental questions about a competitive market economy?
- A. What will be produced?
  - B. How will the goods and services be produced?
  - C. How will the system accommodate change?
  - D. Who is to receive the output?
61. Which fundamental question about a competitive market system primarily focuses on the cost of producing the good and services?
- A. What will be produced?
  - B. How will the goods and services be produced?
  - C. How will the system accommodate change?
  - D. Who is to receive the output?
62. The issues of distribution of goods and services and incomes in a competitive market system are the primary topic of which fundamental question?
- A. What will be produced?
  - B. How will the goods and services be produced?
  - C. How will the system accommodate change?
  - D. Who is to receive the output?

63. In the market system, the statement of "Wages, interest, rent, and profit are crucial determinants of the size of each person's income." is an indication of:
- A. What will be produced?
  - B. How will the goods and services be produced?
  - C. Who will get the output?
  - D. How will the system accommodate change?
64. "For whom is a given mix of goods and services to be produced? How, in other words, is the product to be distributed among people when such commodities and services are available?" In a market economy, this problem is resolved primarily in the:
- A. public sector through the mechanism of central planning.
  - B. business sector through the mechanism of advertising.
  - C. private sector through the earning and spending of income.
  - D. money market through borrowing and saving by households and businesses.
65. In a market economy the distribution of income would be determined primarily by
- A. consumer needs and preferences.
  - B. the quantities and prices of the resources which households supply.
  - C. government regulations which provide a minimum income for all.
  - D. a social consensus as to what distribution of income is most equitable.

66. Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation?
- A. What will be produced?
  - B. How will the goods and services be produced?
  - C. How will the system accommodate change?
  - D. Who is to receive the output?
67. If an increase occurs in the demand for product X, we would expect all of the following to occur except:
- A. an increase in the profits of industry X.
  - B. an increase in the demand for resources employed by industry X.
  - C. an increase in the output of industry X.
  - D. a decrease in the prices of resources employed in industry X.
68. An increase in demand for strawberries is most likely to:
- A. increase the demand for strawberry pickers.
  - B. reduce the supply of strawberry pickers.
  - C. reduce the supply of strawberries.
  - D. reduce the demand for strawberry pickers.

69. The market system communicates changes in supply and demand and elicits appropriate responses from businesses and resource suppliers. This is known as the:
- A. rationing function of prices.
  - B. guiding function of prices.
  - C. monetary function of prices.
  - D. circular flow of income.
70. Which of the following best describes the "guiding function" of competitive prices?
- A. Profitable industries tend to contract and unprofitable industries tend to expand.
  - B. The market system will always generate economic profits for firms which use the least costly production technology.
  - C. The market system can negotiate reallocations of resources which are appropriate to changes in consumer tastes, technology, and resource supplies.
  - D. When prices are in equilibrium, product shortages or surpluses cannot occur.
71. Assume the demand for product Y increases and the subsequent market system responses result in the production of more Y. This illustrates:
- A. that the concept of derived demand is inapplicable.
  - B. that consumer sovereignty is inoperative in this economy.
  - C. the scarcity function of prices.
  - D. the directing or guiding function of prices.

72. Which statement accurately summarizes the relationship between the prices of goods and their relative scarcity?

- A. The price of a good is a direct function of the relative scarcity of the good.
- B. The price of a good is an inverse function of the relative scarcity of the good.
- C. The price of a good is independent of the relative scarcity of the good.
- D. High prices lead to greater relative scarcity.

73. The most efficient combination of resources in producing any output is that combination which:

- A. comes closest to using the same quantities of land, labour, capital, and entrepreneurial ability.
- B. can be obtained for the smallest money outlay.
- C. uses the smallest total quantity of all resources.
- D. conserves most on the use of labour.

74. The development of the Internet and e-mail to replace regular mail services in many cases would be an example of:

- A. roundabout production.
- B. derived demand.
- C. creative destruction.
- D. specialization.

75. The development of MP3 players that significantly reduce the market for CDs and DVDs would be an example of:

- A. specialization.
- B. derived demand.
- C. roundabout production.
- D. creative destruction.

76. Which of the following best describes the "invisible hand" concept?

- A. The desires of resource suppliers and producers to further their own self-interest will automatically further the public interest.
- B. The nonsubstitutability of resources gives rise to a conflict between private and public interests and the need for government intervention.
- C. Mixed capitalism is the best system for overcoming the scarce resources-unlimited wants problem.
- D. Central direction by the government will improve resource allocation in a capitalistic economy.

77. The "invisible hand" concept suggests that:

- A. changes in product demands are only randomly reflected in changes in the demands for resources.
- B. profit maximization is inconsistent with an efficient allocation of resources.
- C. government action is necessary to correct for market failures.
- D. when firms maximize their profits, society's domestic output will also be maximized.



78. The "invisible hand" concept suggests that:

- A. market failures imply the need for a national economic plan.
- B. big businesses are inherently more efficient than small businesses.
- C. the competitiveness of a capitalistic market economy invariably diminishes over time.
- D. given competition, private and public interests will tend to coincide.

79. The "invisible hand" refers to the:

- A. fact that our tax system redistributes income from rich to poor.
- B. notion that, under competition, decisions motivated by self-interest promote the social interest.
- C. tendency of monopolistic sellers to raise prices above competitive levels.
- D. fact that government controls the functioning of the market system.

80. 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.

81. The idea that firms and resource suppliers in seeking to further their own self-interests in a competitive market economy also simultaneously promotes the public or social interest is a description of:

- A. the guiding function of prices.
- B. capital accumulation.
- C. the "invisible hand."
- D. "dollar votes."

82. While in market economies the profit depends on consumer demand, production efficiency, and product quality, for command economies profit depends on:

- A. production cost.
- B. product differentiation.
- C. product mix.
- D. quantitative production target.

83. The coordination problem in command economies became more difficult as:

- A. the number of industries expanded.
- B. less quantitative targets were assigned to each industry.
- C. planning techniques improved.
- D. production cost decreased.

84. As opposed to the market system, in command economies:

- A. the reward for innovation is extensive.
- B. the reward for innovation does not exist.
- C. meeting the production targets are extremely important.
- D. the profit motives are extremely high.

85. In the factor market:

- A. businesses borrow money capital from households.
- B. businesses sell services to households.
- C. households sell resources to businesses.
- D. firms sell raw materials to households.

86. The simple circular flow model shows that:

- A. households are on the demand side of both product and factor markets.
- B. businesses are on the supply side of both product and factor markets.
- C. households are on the supply side of the factor market and on the demand side of the product market.
- D. businesses are on the demand side of the product market and on the supply side of the factor market.

87. The two basic markets shown by the simple circular flow model are:

- A. capital goods and consumer goods.
- B. free and controlled.
- C. product and factor.
- D. household and business.

88. In the simple circular flow model:

- A. households are demanders of factors of production.
- B. businesses are suppliers of final products.
- C. households are suppliers of final products.
- D. there are real flows of goods, services, and factors, but not money flows.

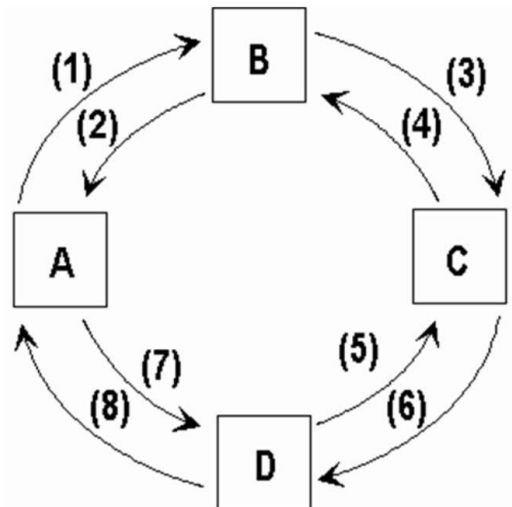
89. Households and businesses are:

- A. both buyers in the factor market.
- B. both suppliers in the product market.
- C. suppliers in the factor and product markets respectively.
- D. suppliers in the product and factor markets respectively.

90. In the circular flow model:

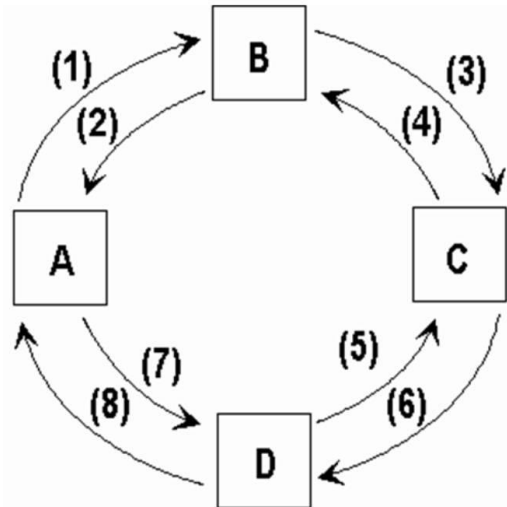
- A. households supply factors of production to firms.
- B. households receive income through the factor market.
- C. households spend income in the product market.
- D. all of these hold true.

91. If box B represents the factor market and flow (3) represents money income, then:



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

92. If box A represents businesses and flow (7) represents goods and services, then:

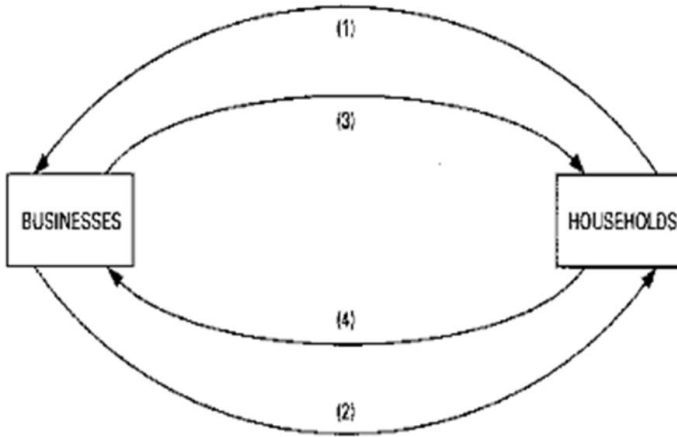


- A. box D is the product market and box B is the factor market.
- B. box D is the product market and box B is households.
- C. box B is the product market and box C is households.
- D. box C is the product market and box B is the factor market.

93. In terms of the circular flow diagram businesses obtain revenue through the \_\_\_\_\_ market and make expenditures in the \_\_\_\_\_ market.

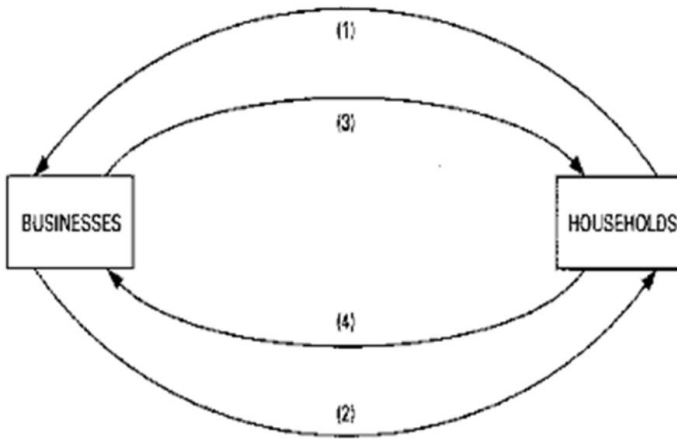
- A. product; financial
- B. factor; product
- C. product; factor
- D. capital; product

94. Arrows (1) and (2) represent:



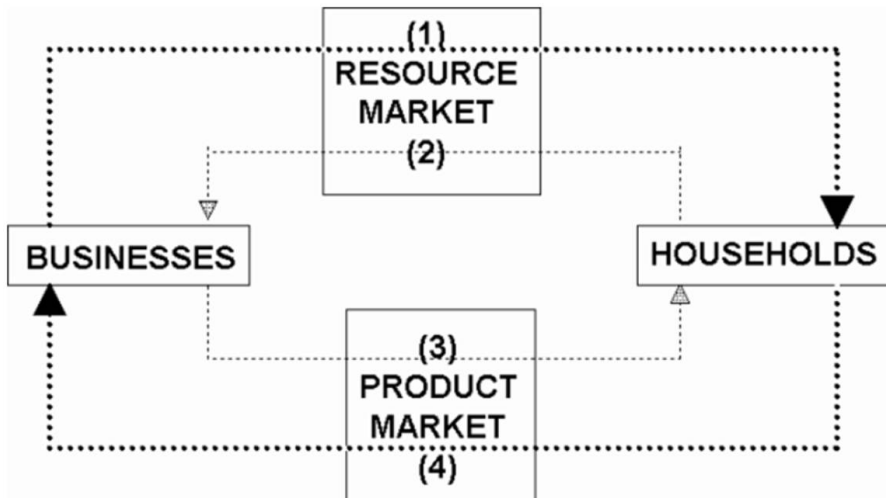
- A. goods and resources respectively.
- B. money incomes and output respectively.
- C. output and money incomes respectively.
- D. resources and goods respectively.

95. Arrows (3) and (4) represent:



- A. goods and services respectively.
- B. money incomes and consumer expenditures respectively.
- C. resources and goods respectively.
- D. consumer expenditures and money income respectively.

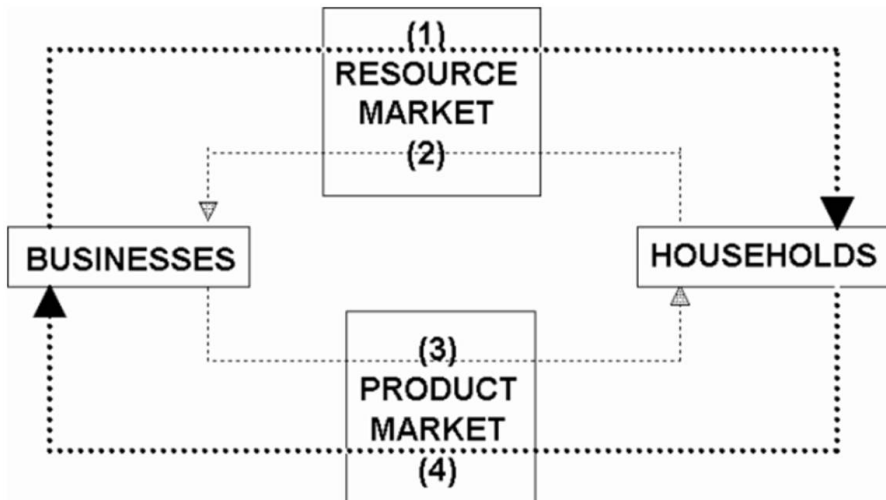
96. Circular flow model of the economy. In the diagram flow (1) represents:



- A. wage, rent, interest, and profit income.
- B. land, labour, capital, and entrepreneurial ability.
- C. goods and services.
- D. consumer expenditures.

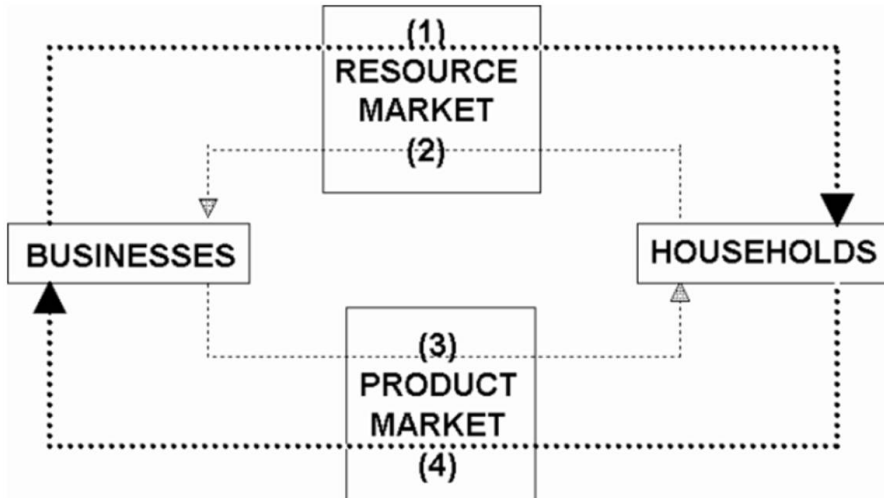


97. Circular flow model of the economy. In the diagram flow (2) represents:



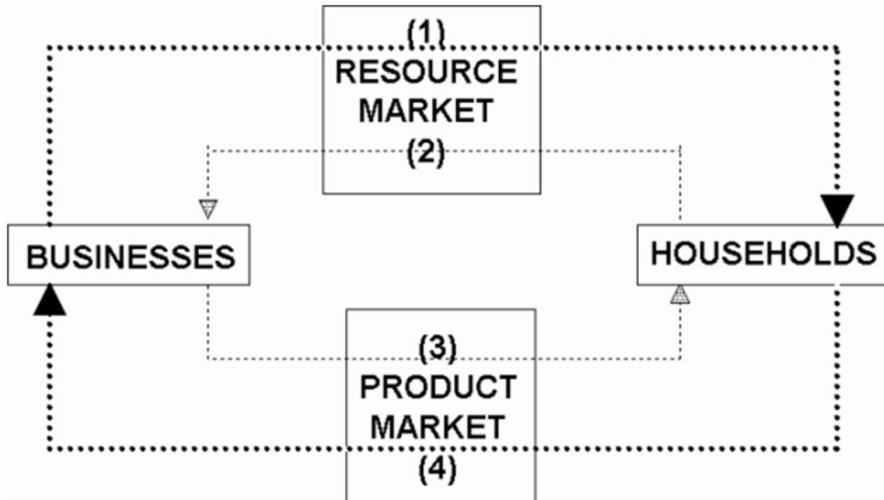
- A. wage, rent, interest, and profit income.
- B. land, labour, capital, and entrepreneurial ability.
- C. goods and services.
- D. consumer expenditures.

98. Circular flow model of the economy. In the diagram flow (3) represents:



- A. wage, rent, interest, and profit income.
- B. land, labour, capital, and entrepreneurial ability.
- C. goods and services.
- D. consumer expenditures.

99. Circular flow model of the economy. In the diagram flow (4) represents:



- A. wage, rent, interest, and profit income.
- B. land, labour, capital, and entrepreneurial ability.
- C. goods and services.
- D. consumer expenditures.

100. In terms of the circular flow diagram households make expenditures in the \_\_\_\_\_ market and receive income through the \_\_\_\_\_ market.

- A. product; financial
- B. factor; product
- C. product; factor
- D. capital; product

101. Specialization may be conducive to an expansion of total output even though the individuals involved may have identical abilities.

True False

102.A division of labour enhances society's output by permitting people to take advantage of existing differences in their abilities and skills.

True False

103.Money functions as a medium of exchange in permitting the ready comparison of the relative worth of heterogeneous products.

True False

104.Government alters the distribution of income by market intervention, in which case it modifies the prices established by market forces.

True False

105.Property rights do not encourage people to cooperate.

True False

106.Consumer sovereignty means that legislation now protects the rights of consumers to dispose of their incomes as they see fit.

True False

107.The wants of consumers are expressed on the demand side of the product market.

True False

108.The guiding function of prices indicates that, at equilibrium prices, neither product surpluses nor shortages can occur.

True False

109.The "invisible hand" refers to the many indirect controls which the federal government imposes in a system of mixed capitalism.

True False

110.In a competitive market economy, firms and resource suppliers will seek to further their own self-interest, but at the same time, as if guided by an "invisible hand," they will promote the public interest.

True False

111.In the simple circular flow model businesses are suppliers of final products.

True False

112.Households and businesses are both suppliers in the product market.

True False

## Chapter 2 Key

1. The command system is also known as:

(p. 33)

- A. the market system.
- B. pure capitalism.
- C. market socialism.
- D. socialism or communism.

*Difficulty: Easy*

*Learning Objective: 02-01 Differentiate between a command system and a market system.*

*McConnell - Chapter 02 #1*

*Type: Application*

*Type: Pick-up*

2. The economy of the former Soviet Union was best described as:

(p. 33)

- A. authoritarian capitalism.
- B. mixed capitalism.
- C. a command economy.
- D. market socialism.

*Difficulty: Easy*

*Learning Objective: 02-01 Differentiate between a command system and a market system.*

*McConnell - Chapter 02 #2*

*Type: Application*

*Type: Pick-up*

3. The economy of North Korea most closely approximates:

(p. 33)

- A. pure capitalism
- B. a command economy**
- C. market socialism
- D. authoritarian capitalism

*Difficulty: Easy*

*Learning Objective: 02-01 Differentiate between a command system and a market system.*

*McConnell - Chapter 02 #3*

*Type: Application*

*Type: Pick-up*

4. Today, China's economy most closely approximates:

(p. 33)

- A. pure capitalism
- B. a command economy
- C. market socialism**
- D. authoritarian capitalism

*Difficulty: Easy*

*Learning Objective: 02-01 Differentiate between a command system and a market system.*

*McConnell - Chapter 02 #4*

*Type: Application*

*Type: Pick-up*

5. Which would not be characteristic of a capitalist economy?

(p. 33)

- A. government ownership of the means of production**
- B. competition and unrestricted markets
- C. reliance on the market system
- D. free enterprise and choice

*Difficulty: Easy*

6. Which of the following statements best describes a mixed economy?

(p. 33)

- A. In a mixed economy, society determines production and the allocation of goods and services only through the market system.
- B. In a mixed economy, government policies determine the production and the allocation of goods and services, but each individual is free to pursue his or her own self-interest.
- C. In a mixed economy, the government and private sectors interact in determining production and allocation of goods and services.
- D. In a mixed economy, the role of individual self-interest is relatively unimportant because government makes most of the economic decisions.

Difficulty: Moderate

Learning Objective: 02-01 Differentiate between a command system and a market system.

McConnell - Chapter 02 #6

Type: Definition

Type: Pick-up

7. The private ownership of property resources and use of prices to direct and coordinate economic activity is characteristic of:

(p. 33)

- A. a command system.
- B. a market system.
- C. communism.
- D. socialism.

Difficulty: Easy

Learning Objective: 02-01 Differentiate between a command system and a market system.

McConnell - Chapter 02 #7

Type: Definition

Type: Pick-up



8. In a capitalistic economy:

(p. 33)

- A. consumers can never be sovereign.
- B. markets can never be competitive.
- C. there is a reliance on the market system.
- D. the government owns the means of production.

*Difficulty: Easy*

*Learning Objective: 02-01 Differentiate between a command system and a market system.*

*McConnell - Chapter 02 #8*

*Type: Application*

*Type: Pick-up*

9. The term "laissez faire" suggests that:

(p. 33)

- A. land and other natural resources should be privately owned, but capital should be publicly owned.
- B. land and other natural resources should be publicly owned, but capital equipment should be privately owned.
- C. government should not interfere with the operation of the economy.
- D. government action is necessary if the economy is to achieve full employment and full production.

*Difficulty: Easy*

*Learning Objective: 02-01 Differentiate between a command system and a market system.*

*McConnell - Chapter 02 #9*

*Type: Definition*

*Type: Pick-up*

10. The term "mixed economy" refers to an economy:

(p. 33)

- A. comprised of both product and resource markets.
- B. which engages in both domestic and international trade.
- C.** comprised of both extensive private markets and government involvement in the economy.
- D. which functions primarily on the basis of custom and tradition.

*Difficulty: Easy*

*Learning Objective: 02-01 Differentiate between a command system and a market system.*

*McConnell - Chapter 02 #10*

*Type: Definition*

*Type: Pick-up*

11. The Canadian economy most closely approximates:

(p. 33)

- A.** mixed capitalism
- B. a command economy
- C. market socialism
- D. authoritarian capitalism

*Difficulty: Easy*

*Learning Objective: 02-01 Differentiate between a command system and a market system.*

*McConnell - Chapter 02 #11*

*Type: Application*

*Type: Pick-up*

12. Which of the following is unique to a market economy system?

(p. 35)

- A. the extensive use of capital goods
- B.** private ownership of property resources
- C. specialization
- D. the use of money

*Difficulty: Easy*

13. Property rights are important because they:

*(p. 35)*

- A. encourage investment and growth.
- B. are conducive to the writing of books and music.
- C. facilitate exchange.
- D. do all of these.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #13*

*Type: Application*

*Type: Pick-up*

14. The market system is an economic system that:

*(p. 35)*

- A. produces more consumer goods than capital goods.
- B. produces more capital goods than consumer goods.
- C. gives private individuals and institutions the right to own resources used in production.
- D. gives the government the right to tax individuals and corporations for the production of capital goods.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #14*

*Type: Definition*

*Type: Pick-up*

15. The market system is characterized by:

*(p. 35)*

- A. extensive government constraints on individual behaviour.
- B.** private ownership of the means of production.
- C. government control of all production decisions.
- D. government rationing of all goods and services.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #15*

*Type: Application*

*Type: Pick-up*

16. In a market system, well-defined property rights are important because they:

*(p. 35)*

- A. increase unnecessary investment.
- B. limit destructive economic growth.
- C. create economic problems.
- D.** encourage economic activity.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #16*

*Type: Application*

*Type: Pick-up*

17. Which is a major feature of the market system?

*(p. 35)*

- A. price floors and price ceilings in all markets
- B. reallocation of all resources from private to public uses
- C.** the right to own private property and control resource use
- D. central planning by government to provide goods and services

*Difficulty: Easy*

18. Which is a major feature of pure capitalism?

(p. 35)

- A. price floors and price ceilings in markets
- B. reallocation of resources from private to public uses
- C. the right to own private property and control resource use
- D. central planning by government to provide goods and services

Difficulty: Easy

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #18

Type: Definition

Type: Pick-up

19. By free enterprise, we mean that:

(p. 35)

- 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.

Difficulty: Easy

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #19

Type: Definition

Type: Pick-up

20. Which statement is correct?

(p. 35)

- 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.

*Difficulty: Moderate*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #20*

*Type: Application*

*Type: Pick-up*

21. Which is characteristic of the capitalistic ideology?

(p. 35)

- A. unselfish individuals
- B. centralized decision-making
- C. free enterprise and choice
- D. government ownership of the means of production

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #21*

*Type: Definition*

*Type: Pick-up*

22. How do workers typically express self-interest?

(p. 35)

- 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

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #22*

*Type: Definition*

*Type: Pick-up*

23. Consumers express self-interest when they:

(p. 35)

- A. reduce business losses.
- B. collect economic profits.
- C. seek the lowest price for the product.
- D. search for jobs with the highest wage

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #23*

*Type: Application*

*Type: Pick-up*

24. Competition means that:

(p. 35)

- A. sellers can cause artificial product scarcities and thereby manipulate market price.
- B. there are large numbers of independently acting buyers and sellers in each market.
- C. a given product can be purchased at a number of different prices.
- D. there is only one seller in a market.

*Difficulty: Easy*

25. The competitive market system:

(p. 35)

- A. encourages innovation because government provides tax breaks and subsidies to those who develop new products or new productive techniques.
- B. discourages innovation because it is difficult to acquire additional capital in the form of new machinery and equipment.
- C. discourages innovation because firms want to get all the profits possible from existing machinery and equipment.
- D. encourages innovation because successful innovators are rewarded with economic profits.

Difficulty: Moderate

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #25

Type: Application

Type: Pick-up

26. Competition is more likely to exist when:

(p. 35)

- A. there is free entry into and exit out of industries.
- B. there is a single supplier of all goods and services.
- C. the government purchases most goods and services.
- D. products are produced by a few large firms.

Difficulty: Easy

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #26

Type: Application

Type: Pick-up



27. Which condition will encourage competition?

(p. 35)

- A. government licensing requirements in order to enter an industry
- B. a small number of buyers and sellers in a market
- C. the freedom of sellers and buyers to enter or exit an industry
- D. the government serving as the only supplier of goods to consumers

*Difficulty: Moderate*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #27*

*Type: Application*

*Type: Pick-up*

28. A purely competitive economy assumes the existence in each industry of a:

(p. 35)

- A. large number of small firms facing a large number of small buyers.
- B. few large firms facing a large number of small buyers.
- C. large number of small firms facing a few large buyers.
- D. few small firms facing a few small buyers.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #28*

*Type: Definition*

*Type: Pick-up*

29. Competition denotes a condition where:

(p. 35)

- A. there is only one seller in a market.
- B. a given product can be purchased at a range of prices.
- C. there are many independent buyers and sellers in a market.
- D. a few sellers attempt to garner a larger share of the market by cutting prices.

*Difficulty: Easy*

30. If competitive industry Y is incurring substantial losses, we can expect that output will:

(p. 35)

- A. expand, product price will rise, and losses will tend to disappear.
- B. contract, product price will fall, and losses will increase.
- C. contract, product price will rise, and losses will tend to disappear.
- D. expand, product price will fall, and losses will tend to disappear.

Difficulty: Moderate

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #30

Type: Application

Type: Pick-up

31. Suppose industry A is realizing substantial economic profits. Which of the following best describes the adjustment process which would bring about a new equilibrium?

(p. 35)

- A. Firms will leave the industry, output will fall, and product price will rise.
- B. Firms will enter the industry, output will rise, and product price will rise.
- C. Firms will leave the industry, output will rise, and product price will fall.
- D. Firms will enter the industry, output will rise, and product price will fall.

Difficulty: Moderate

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #31

Type: Application

Type: Pick-up

32. Which statement is correct?

(p. 35)

- 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.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #32*

*Type: Application*

*Type: Pick-up*

33. A characteristic of the market system is:

(p. 35)

- A. extensive use of price controls.
- B. extensive use of barter.
- C. extensive use of capital goods.
- D. low interest rates.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #33*

*Type: Definition*

*Type: Pick-up*

34. The development of new technology and capital goods are essential elements for the market system. This is because:  
(p. 35)

- A. using more efficient production processes means more output for the economy.
- B. more capital goods means less future consumption goods.
- C. the standard of living and development of new technology are inversely related.
- D. the most direct methods of production are more efficient.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #34*

*Type: Definition*

*Type: Pick-up*

35. The basic reason for the production of capital goods is to:  
(p. 35)

- A. promote the concentration of economic power in the business sector.
- B. facilitate exchange where a coincidence of wants does not exist.
- C. better synchronize the operation of resource and product markets.
- D. enhance future productive efficiency.

*Difficulty: Moderate*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #35*

*Type: Application*

*Type: Pick-up*

36. The process in which workers select specialized tasks to make a product is referred to as:

(p. 35)

- A. a coincidence of wants.
- B. roundabout production.
- C. freedom of choice.
- D. division of labour.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #36*

*Type: Definition*

*Type: Pick-up*

37. The division of labour means that:

(p. 35)

- A. labour markets are geographically segmented.
- B. unskilled workers outnumber skilled workers.
- C. workers specialize in various production tasks.
- D. each worker performs a large number of tasks.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #37*

*Type: Definition*

*Type: Pick-up*

38. Specialization and trade are beneficial to society because:

(p. 35)

- A. the output of economic goods may be increased with no increase in resources.
- B. scarce resources are utilized more efficiently.
- C. a division of labour lowers prices for products.
- D. all of these are correct.

*Difficulty: Moderate*

39. Specialization in production is important primarily because it:

*(p. 35)*

- A. results in greater total output.
- B. allows society to avoid the coincidence-of-wants problem.
- C. allows society to trade by barter.
- D. allows society to have fewer capital goods.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #39*

*Type: Application*

*Type: Pick-up*

40. The division of labour enhances productivity and efficiency by:

*(p. 35)*

- A. allowing workers to take advantage of existing differences in their abilities and skills.
- B. avoiding the time loss involved in shifting from one production task to another.
- C. allowing workers to develop skills by working on one, or a limited number, of tasks.
- D. all of these means.

*Difficulty: Moderate*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #40*

*Type: Definition*

*Type: Pick-up*

41. Specialization in production is economically beneficial primarily because it:

(p. 35)

- A. allows everyone to have a job which they like.
- B.** permits the production of a larger output with fixed amounts of resources.
- C. facilitates trade by bartering.
- D. guarantees full employment.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #41*

*Type: Application*

*Type: Pick-up*

42. The use of money for exchange:

(p. 35)

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

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #42*

*Type: Application*

*Type: Pick-up*

43. Which is the main problem with the barter system of exchange? Barter:

(p. 35)

- A. encourages self-interest and selfishness.
- B. fosters specialization and division of labour.
- C.** requires a coincidence of wants.
- D. undermines the right to bequeath.

*Difficulty: Easy*

44. \_\_\_\_\_ helps avoid the problems posed by the lack of double coincidence of wants.

(p. 35)

- A. Barter
- B. Trade
- C. Money
- D. Freedom of choice

Difficulty: Easy

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #44

Type: Application

Type: Pick-up

45. Consider a barter situation where you have pens and you want pencils. To achieve your objective there must be a(n):

(p. 35)

- A. use of capital goods.
- B. entry and exit from the market.
- C. large number of sellers.
- D. coincidence of wants.

Difficulty: Easy

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #45

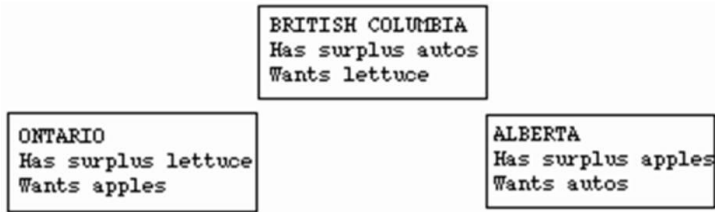
Type: Application

Type: Pick-up



46. On the basis of the information provided it can be said that:

(p. 35)



- A. no coincidence of wants exists between any two provinces.
- B. a coincidence of wants exists between British Columbia and Ontario.
- C. a coincidence of wants exists between Ontario and Alberta.
- D. a coincidence of wants exists between British Columbia and Alberta.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

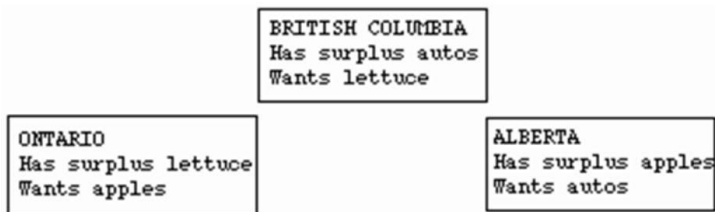
*McConnell - Chapter 02 #46*

*Type: Application*

*Type: Pick-up*

47. On the basis of the information provided and assuming trade occurs between the three provinces we can expect:

(p. 35)



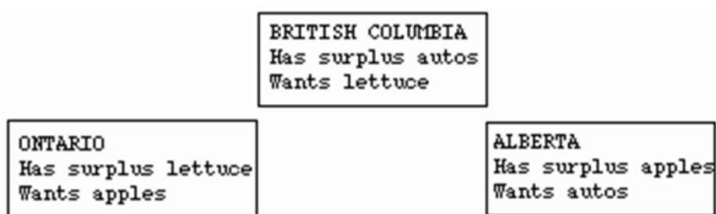
- A. Alberta to exchange apples with Ontario and receive money in return.
- B. Alberta to exchange apples with British Columbia and receive money in return.
- C. Ontario to exchange lettuce with British Columbia and receive autos in return.
- D. none of these to occur.

*Difficulty: Moderate*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #47*

48. Given the information provided and assuming trade does occur between the provinces, we can expect:
- (p. 35)



- A. that there is no means by which British Columbia can obtain lettuce while specializing in the production of autos.
- B. that money will not be needed to accomplish the desired exchanges.
- C. money to flow counterclockwise from British Columbia to Ontario to Alberta.
- D. money to flow clockwise from British Columbia to Alberta to Ontario.

Difficulty: Difficult

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #48

Type: Application

Type: Pick-up

49. Which is assumed to be most limited in scope under a market system?

(p. 35)

- A. freedom of enterprise
- B. freedom of choice
- C. competition
- D. government

Difficulty: Easy

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #49

Type: Definition

Type: Pick-up

50. Which of the following is not a part of a market system?

(p. 35)

- A. private property
- B. freedom of enterprise and choice
- C. competition in product and resource markets
- D. government determination of basic economic goals

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #50*

*Type: Definition*

*Type: Pick-up*

51. The most important consequence of property rights is that

(p. 35)

- A. they facilitate exchange.
- B. allow for freedom of choice.
- C. they encourage people to cooperate by helping to ensure that only mutually agreeable economic transactions take place.
- D. they allow for a division of labour.

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #51*

*Type: Application*

*Type: New*

52. Which is not one of the Five Fundamental Questions?

(p. 41)

- A. How will the goods and services be produced?
- B. How will the system accommodate change?
- C. Who will get the goods and services?
- D. What goods and services should be produced by government?

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #52*

*Type: Definition*

*Type: Pick-up*

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

(p. 41)

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

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #53*

*Type: Application*

*Type: Pick-up*

54. "Consumer sovereignty" refers to the:

(p. 41)

- A. fact that resource prices tend to be high relative to product prices in capitalistic economies.
- B. idea that the pursuit of self-interest will prove ultimately to be in the public interest.
- C. notion that the decisions of producers and resource suppliers with respect to the kinds and amounts of goods produced must be appropriate to consumer demands.
- D. fact that a federal agency exists to protect consumers from harmful and defective products.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #54*

*Type: Definition*

*Type: Pick-up*

55. The term consumer sovereignty means that:

(p. 41)

- A. consumers are controlled by the actions of the marketplace.
- B. what is produced is ultimately determined by what consumers buy.
- C. there are no limits on what consumers may buy under capitalism.
- D. businesses produce with consumer satisfaction as their primary goal.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #55*

*Type: Definition*

*Type: Pick-up*

56. The market system is said to be characterized by "consumer sovereignty." This is because:

(p. 41)

- A. a large number of consumer goods are produced.
- B. the prices of consumer goods are regulated by government.
- C. consumer goods are more profitable than investment goods.
- D. of the role of consumers in determining what goods are produced.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #56*

*Type: Application*

*Type: Pick-up*

57. "The 'dollar votes' of consumers ultimately determine the composition of output and the allocation of resources in a market economy." This statement best describes the concept of:

(p. 41)

- A. derived demand.
- B. external costs and benefits.
- C. consumer sovereignty.
- D. the invisible hand.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #57*

*Type: Definition*

*Type: Pick-up*

58. The term dollar votes means:

(p. 41)

- A. inflation will occur if consumers don't spend wisely.
- B. voters may be offered dollars to help elect certain political candidates.
- C. government is responsible for determining what will be considered legal tender.
- D. consumers "vote" for certain products to be produced by how they spend their incomes.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #58*

*Type: Definition*

*Type: Pick-up*

59. Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?

(p. 41)

- A. What will be produced?
- B. How is the output to be produced?
- C. How can the system accommodate change?
- D. Who is to receive the output?

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #59*

*Type: Application*

*Type: Pick-up*

60. Economic efficiency would be primarily discussed in response to which of the fundamental questions about a competitive market economy?  
(p. 41)

- A. What will be produced?
- B.** How will the goods and services be produced?
- C. How will the system accommodate change?
- D. Who is to receive the output?

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #60*

*Type: Application*

*Type: Pick-up*

61. Which fundamental question about a competitive market system primarily focuses on the cost of producing the good and services?  
(p. 41)

- A. What will be produced?
- B.** How will the goods and services be produced?
- C. How will the system accommodate change?
- D. Who is to receive the output?

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #61*

*Type: Application*

*Type: Pick-up*



62. The issues of distribution of goods and services and incomes in a competitive market system  
(p. 41) are the primary topic of which fundamental question?

- A. What will be produced?
- B. How will the goods and services be produced?
- C. How will the system accommodate change?
- D. Who is to receive the output?

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #62*

*Type: Application*

*Type: Pick-up*

63. In the market system, the statement of "Wages, interest, rent, and profit are crucial  
(p. 41) determinants of the size of each person's income." is an indication of:

- A. What will be produced?
- B. How will the goods and services be produced?
- C. Who will get the output?
- D. How will the system accommodate change?

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #63*

*Type: Application*

*Type: Pick-up*

64. "For whom is a given mix of goods and services to be produced? How, in other words, is the product to be distributed among people when such commodities and services are available?"  
(p. 41)  
In a market economy, this problem is resolved primarily in the:

- A. public sector through the mechanism of central planning.
- B. business sector through the mechanism of advertising.
- C. private sector through the earning and spending of income.
- D. money market through borrowing and saving by households and businesses.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #64*

*Type: Application*

*Type: Pick-up*

65. In a market economy the distribution of income would be determined primarily by  
(p. 41)

- A. consumer needs and preferences.
- B. the quantities and prices of the resources which households supply.
- C. government regulations which provide a minimum income for all.
- D. a social consensus as to what distribution of income is most equitable.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #65*

*Type: Application*

*Type: Pick-up*

66. Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation?  
(p. 41)

- A. What will be produced?
- B. How will the goods and services be produced?
- C. How will the system accommodate change?
- D. Who is to receive the output?

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #66*

*Type: Application*

*Type: Pick-up*

67. If an increase occurs in the demand for product X, we would expect all of the following to occur except:  
(p. 41)

- A. an increase in the profits of industry X.
- B. an increase in the demand for resources employed by industry X.
- C. an increase in the output of industry X.
- D. a decrease in the prices of resources employed in industry X.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #67*

*Type: Application*

*Type: Pick-up*

68. An increase in demand for strawberries is most likely to:

(p. 41)

- A. increase the demand for strawberry pickers.
- B. reduce the supply of strawberry pickers.
- C. reduce the supply of strawberries.
- D. reduce the demand for strawberry pickers.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #68*

*Type: Application*

*Type: Pick-up*

69. The market system communicates changes in supply and demand and elicits appropriate responses from businesses and resource suppliers. This is known as the:

(p. 41)

- A. rationing function of prices.
- B. guiding function of prices.
- C. monetary function of prices.
- D. circular flow of income.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #69*

*Type: Definition*

*Type: Pick-up*

70. Which of the following best describes the "guiding function" of competitive prices?

(p. 41)

- A. Profitable industries tend to contract and unprofitable industries tend to expand.
- B. The market system will always generate economic profits for firms which use the least costly production technology.
- C. The market system can negotiate reallocations of resources which are appropriate to changes in consumer tastes, technology, and resource supplies.
- D. When prices are in equilibrium, product shortages or surpluses cannot occur.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #70*

*Type: Definition*

*Type: Pick-up*

71. Assume the demand for product Y increases and the subsequent market system responses

(p. 41)

result in the production of more Y. This illustrates:

- A. that the concept of derived demand is inapplicable.
- B. that consumer sovereignty is inoperative in this economy.
- C. the scarcity function of prices.
- D. the directing or guiding function of prices.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #71*

*Type: Application*

*Type: Pick-up*

72. Which statement accurately summarizes the relationship between the prices of goods and their relative scarcity?  
(p. 41)

- A. The price of a good is a direct function of the relative scarcity of the good.
- B. The price of a good is an inverse function of the relative scarcity of the good.
- C. The price of a good is independent of the relative scarcity of the good.
- D. High prices lead to greater relative scarcity.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #72*

*Type: Application*

*Type: Pick-up*

73. The most efficient combination of resources in producing any output is that combination which:  
(p. 41)

- A. comes closest to using the same quantities of land, labour, capital, and entrepreneurial ability.
- B. can be obtained for the smallest money outlay.
- C. uses the smallest total quantity of all resources.
- D. conserves most on the use of labour.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #73*

*Type: Definition*

*Type: Pick-up*

74. The development of the Internet and e-mail to replace regular mail services in many cases  
(p. 41) would be an example of:

- A. roundabout production.
- B. derived demand.
- C. creative destruction.
- D. specialization.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #74*

*Type: Application*

*Type: Pick-up*

75. The development of MP3 players that significantly reduce the market for CDs and DVDs would  
(p. 41) be an example of:

- A. specialization.
- B. derived demand.
- C. roundabout production.
- D. creative destruction.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #75*

*Type: Application*

*Type: Pick-up*

76. Which of the following best describes the "invisible hand" concept?

(p. 41)

- A. The desires of resource suppliers and producers to further their own self-interest will automatically further the public interest.
- B. The nonsubstitutability of resources gives rise to a conflict between private and public interests and the need for government intervention.
- C. Mixed capitalism is the best system for overcoming the scarce resources-unlimited wants problem.
- D. Central direction by the government will improve resource allocation in a capitalistic economy.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #76*

*Type: Definition*

*Type: Pick-up*

77. The "invisible hand" concept suggests that:

(p. 41)

- A. changes in product demands are only randomly reflected in changes in the demands for resources.
- B. profit maximization is inconsistent with an efficient allocation of resources.
- C. government action is necessary to correct for market failures.
- D. when firms maximize their profits, society's domestic output will also be maximized.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #77*

*Type: Application*

*Type: Pick-up*



78. The "invisible hand" concept suggests that:

(p. 41)

- A. market failures imply the need for a national economic plan.
- B. big businesses are inherently more efficient than small businesses.
- C. the competitiveness of a capitalistic market economy invariably diminishes over time.
- D. given competition, private and public interests will tend to coincide.

*Difficulty: Moderate*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #78*

*Type: Application*

*Type: Pick-up*

79. The "invisible hand" refers to the:

(p. 41)

- A. fact that our tax system redistributes income from rich to poor.
- B. notion that, under competition, decisions motivated by self-interest promote the social interest.
- C. tendency of monopolistic sellers to raise prices above competitive levels.
- D. fact that government controls the functioning of the market system.

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #79*

*Type: Definition*

*Type: Pick-up*

80. The idea that the desires of resource suppliers and producers to further their own self-interest  
(p. 41) will automatically further the public interest is known as:

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

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #80*

*Type: Definition*

*Type: Pick-up*

81. The idea that firms and resource suppliers in seeking to further their own self-interests in a  
(p. 41) competitive market economy also simultaneously promotes the public or social interest is a description of:

- A. the guiding function of prices.
- B. capital accumulation.
- C.** the "invisible hand."
- D. "dollar votes."

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #81*

*Type: Definition*

*Type: Pick-up*

82. While in market economies the profit depends on consumer demand, production efficiency, and product quality, for command economies profit depends on:

(p. 45)

- A. production cost.
- B. product differentiation.
- C. product mix.
- D. quantitative production target.

*Difficulty: Easy*

*Learning Objective: 02-04 Explain the demise of the command system.*

*McConnell - Chapter 02 #82*

*Type: Application*

*Type: Pick-up*

83. The coordination problem in command economies became more difficult as:

(p. 45)

- A. the number of industries expanded.
- B. less quantitative targets were assigned to each industry.
- C. planning techniques improved.
- D. production cost decreased.

*Difficulty: Easy*

*Learning Objective: 02-04 Explain the demise of the command system.*

*McConnell - Chapter 02 #83*

*Type: Application*

*Type: Pick-up*

84. As opposed to the market system, in command economies:

(p. 45)

- A. the reward for innovation is extensive.
- B. the reward for innovation does not exist.
- C. meeting the production targets are extremely important.
- D. the profit motives are extremely high.

*Difficulty: Easy*

*Learning Objective: 02-04 Explain the demise of the command system.*

*McConnell - Chapter 02 #84*

*Type: Application*

*Type: Pick-up*

85. In the factor market:

(p. 47)

- A. businesses borrow money capital from households.
- B. businesses sell services to households.
- C. households sell resources to businesses.
- D. firms sell raw materials to households.

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #85*

*Type: Application*

*Type: Pick-up*

86. The simple circular flow model shows that:

(p. 47)

- A. households are on the demand side of both product and factor markets.
- B. businesses are on the supply side of both product and factor markets.
- C. households are on the supply side of the factor market and on the demand side of the product market.
- D. businesses are on the demand side of the product market and on the supply side of the factor market.

*Difficulty: Moderate*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #86*

*Type: Definition*

*Type: Pick-up*

87. The two basic markets shown by the simple circular flow model are:

(p. 47)

- A. capital goods and consumer goods.
- B. free and controlled.
- C. product and factor.
- D. household and business.

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #87*

*Type: Definition*

*Type: Pick-up*

88. In the simple circular flow model:

(p. 47)

- A. households are demanders of factors of production.
- B.** businesses are suppliers of final products.
- C. households are suppliers of final products.
- D. there are real flows of goods, services, and factors, but not money flows.

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #88*

*Type: Definition*

*Type: Pick-up*

89. Households and businesses are:

(p. 47)

- A. both buyers in the factor market.
- B. both suppliers in the product market.
- C.** suppliers in the factor and product markets respectively.
- D. suppliers in the product and factor markets respectively.

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #89*

*Type: Definition*

*Type: Pick-up*

90. In the circular flow model:

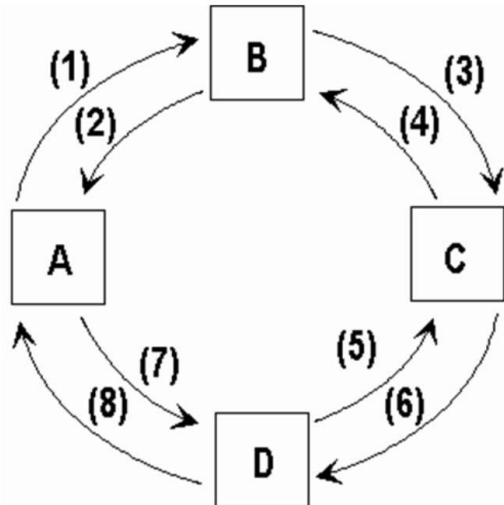
(p. 47)

- A. households supply factors of production to firms.
- B. households receive income through the factor market.
- C. households spend income in the product market.
- D.** all of these hold true.

*Difficulty: Easy*

91. If box B represents the factor market and flow (3) represents money income, then:

(p. 47)



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

Difficulty: Moderate

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

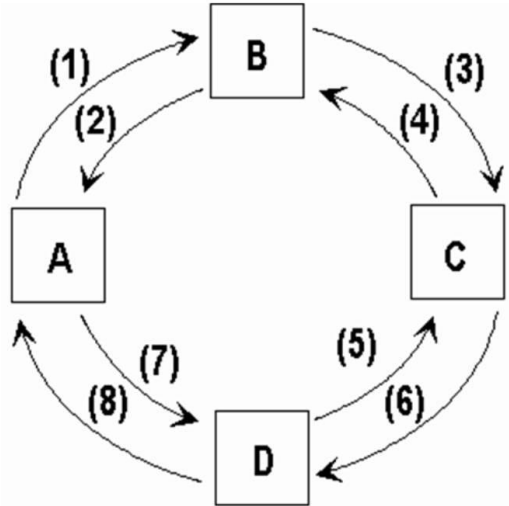
McConnell - Chapter 02 #91

Type: Application

Type: Pick-up

92. If box A represents businesses and flow (7) represents goods and services, then:

(p. 47)



- A. box D is the product market and box B is the factor 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 factor market.

*Difficulty: Moderate*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #92*

*Type: Application*

*Type: Pick-up*

93. In terms of the circular flow diagram businesses obtain revenue through the \_\_\_\_\_ market and

(p. 47)

make expenditures in the \_\_\_\_\_ market.

- A. product; financial
- B. factor; product
- C. product; factor
- D. capital; product

*Difficulty: Easy*

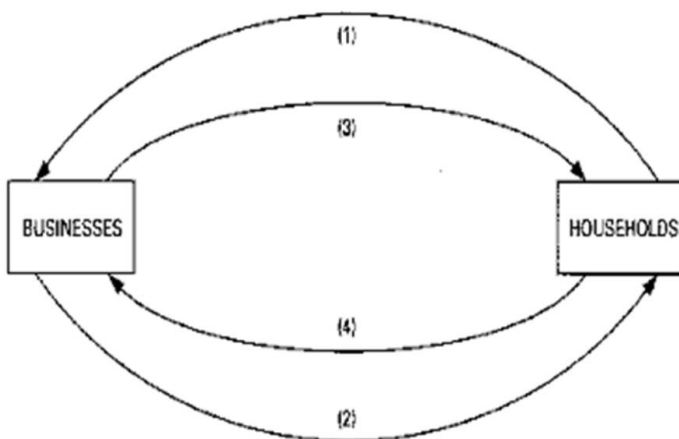
*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #93*



94. Arrows (1) and (2) represent:

(p. 47)



- A. goods and resources respectively.
- B. money incomes and output respectively.
- C. output and money incomes respectively.
- D. resources and goods respectively.

Difficulty: Moderate

Learning Objective: 02-05 Describe the mechanics of the circular flow model.

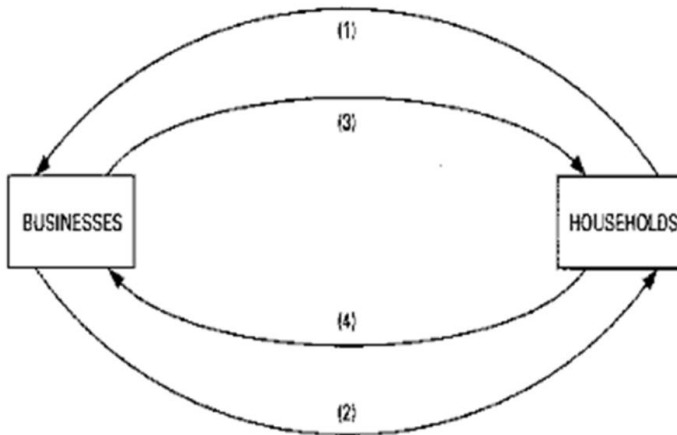
McConnell - Chapter 02 #94

Type: Application

Type: Pick-up

95. Arrows (3) and (4) represent:

(p. 47)



- A. goods and services respectively.
- B.** money incomes and consumer expenditures respectively.
- C. resources and goods respectively.
- D. consumer expenditures and money income respectively.

*Difficulty: Moderate*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

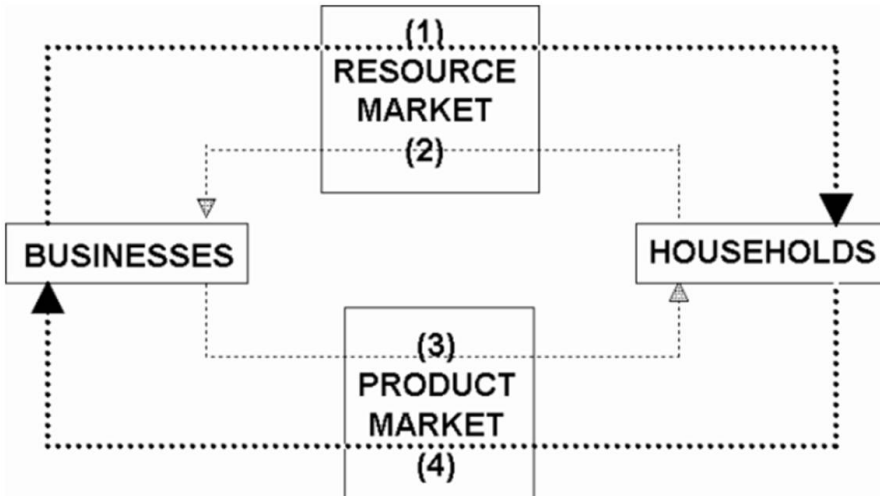
*McConnell - Chapter 02 #95*

*Type: Application*

*Type: Pick-up*

96. Circular flow model of the economy. In the diagram flow (1) represents:

(p. 47)



- A. wage, rent, interest, and profit income.
- B. land, labour, capital, and entrepreneurial ability.
- C. goods and services.
- D. consumer expenditures.

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

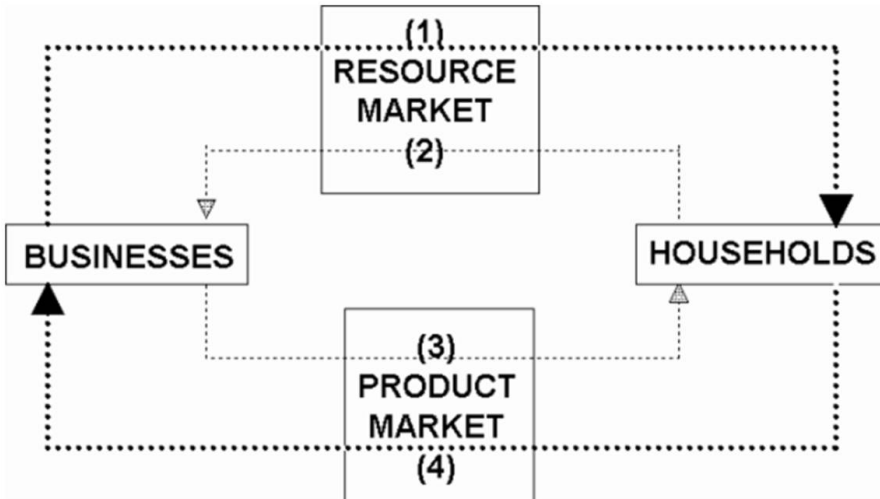
*McConnell - Chapter 02 #96*

*Type: Application*

*Type: Pick-up*

97. Circular flow model of the economy. In the diagram flow (2) represents:

(p. 47)



- A. wage, rent, interest, and profit income.
- B.** land, labour, capital, and entrepreneurial ability.
- C. goods and services.
- D. consumer expenditures.

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

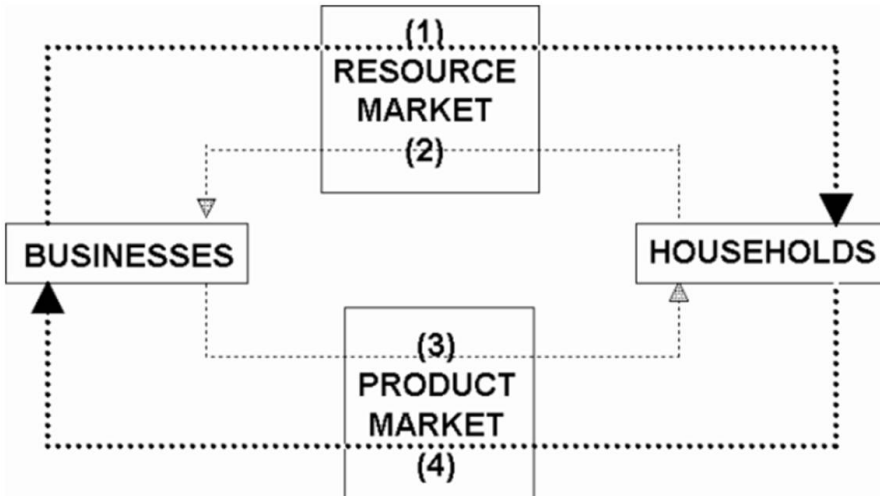
*McConnell - Chapter 02 #97*

*Type: Application*

*Type: Pick-up*

98. Circular flow model of the economy. In the diagram flow (3) represents:

(p. 47)



- A. wage, rent, interest, and profit income.
- B. land, labour, capital, and entrepreneurial ability.
- C. goods and services.
- D. consumer expenditures.

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

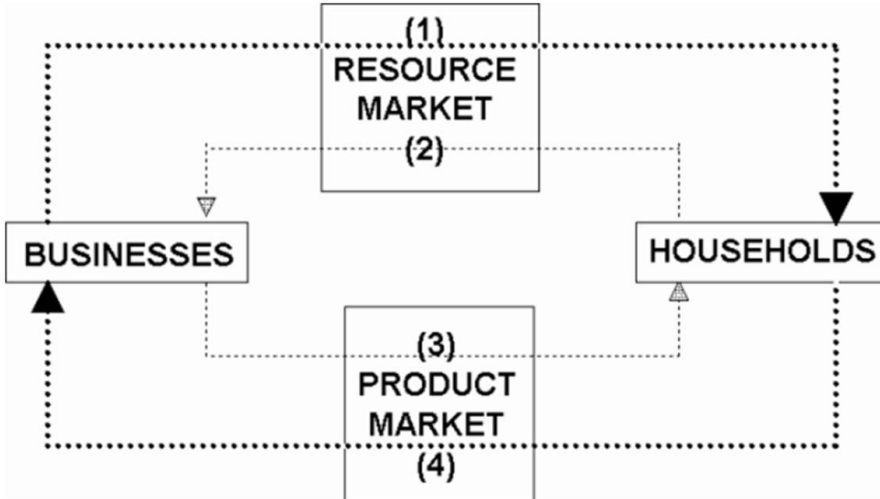
*McConnell - Chapter 02 #98*

*Type: Application*

*Type: Pick-up*

99. Circular flow model of the economy. In the diagram flow (4) represents:

(p. 47)



- A. wage, rent, interest, and profit income.
- B. land, labour, capital, and entrepreneurial ability.
- C. goods and services.
- D. consumer expenditures.

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #99*

*Type: Application*

*Type: Pick-up*

100. In terms of the circular flow diagram households make expenditures in the \_\_\_\_\_ market and receive income through the \_\_\_\_\_ market.

(p. 47)

- A. product; financial
- B. factor; product
- C. product; factor
- D. capital; product

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #100*

Type: Application

Type: Pick-up

101. Specialization may be conducive to an expansion of total output even though the individuals  
(p. 35) involved may have identical abilities.

TRUE

Difficulty: Moderate

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #101

Type: Application

Type: Pick-up

102. A division of labour enhances society's output by permitting people to take advantage of  
(p. 35) existing differences in their abilities and skills.

TRUE

Difficulty: Easy

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #102

Type: Application

Type: Pick-up

103. Money functions as a medium of exchange in permitting the ready comparison of the relative  
(p. 35) worth of heterogeneous products.

TRUE

Difficulty: Moderate

Learning Objective: 02-02 List the main characteristics of the market system.

McConnell - Chapter 02 #103

Type: Application

Type: Pick-up

104. Government alters the distribution of income by market intervention, in which case it modifies the prices established by market forces.  
(p. 35)

**TRUE**

*Difficulty: Moderate*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #104*

*Type: Application*

*Type: Pick-up*

105. Property rights do not encourage people to cooperate.  
(p. 35)

**FALSE**

*Difficulty: Easy*

*Learning Objective: 02-02 List the main characteristics of the market system.*

*McConnell - Chapter 02 #105*

*Type: Application*

*Type: New*

106. Consumer sovereignty means that legislation now protects the rights of consumers to dispose of their incomes as they see fit.  
(p. 41)

**FALSE**

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*

*McConnell - Chapter 02 #106*

*Type: Definition*

*Type: Pick-up*

107. The wants of consumers are expressed on the demand side of the product market.  
(p. 41)

**TRUE**

*Difficulty: Easy*

*Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.*



108. The guiding function of prices indicates that, at equilibrium prices, neither product surpluses  
(p. 41) nor shortages can occur.

**TRUE**

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.

McConnell - Chapter 02 #108

Type: Application

Type: Pick-up

109. The "invisible hand" refers to the many indirect controls which the federal government imposes  
(p. 41) in a system of mixed capitalism.

**FALSE**

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.

McConnell - Chapter 02 #109

Type: Definition

Type: Pick-up

110. In a competitive market economy, firms and resource suppliers will seek to further their own  
(p. 41) self-interest, but at the same time, as if guided by an "invisible hand," they will promote the public interest.

**TRUE**

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.

McConnell - Chapter 02 #110

Type: Application

Type: Pick-up

111. In the simple circular flow model businesses are suppliers of final products.

(p. 47)

**TRUE**

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #111*

*Type: Application*

*Type: Pick-up*

112. Households and businesses are both suppliers in the product market.

(p. 47)

**FALSE**

*Difficulty: Easy*

*Learning Objective: 02-05 Describe the mechanics of the circular flow model.*

*McConnell - Chapter 02 #112*

*Type: Application*

*Type: Pick-up*

## Chapter 2 Summary

<u>Category</u>	<u># of Questions</u>
Difficulty: Difficult	1
Difficulty: Easy	82
Difficulty: Moderate	29
Learning Objective: 02-01 Differentiate between a command system and a market system.	11
Learning Objective: 02-02 List the main characteristics of the market system.	45
Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. Discuss how the market system adjusts to change and promotes progress.	35
Learning Objective: 02-04 Explain the demise of the command system.	3
Learning Objective: 02-05 Describe the mechanics of the circular flow model.	18
McConnell - Chapter 02	112
Type: Application	72
Type: Definition	40
Type: New	2
Type: Pick-up	110