**Chapter two 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?

|  |  |
| --- | --- |
| a. | The central government owns all land and capital. |
| b. | The central government makes all economic decisions. |
| c. | Each collective or factory sets its own goals. |
| d. | Each person is assigned a job. |

\_\_\_\_ 2. What is the struggle among various producers for the consumer’s business called?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | socialism | c. | incentive |
| b. | competition | d. | self-regulation |

\_\_\_\_ 3. Why does even a free market economy need some government intervention?

|  |  |
| --- | --- |
| a. | to provide for things that the marketplace does not address |
| b. | to ensure that the government has the freedom to tax as necessary |
| c. | to make sure that the government can fulfill its needs for military personnel |
| d. | so that the government has some control over factor resources |

\_\_\_\_ 4. Which of the following is NOT a key economic question?

|  |  |
| --- | --- |
| a. | What goods and services should be produced? |
| b. | How should these goods and services be produced? |
| c. | Who consumes these goods and services? |
| d. | How should it be ensured that goods and services are paid for? |

\_\_\_\_ 5. What does the process of specialization do for an economy?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | It eliminates unemployment. | c. | It fosters competition. |
| b. | It makes it more efficient. | d. | It makes it easier to control. |

\_\_\_\_ 6. How could the Chinese economy 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 |

\_\_\_\_ 7. What is the product market?

|  |  |
| --- | --- |
| a. | the market in which payments are received for selling products to consumers |
| b. | 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 |

\_\_\_\_ 8. In what kind of an economy does the government make all the decisions?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | socialist | c. | centrally planned |
| b. | laissez faire | d. | free enterprise |

\_\_\_\_ 9. 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 |

\_\_\_\_ 10. 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 |

\_\_\_\_ 11. Which of the following is a condition that most people would NOT expect the safety net of the government to provide for?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | injuries | c. | natural disasters |
| b. | joblessness | d. | low income |

\_\_\_\_ 12. 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 |

\_\_\_\_ 13. 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. |

\_\_\_\_ 14. Who was the leader that introduced communism and central planning to the former Soviet Union?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Karl Marx | c. | Vladimir Lenin |
| b. | Joseph Stalin | d. | Friedrich Engels |

\_\_\_\_ 15. What is the motivating force behind the free market?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | competition | c. | self-interest |
| b. | the invisible hand | d. | specialization |

\_\_\_\_ 16. 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. |

\_\_\_\_ 17. 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 | c. | traditional economy |
| b. | command economy | d. | centrally planned economy |

\_\_\_\_ 18. 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. | c. | after market. |
| b. | factor market. | d. | traditional market. |

\_\_\_\_ 19. Which of the following goals is difficult to achieve in a pure free market system?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | economic efficiency | c. | economic freedom |
| b. | economic equity | d. | economic growth |

\_\_\_\_ 20. 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 | c. | market economy |
| b. | traditional economy | d. | centrally planned economy |

\_\_\_\_ 21. 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. | c. | capitalist. |
| b. | communist. | d. | authoritarian. |

\_\_\_\_ 22. 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. |

\_\_\_\_ 23. 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. |

\_\_\_\_ 24. 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 |

\_\_\_\_ 25. one’s own personal gain

\_\_\_\_ 26. the income people receive for supplying such things as land, labor, or capital

\_\_\_\_ 27. a situation in which households purchase the goods and services that firms produce

\_\_\_\_ 28. the doctrine that government generally should not intervene in the marketplace

\_\_\_\_ 29. 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 |

\_\_\_\_ 30. government programs that protect people experiencing unfavorable economic conditions

\_\_\_\_ 31. an economic system that permits the conduct of business with minimal government intervention

\_\_\_\_ 32. an expectation that encourages people to behave in a certain way

\_\_\_\_ 33. an economic system that relies on habit, custom, or ritual to decide questions of consumption and production of goods and services

\_\_\_\_ 34. a philosophy based on the belief that democratic means should be used to distribute wealth evenly throughout a society

\_\_\_\_ 35. a range with no clear divisions

\_\_\_\_ 36. a period of change in an economy

**Short Answer**

**Interpreting a Circular Flow Diagram**

|  |
| --- |
| **Circular Flow Diagram of a Market Economy** |



**Figure 2.1**

 37. What does the upper half of Figure 2.1, marked “1,” represent?

 38. According to Figure 2.1, what does the lower line of monetary flow, marked “2,” show?

**Interpreting a Circular Flow Diagram**

|  |
| --- |
| **Circular Flow Diagram of a Market Economy** |

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**Figure 2.2**

 39. According to Figure 2.2, what does the upper line of monetary flow, marked “1,” show?

 40. What does the lower half of Figure 2.2, marked “2,” represent?