

Exam

Name _____

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

- 1) The command system is also known as: 1) _____
A) market socialism. B) the market system.
C) pure capitalism. D) socialism or communism.

Answer: D

- 2) The economy of the former Soviet Union was best described as: 2) _____
A) mixed capitalism. B) a command economy.
C) authoritarian capitalism. D) market socialism.

Answer: B

- 3) The economy of North Korea most closely approximates: 3) _____
A) pure capitalism B) authoritarian capitalism
C) market socialism D) a command economy

Answer: D

- 4) Today, China's economy most closely approximates: 4) _____
A) authoritarian capitalism B) market socialism
C) pure capitalism D) a command economy

Answer: B

- 5) Which would not be characteristic of a capitalist economy? 5) _____
A) government ownership of the means of production
B) free enterprise and choice
C) competition and unrestricted markets
D) reliance on the market system

Answer: A

- 6) Which of the following statements best describes a mixed economy? 6) _____
A) In a mixed economy, the role of individual self-interest is relatively unimportant because government makes most of the economic decisions.
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, society determines production and the allocation of goods and services only through the market system.

Answer: C

- 7) The private ownership of property resources and use of prices to direct and coordinate economic activity is characteristic of: 7) _____
- A) a market system.
 - B) socialism.
 - C) communism.
 - D) a command system.

Answer: A

- 8) In a capitalistic economy: 8) _____
- A) consumers can never be sovereign.
 - B) there is a reliance on the market system.
 - C) the government owns the means of production.
 - D) markets can never be competitive.

Answer: B

- 9) The term "laissez faire" suggests that: 9) _____
- A) government action is necessary if the economy is to achieve full employment and full production.
 - 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) land and other natural resources should be privately owned, but capital should be publicly owned.

Answer: C

- 10) The term "mixed economy" refers to an economy: 10) _____
- A) comprised of both extensive private markets and government involvement in the economy.
 - B) which functions primarily on the basis of custom and tradition.
 - C) comprised of both product and resource markets.
 - D) which engages in both domestic and international trade.

Answer: A

- 11) The Canadian economy most closely approximates: 11) _____
- A) a command economy
 - B) authoritarian capitalism
 - C) mixed capitalism
 - D) market socialism

Answer: C

- 12) Which of the following is unique to a market economy system? 12) _____
- A) the extensive use of capital goods
 - B) private ownership of property resources
 - C) the use of money
 - D) specialization

Answer: B

- 13) Property rights are important because they: 13) _____
A) encourage investment and growth.
B) facilitate exchange.
C) are conducive to the writing of books and music.
D) do all of the above.

Answer: D

- 14) The market system is an economic system that: 14) _____
A) gives private individuals and institutions the right to own resources used in production.
B) produces more consumer goods than capital goods.
C) gives the government the right to tax individuals and corporations for the production of capital goods.
D) produces more capital goods than consumer goods.

Answer: A

- 15) The market system is characterized by: 15) _____
A) extensive government constraints on individual behaviour.
B) government rationing of all goods and services.
C) private ownership of the means of production.
D) government control of all production decisions.

Answer: C

- 16) In a market system, well-defined property rights are important because they: 16) _____
A) increase unnecessary investment. B) create economic problems.
C) limit destructive economic growth. D) encourage economic activity.

Answer: D

- 17) Which is a major feature of the market system? 17) _____
A) central planning by government to provide goods and services
B) reallocation of all resources from private to public uses
C) price floors and price ceilings in all markets
D) the right to own private property and control resource use

Answer: D

- 18) Which is a major feature of pure capitalism? 18) _____
A) central planning by government to provide goods and services
B) reallocation of resources from private to public uses
C) price floors and price ceilings in markets
D) the right to own private property and control resource use

Answer: D

- 19) By free enterprise, we mean that: 19) _____
- A) individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose.
 - B) products are provided free to those who can't afford to buy them.
 - C) individuals are free to produce those products that government agencies determine can be produced profitably.
 - D) individual producers determine how to produce, but government agencies determine what will be produced.

Answer: A

- 20) Which statement is correct? 20) _____
- A) The operation of a market system eventually results in an equal distribution of income.
 - B) The market system is efficient at allocation of resources, but not consumer goods to their most valued uses.
 - C) Freedom of choice and enterprise are essential elements of the market system.
 - D) Producers are "kings" in a market economy because they determine what is produced.

Answer: C

- 21) Which is characteristic of the capitalistic ideology? 21) _____
- A) unselfish individuals
 - B) free enterprise and choice
 - C) centralized decision-making
 - D) government ownership of the means of production

Answer: B

- 22) How do workers typically express self-interest? 22) _____
- A) by minimizing the economic losses of other business firms
 - B) by seeking jobs with the best combination of wages and benefits
 - C) by seeking the highest price when purchasing a consumer product
 - D) by maximizing the economic profits of other business firms

Answer: B

- 23) Consumers express self-interest when they: 23) _____
- A) search for jobs with the highest wage
 - B) collect economic profits.
 - C) reduce business losses.
 - D) seek the lowest price for the product.

Answer: D

- 24) Competition means that: 24) _____
- A) there are large numbers of independently acting buyers and sellers in each market.
 - B) sellers can cause artificial product scarcities and thereby manipulate market price.
 - C) there is only one seller in a market.
 - D) a given product can be purchased at a number of different prices.

Answer: A

- 25) The competitive market system: 25) _____
- A) discourages innovation because firms want to get all the profits possible from existing machinery and equipment.
 - B) discourages innovation because it is difficult to acquire additional capital in the form of new machinery and equipment.
 - C) encourages innovation because successful innovators are rewarded with economic profits.
 - D) encourages innovation because government provides tax breaks and subsidies to those who develop new products or new productive techniques.
- Answer: C
- 26) Competition is more likely to exist when: 26) _____
- A) the government purchases most goods and services.
 - B) there is free entry into and exit out of industries.
 - C) products are produced by a few large firms.
 - D) there is a single supplier of all goods and services.
- Answer: B
- 27) Which condition will encourage competition? 27) _____
- A) government licensing requirements in order to enter an industry
 - B) a small number of buyers and sellers in a market
 - C) the government serving as the only supplier of goods to consumers
 - D) the freedom of sellers and buyers to enter or exit an industry
- Answer: D
- 28) A purely competitive economy assumes the existence in each industry of a: 28) _____
- A) few small firms facing a few small buyers.
 - B) large number of small firms facing a few large buyers.
 - C) large number of small firms facing a large number of small buyers.
 - D) few large firms facing a large number of small buyers.
- Answer: C
- 29) Competition denotes a condition where: 29) _____
- A) there is only one seller in a market.
 - B) a given product can be purchased at a range of prices.
 - C) a few sellers attempt to garner a larger share of the market by cutting prices.
 - D) there are many independent buyers and sellers in a market.
- Answer: D
- 30) If competitive industry Y is incurring substantial losses, we can expect that output will: 30) _____
- A) contract, product price will rise, and losses will tend to disappear.
 - B) contract, product price will fall, and losses will increase.
 - C) expand, product price will fall, and losses will tend to disappear.
 - D) expand, product price will rise, and losses will tend to disappear.
- Answer: A

- 31) Suppose industry A is realizing substantial economic profits. Which of the following best describes the adjustment process which would bring about a new equilibrium? 31) _____
- A) Firms will leave the industry, output will fall, and product price will rise.
 - B) Firms will leave the industry, output will rise, and product price will fall.
 - C) Firms will enter the industry, output will rise, and product price will rise.
 - D) Firms will enter the industry, output will rise, and product price will fall.

Answer: D

- 32) Which statement is correct? 32) _____
- A) In a market system, buyers and sellers must be in face-to-face contact with each other.
 - B) In a market system, prices serve to ration goods and services to consumers.
 - C) Prices affect the distribution of goods in a market system but not the allocation of resources.
 - D) The operation of a market system has little, if any, effect on the distribution of income in the economy.

Answer: B

- 33) A characteristic of the market system is: 33) _____
- A) extensive use of price controls.
 - B) extensive use of capital goods.
 - C) low interest rates.
 - D) extensive use of barter.

Answer: B

- 34) The development of new technology and capital goods are essential elements for the market system. This is because: 34) _____
- A) more capital goods means less future consumption goods.
 - B) the standard of living and development of new technology are inversely related.
 - C) using more efficient production processes means more output for the economy.
 - D) the most direct methods of production are more efficient.

Answer: C

- 35) The basic reason for the production of capital goods is to: 35) _____
- A) facilitate exchange where a coincidence of wants does not exist.
 - B) better synchronize the operation of resource and product markets.
 - C) enhance future productive efficiency.
 - D) promote the concentration of economic power in the business sector.

Answer: C

- 36) The process in which workers select specialized tasks to make a product is referred to as: 36) _____
- A) division of labour.
 - B) freedom of choice.
 - C) a coincidence of wants.
 - D) roundabout production.

Answer: A

- 37) The division of labour means that: 37) _____
A) unskilled workers outnumber skilled workers.
B) workers specialize in various production tasks.
C) each worker performs a large number of tasks.
D) labour markets are geographically segmented.
Answer: B
- 38) Specialization and trade are beneficial to society because: 38) _____
A) scarce resources are utilized more efficiently.
B) a division of labour lowers prices for products.
C) the output of economic goods may be increased with no increase in resources.
D) all of the above are correct.
Answer: D
- 39) Specialization in production is important primarily because it: 39) _____
A) allows society to avoid the coincidence-of-wants problem.
B) results in greater total output.
C) allows society to trade by barter.
D) allows society to have fewer capital goods.
Answer: B
- 40) The division of labour enhances productivity and efficiency by: 40) _____
A) allowing workers to take advantage of existing differences in their abilities and skills.
B) allowing workers to develop skills by working on one, or a limited number, of tasks.
C) avoiding the time loss involved in shifting from one production task to another.
D) all of the above means.
Answer: D
- 41) Specialization in production is economically beneficial primarily because it: 41) _____
A) facilitates trade by bartering.
B) permits the production of a larger output with fixed amounts of resources.
C) guarantees full employment.
D) allows everyone to have a job which they like.
Answer: B
- 42) The use of money for exchange: 42) _____
A) decreases the coincidence of wants.
B) reduces consumer sovereignty.
C) encourages more specialization in production.
D) increases the use of barter.
Answer: C

- 43) Which is the main problem with the barter system of exchange? Barter: 43) _____
A) requires a coincidence of wants.
B) fosters specialization and division of labour.
C) undermines the right to bequeath.
D) encourages self-interest and selfishness.

Answer: A

- 44) _____ helps avoid the problems posed by the lack of double coincidence of wants. 44) _____
A) Trade
B) Money
C) Barter
D) Freedom of choice

Answer: B

- 45) Consider a barter situation where you have pens and you want pencils. To achieve your 45) _____
objective there must be a(n):
A) coincidence of wants.
B) large number of sellers.
C) use of capital goods.
D) entry and exit from the market.

Answer: A

- 46) On the basis of the information provided it can be said that: 46) _____
A) a coincidence of wants exists between Ontario and Alberta.
B) a coincidence of wants exists between British Columbia and Alberta.
C) a coincidence of wants exists between British Columbia and Ontario.
D) no coincidence of wants exists between any two provinces.

Answer: D

- 47) On the basis of the information provided and assuming trade occurs between the three 47) _____
provinces we can expect:
A) Alberta to exchange apples with Ontario and receive money in return.
B) Ontario to exchange lettuce with British Columbia and receive autos in return.
C) Alberta to exchange apples with British Columbia and receive money in return.
D) none of the above to occur.

Answer: A

- 48) Given the information provided and assuming trade does occur between the provinces, 48) _____
we can expect:
A) money to flow clockwise from British Columbia to Alberta to Ontario.
B) that there is no means by which British Columbia can obtain lettuce while
specializing in the production of autos.
C) money to flow counterclockwise from British Columbia to Ontario to Alberta.
D) that money will not be needed to accomplish the desired exchanges.

Answer: C

- 49) Which is assumed to be most limited in scope under a market system? 49) _____
A) government
B) freedom of choice
C) competition
D) freedom of enterprise

Answer: A

- 50) Which of the following is not a part of a market system? 50) _____
- A) government determination of basic economic goals
 - B) freedom of enterprise and choice
 - C) competition in product and resource markets
 - D) private property

Answer: A

- 51) The most important consequence of property rights is that 51) _____
- A) they allow for a division of labour.
 - B) allow for freedom of choice.
 - C) they facilitate exchange.
 - D) they encourage people to cooperate by helping to ensure that only mutually agreeable economic transactions take place.

Answer: D

- 52) Which is not one of the Five Fundamental Questions? 52) _____
- A) What goods and services should be produced by government?
 - B) Who will get the goods and services?
 - C) How will the goods and services be produced?
 - D) How will the system accommodate change?

Answer: A

- 53) What to produce in a market economy is ultimately determined by the: 53) _____
- A) spending decisions of households.
 - B) government.
 - C) output decisions of business firms.
 - D) workers' technical skills.

Answer: A

- 54) "Consumer sovereignty" refers to the: 54) _____
- A) fact that a federal agency exists to protect consumers from harmful and defective products.
 - B) idea that the pursuit of self-interest will prove ultimately to be in the public interest.
 - C) fact that resource prices tend to be high relative to product prices in capitalistic economies.
 - D) 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.

Answer: D

- 55) The term consumer sovereignty means that: 55) _____
- A) what is produced is ultimately determined by what consumers buy.
 - B) consumers are controlled by the actions of the marketplace.
 - C) there are no limits on what consumers may buy under capitalism.
 - D) businesses produce with consumer satisfaction as their primary goal.

Answer: A

- 56) The market system is said to be characterized by "consumer sovereignty." This is because: 56) _____
- A) the prices of consumer goods are regulated by government.
 - B) consumer goods are more profitable than investment goods.
 - C) a large number of consumer goods are produced.
 - D) of the role of consumers in determining what goods are produced.
- Answer: D
- 57) "The 'dollar votes' of consumers ultimately determine the composition of output and the allocation of resources in a market economy." This statement best describes the concept of: 57) _____
- A) consumer sovereignty.
 - B) external costs and benefits.
 - C) the invisible hand.
 - D) derived demand.
- Answer: A
- 58) The term dollar votes means: 58) _____
- A) inflation will occur if consumers don't spend wisely.
 - B) government is responsible for determining what will be considered legal tender.
 - C) consumers "vote" for certain products to be produced by how they spend their incomes.
 - D) voters may be offered dollars to help elect certain political candidates.
- Answer: C
- 59) Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system? 59) _____
- A) Who is to receive the output?
 - B) How is the output to be produced?
 - C) How can the system accommodate change?
 - D) What will be produced?
- Answer: D
- 60) Economic efficiency would be primarily discussed in response to which of the fundamental questions about a competitive market economy? 60) _____
- A) What will be produced?
 - B) Who is to receive the output?
 - C) How will the system accommodate change?
 - D) How will the goods and services be produced?
- Answer: D
- 61) Which fundamental question about a competitive market system primarily focuses on the cost of producing the good and services? 61) _____
- A) How will the system accommodate change?
 - B) How will the goods and services be produced?
 - C) What will be produced?
 - D) Who is to receive the output?
- Answer: B

- 62) The issues of distribution of goods and services and incomes in a competitive market system are the primary topic of which fundamental question? 62) _____
- A) How will the system accommodate change?
 - B) What will be produced?
 - C) How will the goods and services be produced?
 - D) Who is to receive the output?
- Answer: D
- 63) In the market system, the statement of "Wages, interest, rent, and profit are crucial determinants of the size of each person's income." is an indication of: 63) _____
- A) How will the system accommodate change?
 - B) What will be produced?
 - C) Who will get the output?
 - D) How will the goods and services be produced?
- Answer: C
- 64) For whom is a given mix of goods and services to be produced? How, in other words, is the product to be distributed among people when such commodities and services are available? In a market economy, this problem is resolved primarily in the: 64) _____
- A) business sector through the mechanism of advertising.
 - B) money market through borrowing and saving by households and businesses.
 - C) private sector through the earning and spending of income.
 - D) public sector through the mechanism of central planning.
- Answer: C
- 65) In a market economy the distribution of income would be determined primarily by 65) _____
- A) a social consensus as to what distribution of income is most equitable.
 - B) government regulations which provide a minimum income for all.
 - C) consumer needs and preferences.
 - D) the quantities and prices of the resources which households supply.
- Answer: D
- 66) Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation? 66) _____
- A) How will the goods and services be produced?
 - B) How will the system accommodate change?
 - C) Who is to receive the output?
 - D) What will be produced?
- Answer: B
- 67) If an increase occurs in the demand for product X, we would expect all of the following to occur except: 67) _____
- A) a decrease in the prices of resources employed in industry X.
 - B) an increase in the demand for resources employed by industry X.
 - C) an increase in the output of industry X.
 - D) an increase in the profits of industry X.
- Answer: A

- 68) An increase in demand for strawberries is most likely to: 68) _____
A) reduce the demand for strawberry pickers.
B) reduce the supply of strawberry pickers.
C) increase the demand for strawberry pickers.
D) reduce the supply of strawberries.
Answer: C
- 69) The market system communicates changes in supply and demand and elicits appropriate 69) _____
responses from businesses and resource suppliers. This is known as the:
A) monetary function of prices. B) rationing function of prices.
C) guiding function of prices. D) circular flow of income.
Answer: C
- 70) Which of the following best describes the "guiding function" of competitive prices? 70) _____
A) Profitable industries tend to contract and unprofitable industries tend to expand.
B) The market system can negotiate reallocations of resources which are appropriate to
changes in consumer tastes, technology, and resource supplies.
C) The market system will always generate economic profits for firms which use the
least costly production technology.
D) When prices are in equilibrium, product shortages or surpluses cannot occur.
Answer: B
- 71) Assume the demand for product Y increases and the subsequent market system 71) _____
responses result in the production of more Y. This illustrates:
A) the directing or guiding function of prices.
B) that consumer sovereignty is inoperative in this economy.
C) that the concept of derived demand is inapplicable.
D) the scarcity function of prices.
Answer: A
- 72) Which statement accurately summarizes the relationship between the prices of goods 72) _____
and their relative scarcity?
A) The price of a good is an inverse function of the relative scarcity of the good.
B) The price of a good is independent of the relative scarcity of the good.
C) The price of a good is a direct function of the relative scarcity of the good.
D) High prices lead to greater relative scarcity.
Answer: C
- 73) The most efficient combination of resources in producing any output is that 73) _____
combination which:
A) can be obtained for the smallest money outlay.
B) conserves most on the use of labour.
C) uses the smallest total quantity of all resources.
D) comes closest to using the same quantities of land, labour, capital, and
entrepreneurial ability.
Answer: A

- 74) The development of the Internet and e-mail to replace regular mail services in many cases would be an example of: 74) _____
- A) creative destruction.
 - B) roundabout production.
 - C) derived demand.
 - D) specialization.

Answer: A

- 75) The development of MP3 players that significantly reduce the market for CDs and DVDs would be an example of: 75) _____
- A) creative destruction.
 - B) roundabout production.
 - C) specialization.
 - D) derived demand.

Answer: A

- 76) Which of the following best describes the "invisible hand" concept? 76) _____
- A) The desires of resource suppliers and producers to further their own self-interest will automatically further the public interest.
 - B) Central direction by the government will improve resource allocation in a capitalistic economy.
 - C) Mixed capitalism is the best system for overcoming the scarce resources-unlimited wants problem.
 - D) The nonsubstitutability of resources gives rise to a conflict between private and public interests and the need for government intervention.

Answer: A

- 77) The "invisible hand" concept suggests that: 77) _____
- A) government action is necessary to correct for market failures.
 - B) when firms maximize their profits, society's domestic output will also be maximized.
 - C) profit maximization is inconsistent with an efficient allocation of resources.
 - D) changes in product demands are only randomly reflected in changes in the demands for resources.

Answer: B

- 78) The "invisible hand" concept suggests that: 78) _____
- A) the competitiveness of a capitalistic market economy invariably diminishes over time.
 - B) given competition, private and public interests will tend to coincide.
 - C) market failures imply the need for a national economic plan.
 - D) big businesses are inherently more efficient than small businesses.

Answer: B

- 79) The "invisible hand" refers to the: 79) _____
- A) notion that, under competition, decisions motivated by self-interest promote the social interest.
 - B) fact that our tax system redistributes income from rich to poor.
 - C) fact that government controls the functioning of the market system.
 - D) tendency of monopolistic sellers to raise prices above competitive levels.

Answer: A

- 80) The idea that the desires of resource suppliers and producers to further their own self-interest will automatically further the public interest is known as: 80) _____
- A) consumer sovereignty.
 - B) profit maximization.
 - C) the invisible hand.
 - D) derived demand.

Answer: C

- 81) The idea that firms and resource suppliers in seeking to further their own self-interests in a competitive market economy also simultaneously promotes the public or social interest is a description of: 81) _____
- A) the "invisible hand."
 - B) dollar votes.
 - C) capital accumulation.
 - D) the guiding function of prices.

Answer: A

- 82) While in market economies the profit depends on consumer demand, production production efficiency, and product quality, for command economies profit depends on: 82) _____
- A) product differentiation.
 - B) product mix.
 - C) quantitative production target.
 - D) production cost.

Answer: C

- 83) The coordination problem in command economies became more difficult as: 83) _____
- A) planning techniques improved.
 - B) production cost decreased.
 - C) less quantitative targets were assigned to each industry.
 - D) the number of industries expanded.

Answer: D

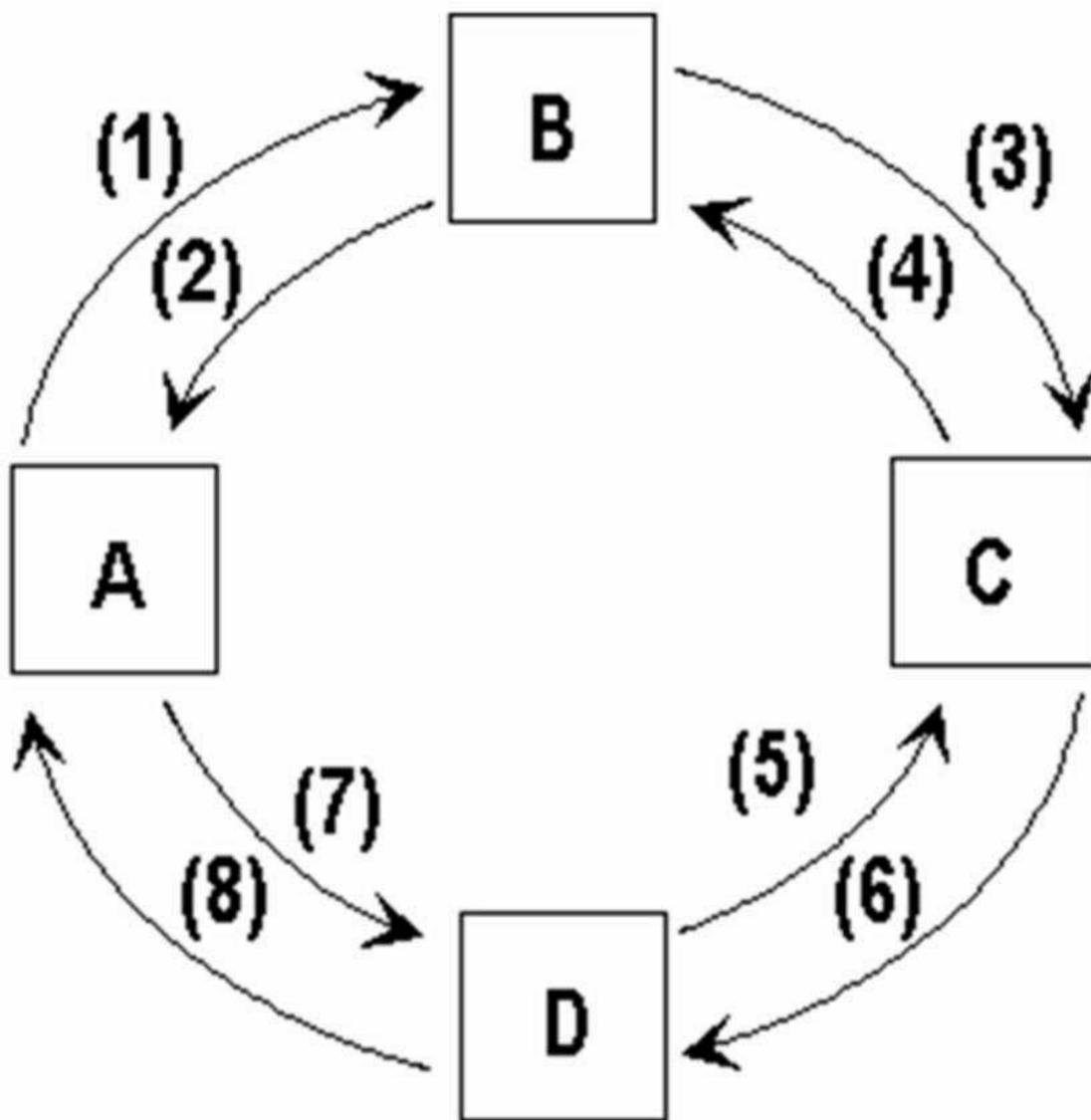
- 84) As opposed to the market system, in command economies: 84) _____
- A) the reward for innovation does not exist.
 - B) meeting the production targets are extremely important.
 - C) the reward for innovation is extensive.
 - D) the profit motives are extremely high.

Answer: A

- 85) In the factor market: 85) _____
- A) firms sell raw materials to households.
 - B) households sell resources to businesses.
 - C) businesses borrow money capital from households.
 - D) businesses sell services to households.

Answer: B

- 86) The simple circular flow model shows that: 86) _____
A) businesses are on the demand side of the product market and on the supply side of the factor market.
B) households are on the demand 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 supply side of both product and factor markets.
Answer: C
- 87) The two basic markets shown by the simple circular flow model are: 87) _____
A) household and business. B) capital goods and consumer goods.
C) product and factor. D) free and controlled.
Answer: C
- 88) In the simple circular flow model: 88) _____
A) households are demanders of factors of production.
B) there are real flows of goods, services, and factors, but not money flows.
C) businesses are suppliers of final products.
D) households are suppliers of final products.
Answer: C
- 89) Households and businesses are: 89) _____
A) both suppliers in the product market.
B) suppliers in the product and factor markets respectively.
C) suppliers in the factor and product markets respectively.
D) both buyers in the factor market.
Answer: C
- 90) In the circular flow model: 90) _____
A) households spend income in the product market.
B) households receive income through the factor market.
C) households supply factors of production to firms.
D) all of the above hold true.
Answer: D



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

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

Answer: A

92) Refer to the figure. If box A represents businesses and flow (7) represents goods and services, then: 92) _____

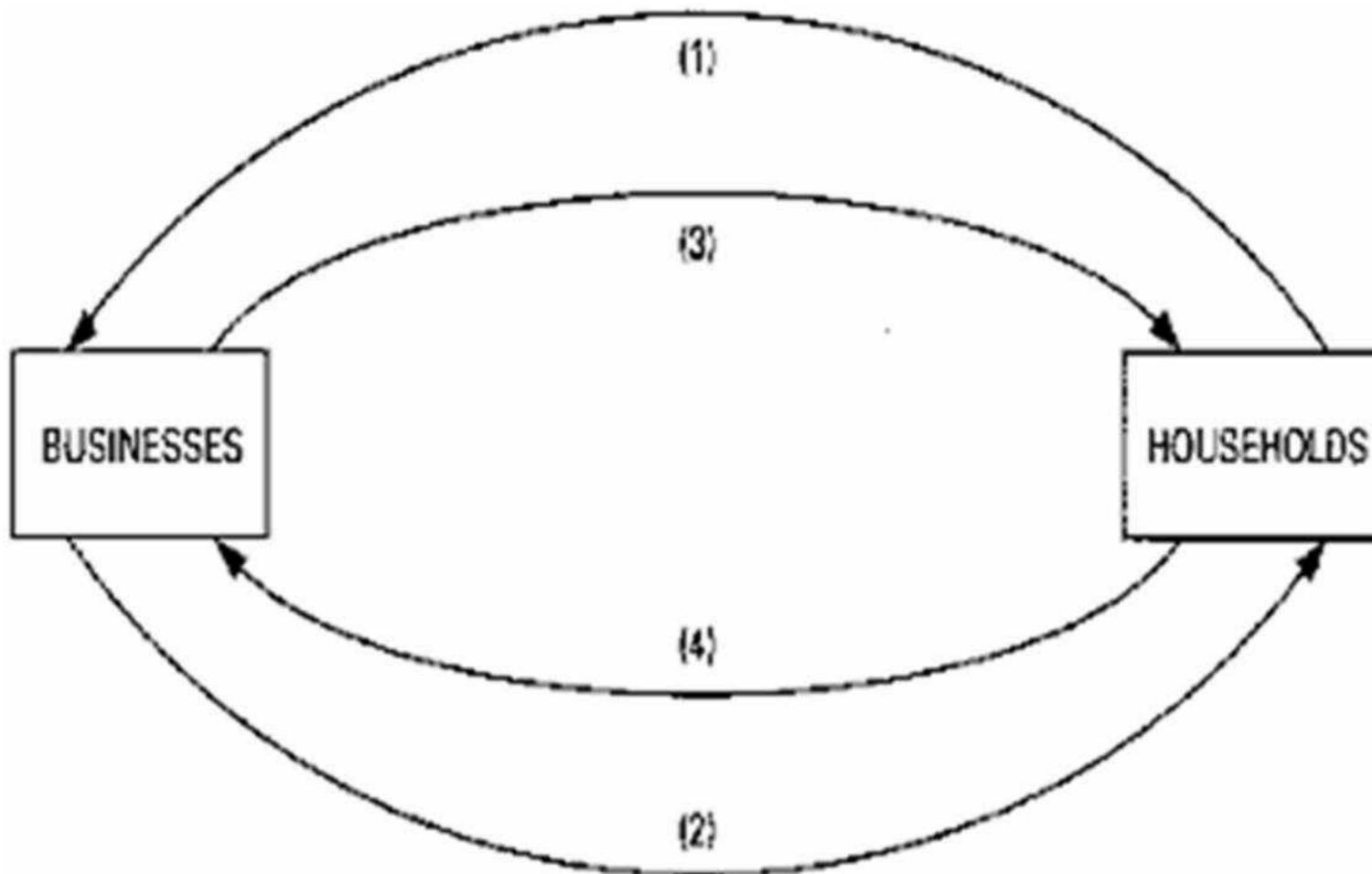
- A) box D is the product market and box B is households.
- B) box B is the product market and box C is households.
- C) box D is the product market and box B is the factor market.
- D) box C is the product market and box B is the factor market.

Answer: C

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

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

Answer: A



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

94) _____

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

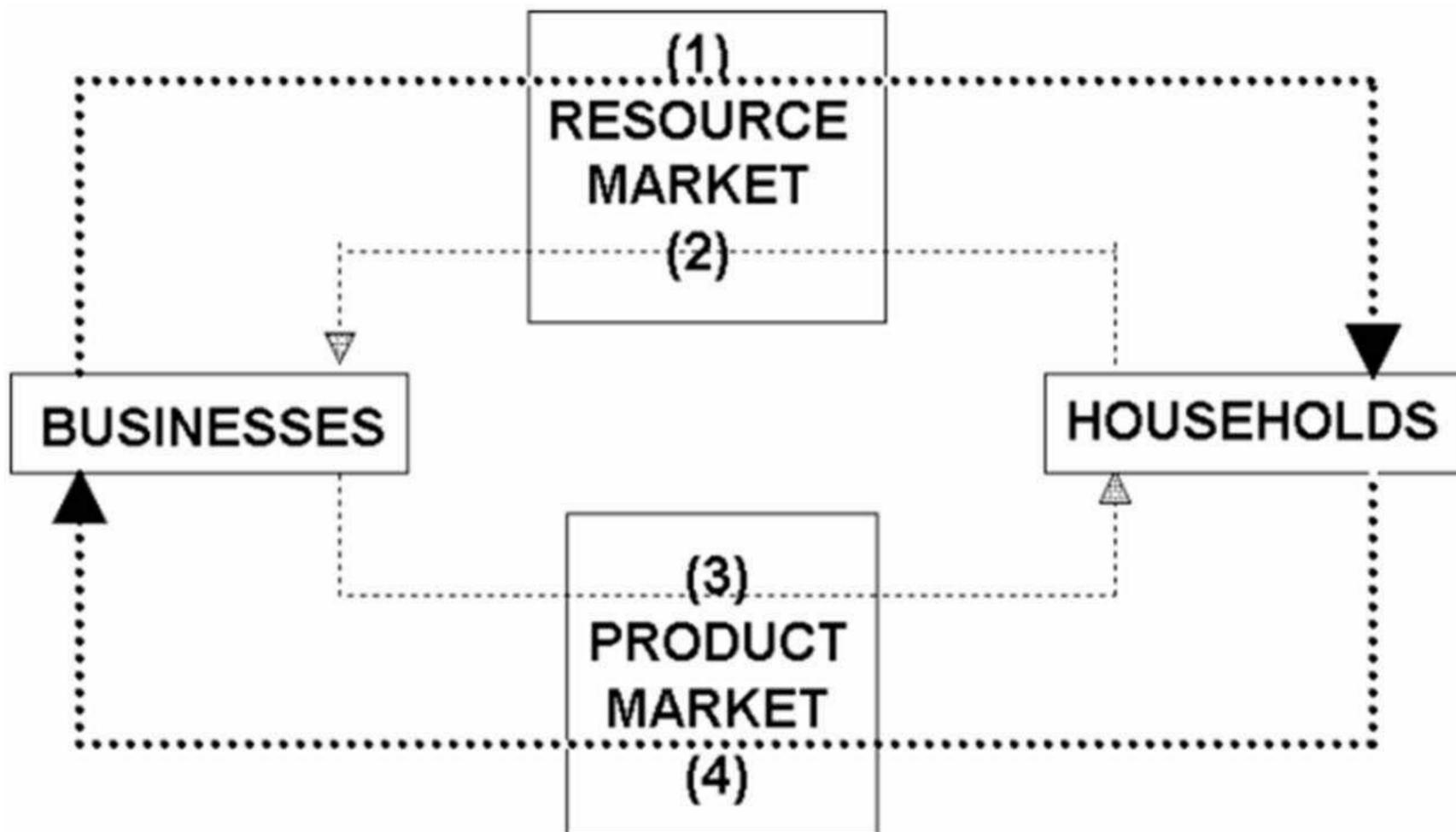
Answer: C

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

95) _____

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

Answer: C



- 96) Refer to the circular flow model of the economy. In the diagram flow (1) represents: 96) _____
- A) consumer expenditures.
 - B) wage, rent, interest, and profit income.
 - C) goods and services.
 - D) land, labour, capital, and entrepreneurial ability.

Answer: B

- 97) Refer to the circular flow model of the economy. In the diagram flow (2) represents: 97) _____
- A) goods and services.
 - B) wage, rent, interest, and profit income.
 - C) consumer expenditures.
 - D) land, labour, capital, and entrepreneurial ability.

Answer: D

- 98) Refer to the circular flow model of the economy. In the diagram flow (3) represents: 98) _____
- A) land, labour, capital, and entrepreneurial ability.
 - B) consumer expenditures.
 - C) goods and services.
 - D) wage, rent, interest, and profit income.

Answer: C

- 99) Refer to the circular flow model of the economy. In the diagram flow (4) represents: 99) _____
- A) consumer expenditures.
 - B) wage, rent, interest, and profit income.
 - C) land, labour, capital, and entrepreneurial ability.
 - D) goods and services.

Answer: A

- 100) In terms of the circular flow diagram households make expenditures in the _____ market and receive income through the _____ market. 100) _____
A) factor; product B) capital; product
C) product; financial D) product; factor
Answer: D

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 101) Specialization may be conducive to an expansion of total output even though the individuals involved may have identical abilities. 101) _____
Answer: True False
- 102) A division of labour enhances society's output by permitting people to take advantage of existing differences in their abilities and skills. 102) _____
Answer: True False
- 103) Money functions as a medium of exchange in permitting the ready comparison of the relative worth of heterogeneous products. 103) _____
Answer: True False
- 104) Government alters the distribution of income by market intervention, in which case it modifies the prices established by market forces. 104) _____
Answer: True False
- 105) Property rights do not encourage people to cooperate. 105) _____
Answer: True False
- 106) Consumer sovereignty means that legislation now protects the rights of consumers to dispose of their incomes as they see fit. 106) _____
Answer: True False
- 107) The wants of consumers are expressed on the demand side of the product market. 107) _____
Answer: True False
- 108) The guiding function of prices indicates that, at equilibrium prices, neither product surpluses nor shortages can occur. 108) _____
Answer: True False
- 109) The "invisible hand" refers to the many indirect controls which the federal government imposes in a system of mixed capitalism. 109) _____
Answer: True False
- 110) In a competitive market economy, firms and resource suppliers will seek to further their own self-interest, but at the same time, as if guided by an "invisible hand," they will promote the public interest. 110) _____
Answer: True False

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

111) _____

Answer: True False

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

112) _____

Answer: True False