

## Chapter 02

### The U.S. Economy

#### Multiple Choice Questions

1. In order to measure what a country produces, we:
  - A. Summarize total output in physical terms.
  - B. Count units of output.
  - C. Count the weight of different products.
  - D. Summarize the monetary value of output.
  
2. GDP can be found by:
  - A. Adding the monetary value of all final goods and services produced during a given period of time.
  - B. Adding the physical amount of all final goods and services produced during a given period of time.
  - C. Taking the difference between exports and imports during a given period of time.
  - D. Adding the value of all final output produced and measuring it in constant prices during a given period of time.

3. Ceteris paribus GDP most closely measures:
- A. Output per worker.
  - B. A summary of the world's output.
  - C. The total value of all final goods and services produced within a nation's borders in a given year.
  - D. The rate of change in capital stock.
4. The output of cell phones can be added to the output of refrigerators in order to compute GDP by:
- A. Multiplying the output of each by the corresponding prices and adding these dollar values.
  - B. Dividing the output of each by price and adding these dollar values.
  - C. Adding up the physical number of cell phones and refrigerators produced.
  - D. Dividing dollar values of output for each by price and adding the results.
5. Country's GDP is:
- A. The sum of the physical amounts of goods and services in the economy.
  - B. A dollar measure of output produced within a nation's borders during a given time period.
  - C. A measure of the per capita economic growth rate of the economy.
  - D. A physical measure of the capital stock of the economy.

6. Which of the following is NOT included in U.S. GDP?

- A. Toys produced by a U.S. firm located in China.
- B. Beer brewed in Colorado and purchased by a German tourist.
- C. A car made by a Japanese auto producer in Kansas.
- D. Corn grown in Iowa and exported to Africa.

7. Which of the following is NOT included in U.S. GDP?

- A. The construction of new homes to replace those destroyed by fires in California.
- B. The salary of the President of the United States.
- C. Shoes produced abroad and imported by a U.S. company.
- D. The purchase of U.S. soybeans by a food manufacturer in Canada.

8. The value of output produced in the United States in current prices measures:

- A. GDP growth.
- B. Real GDP.
- C. Per capita GDP.
- D. Nominal GDP.

9. Nominal GDP measures the:

- A. Inflation-adjusted value of output.
- B. Real value of output per worker.
- C. Value of output produced in current prices.
- D. Value of output produced in constant prices.

10. Nominal GDP is affected by changes in:
- A. Output only.
  - B. Output and prices.
  - C. Income transfers.
  - D. Prices only.
11. Changes in real GDP serve as a better measure of the health of the economy than changes in nominal GDP because real GDP is affected by changes in:
- A. Output only.
  - B. Prices and output.
  - C. Prices only.
  - D. Average wages.
12. The inflation-adjusted value of final goods and services produced in the United States measures:
- A. Nominal GDP.
  - B. Real GDP.
  - C. Per capita GDP.
  - D. GDP per worker.

13. Real GDP is a more accurate measure of economic growth than nominal GDP because:

- A. Nominal GDP is a total dollar measurement.
- B. Nominal GDP only increases because of an increase in production.
- C. Nominal GDP can increase due to an increase in production or prices or both.
- D. Real GDP is a measurement of the overall price level.

14. Which of the following is the best measure of an increase in actual output?

- A. Nominal GDP.
- B. Real GDP.
- C. Per capita GDP.
- D. GDP per dollar.

15. Which of the following countries currently has the largest GDP?

- A. Japan.
- B. China.
- C. Britain.
- D. United States.

16. The economy of the United States is important because it:

- A. Produces as much output as China, Japan, and Western Europe combined.
- B. Produces about 20 percent of total world output.
- C. Exceeds the combined production of all other countries in the world.
- D. Accounts for over 20 percent of total world population.

17. U.S. GDP for 2012 was approximately:
- A. \$11 trillion.
  - B. \$100 billion.
  - C. \$15 trillion.
  - D. \$20 trillion.
18. To compare the standard of living of one country to another, economists use:
- A. Per capita GDP.
  - B. Real GDP.
  - C. Nominal GDP.
  - D. Output per worker.
19. Per capita GDP is the most practical way to:
- A. Measure how much income households receive.
  - B. Measure how much output can be consumed on a sustainable basis.
  - C. Measure how much output is potentially available to the average person.
  - D. Analyze the growth rate of the economy over time.
20. In 2012, per capita GDP in the United States was approximately:
- A. \$41,000.
  - B. \$49,000.
  - C. \$35,000.
  - D. \$51,000.

21. Per capita GDP will always rise when:

- A. The population rises.
- B. The rate of economic growth increases.
- C. There is an increase in the rate at which the economy's labor force grows.
- D. The rate of economic growth exceeds the rate of population growth.

22. If output growth exceeds population growth for a country, then:

- A. Average living standards will increase.
- B. GDP must have grown at a very rapid rate.
- C. Per capita GDP will decrease.
- D. This country must have overcome the problem of scarcity.

23. If all of our GDP were distributed equally across the United States, each individual would receive:

- A. Their current income divided by the U.S. population.
- B. The market value of final goods and services produced in the U.S. per year.
- C. The value of total world output divided by the population.
- D. The market value of final goods and services produced in the U.S. per year divided by the population.

24. When comparing GDP per capita globally, which list ranks countries correctly from largest to smallest?
- A. China, India, Mexico.
  - B. Japan, Mexico, Haiti.
  - C. Mexico, France, India.
  - D. Greece, Japan, Indonesia.
25. Country A and Country B both recorded an increase in real GDP of 5 percent per year from 1980 to 2012. During this time, the population for Country A grew at 6 percent per year and the population for Country B grew at 4 percent. Which of the following is true during this period?
- A. Per capita GDP was the same for both Country A and Country B.
  - B. Per capita GDP decreased for Country B only.
  - C. Per capita GDP decreased for both Country A and Country B.
  - D. Per capita GDP decreased for Country A only.
26. Country D and Country E both recorded an increase in real GDP of 4 percent per year from 1997 to 2012. During this time, the population for Country D grew at 3 percent per year and the population for Country E grew at 2 percent. Which of the following is true during this period?
- A. Per capita GDP decreased for both Country D and Country E.
  - B. Per capita GDP increased for both Country D and Country E.
  - C. Per capita GDP increased for Country D only.
  - D. Per capita GDP decreased for Country E only.



27. Economic growth implies that:

- A. Prices have risen.
- B. Total value of the output produced has increased.
- C. Per capita GDP has declined.
- D. Resources are limited.

28. Economic growth:

- A. Is an increase in output or real GDP.
- B. Causes a contraction in the production possibilities curve.
- C. Involves reduced capacity in the short run.
- D. Cannot be sustained over time.

29. Ceteris paribus, economic growth involves an:

- A. Increase in imports.
- B. Expansion of production possibilities.
- C. Increase in GDP due to inflation.
- D. Increase in government spending.

30. On average, U.S. real GDP has grown roughly \_\_\_\_ percent per year.

- A. Two
- B. Three
- C. Four
- D. Five

31. Which of the following statements is true?

- A. Nominal GDP is a good measure of social welfare.
- B. GDP per capita is a complete measure of social welfare.
- C. Crime and pollution reduce social welfare which reduces GDP.
- D. GDP is not necessarily the best measure of social welfare.

32. A country's total output includes all of the following except:

- A. Household consumption.
- B. Business investment.
- C. Imports.
- D. Government services.

33. According to your textbook, which of the following spending categories ranks the contribution to GDP in correct order (from largest to smallest for the United States)?

- A. Consumer goods, total government purchases, investment goods, exports.
- B. Consumer goods, investment goods, total government purchases, exports.
- C. Investment goods, consumer goods, total government purchases, exports.
- D. Total government purchases, consumer goods, investment goods, exports.

34. Suppose during a year an economy produces \$6 trillion of consumer goods, \$1 trillion of investment goods, \$2 trillion in government services, and has \$3 trillion of exports and \$2 trillion of imports. GDP would be:
- A. \$8 trillion.
  - B. \$10 trillion.
  - C. \$12 trillion.
  - D. \$14 trillion.
35. Suppose during a year an economy produces \$10 trillion of consumer goods, \$4 trillion of investment goods, \$6 trillion in government services, and has \$4 trillion of exports and \$5 trillion of imports. GDP would be:
- A. \$19 trillion.
  - B. \$21 trillion.
  - C. \$24 trillion.
  - D. \$29 trillion.
36. The largest component of U.S. GDP is:
- A. Government services at the federal, state and local levels combined.
  - B. Business investment.
  - C. Household consumption.
  - D. Net exports.

37. Consumer goods:

- A. Account for over two-thirds of total U.S. output.
- B. Include nondurable goods but not durable goods.
- C. Account for a smaller portion of GDP than government services.
- D. Include durable and nondurable goods but not services.

38. Consumer goods:

- A. Account for half of total U.S. output.
- B. Include expenditures for durable goods, nondurable goods, and services.
- C. Include government expenditure on welfare and food stamps.
- D. Account for the smallest portion of U.S. GDP.

39. Which of the following components of consumer spending is the most cyclical?

- A. Services.
- B. Agricultural goods.
- C. Nondurable goods.
- D. Durable goods.

40. Which of the following is included in investment, according to economists?

- A. Production of plant and machinery.
- B. Purchases of corporate stock.
- C. Money put into a pension fund.
- D. Dollars spent in the stock market.

41. Investment includes all of the following EXCEPT:

- A. The production of new factories.
- B. The purchase of new machinery and equipment.
- C. Money in a retirement fund.
- D. Business inventories.

42. Which of the following is NOT an example of investment, according to economists?

- A. A business builds a new factory.
- B. A private college buys a new copy machine to replace an old worn out machine.
- C. A family buys \$10,000 worth of bonds.
- D. A department store buys additional men's jeans just before Christmas.

43. Which of the following is an example of investment, as a component of GDP?

- A. The purchase of a truck by a delivery company.
- B. The purchase of Ford stock by an individual saving for retirement.
- C. The purchase of land by an individual.
- D. The purchase of bridges and dams by the government.

44. Which of the following expenditures is the most important in expanding a country's production possibilities?

- A. Consumer goods.
- B. Investment goods.
- C. Government services.
- D. Net exports.

45. Which of the following is NOT true about investment goods?

- A. They add to the nation's stock of capital.
- B. They can be used to replace worn-out equipment.
- C. They can expand the nation's production possibilities.
- D. They increase the retirement benefits for individuals.

46. According to your textbook, for the United States, investment accounts for approximately \_\_\_\_ percent of GDP.

- A. 13
- B. 25
- C. 35
- D. 70

47. Which of the following is true about government services as a component of GDP?

- A. It includes welfare benefits.
- B. It includes spending on national defense.
- C. It includes Social Security benefits.
- D. It includes federal government spending but not state and local spending.

48. Government services:

- A. Is larger than consumption in the United States.
- B. Includes the dollars spent on income transfers.
- C. Includes federal, state, and local government purchases of goods and services.
- D. Equals approximately \$10 trillion per year in the United States.

49. Which of the following is not included in GDP as part of government services?

- A. Social Security benefits.
- B. Military equipment.
- C. Highways and bridges.
- D. Education.

50. As a portion of GDP, government purchases include:

- A. Food stamps.
- B. National defense expenditures.
- C. Unemployment benefits.
- D. Welfare checks.

51. Government income transfers are NOT included in the calculation of GDP because:

- A. It is difficult to measure the value of these payments.
- B. Most of these payments are paid to foreign immigrants.
- C. These payments do not have an impact on the WHAT question.
- D. These payments do not reflect the production of goods and services.

52. Income transfers include:

- A. Food provided by a privately funded food bank.
- B. Housing provided at a reduced cost by the government.
- C. Free medical care provided by a retired doctor.
- D. The money saved when clothing is purchased on sale.

53. The goods and services sold to foreign buyers are:

- A. Imports.
- B. Exports.
- C. Income transfers.
- D. Externalities.

54. Exports represent:

- A. Goods and services sold to foreigners.
- B. Goods and services bought from foreigners.
- C. A larger number than imports for the United States.
- D. A negative number when calculating GDP.



55. The goods and services purchased from foreign sources are:

- A. Investment.
- B. Exports.
- C. Imports.
- D. Income transfers.

56. Imports:

- A. Are goods and services sold to foreigners.
- B. Increase the value of GDP.
- C. Are a larger dollar value than exports for the United States.
- D. Equal exports in dollar value for most countries.

57. GDP is the sum of consumption, investment, government purchases, and:

- A. The factors of production.
- B. Net exports.
- C. Saving.
- D. Capital stock.

58. U.S. net exports are:

- A. Equal to the value of exports minus the value of imports.
- B. Positive if the U.S. imports more than it exports.
- C. A larger portion of GDP than investment.
- D. Always equal to zero.

59. Net exports measures the:
- A. Total dollar value of U.S. exports.
  - B. Dollar amount of imports.
  - C. Quantity of goods produced abroad.
  - D. Dollar value of exports minus the dollar value of imports.
60. The decline in employment in the farm sector in the U.S. during the 1900s can be attributed primarily to:
- A. New technology that made it possible to grow more food with fewer workers.
  - B. An increase in the importance of the manufacturing sector.
  - C. Competition from imported agricultural products.
  - D. A decline in the amount of food consumption per person.
61. Over the last century in the United States there has been an increase in \_\_\_\_\_ as a percentage of total output.
- A. Construction and mining
  - B. Farming
  - C. Manufacturing
  - D. Services

62. Over the last century in the United States there has been an increase in \_\_\_\_\_ as a percentage of total output.

- A. Manufacturing, government, and services
- B. Farming, international trade, and manufacturing
- C. Services, government, and international trade
- D. Services, farming, and construction

63. Currently, the U.S. economy is best described as:

- A. A service economy.
- B. A manufacturing economy.
- C. An agricultural economy.
- D. A government economy.

64. Which of the following sectors contributes the largest amount to the U.S. GDP?

- A. Farming.
- B. Manufacturing.
- C. Services.
- D. Exports.

65. Which sector is expected to grow most rapidly for the United States in the future?

- A. Farming since Americans are getting fatter.
- B. Services since Americans have high relative incomes.
- C. Manufacturing since Americans demand more and more luxury items.
- D. Mining since Americans use a lot of natural resources.

66. Which of the following plays an increasingly important role in the U.S. economy?

- A. International trade.
- B. Manufacturing.
- C. Farming.
- D. Construction and mining.

67. The growth of international trade for the United States has been enhanced by:

- A. An increase in trade barriers.
- B. Improved communication and transportation technologies.
- C. A decline in the government and services sectors.
- D. An increase in domestic manufacturing.

68. The factors of production include all of the following EXCEPT:

- A. Money.
- B. Land.
- C. Labor.
- D. Entrepreneurship.

69. The factors of production:

- A. Are unlimited for the United States since the country is so wealthy.
- B. Include land, capital, and money.
- C. Are the resource inputs used to produce goods and services.
- D. Include consumption, investment and government spending.

70. Which of the following statements is true?

- A. A country's GDP includes all output produced by its factors of production.
- B. A country's GDP includes all output produced within its borders.
- C. A country's GDP is equal to its exports minus its imports.
- D. A country's GDP is equal to all output produced and consumed within its borders.

71. Which of the following is NOT a reason why the United States is able to produce such high levels of GDP?

- A. Abundant factors of production.
- B. Labor-intensive production process.
- C. High levels of investment in human capital.
- D. High quality of capital.

72. Which of the following contribute to high levels of U.S. production?

- A. Abundant factors of production.
- B. Labor-intensive production.
- C. Barriers to trade.
- D. Immigration restrictions.

73. Capital intensive means:

- A. The production process uses a high ratio of capital to labor inputs.
- B. The production process uses a high ratio of labor to capital inputs.
- C. The production process is inefficient because it requires too much capital.
- D. That there are fewer jobs for workers and the economy will begin to decline.

74. A capital-intensive production process:

- A. Reduces productivity because few workers are being employed.
- B. Is necessary if a country has few factors of production.
- C. Uses a high ratio of capital to labor inputs.
- D. Is used in poor countries.

75. American production is described as capital intensive, which means that:

- A. Foreign investment is relatively small.
- B. The ratio of machinery to labor is high.
- C. The ratio of labor to machinery is high.
- D. Government control of production processes is high.

76. Productivity measures:

- A. Output per worker.
- B. The dollar value of investment.
- C. Final goods minus intermediate goods.
- D. The total amount of goods produced in the United States.

77. The productivity of American workers reflects all of the following EXCEPT:

- A. Capital intensity of the production process.
- B. Investment in human capital.
- C. High quality of capital.
- D. Scarcity of plant and equipment.

78. Which of the following does NOT contribute to an increase in productivity?

- A. Technological advances.
- B. High quality of capital.
- C. High quantity of labor.
- D. Highly skilled labor.

79. Education and job training are part of:

- A. Business investment spending.
- B. Consumer spending on durables since the impact is long lasting.
- C. Human capital investment.
- D. Income transfers.

80. Factor mobility refers to:

- A. How easily factors of production can be reallocated.
- B. The quantity of resources a country has.
- C. How rapidly resources depreciate.
- D. The quality of the factors of production.

81. When World War II ended some resources moved easily from the production of military goods to the production of consumer goods which is referred to in economics as:

- A. Production equality.
- B. Capital adaptation.
- C. Resource flexibility.
- D. Factor mobility.

82. The primary way to distinguish among corporations, partnerships, and proprietorships is by observing:

- A. Ownership characteristics.
- B. The size of the industry.
- C. The number of firms in each classification.
- D. The size of profits.



83. Sole proprietorships:

- A. Are each owned by many individual stockholders.
- B. Are owned by one individual.
- C. Account for most business sales and assets.
- D. Are the least common type of business firm.

84. Proprietorships:

- A. Dominate market transactions.
- B. Are owned by many individual stockholders.
- C. Are known for their large assets.
- D. Are the most common type of business firm.

85. Most businesses in the U.S. are classified as:

- A. Corporations.
- B. Partnerships.
- C. Proprietorships.
- D. Non-profit.

86. In the United States, corporations:

- A. Dominate market transactions.
- B. Are owned by one or two people.
- C. Are the most common type of business firm.
- D. Typically have less than \$10,000 in assets.

87. Which of the following is NOT true about U.S. corporations?

- A. The owners have limited liability for the actions of the company.
- B. They account for the majority of business sales.
- C. The typical asset size is in excess of \$4 million.
- D. They are the most common type of business firm.

88. In the United States, government regulation is primarily designed to:

- A. Protect the environment through government ownership of natural resources.
- B. Prevent businesses from competing with each other.
- C. Protect labor, consumers, and the environment.
- D. Determine all the answers to the WHAT, HOW and FOR WHOM questions.

89. Which of the following is NOT viewed as a role for the U.S. government?

- A. Providing a legal framework for business.
- B. Owning the factors of production.
- C. Protecting consumers from exploitation.
- D. Protecting the environment.

90. The government has an impact on the HOW to produce question when it does all of the following EXCEPT:

- A. Limits environmental pollution.
- B. Forbids the use of child labor.
- C. Sets a minimum wage.
- D. Follows a policy of laissez faire.

91. A monopoly is:

- A. A firm that produces the entire market supply of a particular good or service.
- B. Not likely to charge a high price because if it does consumers will switch to a different product.
- C. Rarely affected by government regulation since there is only one firm in the industry.
- D. The most common type of U.S. business firm.

92. A firm that produces the entire market supply of a certain good or service is known as:

- A. A competitive firm.
- B. An oligopoly.
- C. A monopsony.
- D. A monopoly.

93. A market characterized as a monopoly:
- A. Prices tend to be lower and output tends to be higher.
  - B. Output tends to be lower and prices tend to be higher.
  - C. Quality and output tend to be higher.
  - D. Prices tend to be lower and quality tends to be higher.
94. The term externalities refers to:
- A. Black-market economic activity.
  - B. Some costs and benefits of a market activity borne by a third party.
  - C. The impact on markets of goods imported from foreign countries.
  - D. Illegal economic activity.
95. The dumping of chemicals into a lake, which contaminates the drinking water, is an example of:
- A. Income transfers.
  - B. A monopoly.
  - C. An externality.
  - D. Factor mobility.
96. If government intervention forces the economy inside the production possibilities curve, there is:
- A. Market failure.
  - B. Government failure.
  - C. An externality.
  - D. Income inequality.

97. Too much government regulation might do all of the following EXCEPT:
- A. Inhibit production.
  - B. Raise product prices.
  - C. Limit consumer choices.
  - D. Cause market failure.
98. The basic economic issue concerning the FOR WHOM question is specifically interpreted to mean, who:
- A. Gets the available jobs.
  - B. Gets to consume the goods and services that are produced.
  - C. Inherits the accumulated wealth in the economy.
  - D. Produces the goods and services.
99. Which of the following is least likely to determine individual income in a market economy?
- A. The quantity of resources owned.
  - B. The quality of resources owned.
  - C. The prices of resources in the marketplace.
  - D. The government.

100. Which of the following statements is true concerning income inequality?

- A. Income is distributed equally in poor countries.
- B. Rich countries have greater income inequality than poor countries.
- C. The government has no mechanism for altering income inequality.
- D. A free market economy produces an unequal distribution of income.

101. Which question does the "distribution of income" relate to most directly?

- A. For whom is output produced?
- B. How is output produced?
- C. What output is produced?
- D. Why is output produced?

102. In terms of income distribution, if a person moves from the lowest fifth of households to the highest fifth over many years, this is known as:

- A. Income migration.
- B. Income mobility.
- C. Global migration.
- D. Union membership.

103. The purpose of the U.S. tax-transfer system is to:

- A. Eliminate the economic power of the rich.
- B. Preserve the Social Security system for future generations.
- C. Furnish lower income households with more goods and services than the market alone provides.
- D. Equalize all household incomes in the U.S.

104. By definition, a progressive tax:

- A. Generates greater tax revenues from the poor.
- B. Imposes a higher tax rate as income increases.
- C. Imposes a lower tax rate as income increases.
- D. Implies that the same tax rate is paid at all income levels.

105. Which of the following is true about the income-transfer system in the United States?

- A. The system provides more output for lower-income households than the market alone provides.
- B. Transfer payments solve the problem of income inequality.
- C. The system does not affect the distribution of income because of regressive taxes.
- D. The system is actually progressive and gives more income to rich households.

106. Income transfers include all of the following EXCEPT:

- A. Food stamps.
- B. Medicaid.
- C. Wages.
- D. Welfare benefits.

107. A HEADLINE article reports that "Virtually all Americans attend high school, and roughly 85 percent graduate." Education and training contribute to:

- A. Greater income inequality in the United States than in poor countries.
- B. A labor-intensive production process.
- C. A decrease in capital stock.
- D. An increase in worker productivity.

108. One HEADLINE article in the text, "Income Share of the Rich," reports: "In most developing countries the top tenth of all households receives 30-50 percent of all income." Which of the following forms of government intervention is designed to reduce this market situation?

- A. Antitrust laws.
- B. Public goods.
- C. Laissez-faire.
- D. Income transfers.

## True / False Questions



109. GDP is a measure of the market value of final goods and services produced within a nation's borders in a given period.

True   False

110. In periods of rising prices, real GDP will always rise more rapidly than nominal GDP.

True   False

111. Per capita GDP measures the distribution of income within a country.

True   False

112. Growth in GDP per capita is achieved when population grows more rapidly than GDP.

True   False

113. Economic growth is desirable because it usually creates more jobs and income.

True   False

114. One reason that GDP is not the best measure of social welfare is because it does not include volunteer activities.

True   False

115. Consumer goods account for approximately 70 percent of total U.S. output.

True   False

116. Since investment spending in the United States is a smaller percentage of GDP than consumer spending, it is not essential for economic growth.

True False

117. If an individual purchases stock in the stock market, this is included in the economic definition of investment as a component of GDP.

True False

118. In the United States, all of the state and local governments combined use more of our scarce resources than does the federal government.

True False

119. In the United States, net exports account for two-thirds of GDP.

True False

120. If the United States imports more than it exports, this implies that the country uses more goods and services than it produces.

True False

121. The manufacturing share of output has increased in the United States since World War II.

True False

122. A capital-intensive production process increases the level of output per worker.

True False

123. The reason that U.S. productivity is so high is because the United States has more natural resources and a larger population than any other country in the world.

True   False

124. The United States has invested heavily in human capital by promoting education and skill training.

True   False

125. U.S. corporations account for the majority of output in the country even though proprietorships outnumber corporations.

True   False

126. In a monopoly situation, government regulation is incapable of improving market outcomes.

True   False

127. Externalities are costs or benefits of a market activity borne by a third party.

True   False

128. Incomes are distributed more equally in poor countries than in rich ones because of transfer payments.

True   False

129. The U.S. federal income tax is an example of a progressive tax.

True   False

130. The U.S. tax-transfer system gives more output to lower-income households than does the market alone.

True   False

### Essay Questions

131. Why is using real GDP a better measurement of GDP than using nominal GDP?

132. Investment goods are a different type of output. Discuss the types of investment goods and its relationship to production possibilities.

133. What does the government do to protect consumers from monopolies? List specific steps the government takes to protect consumers.

## Chapter 02 The U.S. Economy Answer Key

### Multiple Choice Questions

1. In order to measure what a country produces, we:

- A. Summarize total output in physical terms.
- B. Count units of output.
- C. Count the weight of different products.
- D. Summarize the monetary value of output.

Using monetary value instead of physical units to compare total output, the accounting is easier.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

2. GDP can be found by:

- A. Adding the monetary value of all final goods and services produced during a given period of time.
- B. Adding the physical amount of all final goods and services produced during a given period of time.
- C. Taking the difference between exports and imports during a given period of time.
- D. Adding the value of all final output produced and measuring it in constant prices during a given period of time.

GDP is a summary measure of a nation's output.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

3. Ceteris paribus GDP most closely measures:

- A. Output per worker.
- B. A summary of the world's output.
- C. The total value of all final goods and services produced within a nation's borders in a given year.
- D. The rate of change in capital stock.

GDP can be found by adding the monetary value of all final goods and services.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

4. The output of cell phones can be added to the output of refrigerators in order to compute GDP by:

- A. Multiplying the output of each by the corresponding prices and adding these dollar values.
- B. Dividing the output of each by price and adding these dollar values.
- C. Adding up the physical number of cell phones and refrigerators produced.
- D. Dividing dollar values of output for each by price and adding the results.

By multiplying the physical output of each good by its price the total value of each good produced can be determined.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

5. Country's GDP is:

- A. The sum of the physical amounts of goods and services in the economy.
- B. A dollar measure of output produced within a nation's borders during a given time period.
- C. A measure of the per capita economic growth rate of the economy.
- D. A physical measure of the capital stock of the economy.

GDP enables us to sum production of all goods and services.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*



*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

6. Which of the following is NOT included in U.S. GDP?

- A. Toys produced by a U.S. firm located in China.
- B. Beer brewed in Colorado and purchased by a German tourist.
- C. A car made by a Japanese auto producer in Kansas.
- D. Corn grown in Iowa and exported to Africa.

GDP measures only those products produced within a nation's borders.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

7. Which of the following is NOT included in U.S. GDP?

- A. The construction of new homes to replace those destroyed by fires in California.
- B. The salary of the President of the United States.
- C. Shoes produced abroad and imported by a U.S. company.
- D. The purchase of U.S. soybeans by a food manufacturer in Canada.

To be counted in GDP goods must be produced within a nation's borders.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

8. The value of output produced in the United States in current prices measures:

- A. GDP growth.
- B. Real GDP.
- C. Per capita GDP.
- D. Nominal GDP.

Nominal GDP is the value of output measured in current prices.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

9. Nominal GDP measures the:

- A. Inflation-adjusted value of output.
- B. Real value of output per worker.
- C. Value of output produced in current prices.
- D. Value of output produced in constant prices.

Nominal GDP is the value of output in the U.S. in current prices.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

10. Nominal GDP is affected by changes in:

- A. Output only.
- B. Output and prices.**
- C. Income transfers.
- D. Prices only.

Nominal GDP measures the value of output produced in current prices.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

11. Changes in real GDP serve as a better measure of the health of the economy than changes in nominal GDP because real GDP is affected by changes in:

- A. Output only.**
- B. Prices and output.
- C. Prices only.
- D. Average wages.

Real GDP is the inflation adjusted value of GDP.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

12. The inflation-adjusted value of final goods and services produced in the United States measures:

- A. Nominal GDP.
- B.** Real GDP.
- C. Per capita GDP.
- D. GDP per worker.

Real GDP is adjusted for inflation.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

13. Real GDP is a more accurate measure of economic growth than nominal GDP because:

- A. Nominal GDP is a total dollar measurement.
- B. Nominal GDP only increases because of an increase in production.
- C.** Nominal GDP can increase due to an increase in production or prices or both.
- D. Real GDP is a measurement of the overall price level.

Real GDP adjust for changes in price or inflation.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

14. Which of the following is the best measure of an increase in actual output?

- A. Nominal GDP.
- B.** Real GDP.
- C. Per capita GDP.
- D. GDP per dollar.

Real GDP is the best measure because it adjusts for changes in price due to inflation.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

15. Which of the following countries currently has the largest GDP?

- A. Japan.
- B. China.
- C. Britain.
- D.** United States.

Because of the vast natural resources, the U.S. has the largest GDP.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.*

*Topic: What America Produces*

16. The economy of the United States is important because it:

- A. Produces as much output as China, Japan, and Western Europe combined.
- B.** Produces about 20 percent of total world output.
- C. Exceeds the combined production of all other countries in the world.
- D. Accounts for over 20 percent of total world population.

Of the \$80 trillion of global output in 2012, the U.S. had \$15 trillion in output.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.*

*Topic: What America Produces*

17. U.S. GDP for 2012 was approximately:

- A. \$11 trillion.
- B. \$100 billion.
- C.** \$15 trillion.
- D. \$20 trillion.

Refer to 2012 statistical data in Chapter 2, p. 33.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.*

*Topic: What America Produces*

18. To compare the standard of living of one country to another, economists use:

- A. Per capita GDP.
- B. Real GDP.
- C. Nominal GDP.
- D. Output per worker.

Per capita is an indicator of how much each person would receive of output if output would be divided equally.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

19. Per capita GDP is the most practical way to:

- A. Measure how much income households receive.
- B. Measure how much output can be consumed on a sustainable basis.
- C. Measure how much output is potentially available to the average person.
- D. Analyze the growth rate of the economy over time.

Per capita GDP is an indicator of how much each person would receive of output if output would be divided equally.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

20. In 2012, per capita GDP in the United States was approximately:

- A. \$41,000.
- B.** \$49,000.
- C. \$35,000.
- D. \$51,000.

Refer to 2012 statistical data in Chapter 2.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.*

*Topic: What America Produces*

21. Per capita GDP will always rise when:

- A. The population rises.
- B. The rate of economic growth increases.
- C. There is an increase in the rate at which the economy's labor force grows.
- D.** The rate of economic growth exceeds the rate of population growth.

When GDP growth exceeds population growth per capita GDP will rise.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*



22. If output growth exceeds population growth for a country, then:

- A. Average living standards will increase.
- B. GDP must have grown at a very rapid rate.
- C. Per capita GDP will decrease.
- D. This country must have overcome the problem of scarcity.

Economic growth keeps adding to our standard of living.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

23. If all of our GDP were distributed equally across the United States, each individual would receive:

- A. Their current income divided by the U.S. population.
- B. The market value of final goods and services produced in the U.S. per year.
- C. The value of total world output divided by the population.
- D. The market value of final goods and services produced in the U.S. per year divided by the population.

Per capita GDP is an indicator of how much output each person would get if all output were divided evenly among the population.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

24. When comparing GDP per capita globally, which list ranks countries correctly from largest to smallest?

- A. China, India, Mexico.
- B.** Japan, Mexico, Haiti.
- C. Mexico, France, India.
- D. Greece, Japan, Indonesia.

See Figure 2.1 in text.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

25. Country A and Country B both recorded an increase in real GDP of 5 percent per year from 1980 to 2012. During this time, the population for Country A grew at 6 percent per year and the population for Country B grew at 4 percent. Which of the following is true during this period?
- A. Per capita GDP was the same for both Country A and Country B.
  - B. Per capita GDP decreased for Country B only.
  - C. Per capita GDP decreased for both Country A and Country B.
  - D. Per capita GDP decreased for Country A only.

Even though both countries have experienced the same percent of growth, because the percentage of growth for Country A was larger they will have to spread the output over more people.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

26. Country D and Country E both recorded an increase in real GDP of 4 percent per year from 1997 to 2012. During this time, the population for Country D grew at 3 percent per year and the population for Country E grew at 2 percent. Which of the following is true during this period?

- A. Per capita GDP decreased for both Country D and Country E.
- B.** Per capita GDP increased for both Country D and Country E.
- C. Per capita GDP increased for Country D only.
- D. Per capita GDP decreased for Country E only.

Since the percentage of growth in population is lower than the percentage of growth in real GDP, both countries experience per capita increases.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

27. Economic growth implies that:

- A. Prices have risen.
- B.** Total value of the output produced has increased.
- C. Per capita GDP has declined.
- D. Resources are limited.

Continued economic growth implies more output per person.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

28. Economic growth:

- A. Is an increase in output or real GDP.
- B. Causes a contraction in the production possibilities curve.
- C. Involves reduced capacity in the short run.
- D. Cannot be sustained over time.

Economic growth is an increase in output, (real GDP) an expansion of production possibilities.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

29. Ceteris paribus, economic growth involves an:

- A. Increase in imports.
- B. Expansion of production possibilities.
- C. Increase in GDP due to inflation.
- D. Increase in government spending.

Economic growth will expand production possibilities outward.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

30. On average, U.S. real GDP has grown roughly \_\_\_\_ percent per year.

- A. Two
- B.** Three
- C. Four
- D. Five

Due to America's abundance, real GDP increases by 3 percent per year.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Describe the absolute and relative size of the U.S. economy.*

*Topic: What America Produces*

31. Which of the following statements is true?

- A. Nominal GDP is a good measure of social welfare.
- B. GDP per capita is a complete measure of social welfare.
- C. Crime and pollution reduce social welfare which reduces GDP.
- D.** GDP is not necessarily the best measure of social welfare.

GDP is simply a measure of the volume of goods and services produced.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

32. A country's total output includes all of the following except:

- A. Household consumption.
- B. Business investment.
- C. Imports.
- D. Government services.

Total output is measured by what is produced within a country.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

33. According to your textbook, which of the following spending categories ranks the contribution to GDP in correct order (from largest to smallest for the United States)?

- A. Consumer goods, total government purchases, investment goods, exports.
- B. Consumer goods, investment goods, total government purchases, exports.
- C. Investment goods, consumer goods, total government purchases, exports.
- D. Total government purchases, consumer goods, investment goods, exports.

See Figure 2.2 in the text book.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

34. Suppose during a year an economy produces \$6 trillion of consumer goods, \$1 trillion of investment goods, \$2 trillion in government services, and has \$3 trillion of exports and \$2 trillion of imports. GDP would be:

A. \$8 trillion.  
**B.** \$10 trillion.  
C. \$12 trillion.  
D. \$14 trillion.

Imports must first be subtracted from exports.

*AACSB: Reflective Thinking*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

35. Suppose during a year an economy produces \$10 trillion of consumer goods, \$4 trillion of investment goods, \$6 trillion in government services, and has \$4 trillion of exports and \$5 trillion of imports. GDP would be:

**A.** \$19 trillion.  
B. \$21 trillion.  
C. \$24 trillion.  
D. \$29 trillion.

Imports must first be subtracted from exports.

*AACSB: Reflective Thinking*

*Blooms: Apply*

*Difficulty: 3 Hard*



*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

36. The largest component of U.S. GDP is:

- A. Government services at the federal, state and local levels combined.
- B. Business investment.
- C. Household consumption.
- D. Net exports.

Consumer goods dominate the U.S. mix of output.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

37. Consumer goods:

- A. Account for over two-thirds of total U.S. output.
- B. Include nondurable goods but not durable goods.
- C. Account for a smaller portion of GDP than government services.
- D. Include durable and nondurable goods but not services.

See Figure 2.2 in the text book.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

38. Consumer goods:

- A. Account for half of total U.S. output.
- B.** Include expenditures for durable goods, nondurable goods, and services.
- C. Include government expenditure on welfare and food stamps.
- D. Account for the smallest portion of U.S. GDP.

The vast array of products consumers purchase is classified as either durable goods, nondurable goods, or services.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

39. Which of the following components of consumer spending is the most cyclical?

- A. Services.
- B. Agricultural goods.
- C. Nondurable goods.
- D.** Durable goods.

Because they are big ticket items and last 3-5 years, durable goods are most cyclical.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

40. Which of the following is included in investment, according to economists?

- A. Production of plant and machinery.
- B. Purchases of corporate stock.
- C. Money put into a pension fund.
- D. Dollars spent in the stock market.

Investments include plants, machinery, equipment and inventories held for later sale to consumers.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

41. Investment includes all of the following EXCEPT:

- A. The production of new factories.
- B. The purchase of new machinery and equipment.
- C. Money in a retirement fund.
- D. Business inventories.

Economic investments enhance our capacity to produce.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

42. Which of the following is NOT an example of investment, according to economists?

- A. A business builds a new factory.
- B. A private college buys a new copy machine to replace an old worn out machine.
- C. A family buys \$10,000 worth of bonds.
- D. A department store buys additional men's jeans just before Christmas.

Economic investments enhance our capacity to produce.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

43. Which of the following is an example of investment, as a component of GDP?

- A. The purchase of a truck by a delivery company.
- B. The purchase of Ford stock by an individual saving for retirement.
- C. The purchase of land by an individual.
- D. The purchase of bridges and dams by the government.

GDP is the measurement of all final goods and services.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

44. Which of the following expenditures is the most important in expanding a country's production possibilities?

- A. Consumer goods.
- B.** Investment goods.
- C. Government services.
- D. Net exports.

Investment goods are critical to continuing growth.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

45. Which of the following is NOT true about investment goods?

- A. They add to the nation's stock of capital.
- B. They can be used to replace worn-out equipment.
- C. They can expand the nation's production possibilities.
- D.** They increase the retirement benefits for individuals.

Economic investment enhances our capacity to produce.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

46. According to your textbook, for the United States, investment accounts for approximately \_\_\_\_ percent of GDP.

- A. 13
- B. 25
- C. 35
- D. 70

See Figure 2.2 in the text book.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

47. Which of the following is true about government services as a component of GDP?

- A. It includes welfare benefits.
- B. It includes spending on national defense.
- C. It includes Social Security benefits.
- D. It includes federal government spending but not state and local spending.

Only that part of federal spending used to acquire resources and produce service is counted in GDP.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

48. Government services:

- A. Is larger than consumption in the United States.
- B. Includes the dollars spent on income transfers.
- C. Includes federal, state, and local government purchases of goods and services.
- D. Equals approximately \$10 trillion per year in the United States.

These branches of government build highways, write law, and police the streets to name just a few items.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

49. Which of the following is not included in GDP as part of government services?

- A. Social Security benefits.
- B. Military equipment.
- C. Highways and bridges.
- D. Education.

Social Security is an income transfer; therefore it is not a part of output.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

50. As a portion of GDP, government purchases include:

- A. Food stamps.
- B.** National defense expenditures.
- C. Unemployment benefits.
- D. Welfare checks.

National defense spending is production of real goods and services. The others are transfer payments.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

51. Government income transfers are NOT included in the calculation of GDP because:

- A. It is difficult to measure the value of these payments.
- B. Most of these payments are paid to foreign immigrants.
- C. These payments do not have an impact on the WHAT question.
- D.** These payments do not reflect the production of goods and services.

Only that part of federal spending used to acquire resources and produce services is counted in GDP.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: What America Produces*



52. Income transfers include:

- A. Food provided by a privately funded food bank.
- B.** Housing provided at a reduced cost by the government.
- C. Free medical care provided by a retired doctor.
- D. The money saved when clothing is purchased on sale.

Reduced cost housing is a type of transfer payment.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: What America Produces*

53. The goods and services sold to foreign buyers are:

- A. Imports.
- B.** Exports.
- C. Income transfers.
- D. Externalities.

Goods and services that are shipped abroad are exports.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

54. Exports represent:

- A. Goods and services sold to foreigners.
- B. Goods and services bought from foreigners.
- C. A larger number than imports for the United States.
- D. A negative number when calculating GDP.

Goods and service that are shipped abroad.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

55. The goods and services purchased from foreign sources are:

- A. Investment.
- B. Exports.
- C. Imports.
- D. Income transfers.

Imports are goods and services which are purchased from foreign sources.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

56. Imports:

- A. Are goods and services sold to foreigners.
- B. Increase the value of GDP.
- C. Are a larger dollar value than exports for the United States.
- D. Equal exports in dollar value for most countries.

We import more goods and service than we export.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

57. GDP is the sum of consumption, investment, government purchases, and:

- A. The factors of production.
- B. Net exports.
- C. Saving.
- D. Capital stock.

Exports are factored into GDP.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

58. U.S. net exports are:

- A. Equal to the value of exports minus the value of imports.
- B. Positive if the U.S. imports more than it exports.
- C. A larger portion of GDP than investment.
- D. Always equal to zero.

The value of exports minus the value of imports equals net exports.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

59. Net exports measures the:

- A. Total dollar value of U.S. exports.
- B. Dollar amount of imports.
- C. Quantity of goods produced abroad.
- D. Dollar value of exports minus the dollar value of imports.

U.S. net exports are equal to the value of exports minus the value of imports.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

60. The decline in employment in the farm sector in the U.S. during the 1900s can be attributed primarily to:

- A. New technology that made it possible to grow more food with fewer workers.
- B. An increase in the importance of the manufacturing sector.
- C. Competition from imported agricultural products.
- D. A decline in the amount of food consumption per person.

New technology makes it possible to grow more food with fewer workers.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

61. Over the last century in the United States there has been an increase in \_\_\_\_\_ as a percentage of total output.

- A. Construction and mining
- B. Farming
- C. Manufacturing
- D. Services

The relative decline in manufacturing is due primarily to the rapid expansion of the service sector.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

62. Over the last century in the United States there has been an increase in \_\_\_\_\_ as a percentage of total output.

- A. Manufacturing, government, and services
- B. Farming, international trade, and manufacturing
- C. Services, government, and international trade
- D. Services, farming, and construction

The service industry and the government generate over 70 percent of total output. About one-eighth of the output Americans produce is exported.

AACSB: Analytic

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.

Topic: What America Produces

63. Currently, the U.S. economy is best described as:

- A. A service economy.
- B. A manufacturing economy.
- C. An agricultural economy.
- D. A government economy.

The trend for growth in the service industry is predicted to grow. Ninety-eight percent of net job growth between 2005 and 2015 will be in service industries.

AACSB: Analytic

Blooms: Understand

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

64. Which of the following sectors contributes the largest amount to the U.S. GDP?

- A. Farming.
- B. Manufacturing.
- C. Services.
- D. Exports.

The service sector generates over 70-percent of total output.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

65. Which sector is expected to grow most rapidly for the United States in the future?

- A. Farming since Americans are getting fatter.
- B. Services since Americans have high relative incomes.
- C. Manufacturing since Americans demand more and more luxury items.
- D. Mining since Americans use a lot of natural resources.

The service industry is predicted to contribute 98 percent of job growth in the next ten year.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

66. Which of the following plays an increasingly important role in the U.S. economy?

- A. International trade.
- B. Manufacturing.
- C. Farming.
- D. Construction and mining.

Advances in communications and transportation technologies make international trade and investment easier.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

67. The growth of international trade for the United States has been enhanced by:

- A. An increase in trade barriers.
- B. Improved communication and transportation technologies.
- C. A decline in the government and services sectors.
- D. An increase in domestic manufacturing.

Advances in communications and transportation technologies make international trade and investment easier.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*



68. The factors of production include all of the following EXCEPT:

- A. Money.
- B. Land.
- C. Labor.
- D. Entrepreneurship.

Money is not a factor of production.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

69. The factors of production:

- A. Are unlimited for the United States since the country is so wealthy.
- B. Include land, capital, and money.
- C. Are the resource inputs used to produce goods and services.
- D. Include consumption, investment and government spending.

The factors of production are: Land, Labor, Capital and Entrepreneurship.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

70. Which of the following statements is true?

- A. A country's GDP includes all output produced by its factors of production.
- B.** A country's GDP includes all output produced within its borders.
- C. A country's GDP is equal to its exports minus its imports.
- D. A country's GDP is equal to all output produced and consumed within its borders.

GDP measures all output produced within a country's border.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

71. Which of the following is NOT a reason why the United States is able to produce such high levels of GDP?

- A. Abundant factors of production.
- B.** Labor-intensive production process.
- C. High levels of investment in human capital.
- D. High quality of capital.

The high productivity of the U.S. economy results from using highly educated workers in a capital-intensive production process.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

72. Which of the following contribute to high levels of U.S. production?

- A. Abundant factors of production.
- B. Labor-intensive production.
- C. Barriers to trade.
- D. Immigration restrictions.

America's greater economic strength is explained by the abundance of factors of production.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

73. Capital intensive means:

- A. The production process uses a high ratio of capital to labor inputs.
- B. The production process uses a high ratio of labor to capital inputs.
- C. The production process is inefficient because it requires too much capital.
- D. That there are fewer jobs for workers and the economy will begin to decline.

The use of capital goods is at a higher level than the use of labor.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

74. A capital-intensive production process:

- A. Reduces productivity because few workers are being employed.
- B. Is necessary if a country has few factors of production.
- C. Uses a high ratio of capital to labor inputs.
- D. Is used in poor countries.

America invests each year in better plants and equipment.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

75. American production is described as capital intensive, which means that:

- A. Foreign investment is relatively small.
- B. The ratio of machinery to labor is high.
- C. The ratio of labor to machinery is high.
- D. Government control of production processes is high.

In the production of goods, more capital goods are used than labor.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

76. Productivity measures:

- A. Output per worker.
- B. The dollar value of investment.
- C. Final goods minus intermediate goods.
- D. The total amount of goods produced in the United States.

Productivity defines how much a worker is capable of producing.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

77. The productivity of American workers reflects all of the following EXCEPT:

- A. Capital intensity of the production process.
- B. Investment in human capital.
- C. High quality of capital.
- D. Scarcity of plant and equipment.

America invests in better plants and equipment and educated workers.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

78. Which of the following does NOT contribute to an increase in productivity?

- A. Technological advances.
- B. High quality of capital.
- C. High quantity of labor.
- D. Highly skilled labor.

Quantity of workers does not contribute to an increase in productivity. It is the quality of the workers that is most important.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

79. Education and job training are part of:

- A. Business investment spending.
- B. Consumer spending on durables since the impact is long lasting.
- C. Human capital investment.
- D. Income transfers.

Human capital refers to workers' productive capabilities.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

80. Factor mobility refers to:

- A. How easily factors of production can be reallocated.
- B. The quantity of resources a country has.
- C. How rapidly resources depreciate.
- D. The quality of the factors of production.

Continuing ability to produce the goods and services that consumers demand also depends on the ability to reallocate resources from one industry to another.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

81. When World War II ended some resources moved easily from the production of military goods to the production of consumer goods which is referred to in economics as:

- A. Production equality.
- B. Capital adaptation.
- C. Resource flexibility.
- D. Factor mobility.

Factor mobility is the agility in reallocating resources from one industry to another.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

82. The primary way to distinguish among corporations, partnerships, and proprietorships is by observing:

- A. Ownership characteristics.
- B. The size of the industry.
- C. The number of firms in each classification.
- D. The size of profits.

A single proprietorship is a firm owned by one individual. A partnership is owned by a small number of individuals.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

83. Sole proprietorships:

- A. Are each owned by many individual stockholders.
- B. Are owned by one individual.
- C. Account for most business sales and assets.
- D. Are the least common type of business firm.

The characteristic of a proprietorships is one owner.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*



84. Proprietorships:

- A. Dominate market transactions.
- B. Are owned by many individual stockholders.
- C. Are known for their large assets.
- D. Are the most common type of business firm.

In terms of numbers, the single proprietorship is the most common type of business firm in America.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

85. Most businesses in the U.S. are classified as:

- A. Corporations.
- B. Partnerships.
- C. Proprietorships.
- D. Non-profit.

In terms of numbers, the single proprietorship is the most common type of business firm in America.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

86. In the United States, corporations:

- A. Dominate market transactions.
- B. Are owned by one or two people.
- C. Are the most common type of business firm.
- D. Typically have less than \$10,000 in assets.

Corporations account for almost 90 percent of all business sales.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

87. Which of the following is NOT true about U.S. corporations?

- A. The owners have limited liability for the actions of the company.
- B. They account for the majority of business sales.
- C. The typical asset size is in excess of \$4 million.
- D. They are the most common type of business firm.

Proprietorships are the most common type of business firm.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

88. In the United States, government regulation is primarily designed to:

- A. Protect the environment through government ownership of natural resources.
- B. Prevent businesses from competing with each other.
- C. Protect labor, consumers, and the environment.
- D. Determine all the answers to the WHAT, HOW and FOR WHOM questions.

Government lays the foundation for market transactions, protecting consumers, labor and the environment.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: How America Produces*

89. Which of the following is NOT viewed as a role for the U.S. government?

- A. Providing a legal framework for business.
- B. Owning the factors of production.
- C. Protecting consumers from exploitation.
- D. Protecting the environment.

In a mixed economic system, the factors of production are owned by individuals.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: How America Produces*

90. The government has an impact on the HOW to produce question when it does all of the following EXCEPT:

- A. Limits environmental pollution.
- B. Forbids the use of child labor.
- C. Sets a minimum wage.
- D. Follows a policy of laissez faire.

If the government followed the doctrine of laissez faire (hands off); it would not be involved in the HOW to produce question.

*AACSB: Reflective Thinking*

*Blooms: Evaluate*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: How America Produces*

91. A monopoly is:

- A. A firm that produces the entire market supply of a particular good or service.
- B. Not likely to charge a high price because if it does consumers will switch to a different product.
- C. Rarely affected by government regulation since there is only one firm in the industry.
- D. The most common type of U.S. business firm.

A monopoly is a sole producer of a good and could dictate price, quality, and the quantity of the product.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

92. A firm that produces the entire market supply of a certain good or service is known as:

- A. A competitive firm.
- B. An oligopoly.
- C. A monopsony.
- D. A monopoly.

A monopoly is a sole producer of a good and could dictate price, quality and the quantity of the product.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: How America Produces*

93. A market characterized as a monopoly:

- A. Prices tend to be lower and output tends to be higher.
- B. Output tends to be lower and prices tend to be higher.
- C. Quality and output tend to be higher.
- D. Prices tend to be lower and quality tends to be higher.

Monopolies may control price, quantity, and quality of a good's production.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

94. The term externalities refers to:
- A. Black-market economic activity.
  - B.** Some costs and benefits of a market activity borne by a third party.
  - C. The impact on markets of goods imported from foreign countries.
  - D. Illegal economic activity.

An example of an externality is pollution. The cost of pollution is borne by a third party who was not responsible for causing the pollution.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: How America Produces*

95. The dumping of chemicals into a lake, which contaminates the drinking water, is an example of:
- A. Income transfers.
  - B. A monopoly.
  - C.** An externality.
  - D. Factor mobility.

In this case the cost of drinking water is borne by an innocent third party; who was not involved in the pollution of the lake, but must pay for clean drinking water.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

96. If government intervention forces the economy inside the production possibilities curve, there is:

- A. Market failure.
- B.** Government failure.
- C. An externality.
- D. Income inequality.

There is no guarantee that government regulation of HOW goods are produced always makes us better off.

AACSB: Reflective Thinking

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.

Topic: How America Produces

97. Too much government regulation might do all of the following EXCEPT:

- A. Inhibit production.
- B. Raise product prices.
- C. Limit consumer choices.
- D.** Cause market failure.

Government intervention causes government failures.

AACSB: Analytic

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.

98. The basic economic issue concerning the FOR WHOM question is specifically interpreted to mean, who:

- A. Gets the available jobs.
- B. Gets to consume the goods and services that are produced.
- C. Inherits the accumulated wealth in the economy.
- D. Produces the goods and services.

The FOR WHOM question helps divide the "economic pie" of goods and service among consumers.

AACSB: Analytic

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Describe how (un)equally incomes are distributed.

Topic: For Whom America Produces

99. Which of the following is least likely to determine individual income in a market economy?

- A. The quantity of resources owned.
- B. The quality of resources owned.
- C. The prices of resources in the marketplace.
- D. The government.

The government takes a laissez faire position in the distribution of income in a market economy.

AACSB: Analytic

Blooms: Understand



*Difficulty: 3 Hard*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: For Whom America Produces*

100. Which of the following statements is true concerning income inequality?

- A. Income is distributed equally in poor countries.
- B. Rich countries have greater income inequality than poor countries.
- C. The government has no mechanism for altering income inequality.
- D. A free market economy produces an unequal distribution of income.

Markets reward individuals on the basis of their contribution to output.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: For Whom America Produces*

101. Which question does the "distribution of income" relate to most directly?

- A. For whom is output produced?
- B. How is output produced?
- C. What output is produced?
- D. Why is output produced?

The FOR WHOM question answers the way total personal income is divided.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

102. In terms of income distribution, if a person moves from the lowest fifth of households to the highest fifth over many years, this is known as:

- A. Income migration.
- B. Income mobility.
- C. Global migration.
- D. Union membership.

Income mobility takes into consideration how long a person stays in any one income level.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: For Whom America Produces*

103. The purpose of the U.S. tax-transfer system is to:

- A. Eliminate the economic power of the rich.
- B. Preserve the Social Security system for future generations.
- C. Furnish lower income households with more goods and services than the market alone provides.
- D. Equalize all household incomes in the U.S.

The mechanism for re-slicing the income pie is taxes and income transfers.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

104. By definition, a progressive tax:

- A. Generates greater tax revenues from the poor.
- B.** Imposes a higher tax rate as income increases.
- C. Imposes a lower tax rate as income increases.
- D. Implies that the same tax rate is paid at all income levels.

A progressive tax makes after-tax incomes more equal than before-tax incomes.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: For Whom America Produces*

105. Which of the following is true about the income-transfer system in the United States?

- A.** The system provides more output for lower-income households than the market alone provides.
- B. Transfer payments solve the problem of income inequality.
- C. The system does not affect the distribution of income because of regressive taxes.
- D. The system is actually progressive and gives more income to rich households.

Income transfers give lower-income households more of the income pie than they got in the marketplace.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

106. Income transfers include all of the following EXCEPT:

- A. Food stamps.
- B. Medicaid.
- C. Wages.
- D. Welfare benefits.

Wages are not income transfers.

AACSB: Analytic

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Describe how (un)equally incomes are distributed.

Topic: For Whom America Produces

107. A HEADLINE article reports that "Virtually all Americans attend high school, and roughly 85 percent graduate." Education and training contribute to:

- A. Greater income inequality in the United States than in poor countries.
- B. A labor-intensive production process.
- C. A decrease in capital stock.
- D. An increase in worker productivity.

The high productivity of the American economy is explained in part by the quality of its labor resources.

AACSB: Reflective Thinking

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Explain why the U.S. economy can produce so much.

108. One HEADLINE article in the text, "Income Share of the Rich," reports: "In most developing countries the top tenth of all households receives 30-50 percent of all income." Which of the following forms of government intervention is designed to reduce this market situation?
- A. Antitrust laws.
  - B. Public goods.
  - C. Laissez-faire.
  - D. Income transfers.

Income-transfer system gives lower-income households more output than the market itself would provide.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: For Whom America Produces*

## True / False Questions

109. GDP is a measure of the market value of final goods and services produced within a nation's borders in a given period.

**TRUE**

GDP measures the market value of final goods and services produced within a nation's borders in a given period.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

110. In periods of rising prices, real GDP will always rise more rapidly than nominal GDP.

**FALSE**

Nominal GDP will rise more rapidly than real GDP.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

111. Per capita GDP measures the distribution of income within a country.

**FALSE**

Per Capita GDP measures the distribution of income each person would get if all output were divided evenly among the population.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

112. Growth in GDP per capita is achieved when population grows more rapidly than GDP.

**FALSE**

Growth in GDP per capita occurs when GDP grows more rapidly than population.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

113. Economic growth is desirable because it usually creates more jobs and income.

**TRUE**

Growth is essential to maintain or increase production possibilities.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

114. One reason that GDP is not the best measure of social welfare is because it does not include volunteer activities.

**TRUE**

Social welfare does not contribute to production.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

115. Consumer goods account for approximately 70 percent of total U.S. output.

**TRUE**

Consumer goods dominate the U.S. mix of output.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

116. Since investment spending in the United States is a smaller percentage of GDP than consumer spending, it is not essential for economic growth.

**FALSE**

Investment is essential for economic growth.

*AACSB: Reflective Thinking*

*Blooms: Analyze*



*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

117. If an individual purchases stock in the stock market, this is included in the economic definition of investment as a component of GDP.

**FALSE**

Individual purchases of stock do not contribute to economic growth. This personal investment is not an economic investment.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

118. In the United States, all of the state and local governments combined use more of our scarce resources than does the federal government.

**TRUE**

State and local government's use far more of our scarce resources than does the federal government.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

119. In the United States, net exports account for two-thirds of GDP.

**FALSE**

Net exports account only for a small portion of GDP.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

120. If the United States imports more than it exports, this implies that the country uses more goods and services than it produces.

**TRUE**

Imports represent goods and service that are used by Americans but are not produced in the U.S.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

121. The manufacturing share of output has increased in the United States since World War II.

**FALSE**

The manufacturing and agricultural shares have decreased while the services share has increased.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

122. A capital-intensive production process increases the level of output per worker.

**TRUE**

Capital goods greatly assist in increasing the level of output per person.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

123. The reason that U.S. productivity is so high is because the United States has more natural resources and a larger population than any other country in the world.

**FALSE**

Population does not contribute to productivity.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

124. The United States has invested heavily in human capital by promoting education and skill training.

**TRUE**

More than other places in the world, the US has higher rates of high school and college graduation.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

125. U.S. corporations account for the majority of output in the country even though proprietorships outnumber corporations.

**TRUE**

Corporations dominate market transactions, accounting for almost 90 percent of all business sales.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*

126. In a monopoly situation, government regulation is incapable of improving market outcomes.

**FALSE**

Government regulations are intended to protect the interests of consumers, preventing firms from becoming too powerful.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: How America Produces*

127. Externalities are costs or benefits of a market activity borne by a third party.

**TRUE**

The cost or benefits of externalities are spread to innocent third parties.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: How America Produces*

128. Incomes are distributed more equally in poor countries than in rich ones because of transfer payments.

**FALSE**

Most poor countries do not have a system of transfer payments like welfare.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: For Whom America Produces*

129. The U.S. federal income tax is an example of a progressive tax.

**TRUE**

A progressive tax makes after-tax incomes more equal than before-tax incomes.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: How America Produces*

130. The U.S. tax-transfer system gives more output to lower-income households than does the market alone.

**TRUE**

The income-transfer system gives lower-income households more output than the market itself would provide.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Describe how (un)equally incomes are distributed.*

*Topic: How America Produces*

## Essay Questions

131. Why is using real GDP a better measurement of GDP than using nominal GDP?

GDP is based on both physical output and prices. From one year to the next either rising prices or an increase in physical output could cause nominal GDP to increase. GDP numbers must be adjusted for inflation. These inflation adjustments delete the effects of rising prices by valuing output in constant prices. This is result of real GDP.

*AACSB: Analytic*

*Blooms: Analyze*

*Difficulty: 3 Hara*

*Learning Objective: 02-01 Explain how an economy's size is measured.*

*Topic: What America Produces*

132. Investment goods are a different type of output. Discuss the types of investment goods and its relationship to production possibilities.

Investment goods include the plant, machinery, and equipment that are produced for use in the business sector. These investments are often used to replace worn-out equipment and factories, which maintains production possibilities.

Investment goods increase and improve the stock of capital. This expands production possibilities.

Inventory is also counted as investment goods.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hara*

*Learning Objective: 02-04 Recount how the mix of U.S. output has changed over time.*

*Topic: What America Produces*

133. What does the government do to protect consumers from monopolies? List specific steps the government takes to protect consumers.

Government tries to prevent individual firms from dominating specific markets. Antitrust laws prohibit mergers or acquisitions that threaten competition. The U.S. Department of Justice and the Federal Trade Commission also regulate pricing practices, advertising claims, and other behavior that might put consumers at an unfair disadvantage in product markets.

*AACSB: Reflective Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Explain why the U.S. economy can produce so much.*

*Topic: How America Produces*