

## 02

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

1. The study of how society chooses to employ resources to produce goods and services and to distribute them for consumption among various competing groups and individuals is known as sociology.  
True False
2. Economics is the study of how people use resources to produce goods and services and distribute them for consumption among various competing groups and individuals.  
True False
3. Macroeconomics is the economic perspective that looks at the operation of a nation's economy as a whole.  
True False
4. Microeconomics focuses on the decisions and behaviour of people and organizations in particular markets.  
True False
5. Resource development is concerned with finding the best way to utilize the declining amount of resources a society has available.  
True False
6. Economist Sue Pligh is examining how consumers in the automobile market have responded to recent price increases by car manufacturers. Sue's efforts reflect the microeconomic perspective of economics.  
True False
7. The primary difference between macroeconomics and microeconomics is that macroeconomics looks at long run economic problems while microeconomics examines short run economic problems.  
True False
8. Adam Smith wrote *The Wealth of Nations*.  
True False
9. Adam Smith believed that the key to creating rising standards of living was to limit population growth.  
True False
10. Adam Smith believed the self-interest of businesspeople would lead them to create needed goods, services, and jobs.  
True False
11. The "invisible hand" in Adam Smith's theory refers to the efforts of the government to control the operation of markets.  
True False
12. Adam Smith believed that since businesspeople are motivated to improve their own prosperity, their actions are unlikely to benefit society as a whole.  
True False
13. Adam Smith believed that an economic system couldn't truly prosper unless people were taught to value the welfare of others above their own personal gain.  
True False

14. The concept of the invisible hand is based on the assumption that the primary motivation of entrepreneurs is to enjoy the financial rewards of their hard work.  
True False
15. Adam Smith felt that incentives to seek personal gain would insure the creation of wealth, but that the government must step in to make sure that this wealth was equitably distributed.  
True False
16. Adam Smith's theories focused on explaining the best way to divide the fixed resources we have available, rather than on how to create more wealth.  
True False
17. Adam Smith the author of *The Wealth of Nations*, said that all companies would function best with more government involvement.  
True False
18. Fatma is a citizen of a country that has an economic system that is primarily based on free market capitalism. Fatma is likely to have the freedom to buy and sell property.  
True False
19. Resource development is the system that has lead to wealth creation in much of the world.  
True False
20. In capitalist countries, the government decides what to produce and how the goods and services will be produced.  
True False
21. Capitalism is the foundation of the Canadian economic system.  
True False
22. In a free market system, decisions about what to produce and in what quantities are made by the market.  
True False
23. In capitalism, the government prohibits people and businesses from competing with each other.  
True False
24. A basic right under capitalism is the right of business to receive funding provided by the government.  
True False
25. Capitalism has had little success in encouraging the creation of wealth.  
True False
26. Prices are determined by sellers in a free market.  
True False
27. Under the basic principle of supply, as the price goes down, manufacturers and suppliers of a product tend to supply less of the product to the market.  
True False
28. Market price is determined only by supply.  
True False
29. Jill owns a bakery that specializes in cheesecakes. Until recently, Jill charged a price of \$12 for each cheesecake. At this price, Jill's customers bought an average of 84 cheesecakes each week. For the last few weeks, she has reduced her price to \$10.50 per cheesecake, and her customers have purchased an average of 96 cheesecakes each week. These results are consistent with the economic concept of demand.  
True False

30. Demand refers to the quantity of products that people are willing to buy at different prices at a specific time.  
True False
31. Price is the key factor that determines both quantity supplied and quantity demanded.  
True False
32. One of the drawbacks of free markets is the fact that competition in such markets undermines the ability of price to adjust to its equilibrium value in the long run.  
True False
33. Supporters of a free market would argue that because supply and demand interactions determine prices, there is no need for government involvement or planning.  
True False
34. At the equilibrium point the quantity consumers desire to buy equals the quantity sellers desire to sell.  
True False
35. If the quantity supplied in a market exceeds the quantity demanded, a shortage will exist.  
True False
36. If a shortage exists in a market for a good, the price of that good will tend to fall.  
True False
37. If we graph the supply and demand curves for a product at a specific time, the point on the graph where the two curves intersect is called the stress point.  
True False
38. In the long run, the actual market price tends to adjust toward the equilibrium price.  
True False
39. Countries that rely on a free market system often are plagued by persistent shortages or surpluses of goods and services.  
True False
40. In perfect competition, each firm produces a product that is clearly differentiated from the products of other firms in the same market.  
True False
41. A monopoly occurs when there is a single seller for a product or service.  
True False
42. Economists refer to a market in which a few sellers dominate the supply side as monopolistic competition.  
True False
43. Product differentiation is a key to success in monopolistic competition.  
True False
44. A surplus currently exists in the market for Whatzits. In a free market system, the government must step in and buy any Whatzits that consumers do not buy in order to eliminate the surplus and establish equilibrium.  
True False
45. In free markets, the lack of government control and regulation means that businesses find it easy to take advantage of customers by offering poor quality products at high prices.  
True False

46. Monica notices that just a few big companies produce the vast majority of soft drinks. She would be correct in describing the soft drink industry as an oligopoly.  
True False
47. Harry Cutter is the owner of Harry's Hairy Business, one of a large number of barbershops that compete against each other in the city where Harry lives. Harry has tried to attract more customers by staying open longer hours than most barbershops, and by advertising heavily on local radio to convince people that he offers the best haircuts in town. Harry appears to be operating in an oligopolistic market.  
True False
48. Legislation has ended the monopoly status of utilities in some areas.  
True False
49. A strength of a free-market economic system is that it emphasizes the fair and humane treatment of the less fortunate in society.  
True False
50. Permany is a nation with an economic system that closely approximates pure capitalism. While Permany's economy is likely to generate a great deal of wealth, it may do a poor job of providing an acceptable level of income for the elderly or disabled.  
True False
51. History shows that free-market capitalism leads to a fair and equitable distribution of wealth.  
True False
52. The greed of businesspeople represents the greatest danger to the operation of a free market system.  
True False
53. Socialists believe that the primary economic function of the government is to promote rapid economic growth.  
True False
54. In socialist economies, the government owns some, if not most, basic businesses such as coal mines and utilities.  
True False
55. The top tax rate on personal income in most socialist economies is usually lower than the top tax rate on personal income in capitalist economies.  
True False
56. The major benefit of socialism is that it creates strong incentives to work hard and take the risks associated with starting and operating a business.  
True False
57. Workers in socialist countries often get longer vacations and more social benefits than workers in free market economies.  
True False
58. Over the past decade, socialist economies have proven to be more successful at innovation and inventions than capitalist economies.  
True False
59. One drawback of socialism is that it may result in a reduction in the individual's incentive to work hard.  
True False

60. Skeeden is a nation with an economic system that features free markets with private ownership of businesses. It still relies on those businesses to create most wealth. However, over time the government of Skeeden has developed some programs and policies designed to help the needy and reduce the level of income inequality. It pays for these programs by levying relatively high taxes on businesses and workers. These arrangements suggest that the economy of Skeeden is moving closer to the adoption of pure capitalism.  
True False
61. Communism is an economic system where the state makes almost all economic decisions.  
True False
62. One of the benefits of communism is that it allows individuals a great deal of freedom to make their own economic decisions.  
True False
63. Some communist countries have not allowed their citizens to practice certain religions or change jobs.  
True False
64. Most communist countries today are suffering from severe economic problems.  
True False
65. Socialism and communism are both variations of a free-market economy.  
True False
66. In the small nation of Equalia, the government owns all of the key businesses. There are severe shortages of many key items, such as food. These features of Equalia's economy are consistent with a communist economic system.  
True False
67. Countries that wish to avoid shortages and surpluses of goods should adopt a communist economic system.  
True False
68. An important economic trend has been for free-market economies to move more toward socialism while command economies move more toward free markets.  
True False
69. In command economies, the government plays a major role in deciding which goods will be produced and who will get them.  
True False
70. Like most nations, Canada has a mixed economy.  
True False
71. Most countries throughout the world can be classified as either purely capitalist or purely socialist.  
True False
72. In a mixed economy, some allocation of resources is made by government, and some by the market.  
True False
73. In recent years, government leaders in Canada have reached broad agreement on the need for the government to continue expanding its role in health care and the regulation of banks and airlines.  
True False
74. Any output produced by Canadian firms is included in the value of the Canadian GDP, even if the output was produced in a foreign country.  
True False

75. The total value of a country's output of final goods and services in a given year is known as the nation's gross domestic product (GDP).  
True False
76. The Canadian economy is a service economy.  
True False
77. The higher productivity is, the higher the costs of production are likely to be.  
True False
78. An increase in productivity means that a worker is now able to produce more goods and services in the same amount of time.  
True False
79. As productivity increases, the cost of producing goods and services is likely to fall.  
True False
80. In the service sector of the economy, the influx of machinery such as computers increases output per worker, but does little to improve the quality of services.  
True False
81. Current measures of productivity in the service sector provide an accurate measure of changes in the quality of output.  
True False
82. Maureen is the office manager of a service company. She has recently spent a lot of money installing new computers and office equipment that will be used by the workers in her office as they provide services to clients. If Maureen's company is like most service companies, she will probably see a big jump in the productivity figures reported for workers in her office.  
True False
83. According to Statistics Canada, to be classified as unemployed, a person must have tried to find a job within the past four weeks.  
True False
84. Frictional unemployment occurs because the economy is experiencing a recession.  
True False
85. The consumer price index (CPI) measures what is happening to prices at the wholesale level.  
True False
86. The CPI is based on what is happening to the prices of a "basket" of goods and services for an average family.  
True False
87. The CPI is based on the prices of a carefully selected basket of goods, all of which consumers can purchase at a typical supermarket.  
True False
88. Inflation refers to a general rise in the prices of goods and services over time.  
True False
89. Disinflation refers to a situation in which the overall level of prices in an economy is steadily falling.  
True False
90. Some wages, tax brackets, interest rates, and government benefits are based on the CPI.  
True False
91. Deflation is a situation where the average level of prices is actually declining.  
True False

92. A depression is a severe recession that is often accompanied by deflation.  
True False
93. Depressions are usually accompanied by severe inflation.  
True False
94. Although changes in the CPI provide interesting insights into the overall performance of the economy, these changes have little practical impact on the lives of ordinary people.  
True False
95. A problem with the CPI is that it measures the price changes of only food and clothing, while ignoring what happens to the prices of such important items as shelter and transportation.  
True False
96. The government of Nexico has made progress in its efforts to bring Nexico's rapid inflation under control. Although prices are still rising, the rate of increase has slowed considerably. This suggests that Nexico currently is experiencing disinflation.  
True False
97. The nation of Woland has seen its GDP decline severely for four years in a row, with no relief in sight. Unemployment has risen to record levels, prices are falling, and businesses are failing faster than at any time in the past century. The economy of Woland is experiencing a depression.  
True False
98. Robin just graduated from college and is seeking her first job. She received a degree in engineering at a prestigious university and graduated with honours. Robin has several leads and has heard that the market for engineers is very strong, so she is convinced that she should locate a good job in the near future. Robin's current situation is an example of structural unemployment.  
True False
99. An economy is said to be in a recession if GDP declines for two or more consecutive quarters.  
True False
100. Economics is the study of how:
- A. to invest wisely in the stock market.
  - B. to employ resources to produce goods and services and distribute them among competing groups and individuals.
  - C. sophisticated statistical techniques can be used to make predictions about the evolution of society over the long run.
  - D. people govern themselves in a democratic society.
101. \_\_\_\_\_ studies the operation of a nation's economy as a whole.
- A. Microeconomics
  - B. Socioeconomics
  - C. Econometrics
  - D. Macroeconomics
102. \_\_\_\_\_ looks at the behaviour of individual people and organizations in specific markets.
- A. Macroeconomics
  - B. Finite economics
  - C. Microeconomics
  - D. Nanoeconomics
103. The study of how society employs resources to produce goods and services and distribute them for consumption among various competing groups and individuals is known as:
- A. human resource management
  - B. finance
  - C. marketing
  - D. economics

104. To understand the situation and conditions in which Canadian business operates you need to:
- have some grasp of economics
  - be aware of the global environment
  - understand the role of federal and provincial governments in Canada
  - all of the choices are correct
105. \_\_\_\_\_ is considered by some to be the father of modern economics.
- John Maynard Keynes
  - Adam Smith
  - Thomas Carlyle
  - Samuel Kapital
106. Which of the following would be a topic emphasized in a macroeconomics course?
- Factors that determine how fast a nation's economy is growing.
  - How a firm decides the price it will charge for one of its products.
  - How a consumer chooses which goods to buy.
  - The determinants of the wage rate for a certain type of labour.
107. Which of the following would be a topic emphasized in a microeconomics class?
- How a nation's GDP is computed.
  - The reasons why the unemployment rate for the economy is rising or falling.
  - How market conditions determine the price of a specific product.
  - How the government can use fiscal and monetary policies to stabilize the economy.
108. Which of the following statements would a follower of Adam Smith be most likely to make?
- The federal government should use its ability to spend and tax to guide the decisions of businesses and consumers.
  - Market economies are flawed because they put too much emphasis on economic growth and not enough on environmental problems.
  - Overpopulation is the main danger confronting modern economies.
  - If people are given the freedom to follow their own interests, they will end up promoting economic growth that benefits society as a whole.
109. Fourteen years ago, Murray noticed that a lot of people who bought personal computers really did not know much about how to use them and frequently suffered system crashes and other aggravations. He decided he could earn a nice profit by starting a consulting business to help other people overcome their computer woes. Although the business struggled at first, it has been quite successful for the last five years. Murray has many satisfied customers, and the business has grown to the point where he now employs several workers. Murray's experience is an example of:
- socialism at work.
  - the principle of comparative advantage.
  - the invisible hand.
  - the multiplier principle.
110. Samir, a friend of yours, has called for more government regulation of business. "After all", he says, "businesspeople are out to make a profit, not to create jobs or serve their customers. The government must pass more laws to require businesses to take the interests of consumers and workers into account". From these comments, it is clear that Samir:
- agrees with the ideas of Adam Smith.
  - does not accept the philosophy behind Adam Smith's invisible hand.
  - is unaware of the fact that most businesses in Canada are actually owned by the government.
  - does not realize that government regulation is already the main determinant of business decisions in capitalist economies.



111. According to the invisible hand concept, the best way for the government to encourage the creation of jobs and the production of the products most wanted by consumers would be to:
- A. take over the operation of all firms in major industries, such as telecommunications, transportation, and energy, and operate these firms as non-profit organizations.
  - B. allow private ownership of businesses, but make use of extensive regulation to force businesses to behave in a socially desirable way.
  - C. allow entrepreneurs a great deal of personal freedom to follow their own self-interest.
  - D. impose high taxes on individuals, and use the revenue to subsidize businesses to encourage them to produce the maximum rate of output.
112. Adam Smith believed that countries would prosper if businesspeople were free to start and run their own businesses, because businesspeople would make a profit by providing the goods, services and ideas that others in the economy wanted. This was called the:
- A. kinked demand theory.
  - B. invisible hand.
  - C. spending multiplier.
  - D. demand accelerator.
113. Sue is a gifted cook. She is about to open her own business, a restaurant in which she will be the head chef. Sue is willing to work long hours because she believes that her culinary talents and hard work will allow her business to succeed and earn her a great deal of money. Sue's efforts appear most consistent with the economic theory developed by:
- A. Thomas Malthus.
  - B. Karl Marx.
  - C. Adam Smith.
  - D. David Ricardo.
114. The economic system that has led to wealth creation in most of the world is known as:
- A. capitalism
  - B. communism
  - C. free-trade
  - D. all of the choices are correct
115. \_\_\_\_\_ is the popular name for a free-market economy in which business people make most of the decisions about what products to produce, how many workers to hire, and what prices to charge for goods and services.
- A. Socialism
  - B. Capitalism
  - C. Communism
  - D. Marginalism
116. Under capitalism:
- A. most of the means of production and distribution are privately owned and operated for profit.
  - B. the primary function of the government is to distribute wealth more evenly.
  - C. utilities, health care, education, and other services are controlled by the government.
  - D. markets operate to carry out the decisions made by central planners.
117. In capitalism, most decisions about what goods and services to produce are made by:
- A. a variety of government agencies.
  - B. businesspeople.
  - C. a central planning board that consists of consumers, business executives, and employees.
  - D. majority rule, with everyone receiving an equal vote.

118. The market price of apples is currently rising. In a free-market economy, the most likely explanation of this price change is that:
- A. the government has decided to set a higher price so that the firms in the market make an adequate profit.
  - B. there is a shortage in the market for apples.
  - C. the supply of money has decreased.
  - D. the equilibrium price is lower than the market price.
119. When the market price of a good is below the equilibrium price:
- A. the quantity demanded will exceed the quantity supplied.
  - B. the supply curve will be to the right of the demand curve.
  - C. a surplus will exist in the market.
  - D. the government will regulate the price of the good to ensure equilibrium is attained.
120. When the market price of a good is above its equilibrium value:
- A. a shortage will exist in the market.
  - B. the quantity demanded will exceed the quantity supplied.
  - C. both the supply curve and the demand curve will shift to the right.
  - D. a surplus will exist in the market.
121. The quantity of a good or service that manufacturers or owners are willing to sell at different prices during a specific time period is known as the:
- A. supply of that product.
  - B. demand for that product.
  - C. elasticity of that product.
  - D. utility of that product.
122. A typical supply curve shows that an increase in the price of a good will cause the quantity supplied to:
- A. decrease.
  - B. increase.
  - C. remain constant.
  - D. fluctuate randomly around its equilibrium value.
123. A typical supply curve shows a relationship between the:
- A. amount of labour a firm hires and the amount of output it can produce.
  - B. amount of time required to produce a good and the relevant production costs.
  - C. price of a good and the quantity sellers would be willing to offer for sale.
  - D. amount of a good a firm produces and the total profit it earns.
124. A(n) \_\_\_\_\_ curve shows the relationship between the price of a good and the quantity of that good people are willing and able to buy in a given time period.
- A. demand
  - B. supply
  - C. utility
  - D. Laffer
125. A typical demand curve shows that:
- A. as people earn more income, they buy more of a good.
  - B. as supply increases, the amount purchased decreases.
  - C. people tend to buy more of a good than they really want.
  - D. people tend to buy more of a good when its price decreases.
126. When the supply curve and demand curve for a particular good are on a single graph, the point at which the two curves intersect identifies the:
- A. total profit earned by producers.
  - B. total amount of labour that will be employed in that market.
  - C. amount of time it takes to bring together the buyers and sellers of the good.
  - D. equilibrium price of the good.

127. When prices are free to adjust over time, the market price of a good tends to:
- A. rise above the equilibrium price in the long run.
  - B. equal the equilibrium price in the long run.
  - C. fall below the equilibrium price in the long run.
  - D. have no specific relationship to the equilibrium price.
128. If a shortage exists for a good in a free-market economy, the:
- A. price of the good will rise.
  - B. price of the good will fall.
  - C. government will order suppliers to increase the production of that good.
  - D. government must establish a rationing system to make sure that the good is fairly distributed.
129. \_\_\_\_\_ is characterized by a large number of firms selling products that appear to be identical.
- A. Oligopoly
  - B. Monopolistic competition
  - C. Perfect competition
  - D. Microeconomic competition
130. A(n) \_\_\_\_\_ exists when a large number of firms produce goods that are similar but are perceived by buyers as being different.
- A. perfect competition
  - B. monopolistic competition
  - C. oligopoly
  - D. monopoly
131. A(n) \_\_\_\_\_ exists when the entire supply of a good is controlled by a single seller.
- A. perfect competition
  - B. oligopoly
  - C. pure Capitalism
  - D. monopoly
132. An oligopoly is a market that is characterized by:
- A. one firm that totally dominates the supply of the product.
  - B. a large number of small firms all producing very similar products.
  - C. a few large sellers who dominate the market supply.
  - D. several small firms that compete primarily by differentiating their products.
133. The markets for laundry detergents, soft drinks, and automobiles all are dominated by just a few sellers. Economists would classify these markets as examples of:
- A. monopolistic competition.
  - B. perfect competition.
  - C. an oligopoly.
  - D. a monopoly.
134. In most large cities there are a large number of bakeries. These bakeries produce similar, but not identical, products. Some bakeries claim to have the best cheesecakes in town, while others brag about their cookies or specialty breads. The bakery market in a large city is an example of:
- A. monopolistic competition.
  - B. perfect competition.
  - C. an oligopoly.
  - D. a monopoly.
135. The presence of competition in free markets:
- A. is undesirable because it results in unnecessary duplication of efforts.
  - B. typically results in better quality and lower prices.
  - C. is rare, since most markets eventually evolve into monopolies.
  - D. is undesirable, because one big firm can usually produce goods more efficiently than a large number of small firms.

136. Bigbux is a major producer of Whatsits, but it faces competition in the Whatsit market from three other major producers. Together, Bigbux and its three large rivals control almost the entire supply of Whatsits. The type of market Bigbux is in is called:
- A. oligopoly.
  - B. duopoly.
  - C. monopolistic competition.
  - D. quasi-monopoly.
137. Which of the following statements most accurately identifies a serious limitation of the free-market economic system?
- A. Free-market economies offer little opportunity for the poor to work their way out of poverty.
  - B. Free-market economies have been unable to create wealth as rapidly as other types of economic systems.
  - C. Free-market economies often are plagued by shortages of needed consumer goods.
  - D. Free-market economies result in a very unequal distribution of wealth.
138. Peter Principal is the prime minister of the nation of Urbania. Peter has called for Urbania's legislature to enact new legislation designed to shift his economy away from socialism toward a more capitalistic system. Peter has acknowledged that such a radical change will entail some hardships, and that some citizens will be unhappy with the changes in the economy. The most likely source of unhappiness associated with a move toward capitalism is:
- A. less wealth will be created.
  - B. people will have less economic freedom.
  - C. tax rates will have to increase.
  - D. the distribution of wealth will become less equal.
139. Jane's Garden Center exists in a market where there are many sellers and no seller is large enough to dictate the price of a product. Under what degree of competition does Jane's company compete?
- A. Monopoly
  - B. Oligopoly
  - C. Monopolistic competition
  - D. Perfect competition
140. Susan Gilles wants to invest in a Tim Horton's franchise but opts not to once she finds out just how much it costs to buy a franchise. She decides to start her own independent coffee shop. She understands the need to differentiate her business from all the other coffee shops, given the type of competition that exists in this industry, which is:
- A. an oligopoly.
  - B. perfect competition.
  - C. monopolistic competition.
  - D. a monopoly.
141. One of the greatest concerns associated with capitalism is that:
- A. it is not very successful at creating wealth.
  - B. some businesspeople may let greed guide their behaviour.
  - C. the amount of economic freedom enjoyed by consumers is very limited.
  - D. producers are unlikely to supply the goods and services that consumers value the most.
142. Under socialism:
- A. the basic goal is to make sure that those that create wealth are allowed to keep that wealth.
  - B. a major goal of the government is to reduce the inequality in the distribution of wealth.
  - C. a major goal of the government is to create incentives to encourage entrepreneurs to create jobs and economic growth.
  - D. the most important goal of the government is to keep tax rates extremely low.

143. A major benefit of socialism is assumed to be its:
- A. ability to stimulate rapid economic growth.
  - B. emphasis on low tax rates.
  - C. emphasis on social equality.
  - D. ability to create strong incentives to work hard.
144. A key assumption of socialism is that:
- A. government ownership of some basic businesses is desirable because it helps achieve a more equal distribution of profits among the people.
  - B. the most important economic function of government is to promote rapid economic growth.
  - C. economic growth requires strict government control over population growth.
  - D. tax rates should be kept as low as possible in order to give consumers the maximum possible purchasing power.
145. The reason why many socialist countries have experienced brain drain is that:
- A. socialism encourages a very unequal distribution of income.
  - B. the government does little to protect the natural environment.
  - C. workers tend to have to work longer hours and receive fewer benefits under socialism.
  - D. tax rates on talented individuals tend to be very high.
146. In the nation of Equalia, many businesses are privately owned, but the government owns some of the basic businesses and has developed many social programs designed to promote social equality. The economy of Equalia would be considered an example of:
- A. pure capitalism.
  - B. socialism.
  - C. mercantilism.
  - D. communism.
147. Jorge Martinez is a hard working entrepreneur who operated a successful business in his home country of Margintina for many years. Recently, however, he immigrated to Canada and applied for Canadian citizenship. "In Margintina, tax rates were very high", Jorge complained. "The government used the taxes I paid to finance all sorts of social programs to help the less fortunate. While this is a noble goal, it has really undermined the profit incentive of individuals such as myself. I really feel that these high taxes have stifled economic growth". Jorge's comments illustrate the reason many socialist countries are experiencing a(n):
- A. antitrust problem.
  - B. depression.
  - C. brain drain.
  - D. budget surplus.
148. Which of the following people would tend to favour a socialist economy?
- A. Dann wants to live in a country with low marginal tax rates.
  - B. Robin wants to live in a country that encourages rapid economic growth.
  - C. Liz wants to live in a country with limited government regulation.
  - D. Dwayne prefers to live in a country that promotes social equality.
149. Although it has been considered a capitalist economy in the past, for the past several years the economy of the nation of Suburbania has become more socialist in its characteristics. Which of the following trends is most likely to be associated with Suburbania's movement toward socialism?
- A. lower tax rates
  - B. more rapid economic growth
  - C. a more equal distribution of wealth
  - D. increasing reliance on markets to determine economic outcomes
150. Communism is an economic system in which:
- A. the government and private citizens own equal shares of the economic resources.
  - B. all or most of the productive resources are owned by private businesses.
  - C. the government makes most of the major economic decisions.
  - D. individual consumers make all economic decisions.

151. In recent years, countries with communist economic systems have:
- A. enjoyed a period of great prosperity.
  - B. experienced severe economic depression.
  - C. C) have produced goods sufficient for their own people and for export.
  - D. grown very slowly, but have avoided the severe problems that have plagued some capitalist economies in Asia and Europe.
152. One of the most significant problems faced by communist economies is:
- A. a great inequality in the distribution of wealth and income.
  - B. severe inflationary pressures due to rapid economic growth.
  - C. too little government regulation of economic activity.
  - D. persistent shortages of basic goods such as food and clothing.
153. Which of the following statements provides the most accurate comparison of socialism and communism?
- A. Under socialism the government owns most businesses, while under communism the church owns most businesses.
  - B. Both socialism and communism want to achieve a more equal distribution of income and wealth, but under communism the government takes more control over people's lives.
  - C. Socialism strives for an equal distribution of income but communism wants income to go primarily to those who own and operate private businesses.
  - D. Communism believes that the government should always strive to balance its budget, while socialism accepts deficit spending as the price of achieving true equality.
154. Some regions of China do not allow their citizens to practice certain religions, change jobs, or move to another town. This is an example of:
- A. socialism
  - B. free-market
  - C. capitalism
  - D. communism
155. The Canadian economic system can be described as a:
- A. mixed economy.
  - B. capitalist economy.
  - C. socialist economy.
  - D. communist economy.
156. Today, the economic systems of most nations could most accurately be classified as:
- A. pure capitalism.
  - B. pure socialism.
  - C. command economies.
  - D. mixed economies.
157. Both socialism and communism are variations of:
- A. command economies.
  - B. competitive economies.
  - C. free-market economies.
  - D. plutocratic systems.
158. A major trend in the world today is that:
- A. free-market economies are moving more toward socialism and socialist economies are moving more toward capitalism.
  - B. productivity in the service sector is increasing much more rapidly than productivity in agriculture and manufacturing.
  - C. governments in socialist economies are increasing their use of social programs and relying on higher tax rates to finance these programs.
  - D. governments in countries with capitalist economies are paying less attention to environmental concerns and issues involving social equality.

159. A command system is characterized by:
- A. reliance on the forces of supply and demand to determine what is produced.
  - B. reliance on the government to determine what is produced and who gets the output.
  - C. an extremely rapid rate of economic growth.
  - D. freedom of choice and freedom of competition.
160. The government of Ruritania has implemented many programs that promote equality, but has become concerned about the very slow rate of growth that has plagued the national economy for many years. In order to address this problem, the government is likely to:
- A. take control of more major industries.
  - B. reduce taxes and cut back on some social programs.
  - C. make sure to balance its budget.
  - D. avoid the use of fiscal policies and reduce the supply of money in circulation.
161. In an effort to promote rapid growth, the government of Goldinia has kept taxes low, done little to regulate business activities, and implemented only modest social programs. The government is now facing political pressure to do more to clean up the environment and reduce the inequalities of income and wealth. Which of the following statements is most accurate? Goldinia's government is currently taking:
- A. a purely capitalist approach to achieve its economic goals, and is likely to continue doing so in the future.
  - B. a purely socialist approach to achieve its economic goals, and is likely to continue doing so in the future.
  - C. a predominately socialist approach to achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more capitalist approach in the future.
  - D. a predominately capitalist approach toward achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more socialist approach in the future.
162. Over the recent past, Canadian governments have been privatizing a number of businesses, as growing public sentiment is that governments are not effective as business operators. This trend is an example of the growth of:
- A. command economies
  - B. free-market economies
  - C. free trade
  - D. mixed economies
163. As economies start to develop in third world countries, command economy is one of the options considered. With this option,
- A. both government and private business jointly produce goods and services.
  - B. neither communism nor socialism is a preferred means of running the economy.
  - C. foreign private businesses are encouraged to invest.
  - D. the government owns and operates a number of businesses.
164. The total value of final goods and services produced within a nation's borders in a given year is known as that nation's:
- A. aggregate production quota.
  - B. aggregate domestic output.
  - C. index of aggregate economic output.
  - D. gross domestic product.
165. In recent years, productivity in the manufacturing sector of the Canadian economy has been:
- A. rising.
  - B. relatively stable.
  - C. falling slowly.
  - D. falling very rapidly.

166. The nation of Tryland has seen the total value of the goods and services it produces increase rapidly over the past year. This would show up most clearly as a:
- A. rise in Tryland's GDP.
  - B. rise in Tryland's CPI.
  - C. rise in Tryland's unemployment rate.
  - D. decline in the number of workers who are structurally unemployed.
167. Almost every discussion about a country's economy is based on gross domestic product. GDP is the:
- A. total output of goods and services in a given period divided by the total hours of labour required to provide them
  - B. amount of goods and services people can buy with the money they have
  - C. general well-being of a society in terms of political freedom
  - D. total value of goods and services produced in a country in a given year
168. An increase in \_\_\_\_\_ means that a given number of workers can produce more output than before.
- A. CPI
  - B. structural unemployment
  - C. productivity
  - D. GDP
169. Kathleen manages a manufacturing plant for ScanRite, Inc., a producer of scanners and other input devices connected to computers. About six months ago, Kathleen asked an assistant to keep track of both work hours and output at her plant. She has compared these figures, and has found that even though the number of workers (and the hours they worked) remained relatively steady over the past six months, the plant's output increased significantly. This indicates that:
- A. the productivity of workers at the ScanRite plant has increased.
  - B. the ScanRite plant must have sold off some of its excess inventory.
  - C. ScanRite prices have increased faster than the wages it pays to its workers.
  - D. Kathleen should hire more workers.
170. Three of the major indicators of the economic condition of Canada are the gross domestic product (GDP), the price indices, and the:
- A. debt to equity ratio (DER).
  - B. gross resource utilization index (GRUI).
  - C. unemployment rate.
  - D. index of capital formation.
171. The four basic types of employment are frictional, structural, seasonal, and:
- A. cyclical.
  - B. procedural.
  - C. industrial.
  - D. traditional.
172. The \_\_\_\_\_ index measures changes in the prices of goods and services such as food, housing, and apparel.
- A. market price
  - B. producer price
  - C. wholesale price
  - D. consumer price
173. The \_\_\_\_\_ is a statistic that is used to compute the pace of inflation or deflation.
- A. consumer price index
  - B. gross domestic product
  - C. index of leading indicators
  - D. index of inflationary trends



174. \_\_\_\_\_ refers to a general rise in the price level of goods and services over time.
- A. Acceleration
  - B. Recession
  - C. Inflation
  - D. Escalation
175. \_\_\_\_\_ is a condition in which the rate of inflation is declining.
- A. Deflation
  - B. Disinflation
  - C. Stagflation
  - D. Unflation
176. \_\_\_\_\_ is a condition in which the average level of prices is actually falling.
- A. Deflation
  - B. Disinflation
  - C. Stagflation
  - D. Unflation
177. A \_\_\_\_\_ is a very severe recession that is usually accompanied by a decline in the average level of prices.
- A. stagflation
  - B. retraction
  - C. depression
  - D. dissolution
178. One reason the CPI is followed very closely by the government, businesses, and workers is that:
- A. it indicates whether we are running a budget surplus or a deficit.
  - B. some wages, interest rates, tax rates, and government benefits are tied to changes in the value of the CPI.
  - C. it is the best measure of worker productivity in the service sector.
  - D. the gross national product is computed from the reported increases in the CPI.
179. A collapse in the national banking system of Lasia has resulted in a condition where prices are declining. This condition is known as:
- A. disinflation.
  - B. deflation.
  - C. contra inflation.
  - D. overproduction.
180. Which of the following results would be the clearest indication that an economy was experiencing deflation?
- A. a decrease in the unemployment rate
  - B. a decrease in GDP
  - C. an increase in the PPI
  - D. a decrease in the CPI
181. The nation of Nadiria is in the midst of a terrible economic downturn. The nation's GDP has been declining steadily for over five years and is now at its lowest level in over fifty years. Nadiria's unemployment rate is at an all time high and the nation's CPI is falling. Nadiria is experiencing a:
- A. period of stagflation.
  - B. balance of trade deficit.
  - C. depression.
  - D. retraction.

182. John complained to his buddy, Frank, that the prices of all the goods he and his family buy have increased a lot over the past year. Frank disagreed, saying that the prices of some goods have gone up a bit, but other prices have declined. Frank feels that the average price of consumer goods hasn't changed very much. In order to resolve their disagreement, John and Frank should look at recent figures for the:
- A. GDP
  - B. CPI
  - C. PPI
  - D. MEW
183. Francine is a bright and talented woman. She recently quit her job at a major corporation because she and her boss didn't get along and she saw little chance for advancement. Francine has not yet found another job, but the economy appears healthy and lots of firms are hiring people with her qualifications. Thus, Francine is confident that she will find a job in the near future. Which of the following statements about Francine's current situation is most accurate? Francine is:
- A. not considered unemployed because she voluntarily quit her job.
  - B. an example of cyclical unemployment.
  - C. an example of frictional unemployment.
  - D. most likely to find employment quickly if she seeks training in a different field.
184. One of the most serious types of unemployment is \_\_\_\_\_. It occurs because of a recession or a similar downturn in the business cycle.
- A. seasonal
  - B. frictional
  - C. structural
  - D. cyclical
185. The rise and fall of the economy is referred to as the concept of:
- A. depression
  - B. recession
  - C. business cycles
  - D. recovery
186. What is the difference between macroeconomics and microeconomics?
187. Explain how prices are determined in a free-market economy.
188. Identify the four different degrees of competition.

189. Canada has a mixed economy, like most other countries in the world. Explain what the term mixed economy means & what the benefits are.
190. No country is solely capitalist. What issues does the Canadian government get involved in?
191. When describing the state of the Canadian economy, reporters and commentators often refer to figures for the nation's GDP, its unemployment rate, and the CPI. Explain what each of these terms means and why each measure is significant.
192. Explain what the business cycle is.

## 02 Key

1. (p. 44) The study of how society chooses to employ resources to produce goods and services and to distribute them for consumption among various competing groups and individuals is known as sociology.  
**FALSE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #1*
2. (p. 44) Economics is the study of how people use resources to produce goods and services and distribute them for consumption among various competing groups and individuals.  
**TRUE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #2*
3. (p. 45) Macroeconomics is the economic perspective that looks at the operation of a nation's economy as a whole.  
**TRUE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #3*
4. (p. 45) Microeconomics focuses on the decisions and behaviour of people and organizations in particular markets.  
**TRUE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #4*
5. (p. 45) Resource development is concerned with finding the best way to utilize the declining amount of resources a society has available.  
**FALSE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #5*
6. (p. 45) Economist Sue Pligh is examining how consumers in the automobile market have responded to recent price increases by car manufacturers. Sue's efforts reflect the microeconomic perspective of economics.  
**TRUE**  
*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #6*
7. (p. 45) The primary difference between macroeconomics and microeconomics is that macroeconomics looks at long run economic problems while microeconomics examines short run economic problems.  
**FALSE**  
*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #7*
8. (p. 47) Adam Smith wrote *The Wealth of Nations*.  
**TRUE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #8*
9. (p. 46) Adam Smith believed that the key to creating rising standards of living was to limit population growth.  
**FALSE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #9*

10. Adam Smith believed the self-interest of businesspeople would lead them to create needed goods, services, and jobs.

(p. 47)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #10*

11. The "invisible hand" in Adam Smith's theory refers to the efforts of the government to control the operation of markets.

(p. 47)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #11*

12. Adam Smith believed that since businesspeople are motivated to improve their own prosperity, their actions are unlikely to benefit society as a whole.

(p. 47)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #13*

13. Adam Smith believed that an economic system couldn't truly prosper unless people were taught to value the welfare of others above their own personal gain.

(p. 47)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #13*

14. The concept of the invisible hand is based on the assumption that the primary motivation of entrepreneurs is to enjoy the financial rewards of their hard work.

(p. 47)

**TRUE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #14*

15. Adam Smith felt that incentives to seek personal gain would insure the creation of wealth, but that the government must step in to make sure that this wealth was equitably distributed.

(p. 47)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #15*

16. Adam Smith's theories focused on explaining the best way to divide the fixed resources we have available, rather than on how to create more wealth.

(p. 46, 47)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #16*

17. Adam Smith the author of *The Wealth of Nations*, said that all companies would function best with more government involvement.

(p. 47)

**FALSE**

*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #17*

18. Fatma is a citizen of a country that has an economic system that is primarily based on free market capitalism. Fatma is likely to have the freedom to buy and sell property.

(p. 48)

**TRUE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #18*

19. Resource development is the system that has led to wealth creation in much of the world.

(p. 48)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #19*

20. In capitalist countries, the government decides what to produce and how the goods and services will be produced.  
(p. 48) **FALSE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #20*
21. Capitalism is the foundation of the Canadian economic system.  
(p. 48) **TRUE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #21*
22. In a free market system, decisions about what to produce and in what quantities are made by the market.  
(p. 48) **TRUE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #22*
23. In capitalism, the government prohibits people and businesses from competing with each other.  
(p. 48) **FALSE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #23*
24. A basic right under capitalism is the right of business to receive funding provided by the government.  
(p. 48) **FALSE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #24*
25. Capitalism has had little success in encouraging the creation of wealth.  
(p. 48) **FALSE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #25*
26. Prices are determined by sellers in a free market.  
(p. 48) **FALSE**  
*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #26*
27. Under the basic principle of supply, as the price goes down, manufacturers and suppliers of a product tend to supply less of the product to the market.  
(p. 49) **TRUE**  
*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #27*
28. Market price is determined only by supply.  
(p. 48) **FALSE**  
*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #28*
29. Jill owns a bakery that specializes in cheesecakes. Until recently, Jill charged a price of \$12 for each cheesecake. At this price, Jill's customers bought an average of 84 cheesecakes each week. For the last few weeks, she has reduced her price to \$10.50 per cheesecake, and her customers have purchased an average of 96 cheesecakes each week. These results are consistent with the economic concept of demand.  
(p. 50) **TRUE**  
*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #29*

30. Demand refers to the quantity of products that people are willing to buy at different prices at a specific time.  
(p. 50) **TRUE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #30*
31. Price is the key factor that determines both quantity supplied and quantity demanded.  
(p. 50) **TRUE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #31*
32. One of the drawbacks of free markets is the fact that competition in such markets undermines the ability of price to adjust to its equilibrium value in the long run.  
(p. 50) **FALSE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #32*
33. Supporters of a free market would argue that because supply and demand interactions determine prices, there is no need for government involvement or planning.  
(p. 50) **TRUE**
- Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #33*
34. At the equilibrium point the quantity consumers desire to buy equals the quantity sellers desire to sell.  
(p. 50) **TRUE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #34*
35. If the quantity supplied in a market exceeds the quantity demanded, a shortage will exist.  
(p. 50, 51) **FALSE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #35*
36. If a shortage exists in a market for a good, the price of that good will tend to fall.  
(p. 50, 51) **FALSE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #36*
37. If we graph the supply and demand curves for a product at a specific time, the point on the graph where the two curves intersect is called the stress point.  
(p. 51) **FALSE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #37*
38. In the long run, the actual market price tends to adjust toward the equilibrium price.  
(p. 50) **TRUE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #38*
39. Countries that rely on a free market system often are plagued by persistent shortages or surpluses of goods and services.  
(p. 51) **FALSE**
- Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #39*

40. In perfect competition, each firm produces a product that is clearly differentiated from the products of other firms in the same market.

(p. 51)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #40*

41. A monopoly occurs when there is a single seller for a product or service.

(p. 51)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #41*

42. Economists refer to a market in which a few sellers dominate the supply side as monopolistic competition.

(p. 51)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #42*

43. Product differentiation is a key to success in monopolistic competition.

(p. 51)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #43*

44. A surplus currently exists in the market for Whatzits. In a free market system, the government must step in and buy any Whatzits that consumers do not buy in order to eliminate the surplus and establish equilibrium.

(p. 51)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #44*

45. In free markets, the lack of government control and regulation means that businesses find it easy to take advantage of customers by offering poor quality products at high prices.

(p. 51)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #45*

46. Monica notices that just a few big companies produce the vast majority of soft drinks. She would be correct in describing the soft drink industry as an oligopoly.

(p. 51)

**TRUE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #46*

47. Harry Cutter is the owner of Harry's Hairy Business, one of a large number of barbershops that compete against each other in the city where Harry lives. Harry has tried to attract more customers by staying open longer hours than most barbershops, and by advertising heavily on local radio to convince people that he offers the best haircuts in town. Harry appears to be operating in an oligopolistic market.

(p. 51)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #47*

48. Legislation has ended the monopoly status of utilities in some areas.

(p. 52)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #48*



49. A strength of a free-market economic system is that it emphasizes the fair and humane treatment of the less fortunate in society.

(p. 52)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #49*

50. Permany is a nation with an economic system that closely approximates pure capitalism. While Permany's economy is likely to generate a great deal of wealth, it may do a poor job of providing an acceptable level of income for the elderly or disabled.

(p. 52)

**TRUE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #50*

51. History shows that free-market capitalism leads to a fair and equitable distribution of wealth.

(p. 52)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #51*

52. The greed of businesspeople represents the greatest danger to the operation of a free market system.

(p. 53)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #52*

53. Socialists believe that the primary economic function of the government is to promote rapid economic growth.

(p. 53)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #53*

54. In socialist economies, the government owns some, if not most, basic businesses such as coal mines and utilities.

(p. 53)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #54*

55. The top tax rate on personal income in most socialist economies is usually lower than the top tax rate on personal income in capitalist economies.

(p. 53)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #55*

56. The major benefit of socialism is that it creates strong incentives to work hard and take the risks associated with starting and operating a business.

(p. 53)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #56*

57. Workers in socialist countries often get longer vacations and more social benefits than workers in free market economies.

(p. 53)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #57*

58. Over the past decade, socialist economies have proven to be more successful at innovation and inventions than capitalist economies.

(p. 54)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #58*

59. One drawback of socialism is that it may result in a reduction in the individual's incentive to work hard.

(p. 54)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #59*

60. Skeeden is a nation with an economic system that features free markets with private ownership of businesses. It still relies on those businesses to create most wealth. However, over time the government of Skeeden has developed some programs and policies designed to help the needy and reduce the level of income inequality. It pays for these programs by levying relatively high taxes on businesses and workers. These arrangements suggest that the economy of Skeeden is moving closer to the adoption of pure capitalism.

(p. 48 and 53, 54)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #60*

61. Communism is an economic system where the state makes almost all economic decisions.

(p. 54)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #61*

62. One of the benefits of communism is that it allows individuals a great deal of freedom to make their own economic decisions.

(p. 54)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #62*

63. Some communist countries have not allowed their citizens to practice certain religions or change jobs.

(p. 54)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #63*

64. Most communist countries today are suffering from severe economic problems.

(p. 54)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #64*

65. Socialism and communism are both variations of a free-market economy.

(p. 53, 54)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #65*

66. In the small nation of Equalia, the government owns all of the key businesses. There are severe shortages of many key items, such as food. These features of Equalia's economy are consistent with a communist economic system.

(p. 54)

**TRUE**

*Difficulty: 2*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #66*

67. Countries that wish to avoid shortages and surpluses of goods should adopt a communist economic system.

(p. 54)

**FALSE**

*Difficulty: 3*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #67*

68. An important economic trend has been for free-market economies to move more toward socialism while command economies move more toward free markets.

(p. 55)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #68*

69. In command economies, the government plays a major role in deciding which goods will be produced and who will get them.

(p. 55)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #69*

70. Like most nations, Canada has a mixed economy.

(p. 56)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #70*

71. Most countries throughout the world can be classified as either purely capitalist or purely socialist.

(p. 55)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #71*

72. In a mixed economy, some allocation of resources is made by government, and some by the market.

(p. 55)

**TRUE**

*Difficulty: 3*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #72*

73. In recent years, government leaders in Canada have reached broad agreement on the need for the government to continue expanding its role in health care and the regulation of banks and airlines.

(p. 57)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #73*

74. Any output produced by Canadian firms is included in the value of the Canadian GDP, even if the output was produced in a foreign country.

(p. 58)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #74*

75. The total value of a country's output of final goods and services in a given year is known as the nation's gross domestic product (GDP).

(p. 58)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #75*

76. The Canadian economy is a service economy.

(p. 59)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #76*

77. The higher productivity is, the higher the costs of production are likely to be.

(p. 59)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #77*

78. An increase in productivity means that a worker is now able to produce more goods and services in the same amount of time.

(p. 59)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #78*

79. As productivity increases, the cost of producing goods and services is likely to fall.

(p. 59)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #79*

80. In the service sector of the economy, the influx of machinery such as computers increases output per worker, but does little to improve the quality of services.

(p. 59)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #80*

81. Current measures of productivity in the service sector provide an accurate measure of changes in the quality of output.

(p. 59)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #81*

82. Maureen is the office manager of a service company. She has recently spent a lot of money installing new computers and office equipment that will be used by the workers in her office as they provide services to clients. If Maureen's company is like most service companies, she will probably see a big jump in the productivity figures reported for workers in her office.

(p. 59)

**FALSE**

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #82*

83. According to Statistics Canada, to be classified as unemployed, a person must have tried to find a job within the past four weeks.

(p. 60)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #83*

84. Frictional unemployment occurs because the economy is experiencing a recession.

(p. 60)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #84*

85. The consumer price index (CPI) measures what is happening to prices at the wholesale level.

(p. 61)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #85*

86. The CPI is based on what is happening to the prices of a "basket" of goods and services for an average family.

(p. 61)

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #86*

87. The CPI is based on the prices of a carefully selected basket of goods, all of which consumers can purchase at a typical supermarket.

(p. 61)

**FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #87*

88. Inflation refers to a general rise in the prices of goods and services over time.

(p. 61) **TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #88*

89. Disinflation refers to a situation in which the overall level of prices in an economy is steadily falling.

(p. 61) **FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #89*

90. Some wages, tax brackets, interest rates, and government benefits are based on the CPI.

(p. 61) **TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #90*

91. Deflation is a situation where the average level of prices is actually declining.

(p. 61) **TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #91*

92. A depression is a severe recession that is often accompanied by deflation.

(p. 62) **TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #92*

93. Depressions are usually accompanied by severe inflation.

(p. 62) **FALSE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #93*

94. Although changes in the CPI provide interesting insights into the overall performance of the economy, these changes have little practical impact on the lives of ordinary people.

(p. 61) **FALSE**

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #94*

95. A problem with the CPI is that it measures the price changes of only food and clothing, while ignoring what happens to the prices of such important items as shelter and transportation.

(p. 61) **FALSE**

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #95*

96. The government of Nexico has made progress in its efforts to bring Nexico's rapid inflation under control. Although prices are still rising, the rate of increase has slowed considerably. This suggests that Nexico currently is experiencing disinflation.

(p. 61) **TRUE**

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #96*

97. The nation of Woland has seen its GDP decline severely for four years in a row, with no relief in sight. Unemployment has risen to record levels, prices are falling, and businesses are failing faster than at any time in the past century. The economy of Woland is experiencing a depression.

(p. 62) **TRUE**

*Difficulty: 3*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #97*

98. Robin just graduated from college and is seeking her first job. She received a degree in engineering at a prestigious university and graduated with honours. Robin has several leads and has heard that the market for engineers is very strong, so she is convinced that she should locate a good job in the near future. Robin's current situation is an example of structural unemployment.

**FALSE**

*Difficulty: 3*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #98*

99. An economy is said to be in a recession if GDP declines for two or more consecutive quarters.

**TRUE**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #99*

100. Economics is the study of how:

- (p. 44)
- A. to invest wisely in the stock market.
  - B.** to employ resources to produce goods and services and distribute them among competing groups and individuals.
  - C. sophisticated statistical techniques can be used to make predictions about the evolution of society over the long run.
  - D. people govern themselves in a democratic society.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #100*

101. \_\_\_\_\_ studies the operation of a nation's economy as a whole.

- (p. 45)
- A. Microeconomics
  - B. Socioeconomics
  - C. Econometrics
  - D.** Macroeconomics

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #101*

102. \_\_\_\_\_ looks at the behaviour of individual people and organizations in specific markets.

- (p. 45)
- A. Macroeconomics
  - B. Finite economics
  - C.** Microeconomics
  - D. Nanoeconomics

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #102*

103. The study of how society employs resources to produce goods and services and distribute them for consumption among various competing groups and individuals is known as:

- (p. 44)
- A. human resource management
  - B. finance
  - C. marketing
  - D.** economics

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #103*

104. To understand the situation and conditions in which Canadian business operates you need to:

- (p. 44)
- A. have some grasp of economics
  - B. be aware of the global environment
  - C. understand the role of federal and provincial governments in Canada
  - D.** all of the choices are correct

*Difficulty: 4*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #104*

105. \_\_\_\_\_ is considered by some to be the father of modern economics.

- (p. 47)
- A. John Maynard Keynes
  - B. Adam Smith**
  - C. Thomas Carlyle
  - D. Samuel Kapital

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #105*

106. Which of the following would be a topic emphasized in a macroeconomics course?

- (p. 45)
- A. Factors that determine how fast a nation's economy is growing.**
  - B. How a firm decides the price it will charge for one of its products.
  - C. How a consumer chooses which goods to buy.
  - D. The determinants of the wage rate for a certain type of labour.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #106*

107. Which of the following would be a topic emphasized in a microeconomics class?

- (p. 45)
- A. How a nation's GDP is computed.
  - B. The reasons why the unemployment rate for the economy is rising or falling.
  - C. How market conditions determine the price of a specific product.**
  - D. How the government can use fiscal and monetary policies to stabilize the economy.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #107*

108. Which of the following statements would a follower of Adam Smith be most likely to make?

- (p. 47)
- A. The federal government should use its ability to spend and tax to guide the decisions of businesses and consumers.
  - B. Market economies are flawed because they put too much emphasis on economic growth and not enough on environmental problems.
  - C. Overpopulation is the main danger confronting modern economies.
  - D. If people are given the freedom to follow their own interests, they will end up promoting economic growth that benefits society as a whole.**

*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #108*

109. Fourteen years ago, Murray noticed that a lot of people who bought personal computers really did not know much about how to use them and frequently suffered system crashes and other aggravations. He decided he could earn a nice profit by starting a consulting business to help other people overcome their computer woes. Although the business struggled at first, it has been quite successful for the last five years. Murray has many satisfied customers, and the business has grown to the point where he now employs several workers. Murray's experience is an example of:

- (p. 47)
- A. socialism at work.
  - B. the principle of comparative advantage.
  - C. the invisible hand.**
  - D. the multiplier principle.

*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #109*

110. Samir, a friend of yours, has called for more government regulation of business. "After all", he says, "businesspeople are out to make a profit, not to create jobs or serve their customers. The government must pass more laws to require businesses to take the interests of consumers and workers into account". From these comments, it is clear that Samir:
- A. agrees with the ideas of Adam Smith.
  - B.** does not accept the philosophy behind Adam Smith's invisible hand.
  - C. is unaware of the fact that most businesses in Canada are actually owned by the government.
  - D. does not realize that government regulation is already the main determinant of business decisions in capitalist economies.

*Difficulty: 4*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #110*

111. According to the invisible hand concept, the best way for the government to encourage the creation of jobs and the production of the products most wanted by consumers would be to:
- A. take over the operation of all firms in major industries, such as telecommunications, transportation, and energy, and operate these firms as non-profit organizations.
  - B. allow private ownership of businesses, but make use of extensive regulation to force businesses to behave in a socially desirable way.
  - C.** allow entrepreneurs a great deal of personal freedom to follow their own self-interest.
  - D. impose high taxes on individuals, and use the revenue to subsidize businesses to encourage them to produce the maximum rate of output.

*Difficulty: 4*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #111*

112. Adam Smith believed that countries would prosper if businesspeople were free to start and run their own businesses, because businesspeople would make a profit by providing the goods, services and ideas that others in the economy wanted. This was called the:
- A. kinked demand theory.
  - B.** invisible hand.
  - C. spending multiplier.
  - D. demand accelerator.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #112*

113. Sue is a gifted cook. She is about to open her own business, a restaurant in which she will be the head chef. Sue is willing to work long hours because she believes that her culinary talents and hard work will allow her business to succeed and earn her a great deal of money. Sue's efforts appear most consistent with the economic theory developed by:
- A. Thomas Malthus.
  - B. Karl Marx.
  - C.** Adam Smith.
  - D. David Ricardo.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #113*

114. The economic system that has led to wealth creation in most of the world is known as:
- A.** capitalism
  - B. communism
  - C. free-trade
  - D. all of the choices are correct

*Difficulty: 4*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #114*



115. \_\_\_\_\_ is the popular name for a free-market economy in which business people make most of the decisions about what products to produce, how many workers to hire, and what prices to charge for goods and services.
- A. Socialism
  - B. Capitalism**
  - C. Communism
  - D. Marginalism

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #115*

116. Under capitalism:
- A.** most of the means of production and distribution are privately owned and operated for profit.
  - B. the primary function of the government is to distribute wealth more evenly.
  - C. utilities, health care, education, and other services are controlled by the government.
  - D. markets operate to carry out the decisions made by central planners.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #116*

117. In capitalism, most decisions about what goods and services to produce are made by:
- A. a variety of government agencies.
  - B.** businesspeople.
  - C. a central planning board that consists of consumers, business executives, and employees.
  - D. majority rule, with everyone receiving an equal vote.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #117*

118. The market price of apples is currently rising. In a free-market economy, the most likely explanation of this price change is that:
- A. the government has decided to set a higher price so that the firms in the market make an adequate profit.
  - B.** there is a shortage in the market for apples.
  - C. the supply of money has decreased.
  - D. the equilibrium price is lower than the market price.

*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #118*

119. When the market price of a good is below the equilibrium price:
- A.** the quantity demanded will exceed the quantity supplied.
  - B. the supply curve will be to the right of the demand curve.
  - C. a surplus will exist in the market.
  - D. the government will regulate the price of the good to ensure equilibrium is attained.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #119*

120. When the market price of a good is above its equilibrium value:
- A. a shortage will exist in the market.
  - B. the quantity demanded will exceed the quantity supplied.
  - C. both the supply curve and the demand curve will shift to the right.
  - D.** a surplus will exist in the market.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #120*

121. The quantity of a good or service that manufacturers or owners are willing to sell at different prices during a specific time period is known as the:  
(p. 49)
- A.** supply of that product.
  - B. demand for that product.
  - C. elasticity of that product.
  - D. utility of that product.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #121*

122. A typical supply curve shows that an increase in the price of a good will cause the quantity supplied to:  
(p. 50)
- A. decrease.
  - B.** increase.
  - C. remain constant.
  - D. fluctuate randomly around its equilibrium value.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #122*

123. A typical supply curve shows a relationship between the:  
(p. 50)
- A. amount of labour a firm hires and the amount of output it can produce.
  - B. amount of time required to produce a good and the relevant production costs.
  - C.** price of a good and the quantity sellers would be willing to offer for sale.
  - D. amount of a good a firm produces and the total profit it earns.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #123*

124. A(n) \_\_\_\_\_ curve shows the relationship between the price of a good and the quantity of that good people are willing and able to buy in a given time period.  
(p. 50)
- A.** demand
  - B. supply
  - C. utility
  - D. Laffer

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #124*

125. A typical demand curve shows that:  
(p. 50)
- A. as people earn more income, they buy more of a good.
  - B. as supply increases, the amount purchased decreases.
  - C. people tend to buy more of a good than they really want.
  - D.** people tend to buy more of a good when its price decreases.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #125*

126. When the supply curve and demand curve for a particular good are on a single graph, the point at which the two curves intersect identifies the:  
(p. 50)
- A. total profit earned by producers.
  - B. total amount of labour that will be employed in that market.
  - C. amount of time it takes to bring together the buyers and sellers of the good.
  - D.** equilibrium price of the good.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #126*

127. When prices are free to adjust over time, the market price of a good tends to:  
(p. 50) A. rise above the equilibrium price in the long run.  
**B.** equal the equilibrium price in the long run.  
C. fall below the equilibrium price in the long run.  
D. have no specific relationship to the equilibrium price.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #127*

128. If a shortage exists for a good in a free-market economy, the:  
(p. 50, 51) **A.** price of the good will rise.  
B. price of the good will fall.  
C. government will order suppliers to increase the production of that good.  
D. government must establish a rationing system to make sure that the good is fairly distributed.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #128*

129. \_\_\_\_\_ is characterized by a large number of firms selling products that appear to be  
(p. 51) identical.  
A. Oligopoly  
B. Monopolistic competition  
**C.** Perfect competition  
D. Microeconomic competition

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #129*

130. A(n) \_\_\_\_\_ exists when a large number of firms produce goods that are similar but are  
(p. 51) perceived by buyers as being different.  
A. perfect competition  
**B.** monopolistic competition  
C. oligopoly  
D. monopoly

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #130*

131. A(n) \_\_\_\_\_ exists when the entire supply of a good is controlled by a single seller.  
(p. 51) A. perfect competition  
B. oligopoly  
C. pure Capitalism  
**D.** monopoly

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #131*

132. An oligopoly is a market that is characterized by:  
(p. 51) A. one firm that totally dominates the supply of the product.  
B. a large number of small firms all producing very similar products.  
**C.** a few large sellers who dominate the market supply.  
D. several small firms that compete primarily by differentiating their products.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #132*

133. The markets for laundry detergents, soft drinks, and automobiles all are dominated by just a few  
(p. 51) sellers. Economists would classify these markets as examples of:  
A. monopolistic competition.  
B. perfect competition.  
**C.** an oligopoly.  
D. a monopoly.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #133*

134. In most large cities there are a large number of bakeries. These bakeries produce similar, but not identical, products. Some bakeries claim to have the best cheesecakes in town, while others brag about their cookies or specialty breads. The bakery market in a large city is an example of:  
(p. 51)
- A.** monopolistic competition.
  - B. perfect competition.
  - C. an oligopoly.
  - D. a monopoly.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #134*

135. The presence of competition in free markets:  
(p. 52)
- A. is undesirable because it results in unnecessary duplication of efforts.
  - B.** typically results in better quality and lower prices.
  - C. is rare, since most markets eventually evolve into monopolies.
  - D. is undesirable, because one big firm can usually produce goods more efficiently than a large number of small firms.

*Difficulty: 2*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #135*

136. Bigbux is a major producer of Whatsits, but it faces competition in the Whatsit market from three other major producers. Together, Bigbux and its three large rivals control almost the entire supply of Whatsits. The type of market Bigbux is in is called:  
(p. 51)
- A.** oligopoly.
  - B. duopoly.
  - C. monopolistic competition.
  - D. quasi-monopoly.

*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #136*

137. Which of the following statements most accurately identifies a serious limitation of the free-market economic system?  
(p. 52, 53)
- A. Free-market economies offer little opportunity for the poor to work their way out of poverty.
  - B. Free-market economies have been unable to create wealth as rapidly as other types of economic systems.
  - C. Free-market economies often are plagued by shortages of needed consumer goods.
  - D.** Free-market economies result in a very unequal distribution of wealth.

*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #137*

138. Peter Principal is the prime minister of the nation of Urbania. Peter has called for Urbania's legislature to enact new legislation designed to shift his economy away from socialism toward a more capitalistic system. Peter has acknowledged that such a radical change will entail some hardships, and that some citizens will be unhappy with the changes in the economy. The most likely source of unhappiness associated with a move toward capitalism is:  
(p. 52, 53)
- A. less wealth will be created.
  - B. people will have less economic freedom.
  - C. tax rates will have to increase.
  - D.** the distribution of wealth will become less equal.

*Difficulty: 3*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #138*

139. Jane's Garden Center exists in a market where there are many sellers and no seller is large enough to dictate the price of a product. Under what degree of competition does Jane's company compete?  
(p. 51)
- A. Monopoly
  - B. Oligopoly
  - C. Monopolistic competition
  - D. Perfect competition**

*Difficulty: 4*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #139*

140. Susan Gilles wants to invest in a Tim Horton's franchise but opts not to once she finds out just how much it costs to buy a franchise. She decides to start her own independent coffee shop. She understands the need to differentiate her business from all the other coffee shops, given the type of competition that exists in this industry, which is:  
(p. 51)
- A. an oligopoly.
  - B. perfect competition.
  - C. monopolistic competition.**
  - D. a monopoly.

*Difficulty: 4*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #140*

141. One of the greatest concerns associated with capitalism is that:  
(p. 53)
- A. it is not very successful at creating wealth.
  - B. some businesspeople may let greed guide their behaviour.**
  - C. the amount of economic freedom enjoyed by consumers is very limited.
  - D. producers are unlikely to supply the goods and services that consumers value the most.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #141*

142. Under socialism:  
(p. 53)
- A. the basic goal is to make sure that those that create wealth are allowed to keep that wealth.
  - B. a major goal of the government is to reduce the inequality in the distribution of wealth.**
  - C. a major goal of the government is to create incentives to encourage entrepreneurs to create jobs and economic growth.
  - D. the most important goal of the government is to keep tax rates extremely low.

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #142*

143. A major benefit of socialism is assumed to be its:  
(p. 53)
- A. ability to stimulate rapid economic growth.
  - B. emphasis on low tax rates.
  - C. emphasis on social equality.**
  - D. ability to create strong incentives to work hard.

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #143*

144. A key assumption of socialism is that:  
(p. 53)
- A. government ownership of some basic businesses is desirable because it helps achieve a more equal distribution of profits among the people.**
  - B. the most important economic function of government is to promote rapid economic growth.
  - C. economic growth requires strict government control over population growth.
  - D. tax rates should be kept as low as possible in order to give consumers the maximum possible purchasing power.

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #144*

145. The reason why many socialist countries have experienced brain drain is that:  
(p. 54) A. socialism encourages a very unequal distribution of income.  
B. the government does little to protect the natural environment.  
C. workers tend to have to work longer hours and receive fewer benefits under socialism.  
**D.** tax rates on talented individuals tend to be very high.

*Difficulty: 1*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #145*

146. In the nation of Equalia, many businesses are privately owned, but the government owns some of the basic businesses and has developed many social programs designed to promote social equality. The economy of Equalia would be considered an example of:  
(p. 53) A. pure capitalism.  
**B.** socialism.  
C. mercantilism.  
D. communism.

*Difficulty: 2*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #146*

147. Jorge Martinez is a hard working entrepreneur who operated a successful business in his home country of Margintina for many years. Recently, however, he immigrated to Canada and applied for Canadian citizenship. "In Margintina, tax rates were very high", Jorge complained. "The government used the taxes I paid to finance all sorts of social programs to help the less fortunate. While this is a noble goal, it has really undermined the profit incentive of individuals such as myself. I really feel that these high taxes have stifled economic growth". Jorge's comments illustrate the reason many socialist countries are experiencing a(n):  
(p. 54) A. antitrust problem.  
B. depression.  
**C.** brain drain.  
D. budget surplus.

*Difficulty: 3*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #147*

148. Which of the following people would tend to favour a socialist economy?  
(p. 53) A. Dann wants to live in a country with low marginal tax rates.  
B. Robin wants to live in a country that encourages rapid economic growth.  
C. Liz wants to live in a country with limited government regulation.  
**D.** Dwayne prefers to live in a country that promotes social equality.

*Difficulty: 3*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #148*

149. Although it has been considered a capitalist economy in the past, for the past several years the economy of the nation of Suburbania has become more socialist in its characteristics. Which of the following trends is most likely to be associated with Suburbania's movement toward socialism?  
(p. 53) A. lower tax rates  
B. more rapid economic growth  
**C.** a more equal distribution of wealth  
D. increasing reliance on markets to determine economic outcomes

*Difficulty: 4*  
*Learning Objective: 02-03 Define socialism and its benefits and negative consequences.*  
*Nickels - Chapter 02 #149*

150. Communism is an economic system in which:  
(p. 54) A. the government and private citizens own equal shares of the economic resources.  
B. all or most of the productive resources are owned by private businesses.  
**C.** the government makes most of the major economic decisions.  
D. individual consumers make all economic decisions.

*Difficulty: 1*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #150*

151. In recent years, countries with communist economic systems have:  
(p. 54) A. enjoyed a period of great prosperity.  
**B.** experienced severe economic depression.  
C. C) have produced goods sufficient for their own people and for export.  
D. grown very slowly, but have avoided the severe problems that have plagued some capitalist economies in Asia and Europe.

*Difficulty: 1*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #151*

152. One of the most significant problems faced by communist economies is:  
(p. 54) A. a great inequality in the distribution of wealth and income.  
B. severe inflationary pressures due to rapid economic growth.  
C. too little government regulation of economic activity.  
**D.** persistent shortages of basic goods such as food and clothing.

*Difficulty: 2*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #152*

153. Which of the following statements provides the most accurate comparison of socialism and communism?  
(p. 53-54) A. Under socialism the government owns most businesses, while under communism the church owns most businesses.  
**B.** Both socialism and communism want to achieve a more equal distribution of income and wealth, but under communism the government takes more control over people's lives.  
C. Socialism strives for an equal distribution of income but communism wants income to go primarily to those who own and operate private businesses.  
D. Communism believes that the government should always strive to balance its budget, while socialism accepts deficit spending as the price of achieving true equality.

*Difficulty: 3*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #153*

154. Some regions of China do not allow their citizens to practice certain religions, change jobs, or move to another town. This is an example of:  
(p. 54) A. socialism  
B. free-market  
C. capitalism  
**D.** communism

*Difficulty: 4*  
*Learning Objective: 02-04 Evaluate communism and the challenges of such a system.*  
*Nickels - Chapter 02 #154*

155. The Canadian economic system can be described as a:  
(p. 56) **A.** mixed economy.  
B. capitalist economy.  
C. socialist economy.  
D. communist economy.

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #155*

156. Today, the economic systems of most nations could most accurately be classified as:  
(p. 55) A. pure capitalism.  
B. pure socialism.  
C. command economies.  
**D.** mixed economies.

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #156*

157. Both socialism and communism are variations of:  
(p. 55) **A.** command economies.  
B. competitive economies.  
C. free-market economies.  
D. plutocratic systems.

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #157*

158. A major trend in the world today is that:  
(p. 55) **A.** free-market economies are moving more toward socialism and socialist economies are moving more toward capitalism.  
B. productivity in the service sector is increasing much more rapidly than productivity in agriculture and manufacturing.  
C. governments in socialist economies are increasing their use of social programs and relying on higher tax rates to finance these programs.  
D. governments in countries with capitalist economies are paying less attention to environmental concerns and issues involving social equality.

*Difficulty: 1*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #158*

159. A command system is characterized by:  
(p. 55) A. reliance on the forces of supply and demand to determine what is produced.  
**B.** reliance on the government to determine what is produced and who gets the output.  
C. an extremely rapid rate of economic growth.  
D. freedom of choice and freedom of competition.

*Difficulty: 2*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #159*

160. The government of Ruritania has implemented many programs that promote equality, but has become concerned about the very slow rate of growth that has plagued the national economy for many years. In order to address this problem, the government is likely to:  
(p. 55) A. take control of more major industries.  
**B.** reduce taxes and cut back on some social programs.  
C. make sure to balance its budget.  
D. avoid the use of fiscal policies and reduce the supply of money in circulation.

*Difficulty: 2*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #160*

161. In an effort to promote rapid growth, the government of Goldinia has kept taxes low, done little to regulate business activities, and implemented only modest social programs. The government is now facing political pressure to do more to clean up the environment and reduce the inequalities of income and wealth. Which of the following statements is most accurate? Goldinia's government is currently taking:  
(p. 55) A. a purely capitalist approach to achieve its economic goals, and is likely to continue doing so in the future.  
B. a purely socialist approach to achieve its economics goals, and is likely to continue doing so in the future.  
C. a predominately socialist approach to achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more capitalist approach in the future.  
**D.** a predominately capitalist approach toward achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more socialist approach in the future.

*Difficulty: 3*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #161*



162. Over the recent past, Canadian governments have been privatizing a number of businesses, as growing public sentiment is that governments are not effective as business operators. This trend is an example of the growth of:
- A. command economies
  - B. free-market economies**
  - C. free trade
  - D. mixed economies

*Difficulty: 3*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #162*

163. As economies start to develop in third world countries, command economy is one of the options considered. With this option,
- A. both government and private business jointly produce goods and services.
  - B. neither communism nor socialism is a preferred means of running the economy.
  - C. foreign private businesses are encouraged to invest.
  - D. the government owns and operates a number of businesses.**

*Difficulty: 4*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #163*

164. The total value of final goods and services produced within a nation's borders in a given year is known as that nation's:
- A. aggregate production quota.
  - B. aggregate domestic output.
  - C. index of aggregate economic output.
  - D. gross domestic product.**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #164*

165. In recent years, productivity in the manufacturing sector of the Canadian economy has been:
- A. rising.**
  - B. relatively stable.
  - C. falling slowly.
  - D. falling very rapidly.

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #165*

166. The nation of Tryland has seen the total value of the goods and services it produces increase rapidly over the past year. This would show up most clearly as a:
- A. rise in Tryland's GDP.**
  - B. rise in Tryland's CPI.
  - C. rise in Tryland's unemployment rate.
  - D. decline in the number of workers who are structurally unemployed.

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #166*

167. Almost every discussion about a country's economy is based on gross domestic product. GDP is the:
- A. total output of goods and services in a given period divided by the total hours of labour required to provide them
  - B. amount of goods and services people can buy with the money they have
  - C. general well-being of a society in terms of political freedom
  - D. total value of goods and services produced in a country in a given year**

*Difficulty: 4*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #167*

168. An increase in \_\_\_\_\_ means that a given number of workers can produce more output than before.  
(p. 58)
- A. CPI
  - B. structural unemployment
  - C. productivity**
  - D. GDP

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #168*

169. Kathleen manages a manufacturing plant for ScanRite, Inc., a producer of scanners and other input devices connected to computers. About six months ago, Kathleen asked an assistant to keep track of both work hours and output at her plant. She has compared these figures, and has found that even though the number of workers (and the hours they worked) remained relatively steady over the past six months, the plant's output increased significantly. This indicates that:  
(p. 58)
- A. the productivity of workers at the ScanRite plant has increased.**
  - B. the ScanRite plant must have sold off some of its excess inventory.
  - C. ScanRite prices have increased faster than the wages it pays to its workers.
  - D. Kathleen should hire more workers.

*Difficulty: 4*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #169*

170. Three of the major indicators of the economic condition of Canada are the gross domestic product (GDP), the price indices, and the:  
(p. 58)
- A. debt to equity ratio (DER).
  - B. gross resource utilization index (GRUI).
  - C. unemployment rate.**
  - D. index of capital formation.

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #170*

171. The four basic types of employment are frictional, structural, seasonal, and:  
(p. 61)
- A. cyclical.**
  - B. procedural.
  - C. industrial.
  - D. traditional.

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #171*

172. The \_\_\_\_\_ index measures changes in the prices of goods and services such as food, housing, and apparel.  
(p. 61)
- A. market price
  - B. producer price
  - C. wholesale price
  - D. consumer price**

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #172*

173. The \_\_\_\_\_ is a statistic that is used to compute the pace of inflation or deflation.  
(p. 61)
- A. consumer price index**
  - B. gross domestic product
  - C. index of leading indicators
  - D. index of inflationary trends

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #173*

174. \_\_\_\_\_ refers to a general rise in the price level of goods and services over time.

- (p. 61)
- A. Acceleration
  - B. Recession
  - C. Inflation**
  - D. Escalation

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #174*

175. \_\_\_\_\_ is a condition in which the rate of inflation is declining.

- (p. 61)
- A. Deflation
  - B. Disinflation**
  - C. Stagflation
  - D. Unflation

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #175*

176. \_\_\_\_\_ is a condition in which the average level of prices is actually falling.

- (p. 62)
- A. Deflation**
  - B. Disinflation
  - C. Stagflation
  - D. Unflation

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #176*

177. A \_\_\_\_\_ is a very severe recession that is usually accompanied by a decline in the average level of prices.

- (p. 62)
- A. stagflation
  - B. retraction
  - C. depression**
  - D. dissolution

*Difficulty: 1*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #177*

178. One reason the CPI is followed very closely by the government, businesses, and workers is that:

- (p. 61)
- A. it indicates whether we are running a budget surplus or a deficit.
  - B. some wages, interest rates, tax rates, and government benefits are tied to changes in the value of the CPI.**
  - C. it is the best measure of worker productivity in the service sector.
  - D. the gross national product is computed from the reported increases in the CPI.

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #178*

179. A collapse in the national banking system of Lasia has resulted in a condition where prices are declining. This condition is known as:

- (p. 61)
- A. disinflation.
  - B. deflation.**
  - C. contra inflation.
  - D. overproduction.

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #179*

180. Which of the following results would be the clearest indication that an economy was experiencing deflation?  
(p. 61)
- A. a decrease in the unemployment rate
  - B. a decrease in GDP
  - C. an increase in the PPI
  - D.** a decrease in the CPI

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #180*

181. The nation of Nadiria is in the midst of a terrible economic downturn. The nation's GDP has been declining steadily for over five years and is now at its lowest level in over fifty years. Nadiria's unemployment rate is at an all time high and the nation's CPI is falling. Nadiria is experiencing a:  
(p. 61)
- A. period of stagflation.
  - B. balance of trade deficit.
  - C.** depression.
  - D. retraction.

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #181*

182. John complained to his buddy, Frank, that the prices of all the goods he and his family buy have increased a lot over the past year. Frank disagreed, saying that the prices of some goods have gone up a bit, but other prices have declined. Frank feels that the average price of consumer goods hasn't changed very much. In order to resolve their disagreement, John and Frank should look at recent figures for the:  
(p. 61)
- A. GDP
  - B.** CPI
  - C. PPI
  - D. MEW

*Difficulty: 3*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #182*

183. Francine is a bright and talented woman. She recently quit her job at a major corporation because she and her boss didn't get along and she saw little chance for advancement. Francine has not yet found another job, but the economy appears healthy and lots of firms are hiring people with her qualifications. Thus, Francine is confident that she will find a job in the near future. Which of the following statements about Francine's current situation is most accurate? Francine is:  
(p. 61)
- A. not considered unemployed because she voluntarily quit her job.
  - B. an example of cyclical unemployment.
  - C.** an example of frictional unemployment.
  - D. most likely to find employment quickly if she seeks training in a different field.

*Difficulty: 3*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #183*

184. One of the most serious types of unemployment is \_\_\_\_\_. It occurs because of a recession or a similar downturn in the business cycle.  
(p. 61)
- A. seasonal
  - B. frictional
  - C. structural
  - D.** cyclical

*Difficulty: 4*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #184*

185. The rise and fall of the economy is referred to as the concept of:

- (p. 62)
- A. depression
  - B. recession
  - C. business cycles**
  - D. recovery

*Difficulty: 4*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #185*

186. What is the difference between macroeconomics and microeconomics?

(p. 45)

**Macroeconomics** looks at the operation of a nation's economy as a whole, and **microeconomics** looks at the behaviour of people and organizations in particular markets. For example, while macroeconomics looks at how many jobs exist in the whole economy, microeconomics examines how many people will be hired in a particular industry or a particular region of the country.

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #186*

187. Explain how prices are determined in a free-market economy.

(p. 48-51)

In a free-market economy prices are determined by the interaction of supply and demand.

Supply is the relationship between the price of a good and the quantity producers are willing to sell in a given time period. The supply relationship can be illustrated with a graph. This graph will show that the higher the price, the more producers are willing to sell.

Demand is the relationship between the price of a good and the quantity people are willing to buy in a given time period. This relationship can also be illustrated with a graph. The graph will show that the higher the price, the less people are willing to buy.

The equilibrium price of a good is the price where the quantity supplied is equal to the quantity demanded. On a graph, it is found where the supply curve intersects the demand curve. The market price of a good tends to move toward this equilibrium price. If the market price is higher than the equilibrium price, quantity supplied will exceed quantity demanded, and this surplus will put downward pressure on price, moving the market toward equilibrium. If the market price is lower than the equilibrium price, the quantity demanded will be greater than the quantity supplied. Thus, a shortage will exist which will put upward pressure on the market price. The upward movement of price will move the market toward equilibrium. Once the equilibrium price is achieved, there is neither a shortage nor a surplus. Thus at the equilibrium price there is no further pressure for price to rise or fall (unless something happens to cause the supply or demand relationships to change).

*Difficulty: 1*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #187*

188. Identify the four different degrees of competition.  
(p. 51)

**Perfect competition** exists when there are many sellers in a market and no seller is large enough to dictate the price of a product. Under perfect competition, sellers produce products that appear to be identical. Agricultural products (e.g., apples, corn, potatoes) are often considered to be the closest examples of such products.

**Monopolistic competition** exists when a large number of sellers produce products that are very similar but are perceived by buyers as different (e.g., hot dogs, candy, and T-shirts). Under monopolistic competition, product differentiation (the creation of real or perceived product differences) is a key to success.

An **oligopoly** occurs when a few sellers dominate a market. Oligopolies exist in industries that produce products in the areas of oil and gas, tobacco, automobiles, aluminum, and aircraft. One reason some industries remain in the hands of a few sellers is that the initial investment required to enter the business is tremendous. In an oligopoly, prices for products from different companies tend to be close to the same. As in monopolistic competition, product differentiation, rather than price, is usually the major factor in market success.

A **monopoly** occurs when there is only one seller for a good or service, and that one seller controls the total supply of a product and the price. Traditionally, monopolies were common in areas such as water, electricity, and telephone services that were considered to be essential to a community. Legislation has ended many monopolies.

*Difficulty: 4*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #188*

189. Canada has a mixed economy, like most other countries in the world. Explain what the term mixed economy means & what the benefits are.  
(p. 55-58)

A mixed economy is one that is part capitalist and part socialist. Some businesses are privately owned, but taxes tend to be high to distribute income more evenly among the population.

A mixed economy has most of the benefits of wealth creation that free markets bring, plus the benefits of social equality and concern for the environment that socialism offers.

*Difficulty: 4*  
*Learning Objective: 02-05 Describe the mixed economy of Canada.*  
*Nickels - Chapter 02 #189*

190. No country is solely capitalist. What issues does the Canadian government get involved in?  
(p. 56, 57)

The text notes that Canadian governments have passed many laws and regulations to ensure that significant economic and cultural institutions, such as banks, insurance companies, radio and TV stations remain under Canadian control. In the past, this has also included rail and airlines. The book also notes the Canada Health Act, which covers public health care.

*Difficulty: 4*  
*Learning Objective: 02-02 Explain what capitalism is and how free markets work.*  
*Nickels - Chapter 02 #190*

191. When describing the state of the Canadian economy, reporters and commentators often refer to figures for the nation's GDP, its unemployment rate, and the CPI. Explain what each of these terms means and why each measure is significant.

(p. 58-62)

GDP stands for gross domestic product, which is the total value of a nation's output of final goods and services for a specific year. It is a broad indicator of the overall performance of the economy. Increases and decreases in GDP indicate whether the economy is growing or stagnating. For example, when GDP falls for two or more consecutive quarters the economy is said to be in a recession. The unemployment rate measures the number of civilians 15 or older that are actively seeking work but do not have a job. A high unemployment rate indicates that a lot of people who are able to work and want a job are without jobs. This is obviously undesirable, leading to less output and lower incomes in the economy.

The CPI is the consumer price index. This is an index of how the prices of consumer goods are changing over time. The CPI is based on a market basket of consumer goods. When the CPI rises, the economy is experiencing inflation. The CPI is used by the government and many businesses to determine how to adjust their wages and other payments for inflation.

*Difficulty: 4*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #191*

192. Explain what the business cycle is.

(p. 62)

The Business cycle (also known as the economic cycles) is the periodic rise and fall that occurs in economies over time. These fluctuations are often measured using the real gross domestic product. Economists look at a number of types of cycles, from seasonal cycles that occur within a year to cycles that occur every 48 to 60 years. Economist Joseph Schumpeter identified the four phases of long-term business cycles as boom, recession, depression, recovery:

1. An economic **boom** brings jobs, growth, and economic prosperity.
2. **Recession** is two or more consecutive quarters of decline in the GDP. In a recession, prices fall, people purchase fewer products, and businesses fail. A recession has many negative consequences for an economy: high unemployment, increased business failures, and an overall drop in living standards.
3. A **depression** is a severe recession usually accompanied by deflation. Business cycles rarely go through a depression phase. In fact, while there were many business cycles during the twentieth century, there was only one severe depression (in the 1930s).
4. A recovery occurs when the economy stabilizes and starts to grow. This eventually leads to an economic boom, starting the cycle all over again.

*Difficulty: 2*  
*Learning Objective: 02-06 Illustrate the significance of key economic indicators and the business cycle.*  
*Nickels - Chapter 02 #192*

## 02 Summary

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