

## Chapter 2 review

### Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_ 1. Which of the following is NOT characteristic of a centrally planned economy?
- The central government owns all land and capital.
  - The central government makes all economic decisions.
  - Each collective or factory sets its own goals.
  - Each person is assigned a job.
- \_\_\_ 2. What is the struggle among various producers for the consumer's business called?
- socialism
  - competition
  - incentive
  - self-regulation
- \_\_\_ 3. Why does even a free market economy need some government intervention?
- to provide for things that the marketplace does not address
  - to ensure that the government has the freedom to tax as necessary
  - to make sure that the government can fulfill its needs for military personnel
  - so that the government has some control over factor resources
- \_\_\_ 4. Which of the following is NOT a key economic question?
- What goods and services should be produced?
  - How should these goods and services be produced?
  - Who consumes these goods and services?
  - How should it be ensured that goods and services are paid for?
- \_\_\_ 5. What does the process of specialization do for an economy?
- It eliminates unemployment.
  - It makes it more efficient.
  - It fosters competition.
  - It makes it easier to control.
- \_\_\_ 6. How could the Chinese economy be characterized?
- free market
  - centrally planned
  - mixed, but on the side of centrally planned
  - mixed, but on the side of free market
- \_\_\_ 7. What is one of the most important advantages of a free market?
- It can change rapidly.
  - It protects the less fortunate.
  - It is easy to regulate.
  - It encourages growth.
- \_\_\_ 8. What incentive motivates a manufacturer to sell a product?
- making profits on sales
  - putting others out of business
  - pleasing the consumer
  - popularity of the product
- \_\_\_ 9. Which of the following was a free market philosopher?
- Karl Marx
  - Adam Smith
  - Vladimir Lenin
  - Friedrich Engels
- \_\_\_ 10. Which of the following is characteristic of a traditional economy?
- Communities tend to be fast-growing.
  - They are usually based on light industrial production.
  - They have a high standard of living.
  - Children tend to have the same jobs as their parents did.
- \_\_\_ 11. What is the product market?
- the market in which payments are received for selling products to consumers
  - the market in which income is received for supplying land, labor, or capital

- c. the market in which firms purchase the factors of production from households
  - d. the market in which households purchase the goods and services that firms produce
- \_\_\_ 12. What incentive do manufacturers have to sell their products?
- a. making profits on sales
  - b. pleasing the consumer
  - c. putting others out of business
  - d. popularity of the product
- \_\_\_ 13. In what kind of an economy does the government make all the decisions?
- a. socialist
  - b. laissez faire
  - c. centrally planned
  - d. free enterprise
- \_\_\_ 14. What is the purpose of competition?
- a. to act as a regulating force in the marketplace
  - b. to cause producers to attempt to put each other out of business
  - c. to cause buyers to have to be careful about spending their money
  - d. to act as a motivating force behind the free market
- \_\_\_ 15. What is the function of an economic system?
- a. to make sure all people have equal access to goods
  - b. to produce and distribute goods and services
  - c. to give all producers the same access to consumers
  - d. to make sure people are paid for their labor
- \_\_\_ 16. Which of the following is a condition that most people would NOT expect the safety net of the government to provide for?
- a. injuries
  - b. joblessness
  - c. natural disasters
  - d. low income
- \_\_\_ 17. How would the economy of Canada be likely to be characterized?
- a. free market
  - b. centrally planned
  - c. mixed, but on the side of centrally planned
  - d. mixed, but on the side of free market
- \_\_\_ 18. What is an important advantage of a free market?
- a. It does not change unless the government directs it.
  - b. It offers a wide variety of goods and services.
  - c. It is easy to regulate.
  - d. It protects the less fortunate.
- \_\_\_ 19. Who was the leader that introduced communism and central planning to the former Soviet Union?
- a. Karl Marx
  - b. Joseph Stalin
  - c. Vladimir Lenin
  - d. Friedrich Engels
- \_\_\_ 20. What is the motivating force behind the free market?
- a. competition
  - b. the invisible hand
  - c. self-interest
  - d. specialization
- \_\_\_ 21. What might be a hardship for citizens of a centrally planned economy making a transition to a market-based system?
- a. Farmers would have to grow the crops that the government instructed them to.
  - b. Only poor quality goods would be available to consumers, because manufacturers focused on quantity, not quality.
  - c. Workers would lose job security and guaranteed incomes.
  - d. Entrepreneurs would have fewer opportunities to start new businesses.
- \_\_\_ 22. A person who believed in the doctrine of laissez faire would disapprove of
- a. the invisible hand of the marketplace.
  - b. consumer sovereignty.
  - c. self-interest as the motivating force in the free market.

- d. government funding of education.
- \_\_\_ 23. Which of the following does a government provide as part of a safety net for the people?
- a. general elections every four years
  - b. unemployment compensation
  - c. a strong military defense
  - d. regulation of commerce
- \_\_\_ 24. Suppose there is a family in which all the boys are expected to become farmers when they are adults, just as their fathers and grandfathers did. In which kind of economy do they participate?
- a. false economy
  - b. command economy
  - c. traditional economy
  - d. centrally planned economy
- \_\_\_ 25. You are an entrepreneur with an innovative idea for a new business. In which kind of economy would you have the most opportunity to try to achieve success?
- a. market economy
  - b. command economy
  - c. traditional economy
  - d. economy of scale
- \_\_\_ 26. Why do markets exist?
- a. Markets ensure that government does not intervene in the production of goods and services.
  - b. Markets provide self-sufficient people with public places for the exchange of ideas.
  - c. Markets ensure economic equity for all people.
  - d. Markets allow people to buy what they need to consume and sell the specialized goods and services they produce.
- \_\_\_ 27. Households pay firms for goods and services. Firms supply households with goods and services. The purchase and supply of goods and services takes place in the
- a. product market.
  - b. factor market.
  - c. after market.
  - d. traditional market.
- \_\_\_ 28. Which of the following goals is difficult to achieve in a pure free market system?
- a. economic efficiency
  - b. economic equity
  - c. economic freedom
  - d. economic growth
- \_\_\_ 29. A government prints and distributes posters to inspire workers to increase their productivity. In which kind of economy does this most likely take place?
- a. weak economy
  - b. traditional economy
  - c. market economy
  - d. centrally planned economy
- \_\_\_ 30. A person believes that real equality can only exist when political equality is coupled with economic equality. This person believes that democratic means should be used to distribute wealth evenly throughout society. This person is a
- a. socialist.
  - b. communist.
  - c. capitalist.
  - d. authoritarian.
- \_\_\_ 31. Collectives in the Soviet Union were inefficient producers of agricultural products. Why?
- a. The farms were too small to produce substantial crops.
  - b. Most farmers were poor and had to pay for their own equipment, seeds, and fertilizer out of their own pockets.
  - c. Farm workers had guaranteed incomes, so they had few incentives to produce more or better crops.
  - d. Soviet central planners ignored the farms in favor of factories producing consumer goods.
- \_\_\_ 32. Which of the following is NOT a weakness of centrally planned economies?
- a. Most workers lack job security.
  - b. Consumers' needs are generally not met.
  - c. Workers lack incentives to be innovative.
  - d. Individual freedoms are sacrificed for societal goals.
- \_\_\_ 33. The economy of China is in transition. What does this mean?
- a. Investments are determined by state control instead of by private decision.

- b. The economy is moving from central planning toward a market-based system.
- c. Individual firms are in the process of being sold to the state.
- d. The government rarely interferes in the free market and is highly receptive to foreign investment.

- \_\_\_ 34. In which of the following lists of mixed economies does the market system dominate?
- a. France, Canada, South Africa, United Kingdom
  - b. United States, United Kingdom, Singapore, Hong Kong
  - c. Cuba, Greece, China, United States
  - d. Russia, Peru, France, Canada

## Matching

### *Identifying Key Terms*

*Match each term with the correct statement below.*

- |                       |                    |
|-----------------------|--------------------|
| a. standard of living | f. communism       |
| b. privatize          | g. laissez faire   |
| c. economic system    | h. collective      |
| d. self-interest      | i. product market  |
| e. safety net         | j. factor payments |

- \_\_\_ 35. the method used by society to produce and distribute goods and services
- \_\_\_ 36. one's own personal gain
- \_\_\_ 37. the income people receive for supplying such things as land, labor, or capital
- \_\_\_ 38. a situation in which households purchase the goods and services that firms produce
- \_\_\_ 39. to sell a state-run firm to individuals
- \_\_\_ 40. a large Soviet farm leased from the state to groups of peasant farmers
- \_\_\_ 41. the doctrine that government generally should not intervene in the marketplace
- \_\_\_ 42. level of economic prosperity

### *Identifying Key Terms*

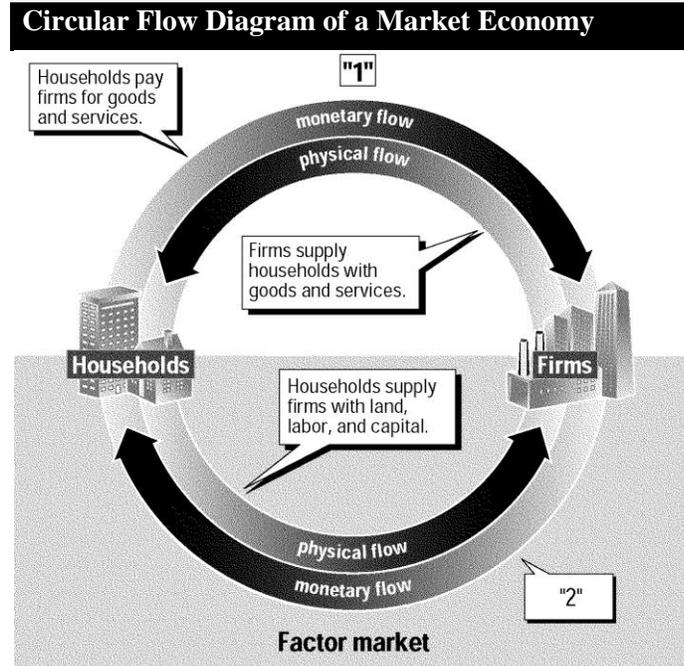
*Match each term with the correct statement below.*

- |                    |                        |
|--------------------|------------------------|
| a. free enterprise | f. socialism           |
| b. continuum       | g. transition          |
| c. incentive       | h. traditional economy |
| d. safety net      | i. authoritarian       |
| e. collective      | j. standard of living  |

- \_\_\_ 43. government programs that protect people experiencing unfavorable economic conditions
- \_\_\_ 44. an economic system that permits the conduct of business with minimal government intervention
- \_\_\_ 45. an expectation that encourages people to behave in a certain way
- \_\_\_ 46. an economic system that relies on habit, custom, or ritual to decide questions of consumption and production of goods and services
- \_\_\_ 47. a philosophy based on the belief that democratic means should be used to distribute wealth evenly throughout a society
- \_\_\_ 48. requiring strict obedience to someone such as a dictator
- \_\_\_ 49. a range with no clear divisions
- \_\_\_ 50. a period of change in an economy

## Short Answer

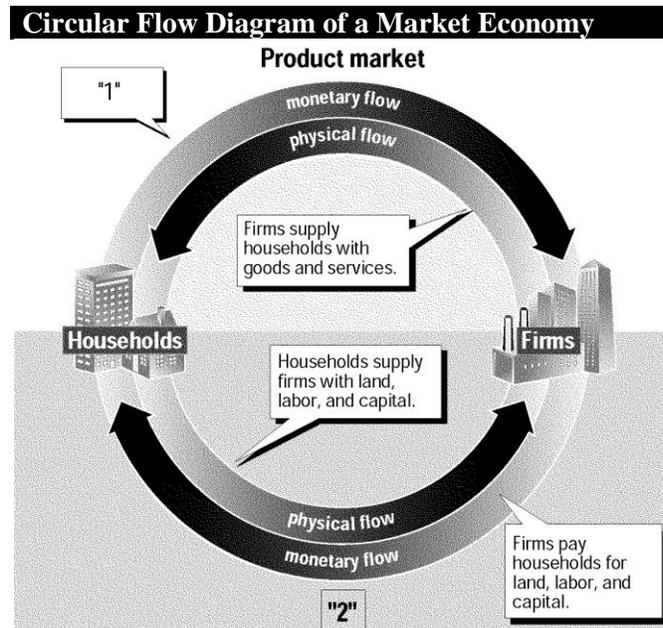
## Interpreting a Circular Flow Diagram



**Figure 2.1**

51. What does Figure 2.1 as a whole represent?
52. What does the upper half of Figure 2.1, marked "1," represent?
53. According to Figure 2.1, what does the lower line of monetary flow, marked "2," show?

## Interpreting a Circular Flow Diagram



## Figure 2.2

54. According to Figure 2.2, what does the upper line of monetary flow, marked “1,” show?
55. What does the lower half of Figure 2.2, marked “2,” represent?
56. What does Figure 2.2 as a whole represent?

## Essay

### Critical Thinking

57. **Identifying Central Issues** What are some of the advantages of a mixed economy?
58. **Identifying Cause and Effect** Explain what has happened to most of the large centrally planned economies. Why has this happened?
59. **Drawing Conclusions** How does the government participate in a mixed economy?
60. **Expressing Problems Clearly** Explain why a completely free market economy would not be a practical one for any major country.
61. **Recognizing Cause and Effect** Why have many of the governments of countries that had centrally planned economies begun to privatize their economies?
62. **Identifying Alternatives** What are some of the economic goals most economies try to achieve?