

## Chapter Three more questions

### Multiple Choice

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

- \_\_\_ 1. Which of the following is a private organization that attempts to influence public officials to act or vote in ways that will benefit the group's members?
  - a. market research group
  - b. free enterprise group
  - c. public policy group
  - d. interest group
- \_\_\_ 2. What is the most effective way for consumers to make their desires known to businesses?
  - a. through mail and phone surveys
  - b. by protesting and boycotting products
  - c. by the purchases they make
  - d. by hiring lobbyists and joining consumer groups
- \_\_\_ 3. Why does the government use its powers to make sure that businesses disclose so much information to the public?
  - a. to make buyers more knowledgeable and safer
  - b. to make it hard for businesses to make an excess profit
  - c. to make it easier for consumers to save money
  - d. to make it easy for businesses to have good information
- \_\_\_ 4. What is a positive externality?
  - a. a way to generate trade that will benefit people who are from other countries
  - b. an economic side effect that generates unexpected benefits
  - c. a cash flow that will benefit both the government and the businesses who interact with it
  - d. an extra payment to welfare recipients
- \_\_\_ 5. What does the Temporary Assistance for Needy Families program provide?
  - a. retirement income for the elderly
  - b. cash to the states to help run their welfare programs
  - c. compensation to all who lose jobs
  - d. cash to workers injured on the job
- \_\_\_ 6. What is the difference between a business cycle and the day-to-day ups and downs of the market?
  - a. The day-to-day ups and downs of the market can be much more extreme than a business cycle.
  - b. The day-to-day fluctuations are more likely to have an impact on people's finances.
  - c. A business cycle is usually more restricted, whereas market fluctuations are worldwide.
  - d. A business cycle is a major, prolonged fluctuation rather than a day-to-day movement.
- \_\_\_ 7. What best describes the role of government in a free enterprise system?
  - a. Control business activities.
  - b. Decide what companies will be formed and then allow the managers to run them.
  - c. Allow individuals to operate their businesses in ways they think will maximize their profits.
  - d. Require companies to disclose information to consumers.
- \_\_\_ 8. What effect does new technology usually have on an economy?
  - a. It makes the economy stronger and more efficient.
  - b. It reduces the dependence of the economy on business.
  - c. It slows an economy down for at least a while.
  - d. It reduces the available jobs.

- \_\_\_ 9. Which of the following is a critical rule for determining whether something is a public good?
- The benefit to each individual who uses the facility is greater than the cost.
  - The benefits of the facility are greater for the society than for the individuals using it.
  - The total benefits to society are greater than the total cost.
  - The total cost is small for each individual taxpayer.
- \_\_\_ 10. Which of the following is NOT an example of a public good?
- |                   |                        |
|-------------------|------------------------|
| a. shopping malls | c. highways            |
| b. national parks | d. municipal libraries |
- \_\_\_ 11. What protections does OSHA give to people in the United States?
- regulations on workplace safety and information about hazards in the workplace
  - consumer protection in buying foods
  - regulations about clean environment
  - protection for certain key industries such as logging
- \_\_\_ 12. What is the term for the total value of all goods and services produced in a particular economy?
- |                      |                           |
|----------------------|---------------------------|
| a. net worth         | c. gross domestic product |
| b. open market value | d. standard of living     |
- \_\_\_ 13. What is one benefit provided by Social Security?
- medical care for the indigent
  - cash transfers to workers injured on the job
  - compensation for all who lose jobs
  - retirement income for the elderly
- \_\_\_ 14. A person who consumes a good or service but does not pay for it is called which of the following?
- |                     |                       |
|---------------------|-----------------------|
| a. a free rider     | c. a private consumer |
| b. a volunteer user | d. an entrepreneur    |
- \_\_\_ 15. Assume that the poverty threshold for a single parent with one child is \$11,869 per year. Catrina is a single mother who works 40 hours per week. What hourly wage does she need to earn in order to rise above the poverty threshold?
- |           |           |
|-----------|-----------|
| a. \$5.71 | c. \$5.47 |
| b. \$5.15 | d. \$5.07 |
- \_\_\_ 16. Automakers are required to comply with public disclosure laws. What is one example of a requirement of these laws?
- Salespeople must provide information about their competitors' cars, so customers can make informed decisions.
  - Car dealers must prominently display a sticker with the fuel efficiency in the car window.
  - Salespeople must be willing to sell cars to anyone who can afford them, regardless of gender, race, or ethnicity.
  - Automakers must test all car models regularly for crash-worthiness.
- \_\_\_ 17. An externality is
- an economic side effect of a good or service that generates benefits or costs to someone other than the person deciding how much to produce or consume.
  - the total cost to society of producing an additional unit of a good or service.
  - the amount a consumer pays to consume an additional amount of any particular good.
  - a situation in which the market, on its own, does not distribute resources efficiently.
- \_\_\_ 18. In 1996, a new federal welfare program called Temporary Assistance for Needy Families (TANF) began assisting poor families. Which of the following was NOT a provision of TANF?
- |                                       |                               |
|---------------------------------------|-------------------------------|
| a. direct cash payments to recipients | c. lifetime limit of benefits |
| b. work incentives                    | d. state-run welfare programs |

- \_\_\_ 19. The U.S. Constitution guarantees certain rights that allow people to engage in business activities. Which of the following does the U.S. Constitution NOT guarantee?
- the protection against monopolies and oligopolies
  - the recognition and protection of private property rights
  - a limitation on the kinds of taxes that Congress can impose
  - the right to make binding contracts
- \_\_\_ 20. Why is legal equality important to the free enterprise system?
- Ensuring that all businesses have the same legal rights will create healthy competition in the marketplace.
  - Requiring all lawyers to obtain the same education will ensure that all business clients receive competent legal representation.
  - Protecting legal equality makes sure that all people may decide what legal agreements they want to enter into.
  - Guaranteeing all people the same legal rights will maximize the use of human capital.
- \_\_\_ 21. A large telephone company has hired lobbyists to try to persuade lawmakers to reduce governmental regulation over the telecommunications industry. Why might the company do this?
- Some regulations are costly to implement and cut into profits.
  - Many regulations promote too much competition, driving down prices.
  - Certain regulations result in rapid business growth, which some companies find difficult to handle.
  - All of the above
- \_\_\_ 22. You read an article in a news magazine that explains how the economy expanded for several years, then went into a period of contraction. What was the subject of this article?
- the gross domestic product
  - microeconomics
  - the business cycle
  - voluntary exchange
- \_\_\_ 23. To stabilize the economy, policymakers try to achieve three main outcomes: high employment, steady growth, and
- technological advancement.
  - stable prices.
  - competition.
  - consumer confidence.
- \_\_\_ 24. Why does the government protect inventors and authors by offering them patents and copyrights?
- to encourage free trade
  - to promote innovation
  - to regulate the business cycle
  - to strengthen American culture
- \_\_\_ 25. Which of the following is the best example of a public good?
- highway system
  - shopping mall
  - country club
  - movie theater
- \_\_\_ 26. You will still be able to get public broadcasting whether or not you contribute to their fundraising campaign. You decide not to contribute. This is an example of the
- public good problem.
  - public sector problem.
  - externality problem.
  - free-rider problem.
- \_\_\_ 27. A new runway has opened up at the airport, and the flight path goes directly over your apartment. The noise of the airplanes is a
- positive externality.
  - free-rider problem.
  - negative externality.
  - market failure.

- 28. Each payday, some of your pay is withheld as payroll deductions for Social Security. What happens to the money that is withheld?
- a. It is redistributed as cash transfers to workers who are injured on the job.
  - b. It is put into an account under your name to earn interest until you retire.
  - c. It is used to provide medical benefits to Americans over 65.
  - d. It is redistributed as cash transfers to elderly and disabled people.