

chapter 3 review

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?

- a. The benefit to each individual who uses the facility is greater than the cost.
 - b. The benefits of the facility are greater for the society than for the individuals using it.
 - c. The total benefits to society are greater than the total cost.
 - d. 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
 - b. national parks
 - c. highways
 - d. municipal libraries
- ___ 11. What protections does OSHA give to people in the United States?
- a. regulations on workplace safety and information about hazards in the workplace
 - b. consumer protection in buying foods
 - c. regulations about clean environment
 - d. 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
 - b. open market value
 - c. gross domestic product
 - d. standard of living
- ___ 13. What is one benefit provided by Social Security?
- a. medical care for the indigent
 - b. cash transfers to workers injured on the job
 - c. compensation for all who lose jobs
 - d. 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
 - b. a volunteer user
 - c. a private consumer
 - 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
 - b. \$5.15
 - c. \$5.47
 - d. \$5.07
- ___ 16. Automakers are required to comply with public disclosure laws. What is one example of a requirement of these laws?
- a. Salespeople must provide information about their competitors' cars, so customers can make informed decisions.
 - b. Car dealers must prominently display a sticker with the fuel efficiency in the car window.
 - c. Salespeople must be willing to sell cars to anyone who can afford them, regardless of gender, race, or ethnicity.
 - d. Automakers must test all car models regularly for crash-worthiness.
- ___ 17. An externality is
- a. 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.
 - b. the total cost to society of producing an additional unit of a good or service.
 - c. the amount a consumer pays to consume an additional amount of any particular good.
 - d. 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
 - b. work incentives
 - c. lifetime limit of benefits
 - 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?
- a. the protection against monopolies and oligopolies

- b. the recognition and protection of private property rights
- c. a limitation on the kinds of taxes that Congress can impose
- d. the right to make binding contracts

- _____ 20. Why is legal equality important to the free enterprise system?
- a. Ensuring that all businesses have the same legal rights will create healthy competition in the marketplace.
 - b. Requiring all lawyers to obtain the same education will ensure that all business clients receive competent legal representation.
 - c. Protecting legal equality makes sure that all people may decide what legal agreements they want to enter into.
 - d. 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?
- a. Some regulations are costly to implement and cut into profits.
 - b. Many regulations promote too much competition, driving down prices.
 - c. Certain regulations result in rapid business growth, which some companies find difficult to handle.
 - d. 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?
- a. the gross domestic product
 - b. microeconomics
 - c. the business cycle
 - d. voluntary exchange
- _____ 23. To stabilize the economy, policymakers try to achieve three main outcomes: high employment, steady growth, and
- a. technological advancement.
 - b. stable prices.
 - c. competition.
 - d. consumer confidence.
- _____ 24. Why does the government protect inventors and authors by offering them patents and copyrights?
- a. to encourage free trade
 - b. to promote innovation
 - c. to regulate the business cycle
 - d. to strengthen American culture
- _____ 25. Which of the following is the best example of a public good?
- a. highway system
 - b. shopping mall
 - c. country club
 - d. 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
- a. public good problem.
 - b. public sector problem.
 - c. externality problem.
 - d. 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
- a. positive externality.
 - b. free-rider problem.
 - c. negative externality.
 - d. 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.
- _____ 29. Jeff and Margaret qualify for Section 8 housing, a subsidized housing program from the federal government. What kind of benefit are they receiving?
- a. cash transfer
 - b. Social Security benefit
 - c. Social Security benefit
 - d. cash transfer

b. in-kind benefit

d. faith-based initiative

Matching

Identifying Key Terms

Match each term with the correct statement below.

- a. gross domestic product
- b. free rider
- c. public interest
- d. private sector
- e. in-kind benefits
- f. macroeconomics
- g. poverty threshold
- h. market failure
- i. welfare
- j. public disclosure laws

- ___ 30. the study of the behavior and decision making of entire economies
- ___ 31. an income level below that which is needed to support families or households
- ___ 32. the part of the economy that involves the transactions of individuals and businesses
- ___ 33. goods and services provided by the government for free or at greatly reduced prices
- ___ 34. someone who would not choose to pay for a certain good or service, but who would get the benefits of it anyway if it were provided as a public good
- ___ 35. requirements for companies to provide full information about their products
- ___ 36. the concerns of the people as a whole
- ___ 37. the total value of all final goods and services produced in a particular economy

Identifying Key Terms

Match each term with the correct statement below.

- a. market failure
- b. cash transfers
- c. public policy
- d. externality
- e. welfare
- f. public disclosure laws
- g. business cycle
- h. interest group
- i. microeconomics
- j. poverty threshold

- ___ 38. government aid to the poor
- ___ 39. a situation in which goods are not fairly distributed
- ___ 40. the study of the economic behavior and decision making of small units such as families, individuals, or businesses
- ___ 41. an income level below that which is needed to support families or households
- ___ 42. a period of macroeconomic expansion followed by a period of contraction
- ___ 43. a private organization that tries to persuade public officials to act or vote in a certain way
- ___ 44. laws and standards on topics of public interest
- ___ 45. 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

Short Answer

Reading a Table

Federal Program	Purpose
Temporary Assistance for Needy Families	Provides welfare programs
Unemployment insurance	Provides payments to the unemployed

Consumer Product Safety Commission	Regulates consumer products
Environmental Protection Agency	Protects human health and environment
Equal Employment Opportunity Commission	Promotes equal job opportunities
Social Security Administration	Provides payments to the elderly

Figure 3.1

46. According to Figure 3.1, which program helps support people who have retired?
47. According to Figure 3.1, which programs provide short-term safety nets for people in direct need?
48. According to Figure 3.1, which programs provide indirect safety for all residents?
49. According to Figure 3.1, which programs are examples of direct cash transfers?
50. According to Figure 3.1, which program provides enforcement of civil rights laws?

Essay

Critical Thinking

51. **Identifying Central Issues** What is the difference between a positive and a negative externality? Give an example of each.
52. **Synthesizing Information** How might the changes brought about by the influence of interest groups affect the public?
53. **Identifying Assumptions** What kinds of intervention or protection have U.S. residents come to expect from the government that a totally free market would not provide?
54. **Determining Relevance** How does the poverty threshold relate to free enterprise?
55. **Identifying Central Issues** What are the three main goals sought by policymakers in the economy?
56. **Making Comparisons** What are the main differences between the 1996 Temporary Assistance for Needy Families and the older programs it replaced such as Aid to Families with Dependent Children?