

Chapter 02 The Market System and the Circular Flow

True / False Questions

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

TRUE

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-12 Specialization

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

TRUE

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-13 Division of Labour

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

TRUE

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-14 Geographic Specialization

4. Property rights do not encourage people to cooperate.

FALSE

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-05 Characteristics of the Market System

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

FALSE

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

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

TRUE

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

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

TRUE

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-17 Five Fundamental Questions

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

FALSE

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-21 How Will the System Accommodate Change?

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

TRUE

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-21 How Will the System Accommodate Change?

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

TRUE

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation

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

FALSE

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation

Multiple Choice Questions

Chapter 02 - The Market System and the Circular Flow

12. The command system is also known as:

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

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Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-03 The Command System

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-01 Economic Systems

14. The economy of North Korea most closely approximates:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

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

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

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Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-06 Private Property

19. In a capitalistic economy:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-06 Private Property

20. The term "laissez faire" suggests that:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-02 Laissez-Faire Capitalism

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

22. The Canadian economy most closely approximates:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-04 The Market System

Chapter 02 - The Market System and the Circular Flow

24. Property rights are important because they:
- A. encourage investment and growth.
 - B. are conducive to the writing of books and music.
 - C. facilitate exchange.
 - D.** do all of the above.

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-06 Private Property

25. The market system is an economic system that:
- A. produces more consumer goods than capital goods.
 - B. produces more capital goods than consumer goods.
 - C.** gives private individuals and institutions the right to own resources used in production.
 - D. gives the government the right to tax individuals and corporations for the production of capital goods.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-04 The Market System

26. The market system is characterized by:
- A. extensive government constraints on individual behaviour.
 - B.** private ownership of the means of production.
 - C. government control of all production decisions.
 - D. government rationing of all goods and services.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-04 The Market System

27. In a market system, well-defined property rights are important because they:
- A. increase unnecessary investment.
 - B. limit destructive economic growth.
 - C. create economic problems.
 - D.** encourage economic activity.

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Difficulty: Easy

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

Topic: 02-04 The Market System

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-04 The Market System

29. Which is a major feature of pure capitalism?
- A. price floors and price ceilings in markets
 - B. reallocation of resources from private to public uses
 - C.** the right to own private property and control resource use
 - D. central planning by government to provide goods and services

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-02 Laissez-Faire Capitalism

30. By free enterprise, we mean that:

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

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-07 Freedom of Enterprise and Choice

31. Which statement is correct?

- A. The operation of a market system eventually results in an equal distribution of income.
- B. Producers are "kings" in a market economy because they determine what is produced.
- C. The market system is efficient at allocation of resources, but not consumer goods to their most valued uses.
- D.** Freedom of choice and enterprise are essential elements of the market system.

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

32. Which is characteristic of the capitalistic ideology?

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

33. How do workers typically express self-interest?

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

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-08 Self-Interest

34. Consumers express self-interest when they:

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

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-08 Self-Interest

35. Competition means that:

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

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-09 Competition

36. The competitive market system:

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

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Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-09 Competition

37. Competition is more likely to exist when:

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

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-09 Competition

38. Which condition will encourage competition?

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

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Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-09 Competition

39. A purely competitive economy assumes the existence in each industry of a:
- A. large number of small firms facing a large number of small buyers.
 - B. few large firms facing a large number of small buyers.
 - C. large number of small firms facing a few large buyers.
 - D. few small firms facing a few small buyers.

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-09 Competition

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

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-09 Competition

41. If competitive industry Y is incurring substantial losses, we can expect that output will:
- A. expand, product price will rise, and losses will tend to disappear.
 - B. contract, product price will fall, and losses will increase.
 - C. contract, product price will rise, and losses will tend to disappear.
 - D. expand, product price will fall, and losses will tend to disappear.

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Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-09 Competition

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-09 Competition

43. Which statement is correct?

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

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-10 Markets and Prices

44. A characteristic of the market system is:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-10 Markets and Prices

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-11 Technology and Capital Goods

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-11 Technology and Capital Goods

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-12 Specialization

48. The division of labour means that:
- A. labour markets are geographically segmented.
 - B. unskilled workers outnumber skilled workers.
 - C.** workers specialize in various production tasks.
 - D. each worker performs a large number of tasks.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-12 Specialization

49. Specialization and trade are beneficial to society because:
- A. the output of economic goods may be increased with no increase in resources.
 - B. scarce resources are utilized more efficiently.
 - C. a division of labour lowers prices for products.
 - D.** all of the above are correct.

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-12 Specialization

50. Specialization in production is important primarily because it:
- A.** results in greater total output.
 - B. allows society to avoid the coincidence-of-wants problem.
 - C. allows society to trade by barter.
 - D. allows society to have fewer capital goods.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-12 Specialization

51. The division of labour enhances productivity and efficiency by:
- A. allowing workers to take advantage of existing differences in their abilities and skills.
 - B. avoiding the time loss involved in shifting from one production task to another.
 - C. allowing workers to develop skills by working on one, or a limited number, of tasks.
 - D.** all of the above means.

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-12 Specialization

52. Specialization in production is economically beneficial primarily because it:
- A. allows everyone to have a job which they like.
 - B.** permits the production of a larger output with fixed amounts of resources.
 - C. facilitates trade by bartering.
 - D. guarantees full employment.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-12 Specialization

53. The use of money for exchange:
- A. increases the use of barter.
 - B. reduces consumer sovereignty.
 - C. decreases the coincidence of wants.
 - D.** encourages more specialization in production.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-13 Division of Labour

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-13 Division of Labour

55. _____ helps avoid the problems posed by the lack of double coincidence of wants.

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-13 Division of Labour

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-13 Division of Labour

57.

	BRITISH COLUMBIA Has surplus autos Wants lettuce	
ONTARIO Has surplus lettuce Wants apples		ALBERTA Has surplus apples Wants autos

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-13 Division of Labour

58.

	BRITISH COLUMBIA Has surplus autos Wants lettuce	
ONTARIO Has surplus lettuce Wants apples		ALBERTA Has surplus apples Wants autos

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

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

Accessibility: Keyboard Navigation

Difficulty: Hard

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

Topic: 02-13 Division of Labour

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-13 Division of Labour

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-05 Characteristics of the Market System

61. The most important consequence of property rights is that
- A. they facilitate exchange.
 - B. allow for freedom of choice.
 - C.** they encourage people to cooperate by helping to ensure that only mutually agreeable economic transactions take place.
 - D. they allow for a division of labour.

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-06 Private Property

62. Which is not one of the Five Fundamental Questions?
- A. How will the goods and services be produced?
 - B. How will the system accommodate change?
 - C. Who will get the goods and services?
 - D.** What goods and services should be produced by government?

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-15 Use of Money

63. What to produce in a market economy is ultimately determined by the:
- A. output decisions of business firms.
 - B. government.
 - C.** spending decisions of households.
 - D. workers' technical skills.

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

64. "Consumer sovereignty" refers to the:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

65. The term consumer sovereignty means that:

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

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Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

67. "The 'dollar votes' of consumers ultimately determine the composition of output and the allocation of resources in a market economy." This statement best describes the concept of:
- A. derived demand.
 - B. external costs and benefits.
 - C. consumer sovereignty.**
 - D. the invisible hand.

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

69. Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?
- A. What will be produced?**
 - B. How is the output to be produced?
 - C. How can the system accommodate change?
 - D. Who is to receive the output?

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-16 Active but Limited Government

70. Economic efficiency would be primarily discussed in response to which of the fundamental questions about a competitive market economy?

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-17 Five Fundamental Questions

71. Which fundamental question about a competitive market system primarily focuses on the cost of producing the good and services?

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-17 Five Fundamental Questions

72. The issues of distribution of goods and services and incomes in a competitive market system are the primary topic of which fundamental question?

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-15 Use of Money

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-18 What Will Be Produced?

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-18 What Will Be Produced?

75. In a market economy the distribution of income would be determined primarily by

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-18 What Will Be Produced?

76. Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation?

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-15 Use of Money

77. If an increase occurs in the demand for product X, we would expect all of the following to occur except:

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-19 How Will the Goods and Services Be Produced?

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-19 How Will the Goods and Services Be Produced?

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-19 How Will the Goods and Services Be Produced?

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-19 How Will the Goods and Services Be Produced?

81. Assume the demand for product Y increases and the subsequent market system responses result in the production of more Y. This illustrates:

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-19 How Will the Goods and Services Be Produced?

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-19 How Will the Goods and Services Be Produced?

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-20 Who Will Get the Output?

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-20 Who Will Get the Output?

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-20 Who Will Get the Output?

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

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-21 How Will the System Accommodate Change?

87. The "invisible hand" concept suggests that:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-21 How Will the System Accommodate Change?

88. The "invisible hand" concept suggests that:

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

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-21 How Will the System Accommodate Change?

89. The "invisible hand" refers to the:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-21 How Will the System Accommodate Change?

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-21 How Will the System Accommodate Change?

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-21 How Will the System Accommodate Change?

92. In market economies, profit primarily depends on consumer demand, production efficiency, and product quality. In contrast, in command economies, profit depends on:

- A. production cost.
- B. product quality.
- C. product mix.
- D. quantitative production targets.**

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-04 Explain the operation of the "invisible hand" and why market economies usually do a better job than command economies at transforming economic resources into desirable output.

Topic: 02-27 The Coordination Problem

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-22 How Will the System Promote Progress?

Chapter 02 - The Market System and the Circular Flow

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-22 How Will the System Promote Progress?

95. In the factor market:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation

96. The simple circular flow model shows that:

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

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-24 Capital Accumulation

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

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation

98. In the simple circular flow model:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation

99. Households and businesses are:

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation

100. In the circular flow model:

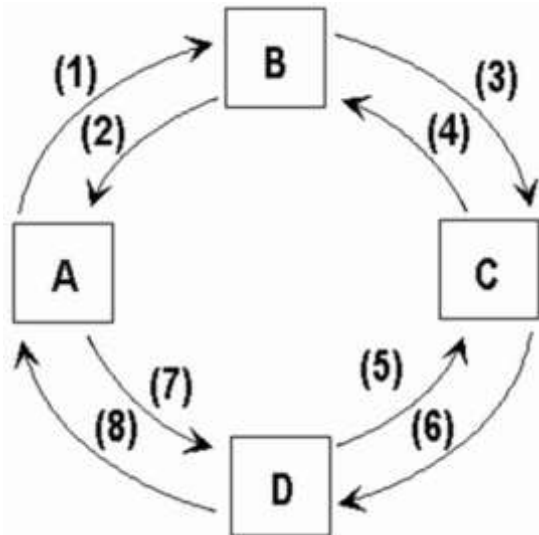
- A. households supply factors of production to firms.
- B. households receive income through the factor market.
- C. households spend income in the product market.
- D.** all of the above hold true.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation



101.

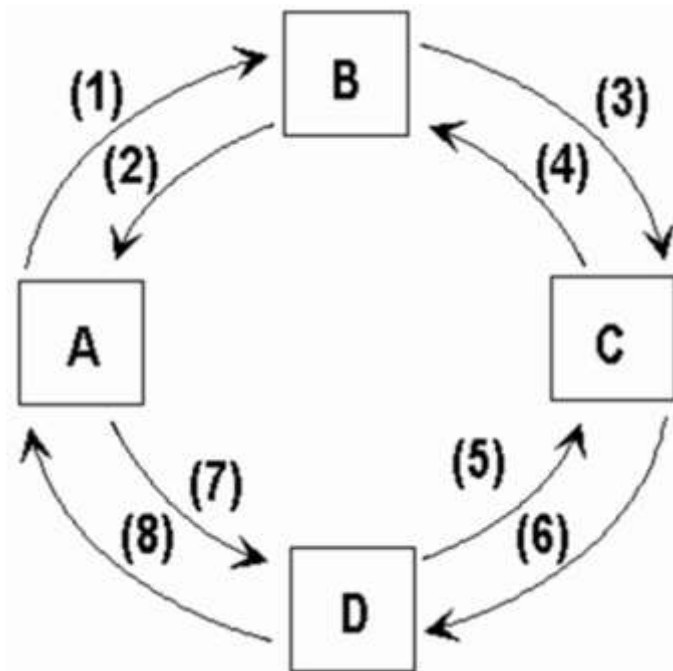
Refer to the figure. If box B represents the factor market and flow (3) represents money income, then:

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

Difficulty: Medium

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

Topic: 02-24 Capital Accumulation



102.

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

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

Difficulty: Medium

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

Topic: 02-24 Capital Accumulation

103. In terms of the circular flow diagram businesses obtain revenue through the _____ market and make expenditures in the _____ market.

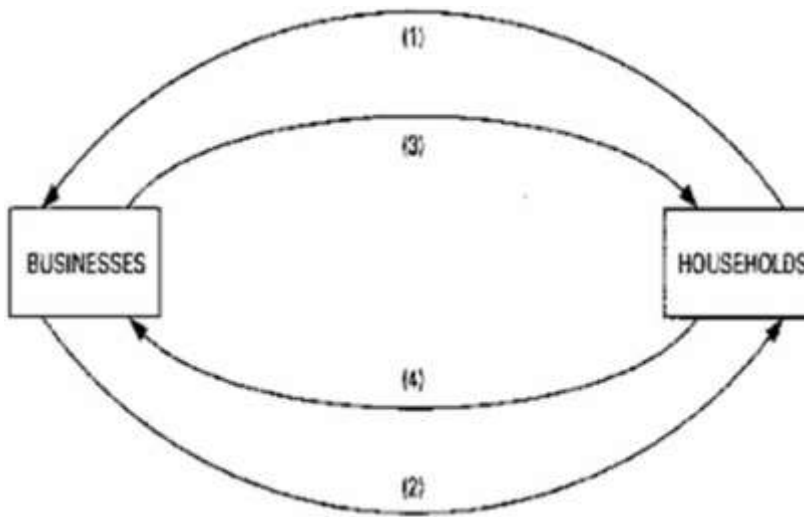
- A. product; financial
- B. factor; product
- C. product; factor
- D. capital; product

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation



104.

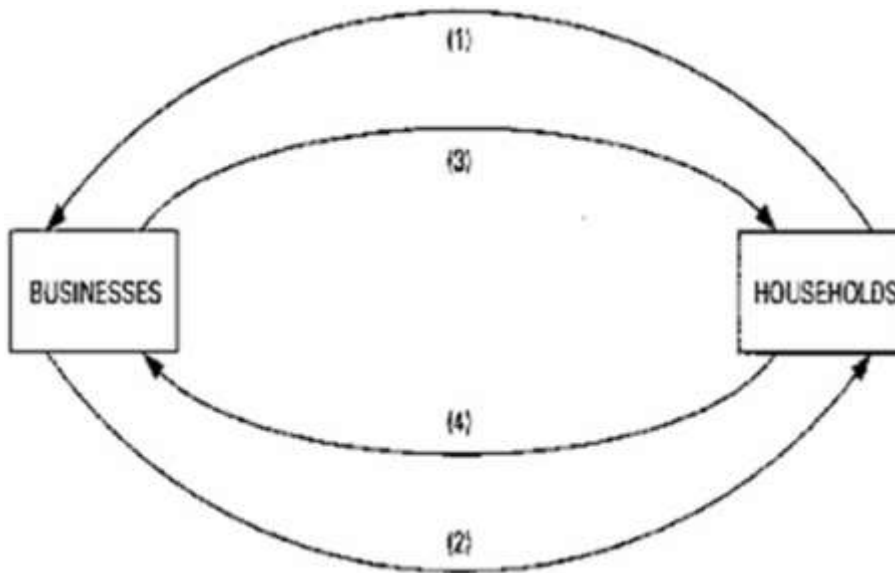
Refer to the diagram. Arrows (1) and (2) represent:

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

Difficulty: Medium

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

Topic: 02-24 Capital Accumulation



105.

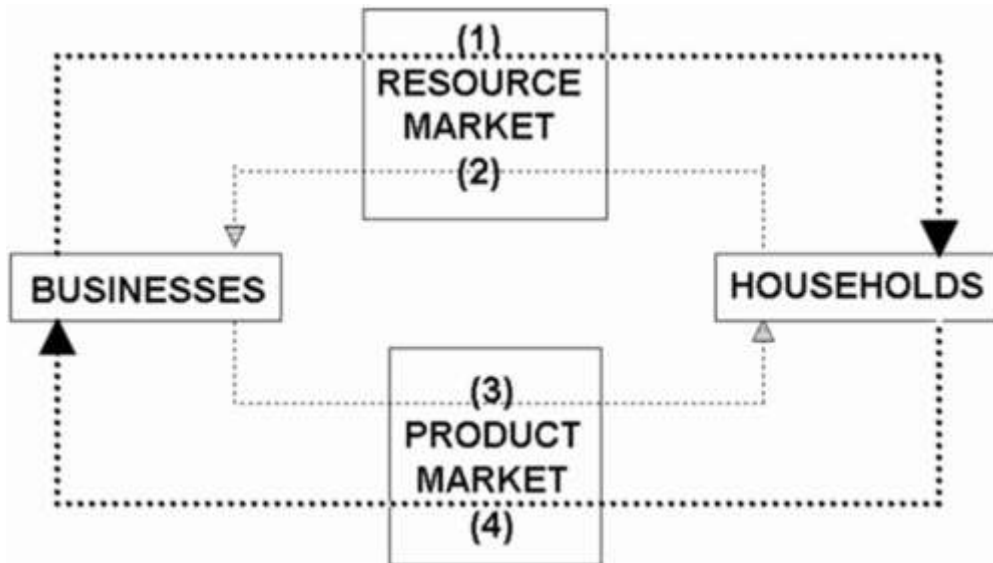
Refer to the diagram. Arrows (3) and (4) represent:

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

Difficulty: Medium

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

Topic: 02-24 Capital Accumulation



106.

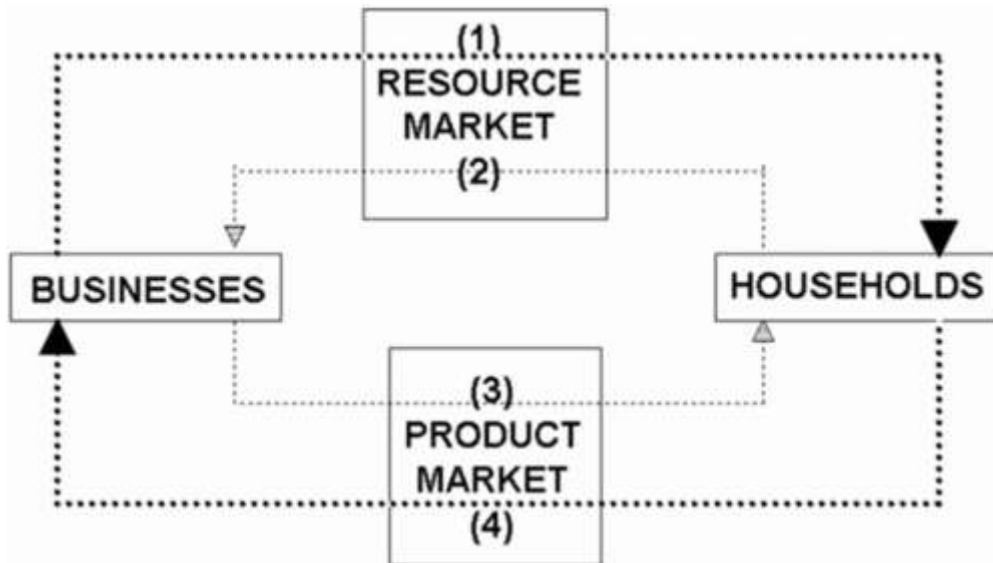
Refer to the circular flow model of the economy. In the diagram flow (1) represents:

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

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation



107.

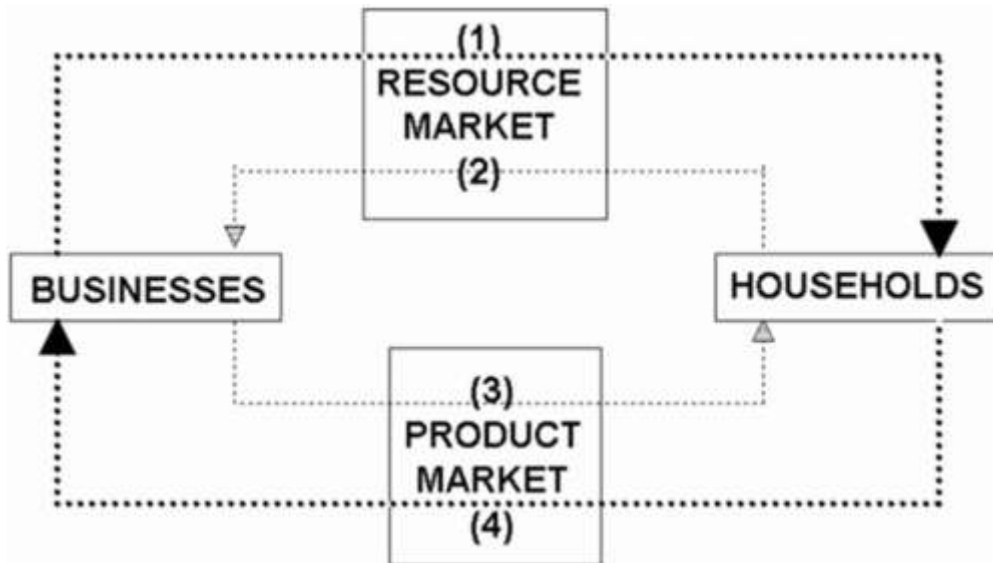
Refer to the circular flow model of the economy. In the diagram flow (2) represents:

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

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation



108.

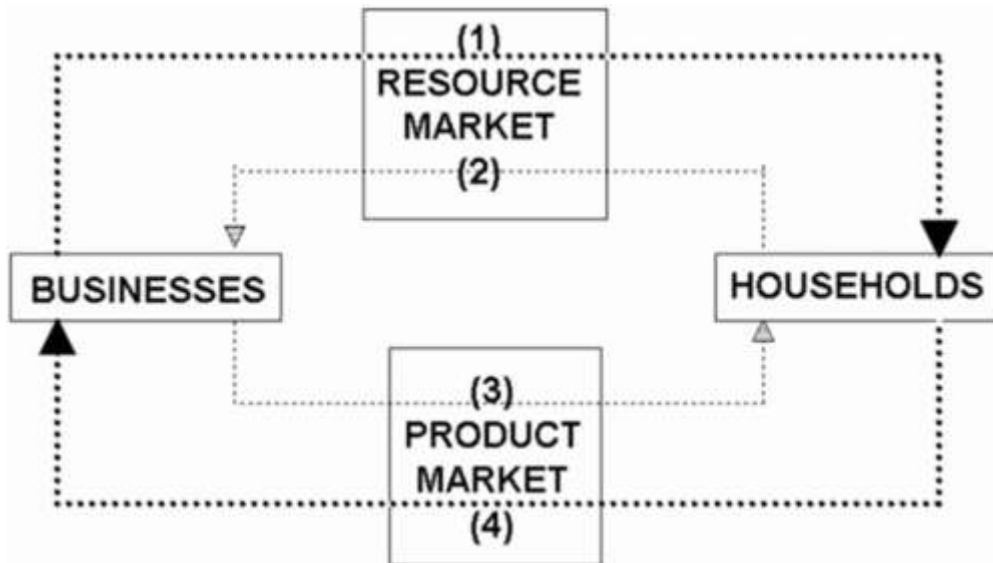
Refer to the circular flow model of the economy. In the diagram flow (3) represents:

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

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation



109.

Refer to the circular flow model of the economy. In the diagram flow (4) represents:

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

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation

110. In terms of the circular flow diagram households make expenditures in the _____ market and receive income through the _____ market.

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

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-24 Capital Accumulation

111. Which of the following economic systems are polar opposites of each other?

- A. The market system and laissez-faire capitalism
- B. The market system and the command system
- C. The command system and laissez-faire capitalism**
- D. Mixed market and the market system

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-01 Differentiate between laissez-faire capitalism; the command system; and the market system.

Topic: 02-01 Economic Systems

112. Freedom of enterprise is defined as:

- A. the freedom of firms to obtain and use resources to produce goods and services.**
- B. employ and dispose of their property as they see fit.
- C. buy property.
- D. set up any form of business. entity.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-07 Freedom of Enterprise and Choice

113. Freedom of choice enables:

- A. entrepreneurs to procure and use resources that are required to produce goods and services at their own will.
- B. owners of property to employ and dispose of their properties as they see fit.**
- C. consumers to maximize their utility by paying the minimum price for goods and services.
- D. entrepreneurs to set up any form of business entity as per law.

Accessibility: Keyboard Navigation

Difficulty: Easy

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

Topic: 02-07 Freedom of Enterprise and Choice

114. The answer to "Who will get the output?" is based on:

- A. ability to pay.
- B. willingness to pay.
- C.** the ability and willingness of consumers to pay for the output.
- D. a first-come, first-served basis.

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-03 Explain how the market system answers the five fundamental questions of what to produce; how to produce; who obtains the output; how to adjust to change; and how to promote progress.

Topic: 02-20 Who Will Get the Output?

115. In the circular flow diagram, revenues and goods and services flow:

- A.** in opposite directions but are on the same side of the diagram.
- B. in the same direction but are on the same side of the diagram.
- C. in either direction as they are not correlated.
- D. in opposite directions and are on opposite sides of the diagram.

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-32 Product Market

116. In the circular flow diagram, cost and household income flow:

- A. in opposite directions.
- B.** in the same direction and are on the same side of the diagram.
- C. in either direction as they are not correlated.
- D. on opposite sides of the circular flow model.

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-33 Factor Market

Chapter 02 - The Market System and the Circular Flow

117. Labour, land, and capital are examples of:

- A. factors of production.
- B. revenue for businesses.
- C. goods and services for consumers.
- D. consumption for consumers.

Accessibility: Keyboard Navigation

Difficulty: Medium

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

Topic: 02-30 Households

118. Producing goods and services is:

- A. risky.
- B. risk free.
- C. always profitable.
- D. rarely profitable.

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 02-06 Explain how the market system deals with risk.

Topic: 02-34 How the Market System Deals with Risk

119. The residual claimant(s) is(are):

- A. the employees.
- B. the creditors.
- C. the owners.
- D. the government.

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 02-06 Explain how the market system deals with risk.

Topic: 02-36 Shielding Employees and Suppliers from Business Risk