

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Items that are purchased by individuals for their own enjoyment are called 1) _____
A) government goods and services.
B) private goods.
C) capital goods.
D) exports of goods and services.
E) consumption goods and services.
- 2) Items bought by individuals to provide personal enjoyment are termed 2) _____
A) pleasure goods.
B) standard goods.
C) personal goods.
D) consumption or investment goods.
E) consumption goods.
- 3) What would be an example of a consumption good? 3) _____
A) Donald Trump purchases furniture for his office.
B) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
C) Jake buys an iPhone.
D) The local driver's license office purchases a new digital camera and printer.
E) Rhianna gets a haircut.
- 4) Which of the following is a consumption good or service? 4) _____
A) a United Parcel Service truck delivering Christmas gifts
B) a personal computer purchased in order to play games at home
C) a satellite dish installed by Cox Cable to download programs that are then distributed through its cable system
D) a United Airline ticket counter
E) the Endeavor space shuttle
- 5) What would be an example of a consumption service? 5) _____
A) Jake buys an iPhone.
B) The local driver's license office purchases a new digital camera and printer.
C) Rhianna gets a haircut.
D) Donald Trump purchases furniture for his office.
E) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
- 6) The largest share of total production in the United States is 6) _____
A) government goods and services.
B) exported goods and services.
C) capital goods.
D) consumption goods and services.
E) imported goods and services.
- 7) Items bought by businesses to help produce other goods and services are called 7) _____
A) capital goods.
B) exports of goods and services.
C) government goods and services.
D) productive goods.
E) consumption goods and services.

8) Which of the following is NOT a consumption good? 8) _____

- A) a U.S. government bond
- B) a UPS truck
- C) Nike swimming trunks
- D) a Subway sandwich
- E) marriage counseling services

9) An item that is purchased to increase businesses' productive resources is 9) _____

- A) an export.
- B) a capital good.
- C) a government good.
- D) a productive good.
- E) a consumption good.

10) What would be an example of capital good? 10) _____

- A) The local driver's license office purchases a new digital camera and printer.
- B) Rhianna gets a haircut.
- C) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
- D) Apple sells computers to Japan.
- E) Jeanette buys a new dress.

11) The difference between consumption and capital goods is that 11) _____

- A) capital goods are provided by the government.
- B) capital goods are used to produce additional goods while consumption goods are not.
- C) only big corporations can afford capital goods.
- D) it is illegal to export capital goods.
- E) consumption goods can be enjoyed by many people at the same time.

12) Which of the following is NOT an example of a capital good? 12) _____

- A) a miner's cap
- B) a GPS tracking device
- C) a stethoscope
- D) a U.S. government bond
- E) an airport kiosk

13) Goods and services bought by the government account for about _____ percent of total production. 13)

- A) 8
- B) 2
- C) 67
- D) 17
- E) 35

14) What would be an example of a government good? 14) _____

- A) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
- B) Rhianna gets a haircut.
- C) Jake buys an iPhone.
- D) Donald Trump purchases furniture for his office.
- E) The local driver's license office purchases a new digital camera and printer.

15) Goods produced in the United States and sold in other countries are called 15) _____

- A) imports.
- B) foreign goods.
- C) capital goods.

- D) exports.
- E) capital account goods.

16) An export good is a good produced 16) _____

- A) in the United States and sold in other countries.
- B) in the United States and sold to foreigners living in the United States.
- C) in another country and purchased by U.S. residents.
- D) by foreigners in the United States and purchased by U.S. households.
- E) in another country and purchased by foreigners not residing in the United States.

17) Computers and insurance coverage produced in the United States and sold to people in other nations are categorized as 17) _____

- A) U.S. imports of goods and services.
- B) U.S. exports of goods and services.
- C) U.S. consumption goods and services.
- D) foreign capital goods.
- E) U.S. government goods and services.

18) The Colorado Ski Shop sold 60 ski jackets to a Belgian company's headquarters located in Paris, France. The ski jackets are a 18) _____

- A) capital good.
- B) U.S. export good.
- C) U.S. consumption service.
- D) government good.
- E) U.S. import.

19) Over the past 70 years, which of the following has occurred?

- i. The service sector has grown so that now about 80 percent of workers are now employed in the service industry.
- ii. The manufacturing sector has shrunk, so now about 20 percent of workers are now employed in the production of goods.
- iii. The percentage of workers employed in the service industry has increased steadily. 19) _____

- A) i and iii B) i, ii and iii C) ii and iii D) ii only E) i only

20) Which of the following is NOT considered one of the factors of production? 20) _____

- A) entrepreneurship
- B) capital
- C) land
- D) technology
- E) labor

21) Which of the following correctly lists the categories of factors of production? 21) _____

- A) labor, money, stocks, and bonds
- B) land, buildings, capital, and entrepreneurship
- C) forests, fish, buildings, capital, and entrepreneurship
- D) labor, machines, buildings, capital, and entrepreneurship
- E) land, labor, capital, and entrepreneurship

22) Which of the following is NOT a factor of production? 22) _____

- A) capital

- B) land
- C) entrepreneurial ideas
- D) money
- E) labor

23) Goods and services are produced by using four factors of production: 23) _____

- A) land, labor, capital, and entrepreneurship.
- B) land, labor, money, and equipment.
- C) natural resources, human resources, financial assets, and entrepreneurial resources.
- D) land, labor, capital, and money.
- E) labor, human capital, physical capital, and financial capital.

24) Factors of production are the 24) _____

- A) goods and services produced by the economy.
- B) productive resources used to produce goods and services.
- C) goods that are bought by individuals and used to provide personal enjoyment.
- D) goods that are bought by businesses to produce productive resources.
- E) productive resources used by government to increase the productivity of consumption.

25) The productive resource that includes all the "gifts of nature" is called 25) _____

- A) land.
- B) labor.
- C) capital.
- D) entrepreneurship.
- E) land if undeveloped and capital if developed.

26) Economists classify energy and water as part of which factor of production? 26) _____

- A) land
- B) labor
- C) capital
- D) entrepreneurship
- E) land if undeveloped and capital if developed

27) As a factor of production, oil reserves are counted as 27) _____

- A) land.
- B) labor.
- C) capital.
- D) entrepreneurship.
- E) financial capital.

28) Over time, the percentage of total employment in services has _____ and in agriculture, employment has _____.

28) _____

- A) stayed about the same; decreased
- B) increased; decreased
- C) decreased; increased
- D) stayed about the same; increased
- E) increased; increased

29) Which of the following has been the largest contributor to increases in the quantity of labor in the United States during the past 50 years? 29) _____

- A) The proportion of women taking paid jobs has increased.
- B) The proportion of young adults entering college has decreased.
- C) The proportion of seniors taking early retirement has decreased.
- D) The proportion of men taking paid jobs has increased.
- E) None of the above because the quantity of labor has actually decreased.

30) The concept of human capital describes 30) _____

- A) human skills, that is, the quality of labor.
- B) the number of machines per employed worker.
- C) human population, that is, the quantity of labor.
- D) the number of machines (capital) that have been produced by people (humans).
- E) the number of workers per operating machine.

31) Which factor of production does human capital enhance?

- i. land
- ii. labor
- iii. capital 31) _____

- A) i only B) ii only C) iii only D) i and ii E) i, ii, and iii

32) Human capital can be increased through 32) _____

- A) investment in new technology.
- B) decreases in population.
- C) investment in new machinery.
- D) education, on-the-job training, and work experience.
- E) increasing the nation's production of consumption goods.

33) The United States possesses a large amount of human capital. As a result of this fact, in the United States there is a 33) _____

- A) large amount of machinery (capital) that is run by people (humans).
- B) highly skilled and educated labor force.
- C) large amount of machinery and equipment.
- D) large number of kind and generous humans.
- E) large number of people and a great deal of land.

34) Jan is attending college and studying to be an investment broker. To improve her chances of employment following college, she has interned at a top brokerage firm during the last two summers. Jan's internship has increased her 34) _____

- A) human capital.
- B) entrepreneurship capital.
- C) consumption services.
- D) natural labor.
- E) natural resources.

35) Which of the following is NOT directly related to human capital? 35) _____

- A) a summer internship
- B) an MRI machine
- C) an understanding of real estate markets
- D) a college education
- E) knowledge of computer programming

- 36) Human capital _____ as you work. As a result, the _____ of goods and services _____. 36) _____
- A) does not change; quality; does not change.
 - B) decreases; quantity; decreases.
 - C) improves; quality; does not change.
 - D) declines; quality; increases.
 - E) increases; quantity; increases.
- 37) Capital, as a factor of production, refers to 37) _____
- A) the tools and instruments used to produce other goods and services.
 - B) stocks and bonds, but not money.
 - C) money, stocks, and bonds.
 - D) the production technology used by firms.
 - E) the production factors imported from abroad.
- 38) The total value of capital in the United States is around 38) _____
- A) \$145 trillion.
 - B) \$100 trillion.
 - C) \$50 trillion.
 - D) \$10 trillion.
 - E) \$79 trillion.
- 39) Capital is a factor of production. Which of the following is an example of capital?
- i. \$1,000 in money
 - ii. 100 shares of Microsoft stock
 - iii. \$10,000 in bonds issued by General Motors
 - iv. a drill press in your local machine shop 39) _____
- A) i and ii B) ii only C) iv only D) iii only E) ii and iii
- 40) Capital is a factor of production. An example of capital as a factor of production is 40) _____
- A) machines. B) education. C) stocks. D) money. E) bonds.
- 41) One of the productive resources is capital. Capital includes 41) _____
- A) a company's stocks and bonds.
 - B) tools, buildings, and machine tools.
 - C) money borrowed from a bank.
 - D) money in a savings account at a bank.
 - E) toys, t-shirts, CD players, and pencils.
- 42) A newspaper printing press is an example of 42) _____
- A) something that influences labor productivity.
 - B) a factor of production.
 - C) a good that was once an output of the production process.
 - D) a capital good.
 - E) All of the above are correct.
- 43) Which of the following is NOT considered capital? 43) _____
- A) the furniture in the President's office
 - B) an assembly line at a General Motors plant
 - C) stocks and bonds that are sold by Pepsico
 - D) a computer used by your instructor for presentations in class

E) a nail gun used for building houses

44) Entrepreneurship, as a factor of production, refers to 44) _____

- A) the human capital accumulated by workers.
- B) the technology used by firms.
- C) the human resource that organizes labor, land, and capital.
- D) the value of the firm's stock.
- E) the capital the firm uses.

45) The productive resource that organizes labor, land, and capital is 45) _____

- A) capital.
- B) financial capital.
- C) human capital.
- D) government.
- E) entrepreneurship.

46) Payments to the factors of production are 46) _____

- A) rent, wages, interest, and profit or loss.
- B) rent, mortgage, interest, and bonds.
- C) rent, interest, bonds, and profit or loss.
- D) land, labor, capital, and entrepreneurship.
- E) rent, wages, profit or loss, and bonus.

47) _____ paid for the use of land; _____ paid for the services of labor; and _____ paid for the use of capital.
47) _____

- A) Rent is; wages are; profit is
- B) Interest is; wages are; profit is
- C) Rent is; interest is; wages are
- D) Rent is; wages are; interest is
- E) Mortgages are; interest is; wages are

48) The income paid for the use of land is called 48) _____

- A) rent.
- B) wages.
- C) interest.
- D) land capital.
- E) profit.

49) The income paid to labor is called 49) _____

- A) rent.
- B) profit.
- C) interest.
- D) human capital.
- E) wages.

50) Which factor of production is paid "interest"? 50) _____

- A) capital
- B) entrepreneurship
- C) human capital
- D) land
- E) labor

- 51) The owners of the resource _____ are paid _____. 51) _____
- A) capital; rent
 - B) labor; profit
 - C) entrepreneurship; wages
 - D) land; wages
 - E) capital; interest
- 52) Which factor of production is paid "profit"? 52) _____
- A) entrepreneurship
 - B) human capital
 - C) labor
 - D) land
 - E) capital
- 53) The functional distribution of income measures which of the following? 53) _____
- A) the distribution of income among households
 - B) how federal tax revenues are related to the business function that employs taxpayers
 - C) the proportion of income generated by the four types of expenditures on goods and services
 - D) the distribution of earnings by the factors of production
 - E) the distribution of income among nations
- 54) In the United States, the productive factor that, as a group, receives the largest fraction of the nation's total income is 54) _____
- A) labor.
 - B) consumption goods and services.
 - C) land.
 - D) entrepreneurship.
 - E) capital.
- 55) According to the functional distribution of income, in the United States, 55) _____
- A) capital earns most of the income.
 - B) the income earned by capital and labor are approximately equal.
 - C) labor earns most of the income.
 - D) land earns most of the income.
 - E) entrepreneurs earn most of the income.
- 56) The data show that more than 60 percent of the total income earned in the United States goes to 56) _____
- A) land.
 - B) capital.
 - C) profit.
 - D) entrepreneurship.
 - E) labor.
- 57) The majority of the income earned in the United States is paid in 57) _____
- A) wages.
 - B) rent.
 - C) profit.
 - D) dividends.
 - E) interest.

58) The personal distribution of income measures which of the following? 58) _____

- A) the distribution of earnings by the factors of production
- B) proportion of income generated by the four types of expenditures on goods and services
- C) the distribution of income among households
- D) the distribution of income among nations
- E) how federal tax revenues are related to the type of businesses that employs the taxpayers

59) In the United States, the poorest 20 percent of households earn roughly _____ percent of total income. 59)

- A) 20
- B) 0.5
- C) 15
- D) 3
- E) 10

60) The personal distribution of income in the United States shows that 60) _____

- A) the poorest 20 percent of individuals receive approximately 20 percent of total income.
- B) the richest 20 percent of individuals receive approximately 50 percent of total income.
- C) the richest 20 percent of individuals receive approximately 25 percent of total income.
- D) the poorest 60 percent of individuals receive approximately 50 percent of total income.
- E) income is equally distributed.

61) The richest 20 percent of individuals in the United States receive about _____ of the nation's total income. 61)

- A) 21 percent
- B) 23 percent
- C) 91 percent
- D) 51 percent
- E) 99 percent

62) When the total U.S. production of goods and services is divided into consumption goods and services, capital goods, government goods and services, and export goods and services, the largest component is 62) _____

- A) export goods and services.
- B) government goods and services.
- C) capital goods.
- D) consumption goods and services.
- E) capital goods and government goods and services tie for the largest component.

63) An example of a capital good is 63) _____

- A) a fiber optic cable TV system.
- B) an insurance policy.
- C) a slice of pizza.
- D) an iPod.
- E) a haircut.

64) Goods and services produced in the United States and sold in other countries are called 64) _____

- A) consumption goods and services.
- B) import goods and services.
- C) capital goods.
- D) government goods and services.
- E) export goods and services.

65) Which of the following correctly lists the categories of factors of production? 65) _____

- A) capital, money, and labor
- B) machines, buildings, land, and money
- C) land, labor, capital, and entrepreneurship
- D) owners, workers, and consumers
- E) hardware, software, land, and money

66) In economics, the factor of production "land" includes all of the following EXCEPT 66) _____

- A) animals, birds, and fish.
- B) energy.
- C) wild plants.
- D) oil.
- E) plastics.

67) Human capital is 67) _____

- A) the knowledge humans accumulate through education and experience.
- B) the money humans have saved.
- C) machinery that needs human supervision.
- D) solely the innate ability we are born with.
- E) any type of machinery.

68) When Ethan continues his education beyond high school, he is increasing his 68) _____

- A) human capital.
- B) capital.
- C) wage rate.
- D) rent.
- E) quantity of labor.

69) _____ is the human resource that organizes labor, land, and capital. 69) _____

- A) A gift of nature
- B) Human capital
- C) Profit
- D) Entrepreneurship
- E) Human skill

70) Wages are paid to _____ and interest is paid to _____. 70) _____

- A) labor; entrepreneurs
- B) entrepreneurs; land
- C) entrepreneurs; capital
- D) labor; capital
- E) labor; land

71) The income earned by entrepreneurs is 71) _____

- A) profit or loss.
- B) wages.
- C) interest.
- D) rent, wages, and interest.
- E) a mixture of rent, wages, interest, and profit.

72) Dividing the nation's income among the factors of production, the largest percentage is paid to 72) _____

- A) capital.
- B) entrepreneurship.
- C) land.

D) labor.

E) labor and capital, with each receiving about 41 percent of the total income.

73) _____ earned the highest amount of income among the factors of production in the United States. 73) _____

A) Labor

B) Land

C) Capital

D) Entrepreneurship

E) Investment

74) In the United States, the richest 20 percent of households receive about _____ percent of total income. 74)

A) 23 B) 15 C) 50 D) 4 E) 33

75) In the United States, the poorest 20 percent of households receive about _____ percent of total income. 75)

A) 15 B) 20 C) 3 D) 49 E) 23

76) The personal distribution of income shows 76) _____

A) how profit accounts for the largest fraction of total income.

B) that the richest 20 percent of households receive 23 percent of total income.

C) that the poorest 20 percent of households receive less than 4 percent of total income.

D) that labor receives the largest percentage of total income.

E) that interest accounts for most of the income of the richest 20 percent of households.

77) Compared to the world, the rate of U.S. population growth is 77) _____

A) much faster than in the world as a whole.

B) about the same as in the world as a whole.

C) slower than in the world as a whole.

D) incomparable because we do not have accurate world population statistics.

E) incomparable because U.S. residents are born with a much greater chance of accumulating a lot of human capital.

78) Approximately _____ people live in the United States and _____ people live in the world. 78) _____

A) 210 million; 5 billion

B) 310 million; 7 billion

C) 210 million; 6 billion

D) 410 million; 8 billion

E) 310 million; 3 billion

79) The most people live in _____ economies and the fewest people live in _____ economies. 79) _____

A) emerging market; developing

B) advanced; emerging market

C) developing; emerging market

D) advanced; developing

E) developing; advanced

80) When describing the IMF broad country classification, the most accurate statement is that 80) _____

A) most of the nations in Western Europe are considered emerging market economies.

B) the emerging market economies are countries that were, until the early 1990s, part of the Soviet Union or its satellites.

- C) about 50 percent of the world's population live in the advanced economies and the other 50 percent live in the emerging market and developing economies.
D) most of the world's population lives in advanced economies.
E) the category with the greatest number of countries is the advanced economies.

81) Which of the following is NOT classified as an advanced economy? 81) _____

- A) Hong Kong
B) South Korea
C) Russia
D) Australia
E) the United Kingdom

82) Canada is classified by the International Monetary Fund as 82) _____

- A) an advanced economy.
B) an emerging market economy.
C) a developing economy.
D) a natural-resource based economy.
E) a transition economy.

83) _____ economies include _____. 83) _____

- A) Advanced; France, Australia and South Korea
B) Advanced; the United States, Taiwan and Russia
C) Emerging; Saudi Arabia, Poland and Taiwan
D) Emerging; Taiwan, Russia and Singapore
E) Advanced; Russia, Canada and Singapore

84) Most countries in the world are classified as 84) _____

- A) in transition.
B) advanced.
C) developing.
D) emerging market.
E) industrialized.

85) Most of the world's population lives in 85) _____

- A) transition economies.
B) advanced economies.
C) emerging market economies.
D) developing economies.
E) island nations.

86) Which of the following is true?

- i. The advanced economies account for more than half of global production.
ii. Almost four out of every five people in the world live in the developing economies.
iii. In the advanced economies, agriculture accounts for a larger part of total production than in the developing economies. 86) _____

- A) Only i and ii
B) i, ii, and iii
C) Only i
D) Only ii and iii
E) Only i and iii

87) Nigeria would be classified by the International Monetary Fund as 87) _____

- A) a resource-based economy.
- B) an emerging market economy.
- C) a transition economy.
- D) a developing economy.
- E) an advanced economy.

88) _____ economies include _____. 88) _____

- A) Developing; China and Poland
- B) Emerging; China and Canada
- C) Developing; Saudi Arabia and South Africa
- D) Developing; Poland and Russia
- E) Emerging; Poland and Brazil

89) Poland is classified as 89) _____

- A) a transition economy.
- B) an advanced economy.
- C) private economy.
- D) an emerging market economy.
- E) a developing economy.

90) The majority of the value of production in the world economy is produced in 90) _____

- A) all of the emerging market economies taken together.
- B) all of Africa and the Middle East taken together.
- C) all of the developing economies taken together.
- D) all of the advanced economies taken together.
- E) China and other Asian developing economies.

91) Which of the following correctly describes how the "global pie is baked"? 91) _____

- A) The United States' share of economic pie is increasing while China's share is decreasing.
- B) The increase in manufacturing has taken place in mainly the advanced economies.
- C) Asia accounts for about 40 percent of the global pie.
- D) Emerging economies account for about 25 percent of the global pie.
- E) Advanced economies account for about 50 percent of the value of the world's production.

92) Physical capital differences across countries can be seen in the fact that 92) _____

- A) more advanced economies typically have more sophisticated technology.
- B) the iPhone's components are produced in 30 countries.
- C) furniture factories in China use machines like those in North Carolina.
- D) students in India study the same subjects as those in the United States.
- E) advanced economies produce 53 percent of the world's income.

93) The charitable organization Creating Hope International trains women in Afghanistan to become tailors. This effort reduces 93) _____

- A) entrepreneurship differences between advanced and developing economies.
- B) human capital differences between advanced and developing economies.
- C) physical capital differences between advanced and developing economies.
- D) agricultural differences between advanced and developing economies.
- E) manufacturing differences between advanced and developing economies.

94) Which of the following is an example of an effort to decrease physical capital differences between an advanced and a

developing economy? 94) _____

- A) Peace Corps volunteers teach English around the world.
- B) Creating Hope International trains women in Afghanistan to become tailors.
- C) Habitat for Humanity builds houses for low income families in the United States.
- D) Through World Vision, women and children in Africa receive education.
- E) American troops build roads in Afghanistan.

95) Of the following, the country with the highest average income per day in the world is 95) _____

- A) Germany.
- B) Japan.
- C) the United States.
- D) France.
- E) China.

96) Income equality has 96) _____

- A) decreased in the United States as manufacturing has increased.
- B) narrowed within countries but increased across countries.
- C) increased within countries but has narrowed across countries.
- D) not changed in the advanced economies over the past 50 years.
- E) increased in developing economies as manufacturing has decreased.

97) The world population is approximately _____ people. 97) _____

- A) 6.8 billion
- B) 6.8 trillion
- C) 680 million
- D) 2 trillion
- E) 6.8 million

98) Which of the following statements is true? 98) _____

- A) Income inequality within most countries has increased during the past 20 years.
- B) Income inequality across the entire world has decreased during the past 20 years.
- C) Income inequality within most countries and across the entire world has not changed much during the past 20 years.
- D) Both A and B are correct.
- E) None of the above is correct.

99) The percentage of the world's population that lives in the advanced economies is 99) _____

- A) between 20 percent and 30 percent.
- B) between 51 percent and 70 percent.
- C) more than 71 percent.
- D) between 31 percent and 50 percent.
- E) less than 20 percent.

100) Which of following groups of countries are *all* advanced economies? 100) _____

- A) Italy, the United States, China, and Russia
- B) Singapore, Russia, France, and Chad
- C) Australia, Brazil, and the United States
- D) Hong Kong, Japan, France, and the United Kingdom
- E) Mexico, Canada, Germany, and Egypt

101) The emerging market economies are 101) _____

- A) the nations with the highest standards of living.

- B) most of the nations of Western Europe.
- C) in transition from state-owned production to free markets.
- D) the largest grouping including the nations of China and India.
- E) the nations that are currently agricultural in nature.

102) As a percentage of total world production, production in the 29 advanced economies is about _____ percent of total world production and in the 118 developing economies is about _____ percent of total world production. 102)

- A) 30; 46
- B) 19; 73
- C) 53; 39
- D) 23; 62
- E) 53; 12

103) Compared to the developing economies, the advanced economies have _____ human capital and _____ physical capital. 103) _____

- A) less; less
- B) less; more
- C) the same; the same
- D) more; more
- E) more; less

104) In the advanced economies, _____ of the factories use advanced capital equipment, and in the developing economies, _____ of the factories use advanced capital equipment. 104) _____

- A) virtually all; some
- B) virtually all; none
- C) some; none of
- D) some; some
- E) virtually all; virtually all

105) Among the United States, Canada, Russia, India, and the United Kingdom, the country with the highest average income per person is 105) _____

- A) the United Kingdom.
- B) India.
- C) Canada.
- D) Russia.
- E) the United States.

106) _____ the owners of the factors of production, while _____ what amounts of those factors to hire. 106)

- A) Households are; the government determines
- B) Households are; firms determine
- C) Firms are; households determine
- D) Firms are; the government determines
- E) The government is; firms determine

107) What two groups of decision makers are represented in the basic circular flow model? 107) _____

- A) wholesalers and retailers
- B) lenders and borrowers
- C) governments and financial institutions
- D) bankers and regulators

E) households and firms

108) Dan missed class the day the professor covered the circular flow model. Dan asked his friend Joan to explain markets to him. Joan correctly stated that a market 108) _____

- A) must have many buyers and only one seller, who is willing to sell to all the buyers.
- B) is only a place to purchase groceries.
- C) requires a physical location for buyers and sellers to get together.
- D) must include a written contract between buyers and sellers.
- E) is any arrangement that brings buyers and sellers together.

109) The decisions of firms and households are 109) _____

- A) coordinated by but not totally controlled by the government.
- B) made independently of one another.
- C) controlled by but not totally coordinated by the government.
- D) coordinated by markets.
- E) unexplainable by the circular flow model.

110) The circular flow model is used to show the 110) _____

- A) flow of renewable natural resources.
- B) expansions and contractions of economic activity.
- C) recycling process of production materials.
- D) flow of expenditures and incomes in the economy.
- E) flow of supply and the flow of demand.

111) The circular flow model shows the 111) _____

- A) flow of expenditure and incomes that arise from the households', firms', and governments' decisions.
- B) flow of natural resources from firms to the private market to government and back to firms.
- C) combinations of the factors of production needed to produce goods and services.
- D) distribution of income and consumption goods across income levels.
- E) distribution of income to the different factors of production.

112) The circular flow model shows the flow of 112) _____

- A) only funds in stock and bond markets.
- B) only tax payments and government expenditures.
- C) goods markets and factor markets as they move through the economy.
- D) only money throughout the economy.
- E) expenditure and income throughout the economy.

113) In the circular flow model, there are two types of markets: the _____ market and the _____ market. 113)

- A) goods; factor
- B) supply; demand
- C) households; firms
- D) producers; consumers
- E) service; goods

114) In the circular flow model, consumption goods are bought and sold in the 114) _____

- A) factor markets.
- B) financial market.
- C) monetary flows.

- D) goods market.
- E) government market.

115) In the circular flow model, which of the following is on the buying side in the goods market?

- i. firms
 - ii. households
 - iii. federal, state, and local governments
- 115) _____

- A) i only B) ii only C) i and ii D) iii only E) ii and iii

116) In the circular flow model, which of the following is on the selling side in the goods market? 116) _____

- A) federal, state, and local governments
- B) only firms
- C) exporters
- D) only households
- E) both firms and households

117) The circular flow model shows that goods and services flow from 117) _____

- A) businesses to households.
- B) the factor market to businesses.
- C) the goods market to businesses.
- D) households to business.
- E) the factor markets to the goods markets.

118) As the circular flow model points out, a choice that households make is how 118) _____

- A) many goods and services are purchased.
- B) much the government will collect in taxes and how much the government will spend on transfer payments.
- C) much labor is hired.
- D) many resources a firm will hire.
- E) many goods and services are produced.

119) In the circular flow model, which of the following owns the factors of production? 119) _____

- A) only households
- B) only federal, state, and local governments
- C) only firms
- D) both firms and households
- E) firms, households, and all levels of government

120) In the circular flow model, the factor markets are the markets in which 120) _____

- A) governments impose all their taxes.
- B) land, labor, capital, and entrepreneurship are bought and sold.
- C) investment goods and services are bought and sold.
- D) consumption goods and services are bought and sold.
- E) government goods and services are provided.

121) A money flow in the circular flow diagram is

- i. the government's collection of taxes.
 - ii. Chevrolet's production of SUVs.
 - iii. Nike's payment of wages to its workers.
- 121) _____

- A) i only B) ii only C) i, ii and iii D) ii and iii E) i and iii

122) A real flow in the circular flow diagram is
i. a firm's payments of wages to its workers.
ii. a household's purchase of a new car.
iii. a farmer's use of land to grow corn. 122) _____

A) i, ii and iii B) ii only C) ii and iii D) i only E) i and iii

123) An example of a real flow in the circular flow diagram is 123) _____

- A) a household's supply of work effort at its new business.
- B) Nike's payment of wages to workers in China.
- C) your county's collection of property taxes.
- D) the government's payment of wages to a soldier.
- E) a teacher's salary at the local high school.

124) An example of a money flow in the circular flow diagram is 124) _____

- A) the government's operation of the court system.
- B) a firm's production of goods to sell to a foreign country.
- C) the government's financing of the national debt.
- D) a student's payment of tuition to her university.
- E) a farmer's use of land to grow wheat.

125) As the circular flow model shows, the factors of production flow from 125) _____

- A) households to firms through the factor market.
- B) firms to households through the goods market.
- C) the goods market through firms to the factor markets.
- D) households to firms through the goods market.
- E) firms to households through the factor market.

126) In the circular flow model, the factors of production flow in the 126) _____

- A) opposite direction as does the goods market.
- B) opposite direction as does the government.
- C) same direction as do the rents, wages, interest, and profits.
- D) opposite direction as do the rents, wages, interest, and profits.
- E) same direction as does the goods market.

127) In the goods market, firms _____ and households _____. 127) _____

- A) supply goods and services; purchase goods and services
- B) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
- C) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services
- D) purchase goods and services; supply goods and services
- E) hire land, labor, capital, and entrepreneurship services; supply goods and services

128) In the factor market, firms _____ and households _____. 128) _____

- A) supply goods and services; purchase goods and services
- B) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
- C) purchase goods and services; supply goods and services
- D) hire land, labor, capital, and entrepreneurship services; purchase goods and services
- E) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services

129) Which of the following transactions takes place in factor markets? 129) _____

- A) Jake purchases 1,000 shares of stock in the Wal-Mart Corporation through his online trading account.
- B) Justin receives \$30 in exchange for mowing his neighbor's lawn.

- C) Henry receives a commission from his employer for selling a new automobile.
- D) Lucille receives a \$500 check from the U.S. Social Security Administration.
- E) Sam enters the winning bid on a grand piano at a local auction.

130) Which markets are depicted in the basic circular flow model? 130) _____

- A) the factor market and the bond market
- B) the stock market and the bond market
- C) the money market and the foreign exchange market
- D) the goods market and the stock market
- E) the goods market and the factor market

131) In the circular flow model, which of the following flows in the opposite direction from the flow of factors of production? 131) _____

- A) the goods market
- B) finished goods and services
- C) interest payments of Federal, state, and local governments
- D) firm's profit incentives
- E) wages, rent, interest, and profit

132) Terri is enrolled in her first economics course. She is required to give a presentation about the circular flow. Which of the following statements should she include in her presentation? 132) _____

- A) The flows of goods and services and payments for the goods and services flow in the same direction.
- B) Households choose the amount of the factors of production to provide the firms.
- C) Firms choose the amount of the factors of production to provide households.
- D) Firms pay wages for the amount of entrepreneurship they provide households.
- E) Households receive wages for the amount of entrepreneurship they provide firms.

133) Aaron locked himself out of his house and had to pay \$40 to Brianna, who works for Lucky Locksmith, to open his door. Based on this transaction in the economy and using concepts from the circular flow model, which of the following is true? 133) _____

- A) Aaron supplied goods and services.
- B) Brianna earned income from supplying her labor services.
- C) Aaron earned income from supplying his labor services.
- D) Brianna purchased goods and services.
- E) Aaron acted as a firm in this transaction.

134) In the circular flow model, 134) _____

- A) the government has no direct interaction with either households or firms.
- B) the government is represented as a separate market.
- C) the government buys goods and services from firms.
- D) goods and services are sold by households and purchased by firms.
- E) factor markets are where goods rather than services are bought and sold.

135) In the circular flow model with the government sector, transfers 135) _____

- A) flow only through the goods market.
- B) flow in the same direction as do taxes.
- C) flow in the opposite direction as do taxes.
- D) to firms flow in the same direction as do rent, wages, interest, and profits.
- E) to households flow in the same direction as do expenditures on goods and services.

136) In the circular flow model with the government sector, taxes136) _____

- A) on households flow in the same direction as do the goods and services.
- B) on firms flow in the same direction as do factors of production.
- C) flow in the same direction as do transfers.
- D) flow from the goods market to the factor markets.
- E) flow in the opposite direction as do transfers.

137) Which of the following is NOT shown explicitly in the circular flow model? 137) _____

- A) the government's purchases in the goods market
- B) the transfers the government makes to households
- C) the taxes the government collects from households
- D) the legal system
- E) the government's interaction with firms

138) Which of the following is a function of the U.S. federal government? 138) _____

- A) deciding for whom firms should produce goods and services
- B) distributing private goods and services
- C) providing the legal and social framework for economic activity
- D) determining what wages firms will pay their workers.
- E) deciding how much to produce of private goods and services

139) Which of the following is NOT a function of the federal government? 139) _____

- A) providing public goods and services
- B) imposing a personal income tax
- C) making transfers to state and local governments
- D) making social security and welfare payments
- E) collecting property taxes

140) Of the following, the largest single component of U.S. federal government expenditures is spent on 140) _____

- A) transfers to state and local governments.
- B) Medicare and Medicaid.
- C) interest paid on the national debt.
- D) purchases of goods and services for purposes other than national defense.
- E) national defense.

141) The largest component of federal government spending is for 141) _____

- A) Medicare and Medicaid.
- B) interest on the national debt.
- C) prisons.
- D) national defense.
- E) education.

142) Of the following, the federal government obtains most revenue from142) _____

- A) sales taxes.
- B) Social Security taxes.
- C) property taxes.
- D) excise taxes.
- E) corporate income taxes.

143) The two biggest items of the U.S. federal government revenue that together account for over approximately 80 percent of total federal government revenue are 143) _____

- A) personal income taxes and Social Security taxes.
- B) personal income taxes and corporate income taxes.
- C) personal income taxes and sales taxes.
- D) corporate income taxes and Social Security taxes.
- E) corporate income taxes and property taxes.

144) Of the following, the federal government's largest source of revenue is the 144) _____

- A) transfers from state and local governments.
- B) social security tax.
- C) property tax.
- D) sales tax.
- E) corporate income tax.

145) Tax revenues are transferred from 145) _____

- A) one state government to other state governments.
- B) state governments to the federal government.
- C) the state and local governments to the federal government.
- D) local governments to state and federal governments.
- E) the federal government to state and local governments.

146) Of the following, the largest source of revenue for the federal government is the 146) _____

- A) lottery.
- B) transfers from state and local governments.
- C) corporation income tax.
- D) personal income tax.
- E) revenue from the sale of public lands.

147) Income taxes paid by corporations are 147) _____

- A) about 9 percent of the federal government's revenue.
- B) the major source of expenditure by the federal government.
- C) the major source of revenue for state governments.
- D) the major source of revenue for local governments.
- E) the major source of revenue for the federal government.

148) The national debt is the total amount the _____ government has borrowed to make expenditures that _____ tax revenue. 148) _____

- A) federal; exceed
- B) state and local; exceed
- C) state and local; are less than
- D) federal; are equal to
- E) federal; are less than

149) The national debt is the total amount the _____ government has _____ to make expenditures that exceed tax revenue. 149) _____

- A) state and local; taxed U.S. citizens
- B) state and local; borrowed
- C) federal; taxed U.S. citizens
- D) federal; borrowed
- E) federal; loaned

150) The total amount the federal government has borrowed to make expenditures that exceed tax revenue is called
150) _____

- A) personal income taxes.
- B) total government spending.
- C) the net government revenue.
- D) federal expenditures.
- E) the national debt.

151) If there is a national debt, we can conclude that the federal government has 151) _____

- A) spent money foolishly.
- B) loaned funds to other nations in the past.
- C) loaned funds to U.S. taxpayers in the past.
- D) borrowed in the past.
- E) purchased more goods and services than were needed.

152) State and local governments finance expenditures mainly from 152) _____

- A) tax revenue.
- B) government bonds issued at the state level.
- C) funds provided by the federal government.
- D) private bank loans.
- E) lottery funds.

153) Of the following, the largest source of tax revenue collected by state and local governments comes from 153)

- A) individual income taxes.
- B) lottery revenues.
- C) corporate income taxes.
- D) death taxes.
- E) sales taxes.

154) Which of the following are sources of revenue for state and local governments?

- i. property taxes
- ii. sales taxes
- iii. transfers from the federal government 154) _____

- A) i, ii and iii B) ii and iii C) i and ii D) i only E) i and iii

155) Property taxes are a major source of revenue for 155) _____

- A) state and local governments.
- B) consumers.
- C) the federal governments.
- D) firms wanting to relocate their operations.
- E) the federal, state, and local governments.

156) The largest category of state and local government expenditures is 156) _____

- A) interest on their debt.
- B) public welfare.
- C) education.
- D) highways.

E) social security.

157) State and local governments spend about _____ of their expenditures on education. 157) _____

- A) 14 percent
- B) 74 percent
- C) 59 percent
- D) 34 percent
- E) 19 percent

158) Households and firms in the U.S. economy interact with those in the rest of the world in the _____ market and in the _____ market. 158) _____

- A) government; goods
- B) financial; factor
- C) firm; government
- D) goods; financial
- E) goods; factor

159) An example of a U.S. export is 159) _____

- A) diamonds mined in Africa sold to buyers in South America.
- B) a TV made in China sold to a buyer in Azerbaijan.
- C) matchbooks made in Mexico sold to a buyer in New Jersey.
- D) a washing machine made in Indiana sold to a buyer in France.
- E) pasta made in Italy sold to buyers in Spain.

160) Within the circular flow model, economists define households as 160) _____

- A) married or engaged couples.
- B) families living in their own houses.
- C) individuals or groups living together.
- D) individuals or groups within the same legally defined family.
- E) families with at least 2 children.

161) A market is defined as 161) _____

- A) any arrangement that brings buyers and sellers together.
- B) the physical place where goods *and* services are sold.
- C) the physical place where goods (but not services) are sold.
- D) a place where money is exchanged for goods.
- E) another name for a store.

162) In the circular flow model, 162) _____

- A) the money used to buy goods and the goods themselves travel in the same direction.
- B) some firms only sell and some firms only buy.
- C) both firms and households buy or sell in different markets.
- D) only firms sell in markets.
- E) only households buy from markets.

163) _____ choose(s) the quantities of goods and services to produce, while _____ choose(s) the quantities of goods and services to buy 163) _____

- A) Firms; only households
- B) Households; the government
- C) Households; firms

D) Firms; households and the government

E) The government; firms

164) _____ choose the quantities of factors of production to hire and _____ choose the quantities of goods and services to produce. 164) _____

A) Markets; markets

B) Firms; households

C) Factor markets; goods markets

D) Entrepreneurs; firms

E) Firms; firms

165) In the circular flow model, rent, wages, interest, and profit paid flow from _____ through _____ to _____. 165) _____

A) firms; goods markets; firms

B) households; factor markets; firms

C) households; goods markets; firms as payment for goods

D) firms; factor markets; households

E) firms; goods markets; households

166) A circular flow model shows the interrelationship between the _____ markets and the _____ markets. 166) _____

A) expenditure; income

B) household; goods

C) business; household

D) goods; factor

E) household; factor

167) In the circular flow model, the expenditures on goods and services flow in the _____ 167) _____

A) same direction as factor markets.

B) opposite direction as goods and services.

C) same direction as goods and services *only if* they both flow through the goods market.

D) same direction as goods and services in all cases.

E) same direction as goods and services *only if* they both flow through the factor market.

168) Households receive transfers from _____, and firms receive transfers from _____. 168) _____

A) firms; households

B) government; government and households

C) government; no one

D) firms and government; government

E) government; government

169) Of the following, the largest source of revenue for the federal government is 169) _____

A) lottery revenue.

B) sales taxes.

C) personal income taxes.

D) corporate income taxes.

E) property taxes.

170) _____ are the largest components of state and local government revenue. 170) _____

- A) Individual income taxes and corporate income taxes
- B) Transfers from federal government and sales taxes
- C) Individual income taxes and sales taxes
- D) Transfers from federal government and corporate income taxes
- E) Corporate income taxes and lottery income

171) U.S. exports of goods and services flow to households and firms in _____, and U.S. financial inflows of capital flow to households and firms in _____. 171) _____

- A) the rest of the world; the United States
- B) the rest of the world; the rest of the world
- C) the United States; the United States
- D) the United States; the rest of the world
- E) the United States; the rest of the world and the United States

172) If a product becomes more popular and consumers want more produced, which of the following best describes what happens to move more factors of production into that industry? 172) _____

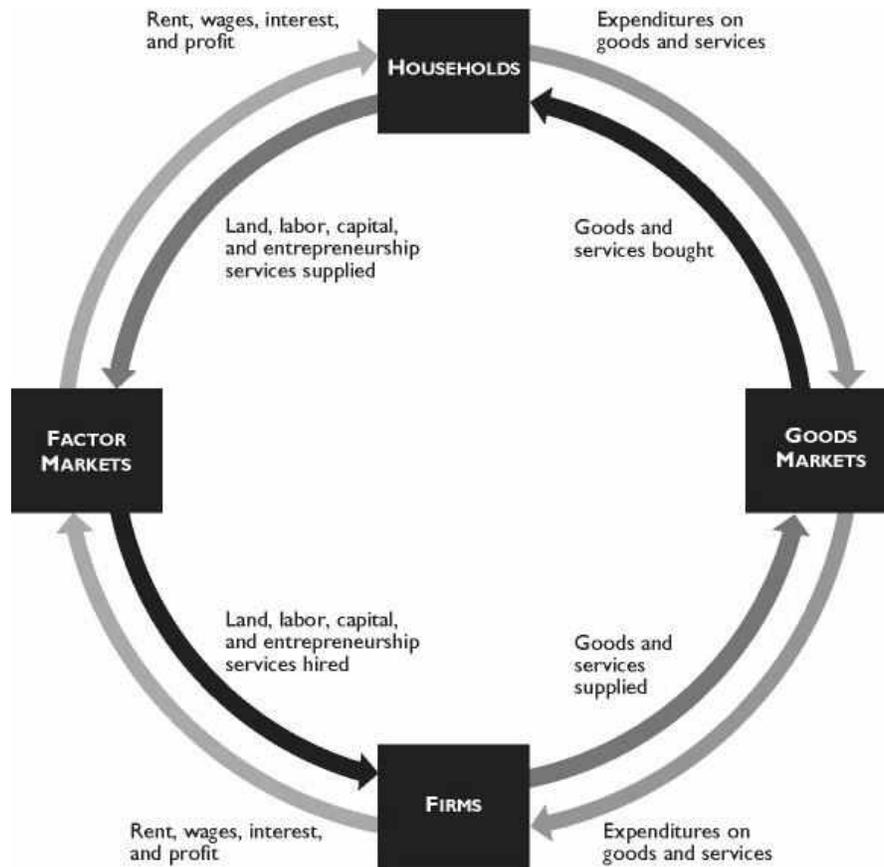
- A) Wages, rent, interest, and profit increase in that industry, thereby giving factors the incentive to move to that industry.
- B) An agency of the Federal government directs the movement of factors.
- C) Consumers increase their demand for the products and, as a result, the taxes the producers must pay decrease enabling the producers to hire more factors of production.
- D) The chief executive officers or presidents of corporations require that factors leave one industry and move to the other industry.
- E) Factor owners voluntarily move their factors because they want to satisfy the interests of consumers.

173) What determines the income flows that households receive? 173) _____

- A) financial institutions such as banks
- B) an agency of the Federal government
- C) what they choose to consume
- D) what they choose to produce, how much is sold, and the price received when sold
- E) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold

174) What determines the revenue flows received by businesses? 174) _____

- A) an agency of the Federal government
- B) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
- C) what they pay the factors of production they employ
- D) what they choose to produce, how much is sold, and the price received when sold
- E) financial institutions such as banks



The figure above shows the circular flow model.

175) In the figure above, which of the following represents a real flow of a factor of production? 175) _____

- A) labor
- B) wages
- C) services sold
- D) firms' expenditures on factors of production
- E) goods bought

176) In the figure above, which of the following represents a money flow? 176) _____

- A) interest
- B) goods supplied
- C) capital
- D) goods purchased
- E) services sold

177) In the figure above, which of the following represents a real flow? 177) _____

- A) profit
- B) capital
- C) wages
- D) expenditures on real estate services
- E) both B and D

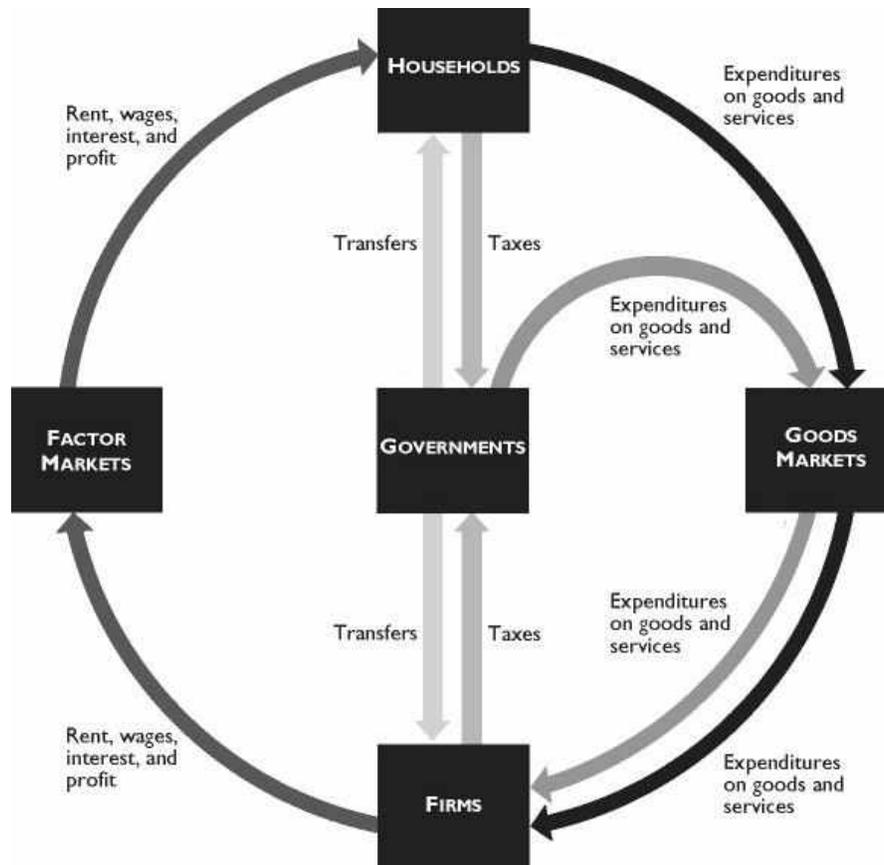
178) In the figure above, which of the following transactions take place in the factor markets? 178) _____

- i. Michael, a student, orders a computer from Dell online.
- ii. Peter gets a job at a Wal-Mart store.
- iii. Apple Computer opens a new store in Georgia.

- A) only ii B) ii and iii C) only i D) i and ii E) only iii

179) Margo orders a MacBook Pro computer from The Apple Store online to use it in her graphic design business. How will this be reflected in the figure above? 179) _____

- A) as expenditures on goods and services
 B) as a flow of a factor of production
 C) as a flow of goods and services bought
 D) as goods and services supplied
 E) It won't be shown in the figure because this transaction takes place neither in goods markets nor in factor markets.



The figure above shows governments in the circular flow.

- 180) In the figure above, households 180) _____
 A) receive transfers from governments through factor markets.
 B) sell factors of production to governments.
 C) receive transfers directly from governments.
 D) buy goods and services from governments in goods markets.
 E) pay taxes to governments through factor markets.
- 181) In the figure above, firms 181) _____
 A) own factors of production.
 B) sell goods and services to governments in goods markets.
 C) pay taxes directly to governments.
 D) receive transfers from governments through factor markets.
 E) do all of the above.

182) In the figure above, governments 182) _____
A) own factors of production.
B) hire factors of production.
C) coordinate economic activities of households and firms.
D) collect taxes.
E) sell goods and services to household.

183) In the figure above, which of the following is true?
i. Governments coordinate economic activities of households and firms.
ii. Governments buy goods and services in goods markets.
iii. Households pay taxes directly to firms. 183) _____
A) i and ii B) only i C) only iii D) ii and iii E) only ii

184) Social Security tax is deducted from your paycheck. In the figure above, this will be shown as 184) _____
A) taxes flowing from households to firms.
B) taxes flowing from households to governments.
C) wages flowing from firms to governments.
D) wages flowing from firms to households.
E) taxes flowing from firms to governments.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

185) It is conventional to divide the nation's total production into four categories. Name and explain the four categories. In the United States, which category accounts for the largest share and the smallest share of the nation's total production?
185) _____

186) Explain the difference between consumption and capital goods. 186) _____

187) Identify the four factors of production, and tell what type of income is earned by each factor. 187) _____

188) What are the payments each factor of production receives? 188) _____

189) What is meant by the term "human capital"? 189) _____

190) What effect, if any, will a good college education have on your human capital? Explain your answer. 190) _____

191) Explain the differences between "human capital," "financial capital," and "capital." 191) _____

192) What is the difference between "capital" and "financial capital"? Which is a factor of production? 192) _____

193) What is the difference between the functional and the personal distribution of income? 193) _____

194) In the United States, which factor of production earns the largest share of the nation's total income? 194) _____

195) In the United States, how does the income received by the richest 20 percent of individuals compare with the income received by the other 80 percent? 195) _____

196) Compare and contrast the world population with that of the United States. Is the United States becoming a larger or a smaller part of the world's population? 196) _____

197) How many and what fraction of the world's people live in advanced economies? In emerging market and developing economies? 197) _____

198) The International Monetary Fund divides nations into three groups. What are the three groups and what are the characteristics of each group? 198) _____

199) Discuss the distribution of income around the world. Which countries have the highest average incomes? Which countries have the lowest average incomes? How has the distribution of income changed in recent years? 199)

200) Discuss the differences between developing and emerging market economies. 200) _____

201) What is a market? Must a market have a single physical location? 201) _____

202) Explain the structure of the circular flow model. 202) _____

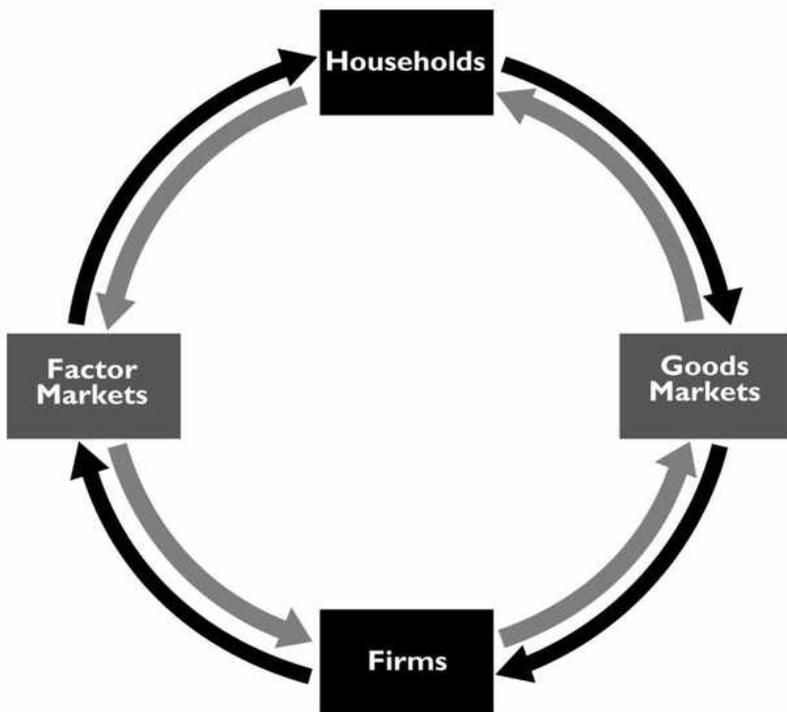
203) How are the roles of the household different in the goods market and in the factor markets? 203) _____

204) Describe the circular flow of the economy by discussing the two markets where households and firms meet. 204)

205) Explain how public goods provided by the federal government differ from public goods provided by the state and local governments. 205) _____

206) Describe the government's flows in the circular flow model of the economy. 206) _____

207) Label the flows in the simplified circular flow diagram that ignores the government.



207) _____

208) Draw a circular flow diagram with households and firms and without government. Label the markets and the flows in the circular flow diagram. 208) _____

209) Explain how the largest sources of state tax revenues differs from the largest sources of federal tax revenues. 209) _____

210) What are the two largest sources of tax revenues for the U.S. federal government? 210) _____

211) What is the largest source of tax revenue for the U.S. federal government and what is the largest expenditure item of the U.S. federal government? 211) _____

- 1) E
- 2) E
- 3) C
- 4) B
- 5) C
- 6) D
- 7) A
- 8) B
- 9) B
- 10) C
- 11) B
- 12) D
- 13) D
- 14) E
- 15) D
- 16) A
- 17) B
- 18) B
- 19) B
- 20) D
- 21) E
- 22) D
- 23) A
- 24) B
- 25) A
- 26) A
- 27) A
- 28) B
- 29) A
- 30) A
- 31) B
- 32) D
- 33) B
- 34) A
- 35) B
- 36) E
- 37) A
- 38) C
- 39) C
- 40) A
- 41) B
- 42) E
- 43) C
- 44) C
- 45) E
- 46) A
- 47) D
- 48) A
- 49) E
- 50) A
- 51) E

- 52) A
- 53) D
- 54) A
- 55) C
- 56) E
- 57) A
- 58) C
- 59) D
- 60) B
- 61) D
- 62) D
- 63) A
- 64) E
- 65) C
- 66) E
- 67) A
- 68) A
- 69) D
- 70) D
- 71) A
- 72) D
- 73) A
- 74) C
- 75) C
- 76) C
- 77) C
- 78) B
- 79) C
- 80) B
- 81) C
- 82) A
- 83) A
- 84) C
- 85) D
- 86) A
- 87) D
- 88) C
- 89) D
- 90) D
- 91) E
- 92) A
- 93) B
- 94) E
- 95) C
- 96) C
- 97) A
- 98) D
- 99) E
- 100) D
- 101) C
- 102) C
- 103) D

104) A
105) E
106) B
107) E
108) E
109) D
110) D
111) A
112) E
113) A
114) D
115) E
116) B
117) A
118) A
119) A
120) B
121) E
122) C
123) A
124) D
125) A
126) D
127) A
128) B
129) C
130) E
131) E
132) B
133) B
134) C
135) C
136) E
137) D
138) C
139) E
140) B
141) A
142) B
143) A
144) B
145) E
146) D
147) A
148) A
149) D
150) E
151) D
152) A
153) E
154) A
155) A

- 156) C
- 157) D
- 158) D
- 159) D
- 160) C
- 161) A
- 162) C
- 163) D
- 164) E
- 165) D
- 166) D
- 167) B
- 168) E
- 169) C
- 170) B
- 171) A
- 172) A
- 173) E
- 174) D
- 175) A
- 176) A
- 177) B
- 178) B
- 179) B
- 180) C
- 181) C
- 182) D
- 183) E
- 184) B

185) The four categories of production are consumption goods and services, capital goods, government goods and services, and export goods and services. The division is based upon who purchases the goods and services. For instance, consumption goods and services are purchased by individuals for their own enjoyment whereas export goods and services are purchased by foreigners. In the United States, the largest of these four components is consumption goods and services. In 2011, consumption goods and services accounted for 61 percent of the total production. The smallest components were capital goods and export goods and services, which each accounted for 11 percent of the total production.

186) A difference lies in the identity of the purchaser. Consumption goods (and services) are purchased by households and investment goods are purchased by firms. Households buy consumption goods to use for personal enjoyment. They contribute to the person's standard of living. Firms buy capital goods to use as a factor of production. Capital goods are used along with the other factors of production, to help produce additional goods and services.

187) The factors of production are land, which represents all the gifts of nature; labor, the work effort people put into producing goods and service; capital, goods that have been produced and are used as a productive resource to help produce other goods and services; and entrepreneurship, the human resource that organizes all the other factors of production. Land earns rent, labor earns wages, capital earns interest, and entrepreneurship earns profit or losses.

188) Rent is paid for the use of land. Wages are paid for the services of labor. Interest is paid for the use of productive capital. Entrepreneurs earn a profit.

189) Human capital refers to the skills people possess. These skills help increase the quality of labor. Human capital can be increased through education, on the job training, and experience. The knowledge and skill gained from these improvements are called human capital.

190) Human capital refers to the skills people possess. These skills can be gained through education, on the job training, and experience. Thus your college education is increasing your human capital.

191) Human capital is the knowledge and skills people obtain from education, on-the-job training, and work experience.

Financial capital is money, stocks, and bonds. Capital is tools, instruments, machines, buildings, and anything that had to be produced prior to production of the desired goods and services.

192) "Capital" is the actual physical good, such as a factory, an assembly line, or a computer server. "Financial capital" is stocks, bonds, or money. Financial capital is used to fund the purchase of the (physical) capital. Financial capital is NOT a factor of production because it is not used to help produce goods and services. Capital, however, is a factor of production because capital is used to help produce goods and services.

193) The functional distribution of income shows how total income is divided among the factors of production. The personal distribution of income shows how total income is divided among households.

194) The largest fraction of the nation's total income is earned by labor. In the United States, wages paid to labor account for about 69 percent of the nation's total income.

195) In the United States, the richest 20 percent of individuals receive about 51 percent of the nation's total income. Thus the other 80 percent of individuals receive the remainder, about 49 percent of the nation's income. So the richest 20 percent of the individuals receive almost the same amount as the other 80 percent of people.

196) The U.S. population was approximately 311 million in 2011. It is growing at a rate of about one person in every 12 seconds. The world population in 2011 was about 7 billion and is growing at a rate of 30 people in the same 12 seconds. Hence the United States is becoming a smaller fraction of the world's population.

197) There are approximately 7 billion people in the world. Of the 7 billion people, almost 1 billion or 15 percent, live in advanced economies. About 85 percent, or nearly 5.8 billion people live in emerging market and developing economies.

198) The International Monetary Fund divides nations into "advanced economies," "developing economies," and "emerging market economies." Advanced economies are the countries or regions that have the highest living standards. Industrialized nations such as the United States, Canada, and Japan are included, as are the newly industrialized Asian economies. Developing economies are the countries that have yet to achieve a high standard of living. Nations in Africa, Central America, and South America fall into this category. The emerging market economies are nations that are changing how they organize their economies. In the past, their economic system relied upon state-ownership of capital and direct government management of the economy. They now are moving to more reliance upon a system of free enterprise, that is, a system similar to what exists in the United States. Emerging market economies are Russia and the other nations in Eastern and Central Europe that used to be Russian satellites.

199) Income is distributed unequally, with residents in the advanced economies having the highest average incomes. The highest living standard is in the United States, where the average income is \$129 per day. Canada, Japan, the United Kingdom, and the Euro zone are close behind. In the poorest regions of the world, India and Africa, incomes are much lower. The average income is only \$3 per day in India. The distribution of world income has become more equal in recent years because income in some very poor nations, especially China, has grown rapidly.

200) Although the average income in emerging market economies is less than that in advanced economies, developing countries generally have lower levels of income than emerging market economies. Emerging market economies are in some ways as developed as the advanced economies because they often have a well-trained labor force and a reasonable capital stock, both of which are typically missing in developing economies. But emerging market economies are struggling to raise their living standards. The main difference between emerging market economies and other economies is their economic system. Emerging market economies operated under state-owned production for many years and are now moving towards a free market system. Developing economies generally do not have the same history of a very long period of time operating under a system of state-owned production.

201) A market is any arrangement that allows buyers and sellers to get together and transact their business. Although some markets have a physical location, such as a farmers' market where buyers and sellers of fresh corn can meet face-to-face, markets do not require an actual location. Indeed, many markets, such as the local market for apartments, do not have a single physical location. Nonetheless, buyers and sellers (tenants and landlords) arrange purchases and sales (the rental of apartments and houses) through means other than meeting in one central location.

202) Households own the factors of production and sell the services from them to firms in the factor market. Income earned by households in the factor market is used to purchase goods and services from firms in the goods market. And the revenue the firms gain by selling the goods and services in the goods market is used to pay for the services of the factors of production they hire in the factor markets.

203) In the goods market, households are buyers. They purchase the goods and services produced by the firms. In exchange for the goods and services, households pay firms. In the factor market, households are sellers. They provide the services from land, labor, capital, and entrepreneurship to the firms. In the factor markets, households receive payments

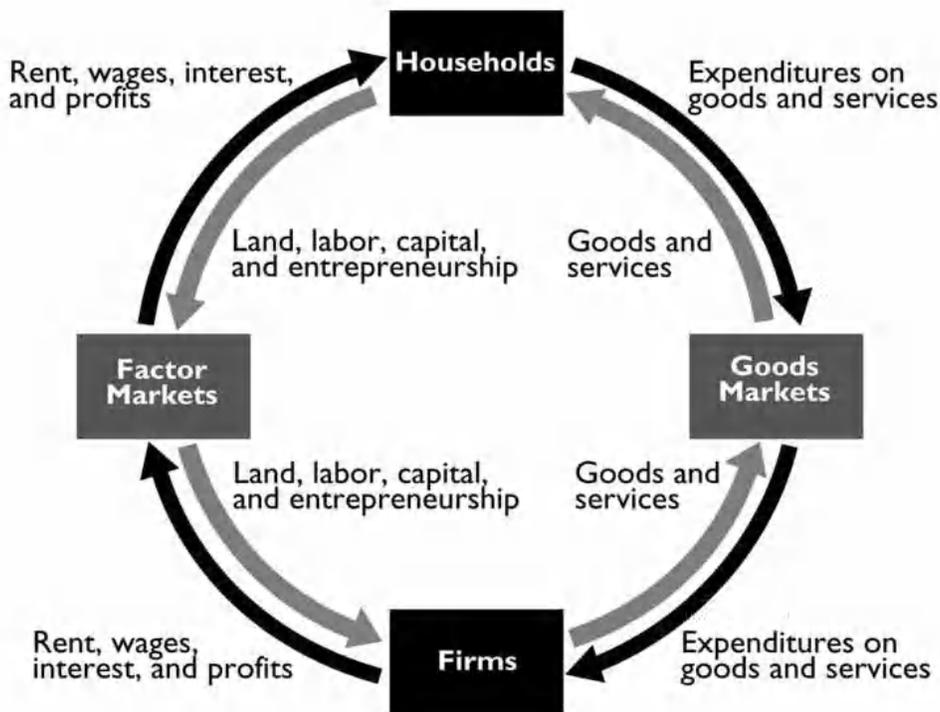
from firms.

204) Firms and households meet in two markets: the goods market and the factors market. In the goods markets, households buy the goods and services that firms sell. In this market, households give firms money in exchange for the goods and services. In the factors market, households sell the services of the factors of production to firms, which buy the services of these factors. In the factors market, firms pay households money in exchange for the productive resources. Hence households earn their incomes in the factors market and spend their incomes in the goods market. And firms earn their revenue in the goods market and pay their costs in the factors market.

205) The federal government provides goods and services such as national defense and the legal system. These are goods and services that benefit the entire nation or else substantial parts of it. The state and local governments provide mainly education and highways, which benefit primarily residents within the state or locality.

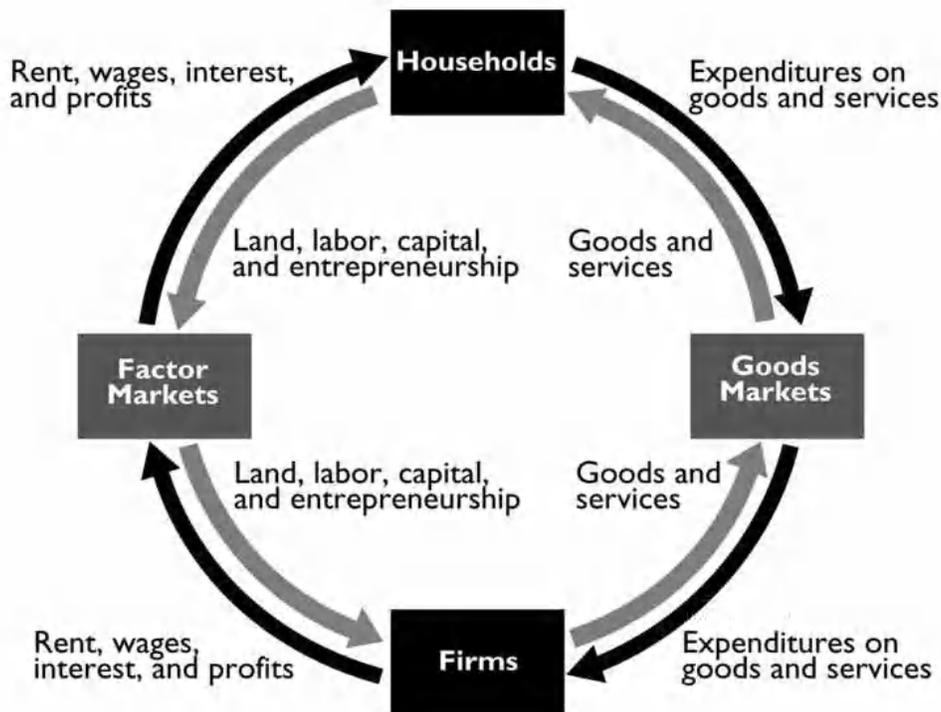
206) The government has several flows in the circular flow model. First, the government taxes households and firms. Hence, funds flow from households and firms to the government. Second, the government transfers income back to households, via payments such as social security. In this case, funds flow from the government to households. The government also purchases goods and services from firms in the goods market. In this case, goods and services flow to the government and payments flow to firms.

207)



The figure above shows the labeled flows.

208)



A circular flow diagram with the markets and flows labeled is in the figure above.

209) The two largest sources of federal tax revenues are from the personal income tax and Social Security taxes. Most state tax revenues are from sales and property taxes. There are no federal property or sales taxes. There is no state social security tax. And, although there are state income taxes, they do not take in as much revenue as do other state taxes.

210) The largest source of tax revenue for the U.S. federal government is personal income taxes, that is, the income taxes that individuals pay. The second largest source of revenue is social security taxes. Personal income taxes account for about 41 percent of the federal government's revenue and social security taxes account for about 40 percent, so together these two sources of revenue are 81 percent of the federal government's total tax revenues.

211) The largest source of tax revenue for the U.S. federal government is personal income taxes, that is, the income taxes that individuals pay. The largest expenditure of the U.S. federal government is spending on Medicare and Medicaid.