

Chapter 02: The Economy: Myth and Reality

True / False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

4. *Outputs* include goods but not services.

- a. True
- b. False

ANSWER: False

5. *Population density varies little between the 50 states.*

- a. True
- b. False

ANSWER: False

6. *Prosperity in the United States is evenly distributed across the 50 states.*

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

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ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

16. The U.S. economy has become a less open economy over the past 50 years.

- a. True
- b. False

ANSWER: False

17. The U.S. economy has become a less closed economy over the past 50 years.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

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ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

21. A closed economy is one in which exports and imports constitute a large share of GDP.

- a. True
- b. False

ANSWER: False

22. The U.S. economy rarely grows.

- a. True
- b. False

ANSWER: False

23. Economic growth in the United States has increased consistently since the 1950s.

- a. True
- b. False

ANSWER: False

24. Real GDP per capita in the United States grows over time.

- a. True
- b. False

ANSWER: True

25. In 2017, per capita real GDP was roughly half its value in 1960.

- a. True
- b. False

ANSWER: False

26. Since 1960, per capita real GDP in the United States has nearly tripled.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

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ANSWER: True

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

- a. True
- b. False

ANSWER: True

29. The U.S. economy has grown constantly over the years.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

31. During a recession, unemployment rises and total output of the economy rises.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

33. Recessions are periods of declining economic activity.

- a. True
- b. False

ANSWER: True

34. Over the past several years and until recently, the United States has had lower unemployment rates than most European countries.

- a. True
- b. False

ANSWER: True

35. Since the 1970s, the United States has had higher unemployment rates than most European countries.

- a. True
- b. False

ANSWER: False

36. Roughly 160 million people in the United States hold jobs.

- a. True

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b. False

ANSWER: True

37. Teenage employment in the United States has risen in the past two decades.

a. True

b. False

ANSWER: False

38. Since the 1950s, the percentage of women working in the United States has held relatively steady.

a. True

b. False

ANSWER: False

39. Teenage workforce participation as a percentage of the total workforce has fallen in the United States in recent years.

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: False

41. Currently, well over half of the American workforce is comprised of women.

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

45. The percentage of the American workforce employed in the manufacturing sector has been steadily declining over the past 50 years.

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- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

48. Workers in the United States receive significantly higher compensation than almost all other western European nations.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

52. Investment spending accounts for nearly 60 percent of U.S. GDP.

- a. True
- b. False

ANSWER: False

53. Consumer spending accounts for about 50 percent of GDP.

- a. True
- b. False

ANSWER: False

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54. Consumer spending accounts for nearly two-thirds percent of U.S. GDP.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

56. There are about 5 million business firms in the Unites States.

- a. True
- b. False

ANSWER: False

57. Approximately 1 in 12 business firms fail each year in the Unites States.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

60. There is no role for government in a free enterprise economy such as the United States.

- a. True
- b. False

ANSWER: False

61. One important role for government as referee is in defining and enforcing property rights.

- a. True
- b. False

ANSWER: True

62. *Antitrust laws* are designed to promote competition.

- a. True
- b. False

ANSWER: True

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63. Government spending plays no role in meeting our social and public needs.

- a. True
- b. False

ANSWER: False

64. National defense made up the largest portion of federal expenditures in 2009.

- a. True
- b. False

ANSWER: False

65. Expenditures on social programs, such as health care and income security, constitute more than half of U.S. federal expenditures in 2016.

- a. True
- b. False

ANSWER: False

66. Government in the United States spends more as a percentage of GDP than in most other industrialized nations.

- a. True
- b. False

ANSWER: False

67. The tax burden in the United States, measured as a percentage of GDP, represents a much larger share spend compared to most other industrialized nations.

- a. True
- b. False

ANSWER: False

68. The personal income tax is the single largest source of revenue for the federal government.

- a. True
- b. False

ANSWER: True

69. The corporate income tax is the single largest source of revenue for the federal government.

- a. True
- b. False

ANSWER: False

70. The federal government receives most of its revenue from personal income taxes and payroll taxes.

- a. True
- b. False

ANSWER: True

71. Transfer payments are money received as grants from government.

- a. True
- b. False

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ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

76. Health and public welfare expenditures account for the largest share of state and local government spending.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

78. In a mixed economy, the government plays some role in the working of free markets.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True

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b. False

ANSWER: True

81. The United States relies heavily on markets and so cannot be characterized as a mixed economy.

a. True

b. False

ANSWER: False

82. The United States has the biggest national economy in the world solely because of the U.S. population.

a. True

b. False

ANSWER: False

83. A mixed economy blends private and public elements.

a. True

b. False

ANSWER: True

Multiple Choice

84. The United States economy is

a. the third largest in the world.

b. larger than all other national economies combined.

c. the second largest in the world, behind Japan.

d. the largest in the world.

ANSWER: d

85. How does the U.S. economy rank in size?

a. First in economic output

b. Second in economic output

c. Third in economic output

d. Fourth in economic output

e. Fifth in economic output

ANSWER: a

86. A reason that the United States has the largest economy in the world because

a. it has the most land to work with.

b. it has a smaller population to support.

c. American workers are very productive.

d. All of the responses are correct.

ANSWER: c

87. Inputs, or factors of production, include

a. labor.

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- b. machinery.
- c. natural resources.
- d. All of the responses are correct.

ANSWER: d

88. If total population is measured, where does the United States rank?

- a. First
- b. Second
- c. Third
- d. Fourth
- e. Fifth

ANSWER: c

89. The working population of the United States is approximately

- a. 160 million.
- b. 290 million.
- c. 340 million.
- d. 1.3 billion.

ANSWER: a

90. If California were a separate nation, its economy would rank where among nations of the world?

- a. Second
- b. Third
- c. Fifth
- d. Sixth

ANSWER: d

91. Capitalism and free enterprise are common, and the United States

- a. has just begun to move in that direction after years of central planning.
- b. has gone further in that direction than almost any other country.
- c. is becoming more “free,” but is not as capitalistic as many others.
- d. is considering a major change to “free up” its economy as many others have.
- e. is leading the move toward greater central planning and control.

ANSWER: b

92. Government ownership of property and resources in the United States is

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

ANSWER: c

93. Gross domestic product is a measure of

- a. the size of the largest industry in an economy.

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- b. the money value of all final goods and services produced in a year by the economy.
- c. the volume of goods and services, which involved in international trade.
- d. the goods and services produced strictly by corporations.
- e. the nonmarket production of goods and services.

ANSWER: b

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

ANSWER: d

95. In 2017, about what percentage of goods and services sold in the United States was imported?
- a. 5 percent
 - b. 15 percent
 - c. 22 percent
 - d. 88 percent

ANSWER: b

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

ANSWER: a

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

ANSWER: c

98. How does the United States compare to other advanced, industrialized economies on the issue of openness?
- a. The U.S. economy is completely closed.
 - b. The U.S. economy is at the low end of openness.
 - c. The U.S. economy is above average in openness.
 - d. The U.S. economy is among the most open.
 - e. The U.S. economy is the most open of any economy.

ANSWER: b

99. What is the level of openness of the United States economy, based on 2016 data?

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- a. 13.3 percent
- b. 23.1 percent
- c. 52.0 percent
- d. 63.9 percent
- e. 77.8 percent

ANSWER: a

100. Based on data from 2016, annual imports to the United States were approximately _____ and annual exports from the United States were approximately _____.

- a. \$0.6 trillion; \$1.5 trillion
- b. \$2.2 trillion; \$0.7 trillion
- c. \$2.9 trillion; \$2.3 trillion
- d. \$1.5 trillion; \$2.0 trillion
- e. \$2.0 trillion; \$2.0 trillion

ANSWER: c

101. Among the nations listed, which of the following is the most closed economy?

- a. The Netherlands
- b. The United States
- c. Germany
- d. Russia
- e. Canada

ANSWER: b

102. Among the nations listed, which of the following has the most open economy?

- a. Germany
- b. The Netherlands
- c. The United States
- d. Japan
- e. Canada

ANSWER: b

103. Gross Domestic Product in 2017 is more than five times larger than it was in 1960 but it is important to note that

- a. none of the growth represented additional output of goods and services.
- b. this measurement of output fails to account for any of the effects of inflation.
- c. the population also grew substantially over the same time period.
- d. available graphs of output are unable to display such growth.

ANSWER: c

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

- a. economic growth has been irregular, with some periods of downturns.
- b. economic growth has been consistent, but with a few downturns.
- c. economic growth has been extremely rapid, but also includes major collapses.
- d. economic growth has been slight, but downturns have also been eliminated.

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ANSWER: a

105. Economic progress is best measured by

- a. the growth rate of prices over time.
- b. the growth rate of GDP per capita.
- c. the amount of working time needed for an individual worker to afford certain goods and services.
- d. the annual growth rate in the population.

ANSWER: b

106. Perhaps the best measure of economic progress is

- a. the annual inflation rate, since it accounts for what is happening to prices.
- b. the growth rate of real GDP per capita, since it takes into account both price changes and population growth.
- c. the amount of working time needed for an individual worker to afford certain goods and services.
- d. the annual growth rate in the population.

ANSWER: b

107. Along with changes in the level of economic activity, measured by GDP, what other economic variable tends to rise and fall as a consequence?

- a. Precipitation
- b. Regulation
- c. Circulation
- d. Unemployment

ANSWER: d

108. GDP tends to rise and fall during economic fluctuations but other measures follow the same pattern. One of these measures is

- a. the annual precipitation rate.
- b. the growth of the money supply.
- c. the inflation rate.
- d. the unemployment rate.

ANSWER: d

109. Why does unemployment tend to change when the level of output changes?

- a. Persons wish to buy things, and if output falls, people need to work less to earn the income to buy the smaller output.
- b. Labor is an input, and if output falls, employers need fewer workers to make it, so the employment falls.
- c. As output rises, more people are more interested in buying goods and services, and so these people work more to obtain the income needed to buy things.
- d. Persons face the option of buying or working, so that when they do more of one, the other necessarily falls.
- e. When companies replace workers with machines, output rises and people take more vacation time prior to returning to work.

ANSWER: b

110. Per capita GDP can be defined as

- a. GDP per employed worker.

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- b. GDP per unit of capital.
- c. GDP per person.
- d. GDP per unit of unemployment.

ANSWER: c

111. Economic fluctuations are defined as
- a. alternating periods of significant GDP growth and decline.
 - b. events only encountered in developing countries.
 - c. periods of stable economic growth.
 - d. alternating periods when the unemployment rate rises above and below zero.

ANSWER: a

112. A recession can best be defined as a period of time in which
- a. total output of the economy falls.
 - b. total output of the economy rises very slowly.
 - c. total unemployment falls.
 - d. total international trade fails to rise.
 - e. the rate of inflation falls below zero.

ANSWER: a

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

ANSWER: d

114. Which of the following is true about the United States?
- a. There have been recessions approximately every ten years.
 - b. The pattern of recessions does not occur on a regular basis.
 - c. Periods of economic growth and recessions occur in two-year patterns.
 - d. Recessions always last less than one year.
 - e. Recessions in the United States are generally more severe than they are in other countries.

ANSWER: b

115. What is the approximate number of Americans who have jobs?
- a. 160 million
 - b. 240 million
 - c. 290 million
 - d. 330 million
 - e. 3.1 billion

ANSWER: a

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

ANSWER: a

117. One of the most important changes in the composition of the labor force in the United States has been
- the major increase in the number of workers who work full-time out of their own homes.
 - the drop in the number of men who only work part-time.
 - the pattern of increase in the number of women in the labor force.
 - the increase in the ratio of male workers to female workers.
 - the major increase in the number of men who work in other countries.

ANSWER: c

118. Which of the following groups has had declining labor force participation over the past 30 years?
- Women
 - Men
 - Teenagers
 - Americans

ANSWER: c

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

ANSWER: d

120. In the United States, most workers now
- work for some level of government.
 - work in the manufacturing sector.
 - work in the agricultural sector.
 - work in the service sector.

ANSWER: d

121. Most American workers
- are employed in the goods-producing sector.
 - are employed by government.
 - are employed in the service-producing sector.
 - are employed in the agricultural sector.

ANSWER: c

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122. Which of the following areas employed more workers as of 2016?

- a. Educational and health services
- b. Business and professional services
- c. Retail trade
- d. Manufacturing companies

ANSWER: a

123. All industrialized countries have become “service economies.” Which factor helps explain this shift?

- a. Trade unionism and failure of the manufacturing sector to grow
- b. Information age and laborsaving innovation in manufacturing
- c. The decline in the number of workers possessing the required skills for industrial production
- d. The lack of competition in the service sector

ANSWER: b

124. Which factor of production accounts for the highest percentage of the income that the production process generates in the United States?

- a. Capital
- b. Natural resource
- c. Land
- d. Labor

ANSWER: d

125. The proportion of income which is earned in the form of wages for labor is currently about

- a. 15 percent.
- b. 35 percent.
- c. 51 percent.
- d. 60 percent.

ANSWER: d

126. The average hourly wage (excluding benefits) in the United States is currently around

- a. \$7.25
- b. \$15.50
- c. \$20.00
- d. \$26.00

ANSWER: d

127. For those workers who receive fringe benefits, such as health insurance and pensions, the additional income this results in—over and above the average hourly wage—is as much as (for some workers)

- a. 10–12 percent.
- b. 30–40 percent.
- c. 51–62 percent
- d. 70 percent or more.

ANSWER: b

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

ANSWER: d

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

ANSWER: a

130. Most Americans
- a. have accurate perceptions of the level of corporate profits.
 - b. underestimate corporate profits.
 - c. overestimate corporate profits.
 - d. believe that corporations earn zero profit.

ANSWER: c

131. According to polling data, Americans believe that after-tax corporate profits are
- a. less than 10 percent of corporate product prices.
 - b. nearly 50 percent of the corporate product price.
 - c. approximately 36 percent of corporate product prices.
 - d. approximately 25 percent of corporate product prices.

ANSWER: c

132. Consumer spending accounts for what share of GDP?
- a. 20 percent
 - b. 40 percent
 - c. 70 percent
 - d. 90 percent

ANSWER: c

133. The typical American family spends about ____ percent of its budget on goods and the remainder on services.
- a. 22
 - b. 32
 - c. 66
 - d. 80

ANSWER: b

134. American households spend about ____ of the average family budget on services, with the rest spent on goods.

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- a. one-half
- b. two-thirds
- c. one-quarter
- d. one-tenth

ANSWER: b

135. Spending on items other than consumption represents about what percent of total output of goods and services?

- a. 20 percent
- b. 30 percent
- c. 40 percent
- d. 60 percent

ANSWER: b

136. The United States has approximately

- a. 100,000 businesses.
- b. 5.1 million businesses.
- c. 14 million businesses.
- d. 30 million businesses.

ANSWER: d

137. According to Robert Reich, Secretary of Labor in the Clinton administration,

- a. the identity of American companies is clear, and laws should be written accordingly.
- b. foreign companies are clearly different from American companies.
- c. multinational companies have clear bases of operations, which form their identity.
- d. it is almost impossible to define the nationality of a multinational company.
- e. identifying the country of origin of a product is almost impossible but essential for proper regulation.

ANSWER: d

138. In the United States each year,

- a. more than 50 percent of all businesses fail.
- b. less than 25 percent of all businesses fail.
- c. over 10 percent of all businesses fail.
- d. only about 5 percent of all businesses fail.

ANSWER: c

139. A firm that conducts business all over the world is called a(n)

- a. multinational corporation.
- b. international conglomerate.
- c. competitive corporation.
- d. government-owned business.

ANSWER: a

140. Which of the following multinational firms would *not* be defined as strictly an American corporation?

- a. Apple.

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- b. Ford Motor Company.
- c. Honda Motor Company.
- d. Nissan Motor Company.
- e. All of these would not be defined as strictly an American corporation.

ANSWER: e

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

ANSWER: d

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

ANSWER: a

143. The role of government in a market economy would include all of the following except
- a. providing services such as national defense.
 - b. collecting taxes.
 - c. extensive ownership of productive resources.
 - d. making and enforcing laws.

ANSWER: c

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

ANSWER: b

145. Relative to the situation in many other nations, the United States government plays a _____ role in its economy.
- a. small
 - b. large
 - c. comparable
 - d. nonexistent

ANSWER: a

146. Which of the following illustrates government acting as a referee?
- a. Taxing high income persons
 - b. Enforcing contract provisions between buyer and seller

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- c. Buying new weapons for defense
- d. Mailing checks to Social Security recipients
- e. Collecting data on imports and exports

ANSWER: b

147. As Americans have become more health conscious, rules about food labels have become more complex and stringent. This is an example of government acting as

- a. referee.
- b. redistributor.
- c. taxer.
- d. defender.

ANSWER: a

148. Which of the following is a valid reason to consider government regulation?

- a. Seeking some social objective that markets do not achieve.
- b. Fear that capitalism will prove too productive.
- c. Desire on the part of government to be useful.
- d. Requests for protection for an industry.
- e. All of the responses are correct.

ANSWER: a

149. When government defines and enforces property rights, this is an example of government as

- a. referee.
- b. regulator of business.
- c. buyer of goods and services.
- d. tax collector.
- e. redistributor.

ANSWER: a

150. Antitrust laws are designed to

- a. preserve competition.
- b. protect the environment.
- c. protect the public's trust in the government.
- d. All of the responses are correct.

ANSWER: a

151. America's antitrust laws are used to protect competition against possible encroachment by monopoly. This is an example of government as

- a. regulator of businesses.
- b. buyer of goods and services.
- c. tax collector.
- d. redistributor.

ANSWER: a

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152. During fiscal year 2017, the most recent mentioned in the text, the federal government spent approximately
- a. \$1.2 billion.
 - b. \$1.9 trillion.
 - c. \$4.0 trillion.
 - d. \$15.0 trillion.

ANSWER: c

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

ANSWER: c

154. The largest single portion of state and local budgets is devoted to
- a. state and local defense.
 - b. health and public welfare programs.
 - c. state and local unemployment compensation.
 - d. education.
 - e. interest payments on state and local debt.

ANSWER: d

155. Compared to people in other nations, people in the United States pay
- a. much higher taxes.
 - b. somewhat higher taxes, on average.
 - c. about the same amount taxes.
 - d. lower taxes.

ANSWER: d

156. Despite the outlays by the federal and state governments, many observers believe which of the following is true?
- a. Public infrastructure, such as bridges and roads, is only adequate.
 - b. Our educational system is lacking.
 - c. Too little is spent on homeland defense.
 - d. All of these are correct.

ANSWER: d

157. The U. S. budget has
- a. always been in deficit since World War II.
 - b. usually been in deficit, with a few periods of surpluses.
 - c. always in balance.
 - d. in balance, with some period of deficit.

ANSWER: b

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

ANSWER: c

159. The concept of government as redistributor is
- a. approved by many but questioned by many as well.
 - b. generally rejected as against “the American way.”
 - c. largely approved by a vast majority of Americans.
 - d. unnecessary in the United States because income disparities are small.
 - e. a conservative idea that many liberals reject.

ANSWER: a

160. The issue of inequality has become prominent because of
- a. an increased sense of justice.
 - b. a decrease in the strength of capitalism.
 - c. the widening wage disparity.
 - d. a consistent fall in incomes.

ANSWER: c

161. The government redistributes income to the poor, primarily through
- a. regressive taxes and disability payments.
 - b. transfer payments and progressive taxes.
 - c. government purchases.
 - d. higher wages.

ANSWER: b

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

ANSWER: d

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

ANSWER: b

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164. A mixed economy is one in which

- a. a mixture of businesses operates and functions.
- b. there is a mixture of public influence over government.
- c. government plays a dominant role, and private markets are minimized in importance.
- d. government plays a role in the operation of private markets.

ANSWER: d

165. The United States provides a reasonable illustration of

- a. a mixed economy.
- b. a pure market system.
- c. a government-dominated economy.
- d. a manufacturing economy.
- e. a transitioning economy.

ANSWER: a

166. All of the following are associated with a mixed economy except

- a. some public influence over the workings of free markets.
- b. public ownership mixed in with private property.
- c. public ownership of the society's productive resources.
- d. different countries blending the state and market sectors in different ways.

ANSWER: c

167. In a mixed economy,

- a. all economies choose an identical mix of private and public involvement in the economy.
- b. the government is more important than the private sector in generating output.
- c. there is some government influence over the workings of the free market.
- d. All of the responses are correct.

ANSWER: c

168. Since the 1970s, unemployment rates in the United States have generally been

- a. lower than in Europe.
- b. higher than in Europe.
- c. about the same as in Europe.
- d. not compared to Europe, since unemployment is not present in Europe.

ANSWER: a

169. Since the mid-1970s, compared to the United States, European unemployment rates are/is

- a. higher.
- b. much lower.
- c. about the same as in the United States.
- d. not compared to the United States, because there are no unemployed in Europe

ANSWER: a

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170. Which of the following nations can be called a mixed economy?

- a. The United States.
- b. Italy.
- c. Sweden.
- d. France.
- e. All of these nations are mixed economies.

ANSWER: e

171. A typical American family sends about _____ percent of its budget on services.

- a. 20
- b. 32
- c. 66
- d. 70

ANSWER: c

172. The largest share of the typical American family budget goes to

- a. goods.
- b. health care.
- c. housing.
- d. transportation

ANSWER: c

173. Based on data from 2016, which of the following countries has the lowest tax burden?

- a. The United Kingdom
- b. The United States
- c. Italy
- d. Sweden

ANSWER: b

Essay

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

ANSWER: Sheer size of the country, with a population of about 330 million and a labor force of 160 million, contributes to the large production. But this cannot be the only element, or India's GDP would be three times as large. Efficiency is the second factor; the U.S. economic system transforms inputs into output in a much more productive fashion. U.S. success is attributable to the free enterprise market system.

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

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

ANSWER: An economy is called relatively open if its exports and imports constitute a large share of its GDP. An

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economy is considered relatively closed if they constitute a small share.

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

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

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

In 2016, just around 71 percent of American workers were employed in service-related industries, whereas only about 14 percent produced goods. Service workers included about 22.6 million in educational and health services, about 20 million in business and professional services, and over 15 million in retail trade.

Manufacturing companies in the United States employed only 12 million people, and almost a third of those worked in offices rather than in the factory.

177. Between 1960 and 2017 U.S. GDP, measured in dollars of constant purchasing power, expanded by a factor of 5. However, the standard of living only increased by 3 times over this period. Explain the difference.

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

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

ANSWER:

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

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

ANSWER: The so-called Homer Simpson image of the typical American worker as a blue-collar worker is really quite misleading. The majority of American workers, like workers in all developed countries, produce services, not goods. Based on data from 2016, over 70 percent of all nonfarm workers in the United States were employed by private service industries, whereas only 14 percent produced goods. And of these, manufacturing companies in the United States employed only 12 million people, with nearly a third of these workers in offices rather than on the floor of a factory.

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

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

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

ANSWER: If the claim were true then the share of GDP that the U.S. imports would have to be extremely high given the

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share of goods versus services in the U.S. economy. If we look at the data, only about 15 percent of U.S. GDP is imported and imports from China account for about one-sixth of this. That means that about 85 percent of what Americans consume is made in the United States. Therefore, this claim is false.

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

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

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

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

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

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

185. Define the following terms:

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

ANSWER:

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