Test Bank for Economics 23rd Edition by McConnell

economics

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Test Bank

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Proponents of laissez-faire maintain that governments are corrupted by special interests that use the government's economic influence to benefit themselves rather than society at large.
   - ⊙ true
   - ⊙ false

2) In a market economy, the government is not the dominant economic force in deciding what to produce, how to produce it, and who will get it.
   - ⊙ true
   - ⊙ false

3) All command economies rely exclusively on a central plan and do not allow any private ownership.
   - ⊙ true
   - ⊙ false

4) The division of labor is the separation of the work required to produce a product into a number of different tasks that are performed by different workers,
   - ⊙ true
   - ⊙ false

5) Specialization is extensive in command and control economies.
   - ⊙ true
   - ⊙ false

6) The 2021 Index of Economic Freedom reports that the United States is ranked 1st in economic freedom and is in the free category.
   - ⊙ true
   - ⊙ false

7) A household is defined as a housing unit occupied by one or more persons.
   - ⊙ true
   - ⊙ false

8) Market economies use capital goods because capital goods lead to more efficient production.
   - ⊙ true
   - ⊙ false

9) Money functions as a medium of exchange and eliminates the need for a coincidence of wants.
   - ⊙ true
   - ⊙ false

10) Consumer sovereignty means that legislation now protects the rights of consumers to dispose of their incomes as they see fit.
    - ⊙ true
    - ⊙ false

11) Human specialization may expand total output even though the individuals involved may have identical abilities.
    - ⊙ true
    - ⊙ false

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12) The wants of consumers are expressed in the product market with "dollar votes."

⊙ true
⊙ false

13) Costs can be defined as total payments made to workers, landowners, and capital suppliers *less* payments to the entrepreneur for organizing and combining the other resources used to produce a good.

⊙ true
⊙ false

14) Continued losses in an industry will cause some firms to reduce output or eventually leave the industry.

⊙ true
⊙ false

15) The guiding function of prices tends to keep resources flowing toward their most highly valued uses.

⊙ true
⊙ false

16) The invisible hand refers to the many indirect controls that the federal government imposes in a market system.

⊙ true
⊙ false

17) Central planning in the Soviet Union and pre-reform China emphasized expanding the production of consumer goods to raise the domestic standard of living.

⊙ true
⊙ false

18) Central planning often suffers from a coordination problem and an incentive problem.

⊙ true
⊙ false

19) The market system acknowledges dollar voting for capital goods as well as for consumer goods.

⊙ true
⊙ false

20) A market system is characterized by the private ownership of resources and the use of prices to coordinate economic activity.

⊙ true
⊙ false

21) Most market economies, such as the U.S. and the UAE, allow government policies and actions aimed at promoting economic growth and stability.

⊙ true
⊙ false

22) In a command economy, the head of each household makes the fundamental economic choices such as what to produce and how to produce output.

⊙ true
⊙ false

23) The economy of the United States can best be described as *laissez-faire* capitalism.

⊙ true
⊙ false

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24) Property rights give to some people the right to coerce others into giving up their property.
- ◉ true
- ◉ false

25) Property rights give the government the right to own, use, and dispose of resources in an economy.
- ◉ true
- ◉ false

26) Selfishness and self-interest are identical concepts in economics.
- ◉ true
- ◉ false

27) An important aspect of the market system is that producers and consumers always have to consider the public interest in making production and consumption decisions.
- ◉ true
- ◉ false

28) If people tried to produce most of what they need on their own, then this would lead to a more efficient use of the economy's resources.
- ◉ true
- ◉ false

29) Even with the use of money, exchange and trade cannot occur if there is no coincidence of wants.
- ◉ true
- ◉ false

30) In a market system, the distribution of goods and services largely depends on the distribution of income and people's preferences.
- ◉ true
- ◉ false

31) The fundamental economic question regarding the distribution of output in the economy is equivalent to the question of who will produce the output.
- ◉ true
- ◉ false

32) The concept of consumer sovereignty refers to the situation where consumers have the right to vote for the board of directors of large corporations.
- ◉ true
- ◉ false

33) In analyzing a market system, economists often assume that firms will choose the production techniques that will give them maximum revenues.
- ◉ true
- ◉ false

34) Economic efficiency entails producing a certain output with the minimum number of units of inputs.
- ◉ true
- ◉ false

35) The choice of the most efficient production technique is not affected by how much buyers want to buy the product.
- ◉ true
- ◉ false

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36) In a market system, a consumer's ability to pay—but *not* necessarily his willingness to pay—is largely based on his income.
- ◉ true
- ◉ false

37) Even if prices are fixed and competition is restricted by the government, the invisible hand will still work in the economy and lead to economic efficiency.
- ◉ true
- ◉ false

38) In a competitive market economy, firms and resource suppliers seeking to further their own self-interest will end up, as though guided by an invisible hand, promoting the public interest.
- ◉ true
- ◉ false

39) The problems of central planning become less complex as an economy expands over time.
- ◉ true
- ◉ false

40) Profits are the primary "success indicator" for firms in a centrally planned economy.
- ◉ true
- ◉ false

41) Quantitative measures of managerial success, such as production targets or quotas, are highly foolproof and are thus ideal to use in increasing economic efficiency.
- ◉ true
- ◉ false

42) In the circular flow model, households act as buyers in the resource markets.
- ◉ true
- ◉ false

43) In a market system, entrepreneurs start businesses in order to earn a high salary.
- ◉ true
- ◉ false

44) In a market system, the income earned by owners of natural resources is called interest income.
- ◉ true
- ◉ false

45) According to the circular flow model of the market system, firms get their ability to pay for their costs of production from the revenues that they receive for their products.
- ◉ true
- ◉ false

46) According to the circular flow model of the market system, when resource-owners' money income is rising, then the costs to business firms that employ their resources must be falling.
- ◉ true
- ◉ false

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47) Having a high fixed salary is what motivates entrepreneurs to make prudent decisions in dealing with business risk.
   - ⊙ true
   - ⊙ false

48) Government cash bailouts of failing businesses that are nearly bankrupt will tend to reduce the motivation among entrepreneurs to make prudent decisions in dealing with business risk.
   - ⊙ true
   - ⊙ false

49) College graduates who dislike business risk will mostly seek to be hired by firms as labor, rather than starting their own firms as entrepreneurs.
   - ⊙ true
   - ⊙ false

50) (Consider This) Government subsidies of property insurance make the financial costs of property owners choosing to build in fire-prone or flood-prone areas look artificially low.
   - ⊙ true
   - ⊙ false

51) The owners of a firm are referred to as residual claimants and are the legal recipients of whatever profit or loss remains after all other parties have been paid.
   - ⊙ true
   - ⊙ false

52) When somebody buys an insurance policy, that person is seeking to transfer risk away from herself and pass it on to the insurance company.
   - ⊙ true
   - ⊙ false

53) (Consider This) Low-cost production is not important for Bitcoin miners since Bitcoin is intangible and exists only in cyberspace.
   - ⊙ true
   - ⊙ false

54) (Consider This) South Korea has always been more prosperous than North Korea, even before 1953.
   - ⊙ true
   - ⊙ false

55) (Consider This) Without government subsidized property insurance, people are more likely to be cognizant of the risks of building and living in fire-prone or flood-prone areas because their insurance costs will be higher.
   - ⊙ true
   - ⊙ false

56) (Last Word) Rapid money printing, like that which occurred in Venezuela, always results in hyperinflation.
   - ⊙ true
   - ⊙ false

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MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

57) Which of the following is a distinguishing feature of a command system?
   A) private ownership of all capital
   B) central planning
   C) heavy reliance on markets
   D) widespread dispersion of *economic* power

58) Which of the following is a feature of a command system?
   A) private ownership of resources
   B) private ownership of all capital
   C) heavy reliance on markets
   D) division of output between capital and consumer goods is centrally decided

59) Which of the following is a distinguishing feature of laissez-faire capitalism?
   A) public ownership of all capital
   B) central planning
   C) minimal government intervention
   D) an economy based on bartering

60) Which of the following is a feature of laissez-faire capitalism?
   A) entrepreneurs make their own decisions about what to produce
   B) government has an unlimited role in all aspects of the economy
   C) a central planning board for production decisions
   D) government owns most business firms

61) Examples of command economies are
   A) the United States and Japan.
   B) Sweden and Norway.
   C) Mexico and Brazil.
   D) Cuba and North Korea.

62) Of the following countries, which one best exhibits the characteristics of a market economy?
   A) Singapore
   B) Cuba
   C) North Korea
   D) Belarus

63) The French term "laissez-faire" means
   A) "there is no free lunch."
   B) "let it be."
   C) "circular flow."
   D) "public ownership."

64) An economic system
   A) requires a grouping of private markets linked to one another.
   B) is a particular set of institutional arrangements and a coordinating mechanism used to respond to the economizing problem.
   C) requires some sort of centralized authority (such as government) to coordinate economic activity.
   D) is a plan or scheme that allows a firm to make money at some other firm's expense.

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65) The term "laissez-faire" suggests that
- A) land and other natural resources should be privately owned, but capital should be publicly owned.
- B) land and other natural resources should be publicly owned, but capital should be privately owned.
- C) government should not interfere with the operation of the economy.
- D) government action is absolutely necessary if the economy is to achieve full employment and full production.

66) Economic systems differ according to which two main characteristics?
- A) who owns the factors of production and the methods used to coordinate economic activity
- B) the technology used in production and the quantity and quality of natural resources
- C) how goods are produced and who gets them
- D) the political system in place and the degree of scarcity facing the economy

67) Which of the following statements about market economies is correct?
- A) The precise mixture mixture of centralized government economic initiatives and decentralized actions taken by individuals and firms varies by country.
- B) The market system features the private ownership of resources and the use of markets and prices to coordinate and direct economic activity.
- C) Individuals and businesses seek to achieve their economic goals through their own decisions regarding work, consumption, or production.
- D) All of these choices are correct.

68) Command systems are also known as
- A) market systems.
- B) pure capitalism.
- C) laissez-faire capitalism.
- D) communism.

69) Which of the following statements is *not* correct about command economies?
- A) The government owns most property resources.
- B) Economic decision making is set by a central economic plan.
- C) The central plan is created and enforced by the government.
- D) Command economies have been successful, especially in the Soviet Union.

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70) Which of the following statements is correct about command economies?
- A) There is a great deal of product variety in communist countries.
- B) The Soviet Union, a large command economy, collapsed in 1992.
- C) Economic power is widely dispersed in command economies.
- D) In command economies, the government allows each firm to set its own production goals.

71) A fundamental difference between the command system and laissez-faire capitalism is that, in command systems,
- A) the division of output is decided by central planning rather than by individuals operating freely through markets.
- B) all economic decisions are made by the government, whereas there is no government in laissez-faire capitalism.
- C) scarcity does not exist, whereas it does exist in laissez-faire capitalism.
- D) money is not used, whereas it is used in laissez-faire capitalism.

72) Which of the following is *not* a typical characteristic of a market system?
- A) private property
- B) freedom of enterprise
- C) government ownership of most property resources
- D) competition in product and resource markets

73) Which of the following is *not* a typical characteristic of a market system?
- A) private property
- B) limited government
- C) use of capital goods
- D) quantitative production targets

74) Which of the following is a typical characteristic of a market system?
- A) competition in product markets but not resource markets
- B) an economy that relies on bartering rather than money
- C) freedom of enterprise and choice
- D) government directives to businesses about how much to produce

75) Which of the following is a fundamental characteristic of the market system?
- A) property rights
- B) central planning by government
- C) unselfish behavior
- D) government-set wages and prices

76) Property rights are important because they
- A) ensure an equal distribution of income.
- B) encourage cooperation by improving the chances of mutually agreeable transactions.
- C) guarantee that any exchange will make all parties better off than prior to the exchange.
- D) allow the government to control how resources are allocated.

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77) Property rights encourage investment in property because
   - A) owners will benefit from their investment and their property cannot be taken from them.
   - B) only mutually agreeable transactions regarding the property can take place.
   - C) owners can work to maintain or improve their property in order to preserve or increase its value.
   - D) All of these choices are correct.

78) Private property
   - A) discourages cooperation because people don't want to part with what they own.
   - B) discourages innovation, as people are often afraid to risk losing their own property.
   - C) encourages owners to maintain or improve their property to preserve or enhance value.
   - D) does everything indicated by the other answers.

79) Private property
   - A) does everything indicated in the other choices.
   - B) discourages innovation as people are often afraid to risk losing their own property.
   - C) encourages owners to maintain or improve their property to preserve or enhance value.
   - D) discourages cooperation because people don't want to part with what they own.

80) Private property
   - A) rights are widespread in command systems.
   - B) discourages investment since people are too worried about someone taking their property.
   - C) examples are copyrights and trademarks.
   - D) rights are not legally enforceable in capitalism.

81) Copyrights and trademarks are examples of
   - A) capital goods.
   - B) human capital.
   - C) property rights.
   - D) public goods.

82) Intellectual property rights
   - A) are not legally enforcable since they deal with intangible items.
   - B) include patents, copyrights and trademarks.
   - C) are legally enforcable but only offer short-term protection.
   - D) include copyrights, but not patents.

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83) Freedom of enterprise
  A) is a characteristic that is common to most economic systems.
  B) in a market system means that entrepreneurs can obtain and use economic resources without any legal restraint.
  C) allows businesses, within broad limits, to choose what goods to produce.
  D) refers primarily to the right of consumers to purchase what they want.

84) Which of the following statements is *incorrect* regarding freedom of choice?
  A) Freedom of choice allows owners to employ or dispose of their property and money as they see fit.
  B) Freedom of choice allows workers to try to enter any line of work for which they are qualified.
  C) Freedom of choice ensures that consumers are free to buy the goods and services that best satisfy their wants and that their budgets allow.
  D) Even illegal choices such as human trafficking and drug trafficking are allowed under the concept of freedom of choice.

85) The main mechanism that regulates the market system is
  A) self-interest.
  B) private property.
  C) competition.
  D) freedom of enterprise and choice.

86) Broadly defined, competition involves
  A) private property and freedom of expression.
  B) independently acting buyers and sellers and the freedom to enter or leave markets.
  C) increasing opportunity costs and diminishing marginal utility.
  D) capital goods and division of labor.

87) Competition means that
  A) sellers can manipulate market price by causing product scarcities.
  B) there are independently acting buyers and sellers in the market.
  C) a product can be purchased at a number of different prices.
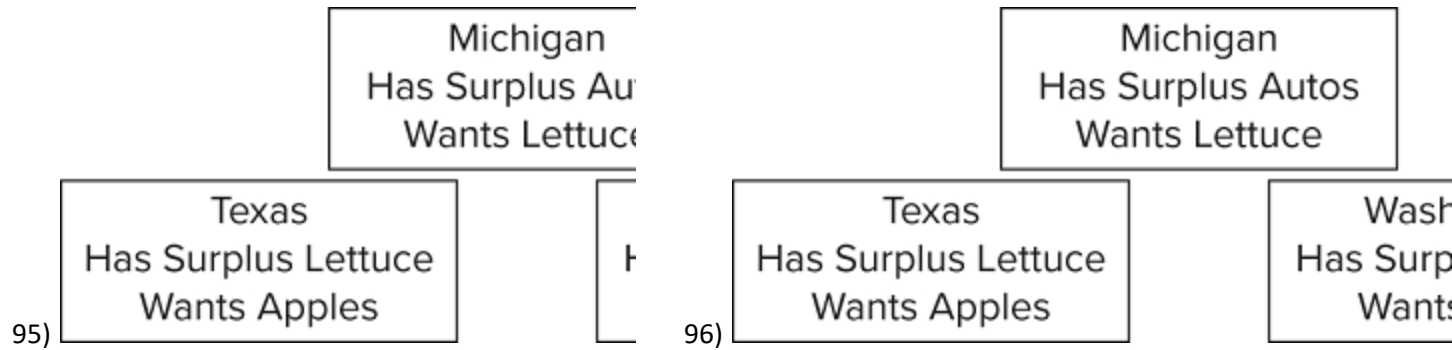 D) there is more than one seller in a market.

88) Economic power is diffused throughout an economy when
  A) a single buyer can dictate the price of a product or resource in the markets.
  B) a single seller can dictate the price of the product or resource in the markets.
  C) there is competition with many buyers and many sellers acting independently of each other in the markets.
  D) the government decides what the price should be and then sets the price in the markets.

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89) Competition is the regulatory force in capitalism and limits abuse of economic power because
   A) producers that charge more than the market price will lose sales to other producers.
   B) producers that charge less than the market price will lose customers to other producers.
   C) employers that pay more than the market wage rate will lose workers to other employers.
   D) employers that pay less than market wage reate will attract workers from other employers.

90) In a competitive market system
   A) insurmountable barriers exist that prevent an industry from expanding or contracting.
   B) the economy is inflexible and inefficient.
   C) producers have the freedom to choose to enter or leave an industry based on their own self-interest.
   D) producers are unable to recognize changes in consumer tastes and resource availbility.

91) The division of labor means that
   A) labor markets are geographically segmented.
   B) unskilled workers outnumber skilled workers.
   C) each worker specializes by devoting time to a single production task.
   D) each worker performs a large number of tasks.

92) Specialization in production is important primarily because it
   A) results in greater total output.
   B) allows society to avoid the coincidence-of-wants problem.
   C) allows society to trade by barter.
   D) allows society to have fewer capital goods.

93) Human specialization—the division of labor—enhances productivity and efficiency by
   A) allowing workers to take advantage of existing differences in their abilities and skills.
   B) avoiding the time loss involved in shifting from one production task to another.
   C) allowing workers to develop skills by working on one, or a limited number, of tasks.
   D) all of the means identified in the other answers.

94) Specialization in production is economically beneficial primarily because it
   A) allows everyone to have a job that he or she likes.
   B) permits the production of a larger output with fixed amounts of resources.
   C) facilitates trade by bartering.
   D) guarantees full employment.

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Michigan
Has Surplus Au...
Wants Lettuce

Texas
Has Surplus Lettuce
Wants Apples

H...

Michigan
Has Surplus Autos
Wants Lettuce

Texas
Has Surplus Lettuce
Wants Apples

Wash...
Has Surp...
Wants...

95) On the basis of the information, and assuming trade occurs between the three states, we can expect
   A) Washington to exchange apples with Texas and receive money in return.
   B) Washington to exchange apples with Michigan and receive money in return.
   C) Texas to exchange lettuce with Michigan and receive autos in return.
   D) Texas to trade lettuce directly for Washington apples.

96) On the basis of the information, it can be said that
   A) no coincidence of wants exists between any two states.
   B) a coincidence of wants exists between Michigan and Washington.
   C) a coincidence of wants exists between Texas and Washington.
   D) a coincidence of wants exists between Michigan and Texas.

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           ┌─────────────────────┐
           │      Michigan       │
           │  Has Surplus Au...  │
           │   Wants Lettuce     │
           └─────────────────────┘
┌─────────────────────┐        ┌──────
│       Texas         │        │ H
│ Has Surplus Lettuce │        │
│    Wants Apples     │        │
└─────────────────────┘        └──────
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97)
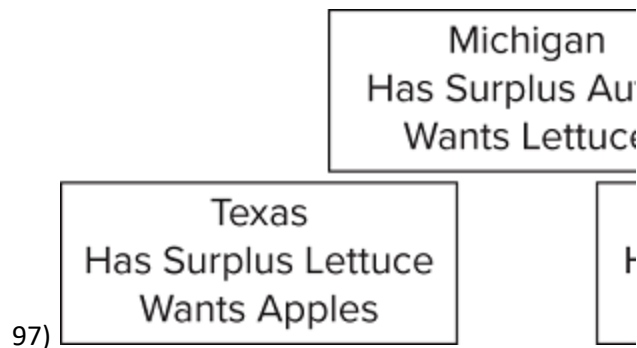
Given the information, and assuming trade occurs between the three states, we can expect

   A) that there is no means by which Michigan can obtain lettuce while specializing in the production of autos.
   B) that money will not be needed to accomplish the desired exchanges.
   C) money to flow counter clockwise from Michigan to Texas to Washington.
   D) money to flow clockwise from Michigan to Washington to Texas.

98) Barter

   A) is the major means of exchange in centrally planned economies.
   B) accounts for over 30 percent of the dollar volume of all exchange in the U.S. economy.
   C) entails the exchange of goods for goods.
   D) is used to circumvent the problem of a lack of coincidence of wants among potential buyers and sellers.

99) The "coincidence of wants" problem associated with barter refers to the fact that

   A) for exchange to occur, each seller must have a product that some buyer wants.
   B) money must be used as a medium of exchange or trade will never occur.
   C) specialization is restricted by the size or scope of a market.
   D) buyers in resource markets and sellers in product markets can never engage in exchange.

100) The use of money contributes to economic efficiency because

   A) governmental direction of the production and distribution of output can be avoided by using money.
   B) the incentive problem would not occur without the availability of money.
   C) it is necessary for the creation of capital goods.
   D) it promotes specialization by overcoming the problems with barter.

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101) The presence of market failures implies that
   A) money is not an effective tool for exchange in a market system.
   B) there is an active role for government, even in a market system.
   C) individuals and firms should strive to be self-sufficient rather than specialize.
   D) command systems are superior to market systems in the allocation of resources.

102) Which of the following characteristics is *least* unique to a market system?
   A) private ownership of property resources
   B) competition among buyers and sellers pursuing monetary returns
   C) the widespread use of money
   D) freedom of enterprise and choice

103) Which of the following is one of the Five Fundamental Questions?
   A) Which products will be in scarce supply and which in excess supply?
   B) Who should appoint the head of the central bank?
   C) How much should society save?
   D) What goods and services will be produced?

104) Which of the following is one of the Five Fundamental Questions?
   A) How much should society save?
   B) Which product markets should be regulated?
   C) Who should be given the product for free?
   D) How will the system accommodate change?

105) If competitive industry Z is making substantial economic profit, output will
   A) fall in industry Z and firms will likely leave the market.
   B) fall in all industries except industry Z.
   C) expand in industry Z, as more resources will move to that industry.
   D) expand in industry Z, but no new firms will enter the market.

106) If competitive industry Z is is making substantial economic losses, output will
   A) expand in industry Z, as more resources will move to that industry.
   B) fall in industry Z and firms will likely leave the market.
   C) fall in all industries except industry Z.
   D) expand in industry Z, but no new firms will enter the market.

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107) From society's point of view, the economic function of profits and losses is to
   A) promote the equal distribution of real assets and wealth.
   B) achieve full employment and price level stability.
   C) contribute to a more equal distribution of income.
   D) reallocate resources from less-desired to more-desired uses.

108) In a market economy, a significant change in consumers' desire for product X will
   A) alter the profits or losses received by suppliers of product X.
   B) cause a reallocation of scarce resources.
   C) cause some industries to expand and others to contract.
   D) All of these choices are correct.

109) Economic profits in an industry suggest the industry
   A) can earn more profits by increasing product price.
   B) should expand to better satisfy consumers' desire for the product.
   C) has excess production capacity.
   D) is the size that consumers want it to be.

110) Economic profits and losses
   A) are both considered by economists to be a part of the total cost of producing products.
   B) are essential to the reallocation of resources from less-desired goods to more-desired goods.
   C) have no influence on the composition of domestic output.
   D) equalize the distribution of income in the long run.

111) If consumer spending on product X increases, all of the following will occur *except*
   A) an increase in the profits of industry X.
   B) an increase in the quantity of resources employed by industry X.
   C) an increase in the output of industry X.
   D) a decrease in the quantity of resources employed in industry X.

112) If consumer spending on product Z increases, all of the following will occur *except*
   A) an increase in the price of product Z.
   B) an increase in the output of industry Z as existing firms expand production.
   C) a decrease in the number of buyers of product Z.
   D) an increase in the output of industry Z as new firms enter the industry.

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113) An increase in consumer desire for strawberries is most likely to
A) increase the number of strawberry pickers needed by farmers.
B) reduce the supply of strawberries.
C) reduce the number of people willing to pick strawberries.
D) reduce the need for strawberry pickers.

114) A decrease in consumer desire for strawberries is most likely to
A) increase the profits of strawberry growers.
B) increase the supply of strawberries.
C) increase the price of strawberries.
D) decrease the need for strawberry pickers.

115) If competitive industry Y is incurring substantial losses, output will
A) expand as resources move toward industry Y.
B) contract as resources move toward industry Y.
C) contract as resources move away from industry Y.
D) expand as resources move away from industry Y.

116) If competitive industry K is experiencing substantial losses, output will
A) expand as firms in industry K scale down production.
B) contract as firms exit industry K.
C) expand as profits for industry K fall.
D) expand as existing firms scale up production.

117) The economic function of profits and losses is to
A) bring about a more equal distribution of income.
B) signal that resources should be reallocated.
C) eliminate small firms and reduce competition.
D) tell government which industries need to be subsidized.

118) If a competitive industry is neither expanding nor contracting, we would expect
A) total revenue to be zero.
B) economic profits to be zero.
C) total opportunity cost to be zero.
D) more resources to flow to that industry.

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119) The competitive market system
A) encourages innovation because government provides tax breaks and subsidies to those who develop new products or new productive techniques.
B) discourages innovation because it is difficult to acquire additional capital in the form of new machinery and equipment.
C) discourages innovation because firms want to get all the profits possible from existing machinery and equipment.
D) encourages innovation because successful innovators are rewarded with economic profits.

120) In a market economy, the distribution of output will be determined primarily by
A) consumer needs and preferences.
B) consumer income and product prices.
C) government regulations that provide a minimum income for all.
D) a social consensus as to which distribution of income is most equitable.

121) The most efficient combination of resources in producing a given output is the combination that
A) comes closest to using the same quantities of land, labor, capital, and entrepreneurial ability.
B) minimizes the cost of the output.
C) uses the smallest total quantity of all resources.
D) conserves most on the use of labor.

122) Firms are motivated to minimize production costs because
A) it is the most environmentally friendly way to produce goods.
B) least-cost production techniques use the smallest total quantity of resources.
C) competitive pressures in the market will drive out higher-cost producers.
D) the government provides tax credits and subsidies to low-cost producers.

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123) Answer the question using the following data, which show all available techniques for producing 20 units of a particular commodity.

Resource	Price per unit of Resource	Possible Production Techniques				
		#1	#2	#3	#4	#5
Land	$4	2	4	2	4	4
Labor	$3	1	2	4	1	3
Capital	$3	5	2	3	1	2
Entrepreneurial Ability	$2	3	1	1	4	1

In view of the indicated resource prices, the economically most efficient production technique(s) is (are) technique(s)

- A) 1.
- B) 2 and 4.
- C) 3.
- D) 1 and 3.

124) Answer the question using the following data, which show all available techniques for producing 28 units of a particular product.

Resource	Price per unit of Resource	Possible Production Techniques				
		#1	#2	#3	#4	#5
Land	$8	2	4	2	4	3
Labor	$7	1	2	4	1	3
Capital	$7	5	2	3	1	2
Entrepreneurial Ability	$6	3	1	1	4	1

In view of the indicated resource prices, the economically most efficient production technique(s) is (are) technique(s)

- A) 3.
- B) 2.
- C) 5.
- D) 1.

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125) Answer the question using the following data, which show all available techniques for producing 20 units of a particular commodity.

Resource	Price per unit of Resource	Possible Production Techniques				
		#1	#2	#3	#4	#5
Land	$4	2	4	2	4	4
Labor	$3	1	2	4	1	3
Capital	$3	5	2	3	1	2
Entrepreneurial Ability	$2	3	1	1	4	1

Assuming the firm is motivated by self-interest and that the 20 units that can be produced with each technique can be sold for $2 per unit, the firm will

A) realize an economic profit of $10.
B) realize an economic profit of $4.
C) not earn any economic profit.
D) shut down rather than incur a loss by producing.

126) Answer the question using the following data, which show all available techniques for producing 30 units of a particular product.

Resource	Price per unit of Resource	Possible Production Techniques				
		#1	#2	#3	#4	#5
Land	$7	2	4	2	4	4
Labor	$6	1	2	4	1	3
Capital	$6	5	2	2	1	2
Entrepreneurial Ability	$5	3	1	1	4	1

Assuming the firm is motivated by self-interest and that the 30 units that can be produced with each technique can be sold for $2 per unit, the firm will

A) not earn any economic profit.
B) shut down rather than incur a loss by producing.
C) realize an economic profit of $4.
D) realize an economic profit of $5.

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127) Answer the question using the following data, which show all available techniques for producing 20 units of a particular commodity.

Resource	Price per unit of Resource	Possible Production Techniques				
		#1	#2	#3	#4	#5
Land	$4	2	4	2	4	4
Labor	$3	1	2	4	1	3
Capital	$3	5	2	3	1	2
Entrepreneurial Ability	$2	3	1	1	4	1

If a new production technique is developed that enables a firm to produce 20 units of output with 3 units of land, 3 of labor, 1 of capital, and 2 of entrepreneurial ability, this technique would

A) not be adopted because, although it reduces production costs, it does not increase profit.

B) be adopted because it would lower production costs and increase economic profit.

C) not be adopted because it entails higher production costs than other available techniques.

D) be adopted, even though economic profits would be reduced slightly.

128) Answer the question using the following data, which show all available techniques for producing 22 units of a particular product.

Resource	Price per unit of Resource	Possible Production Techniques				
		#1	#2	#3	#4	#5
Land	$5	2	4	2	4	4
Labor	$4	1	2	4	1	3
Capital	$4	5	2	3	1	2
Entrepreneurial Ability	$3	3	1	1	4	1

If a new production technique is developed that enables a firm to produce 22 units of output with 3 units of land, 3 of labor, 1 of capital, and 2 of entrepreneurial ability, this technique would

A) be adopted because it would lower production costs and increase economic profit.

B) not be adopted because, although it reduces production costs, it does not increase profit.

C) be adopted, even though economic profits would be reduced slightly.

D) not be adopted because it entails higher production costs than other available techniques.

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129) Answer the question based on the following information: Suppose 30 units of product A can be produced by employing just labor and capital in the four ways shown below. Assume the prices of labor and capital are $2 and $3, respectively.

	Production Techniques			
	1	**2**	**3**	**4**
Labor	4	3	2	5
Capital	2	3	5	1

Which technique is economically most efficient in producing A?

    A) 1
    B) 2
    C) 3
    D) 4

130) Answer the question based on the following information: Suppose 30 units of product A can be produced by employing just labor and capital in the four ways shown in the following table. Assume the prices of labor and capital are $3 and $1, respectively.

	Production Techniques			
	1	**2**	**3**	**4**
Labor	4	3	2	5
Capital	2	3	5	1

Which technique is economically most efficient in producing A?

    A) 1
    B) 2
    C) 4
    D) 3

131) Answer the question based on the following information: Suppose 34 units of product A can be produced by employing just labor and capital in the four ways shown in the following table. Assume the prices of labor and capital are $4 and $4, respectively.

	Production Techniques			
	1	**2**	**3**	**4**
Labor	2	4	2	1
Capital	1	2	1	1

Which technique is economically most efficient in producing A?

    A) 2
    B) 3
    C) 1
    D) 4

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132) Answer the question based on the following information: Suppose 10 units of product X can be produced by employing just labor and capital in the three ways shown below. Assume the prices of labor and capital are as shown.

	Resource price	Production Technique I	Production Technique II	Production Technique III
Labor	$ 2	4	3	2
Capital	$ 3	2	3	5

Which technique is the most economically efficient?

- A) Technique II with total costs of $15
- B) Technique I with total costs of $14
- C) Technique I with total costs of $19
- D) Technique III with total costs of $14

133) Answer the question based on the following information: Suppose 10 units of product X can be produced by employing just labor and capital in the three ways shown in the following table. Assume the prices of labor and capital are as shown.

	Resource price	Production Technique I	Production Technique II	Production Technique III
Labor	$ 2	3	4	3
Capital	$ 3	2	3	5

Which technique is the most economically efficient?

- A) Technique 3 with total costs of $21
- B) Technique 3 with total costs of $17
- C) Technique 1 with total costs of $12
- D) Technique 2 with total costs of $17

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134) Answer the question based on the following information: Suppose 42 units of product X can be produced by employing just labor and capital in the three ways shown in the following table. Assume the prices of labor and capital are as shown.

	Resource price	Production Technique 1	Production Technique 2	Production Technique 3
Labor	$ 7	3	4	2
Capital	$ 2	1	2	1

Which technique is the most economically efficient?

- A) Technique 3 with total cost of $16
- B) Technique 1 with total cost of $17
- C) Technique 3 with total cost of $32
- D) Technique 2 with total cost of $17

135) Answer the question based on the following information: Suppose 30 units of product A can be produced by employing just labor and capital in the four ways shown below. Assume the prices of labor and capital are $2 and $3, respectively.

	Production Techniques			
	1	2	3	4
Labor	4	3	2	5
Capital	2	3	5	1

If the price of product A is $0.50, the firm will realize

- A) an economic profit of $4.
- B) an economic profit of $2.
- C) an economic profit of $6.
- D) a loss of $3.

136) Answer the question based on the following information: Suppose 10 units of product A can be produced by employing just labor and capital in the four ways shown in the following table. Assume the prices of labor and capital are $2 and $3, respectively.

	Production Techniques			
	1	2	3	4
Labor	4	3	2	5
Capital	2	3	5	1

If the price of product A is $1.50, and the firm is producing efficiently the firm will realize

- A) economic profit of $15.
- B) economic profit of $28.
- C) economic profit of $10.
- D) economic profit of $2.
- E) economic loss of $2.

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137) Answer the question based on the following information: Suppose 36 units of product Y can be produced by employing just labor and capital in the four ways shown in the following table. Assume the prices of labor and capital are $3 and $4, respectively.

	Production Techniques			
	1	**2**	**3**	**4**
Labor	4	4	2	4
Capital	2	2	4	1

If the price of product A is $0.50, the firm will realize

- A) an economic profit of $16.
- B) a loss of $4.
- C) an economic profit of $2.
- D) an economic profit of $18.

138) With current technology, suppose a firm is producing 120 cupcakes daily. Also assume that the least-cost combination of resources for producing those cupcakes is 2 units of labor, 1 unit of land, 2 units of capital, and 3 units of entrepreneurial ability, selling at prices of $120, $30, $50, and $20, respectively. If the firm can sell these 120 cupcakes at $5 per unit, what is its total revenue?

- A) Total revenue is $600.
- B) Total revenue is $120.
- C) Total revenue is $220.
- D) Total revenue is $1,200.

139) With current technology, suppose a firm is producing 240 smoothies daily. Also assume that the least-cost combination of resources for producing those smoothies is 2 units of labor, 1 unit of land, 2 units of capital, and 3 units of entrepreneurial ability, selling at prices of $120, $30, $50, and $20, respectively. If the firm can sell these 240 smoothies at $4 per unit, what is its total revenue?

- A) Total revenue is $120.
- B) Total revenue is $220.
- C) Total revenue is $1,200.
- D) Total revenue is $960.

140) With current technology, suppose a firm is producing 120 cupcakes daily. Also assume that the least-cost combination of resources for producing those cupcakes is 2 units of labor, 1 unit of land, 2 units of capital, and 3 units of entrepreneurial ability, selling at prices of $120, $30, $50, and $20, respectively. If the firm can sell these 120 cupcakes at $5 per unit, what is its total cost?

- A) $220
- B) $430
- C) $8
- D) $960

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141) With current technology, suppose a firm is producing 120 cookies daily. Also assume that the least-cost combination of resources for producing those cookies is 2 units of labor, 1 unit of land, 2 units of capital, and 3 units of entrepreneurial ability, selling at prices of $120, $30, $50, and $20, respectively. If the firm can sell these 120 cookies at 2 per unit, what is its total cost?

- A) $220
- B) $8
- C) $960
- D) $430

142) With current technology, suppose a firm is producing 120 cupcakes daily. Also assume that the least-cost combination of resources for producing those cupcakes is 2 units of labor, 1 unit of land, 2 units of capital, and 3 units of entrepreneurial ability, selling at prices of $120, $30, $50, and $20, respectively. If the firm can sell these 120 cupcakes at $5 per unit, what is its total profit or loss? Will it continue to produce cupcakes?

- A) Total profit is $170 and yes, the firm will continue to produce cupcakes.
- B) Total profit is $600 and yes, the firm will continue to produce cupcakes.
- C) Total loss is −$480 and no, the firm will not continue to produce cupcakes.
- D) Total profit is $480 and yes, the firm will continue to produce cupcakes.

143) With current technology, suppose a firm is producing 100 cheesecakes daily. Also assume that the least-cost combination of resources for producing those cheesecakes is 2 units of labor, 1 unit of land, 2 units of capital, and 3 units of entrepreneurial ability, selling at prices of $120, $30, $50, and $20, respectively. If the firm can sell these 100 cheesecakes at $20 per unit, what is its total profit or loss? Will it continue to produce cheesecakes?

- A) Total profit is $600 and yes, the firm will continue to produce cheesecakes.
- B) Total profit is $1,570 and yes, the firm will continue to produce cheesecakes.
- C) Total loss is −$480 and no, the firm will not continue to produce cheesecakes.
- D) Total profit is $480 and yes, the firm will continue to produce cheesecakes.

144) In a competitive market economy, firms select the least-cost production technique because

- A) such choices will result in full employment of available resources.
- B) to do so will maximize the firms' profits.
- C) this will prevent new firms from entering the industry.
- D) "dollar voting" by consumers mandates such a choice.

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145) The market system's answer to the fundamental question "What will be produced?" is essentially
- A) "Goods and services that are profitable."
- B) "Low-cost goods and services."
- C) "Goods and services that can be produced using large amounts of capital."
- D) "Goods and services that possess lasting value."

146) The market system's answer to the fundamental question "Who will get the goods and services?" is essentially
- A) "Everyone will get an equal share."
- B) "Those most willing and able to pay for them."
- C) "Those who most need them."
- D) "The workers who produced them."

147) The market system's answer to the fundamental question "How will the goods and services be produced?" is essentially
- A) "With as much machinery as possible."
- B) "Using the latest technology."
- C) "By exploiting labor."
- D) "In ways that minimize the cost of output."

148) The market system's answer to the fundamental question "Who will get the goods and services?" is essentially
- A) "Those most willing and able to pay for them."
- B) "Those who physically produced them."
- C) "Those who most need them."
- D) "Those who get utility from them."

149) The market system's answer to the fundamental question "How will the system accommodate change?" is essentially
- A) "Through government leadership and direction."
- B) "Through the guiding function of prices and the incentive function of profits."
- C) "Through training and retraining programs."
- D) "Through trial and error."

150) The market system's answer to the fundamental question "Who will get the goods and services?" is essentially
- A) "Those most willing and able to pay for them."
- B) "Everyone will get an equal share."
- C) "Only those who have pre-ordered."
- D) "The workers who produced them."

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151) The market system's answer to the fundamental question "How will the system promote technological progress?" is essentially
   A) "Through government-funded research programs."
   B) "Through redistribution of income to promote greater equality."
   C) "Through training and retraining programs."
   D) "Through the profit potential that encourages development of new technology."

152) The "Maps" app and others like it, that are downloaded to smartphones, have demolished the market for printed maps purchased at a store. This is an example of
   A) creative destruction.
   B) derived demand.
   C) capital accumulation.
   D) the difference between normal and economic profits.

153) "Consumer sovereignty" refers to the
   A) fact that resource prices are higher than product prices in capitalistic economies.
   B) idea that the pursuit of self-interest is in the public interest.
   C) idea that the decisions of producers must ultimately conform to consumer demands.
   D) fact that a federal agency exists to protect consumers from harmful and defective products.

154) The dollar votes of consumers ultimately determine the composition of output and the allocation of resources in a market economy. This statement best describes the concept of
   A) derived demand.
   B) consumer sovereignty.
   C) the invisible hand.
   D) market failure.

155) Which of the following is *not* one of the five fundamental questions?
   A) What prices will be charged for goods and services?
   B) Who will get the goods and services?
   C) What goods and services will be produced?
   D) How will the system promote progress?

156) Which of the following is not one of the Five Fundamental Questions?
   A) How will the system accommodate change?
   B) What goods and services will be produced?
   C) Which products should be exported?
   D) How will the system promote technological progress?

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157) "Consumer sovereignty" means that
   A) buyers can dictate the prices at which goods and services will be offered.
   B) advertising is ineffective because consumers already know what they want.
   C) buyers control the quality of goods and services through regulatory agencies.
   D) buyers determine what will be produced based on their "dollar votes" for the goods and services offered by sellers.

158) Which of the following best describes the invisible-hand concept?
   A) The desires of resource suppliers and producers to further their own self-interest will automatically further the public interest.
   B) The inability to substitute resources creates a conflict between private and public interests and calls for government intervention.
   C) The market system is the best system for overcoming the scarce resources-unlimited wants problem.
   D) Central direction by the government will improve resource allocation in a capitalistic economy.

159) The invisible hand refers to the
   A) fact that the U.S. tax system redistributes income from rich to poor.
   B) notion that, under competition, decisions motivated by self-interest promote the social interest.
   C) tendency of monopolistic sellers to raise prices above competitive levels.
   D) fact that government controls the functioning of the market system.

160) The invisible-hand concept suggests that
   A) market failures imply the need for a national economic plan.
   B) big businesses are inherently more efficient than small businesses.
   C) the competitiveness of a capitalistic market economy invariably diminishes over time.
   D) assuming competition, private and public interests will coincide.

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161) Two major virtues of the market system are that it
- A) allocates resources efficiently and allows economic freedom.
- B) results in an equitable personal distribution of income and always maintains full employment.
- C) results in price-level stability and a fair personal distribution of income.
- D) eliminates discrimination and minimizes environmental pollution.

162) A virtue of the market system is
- A) you don't have to worry about making production and consumption decisions because the government will decide for you and your household.
- B) the market system will let you acquire skills and work hard, but it won't benefit you.
- C) the market system allows workers the freedom to further their own self-interest but *not* the freedom to become an entrepreneur.
- D) that it encourages efficiency with the development and adoption of new and more efficient production techniques.

163) The market system
- A) produces considerable inefficiency in the use of scarce resources.
- B) effectively provides incentives to workers and entrepreneurs.
- C) is not consistent with freedom of choice in the long run.
- D) has slowly lost ground to emerging command systems.

164) According to the concept of the "invisible hand," if Susie opens and operates a profitable childcare center, then
- A) government should regulate the business to ensure quality.
- B) the profit Susie earns indicates that she is overcharging for her services.
- C) she has served society's interests by providing a desired good or service.
- D) this demonstrates that consumer sovereignty is not present in this market.

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165) The invisible hand promotes society's interests because

  A) individuals pursuing their self-interest will try to produce goods and services that people in society want and are willing to purchase.

  B) individuals will produce goods for others out of concern for their fellow human beings.

  C) it makes sure that everyone wins from competition in the market.

  D) government regulation pushes business into producing the right mix of goods and services.

166) The coordination problem in the centrally planned economies refers to the idea that

  A) planners had to direct required inputs to each enterprise.

  B) the price level and the level of employment were inversely related.

  C) the immediate effect of more investment was less consumption.

  D) exports had to be equal to imports for a central plan to work.

167) The coordination problem in the centrally planned economies refers to the idea that

  A) the central bank did not always send money to households in time for them to go shopping.

  B) there were no fluctuations in prices and profitability to signal that more or less of certain products was desired.

  C) surpluses, but not shortages, would be quickly eliminated under the central plan.

  D) there was no advertising to let consumers know where to go to buy products.

168) "Under central planning, some group has to decide how to get the necessary inputs produced in the right amounts and delivered to the right places at the right time. This is a nearly impossible task without markets and profits." This quotation best identifies the

  A) incentive problem under central planning.

  B) coordination problem under central planning.

  C) self-sufficiency dilemma under communism.

  D) resource overcommitment problem under communism.

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169) In centrally planned economies, many products were unavailable or in short supply, while other products were overproduced and sat for months or years in warehouses because
   A) there were no flucuations in price and profits to signal that more or less of certain products was desired.
   B) the central planners had no incentive to adjust production because they were rewarded anyway.
   C) bottlenecks and production stopages became the norm as inputs needed in production were unavailable.
   D) All of these choices are correct.

170) "Because the outputs of many industries are the inputs to other industries, the failure of any single industry to fulfil the output quantities specified in the central plan caused a chain reaction of adverse repercussions on production." This quotation best identifies the
   A) incentive problem under central planning.
   B) self-sufficiency dilemma under communism.
   C) resource overcommitment problem under communism.
   D) coordination problem under central planning.

171) The incentive problem under communist central planning refers to the idea that
   A) planners had to direct required inputs to each enterprise.
   B) workers, managers, and entrepreneurs could not personally gain by responding to shortages or surpluses or by introducing new and improved products.
   C) the immediate effect of more investment was less consumption.
   D) exports had to be equal to imports for a central plan to work.

172) Suppose that an individual sees a tremendous opportunity to produce and sell a new product but dismisses the idea because there is no way to exploit this opportunity for personal gain. This situation best identifies the
   A) coordination problem under communist central planning.
   B) self-sufficiency dilemma under communism.
   C) asymmetric information problem under communism.
   D) incentive problem under communist central planning.

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173) Innovation lagged in the centrally planned economies because
   A) there was too much domestic business competition.
   B) there was too much competition from foreign firms.
   C) enterprises resisted innovation in fear that their production targets would be raised.
   D) exports had to equal imports for the plan to work.

174) The fact that the major indicator of enterprise success in the Soviet Union and pre-reform China was the quantity of output implied that
   A) product quality was neglected.
   B) production costs were minimized.
   C) product mix met consumer needs.
   D) technological advance was too rapid.

175) Enterprise managers and workers in the Soviet Union often resisted innovations in production methods because
   A) production targets were often increased when innovation occurred.
   B) there was a chronic shortage of computers.
   C) workers could not be reallocated geographically.
   D) innovations ordinarily increased dependence on world markets.

176) If products were in short or surplus supply in the Soviet Union,
   A) price and profit signals eliminated those shortages and surpluses.
   B) price and profit signals intensified those shortages and surpluses.
   C) producers would not react because no price or profit signals occurred.
   D) the planners would immediately adjust production to achieve equilibrium.

177) The simple circular flow model shows that
   A) households are on the buying side of both product and resource markets.
   B) businesses are on the selling side of both product and resource markets.
   C) households are on the selling side of the resource market and on the buying side of the product market.
   D) businesses are on the buying side of the product market and on the selling side of the resource market.

178) The two basic markets shown by the simple circular flow model are
   A) capital goods and consumer goods.
   B) competitive and regulated.
   C) product and resource.
   D) household and business.

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179) In the resource market,
   A) businesses borrow financial capital from households.
   B) businesses sell services to households.
   C) households sell resources to businesses.
   D) firms sell raw materials to households.

180) In the resource market,
   A) businesses earn revenue from selling goods and services.
   B) wages, rents, interest, and profits flow to households.
   C) goods and services are bought and sold.
   D) money flows from households to businesses.

181) In the simple circular flow model,
   A) households are buyers of resources.
   B) businesses are sellers of final products.
   C) households are sellers of final products.
   D) there are real flows of goods, services, and resources, but not money flows.

182)

Refer to the diagram. Flow 1 represents
   A) wage, rent, interest, and profit income.
   B) land, labor, capital, and entrepreneurial ability.
   C) goods and services.
   D) consumption expenditures.
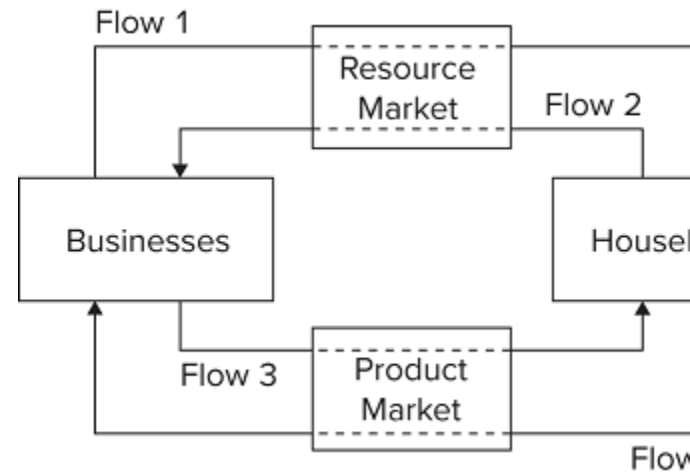
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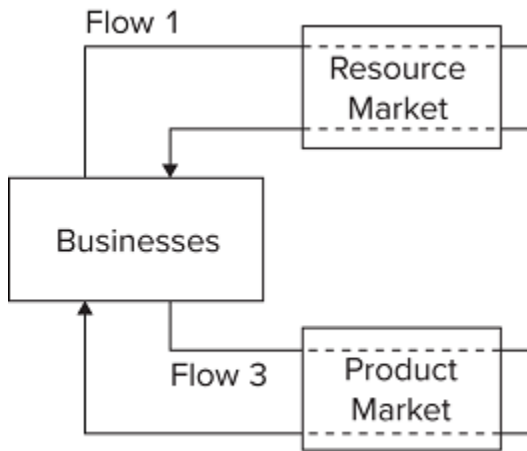
183)

Refer to the diagram. Flow 4 represents
A) goods and services.
B) wage, rent, interest, and profit income.
C) land, labor, capital, and entrepreneurial ability.
D) consumption expenditures and business revenue.
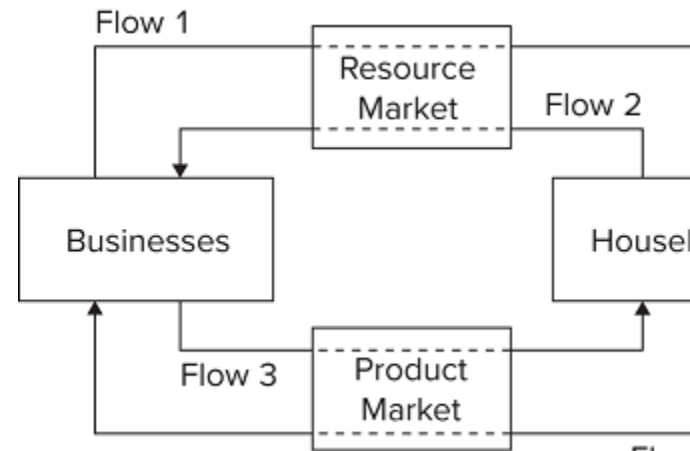
184)

Refer to the diagram. Flow 2 represents
A) wage, rent, interest, and profit income.
B) land, labor, capital, and entrepreneurial ability.
C) goods and services.
D) consumption expenditures.
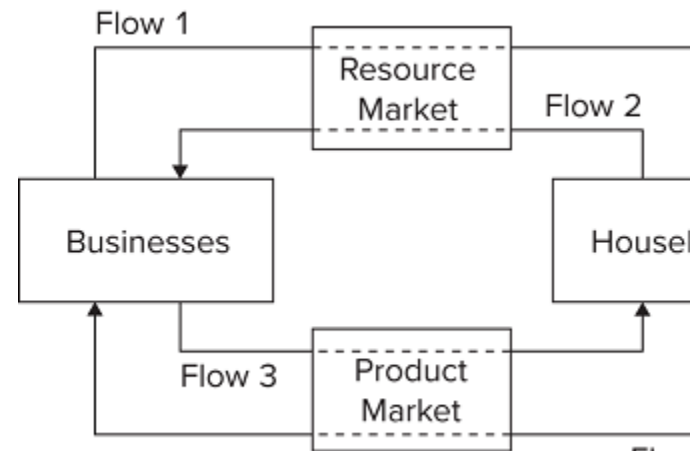
185)

Refer to the diagram. Flow 3 represents
A) wage, rent, interest, and profit income.
B) land, labor, capital, and entrepreneurial ability.
C) goods and services.
D) consumption expenditures.

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187) <p><strong>

186)
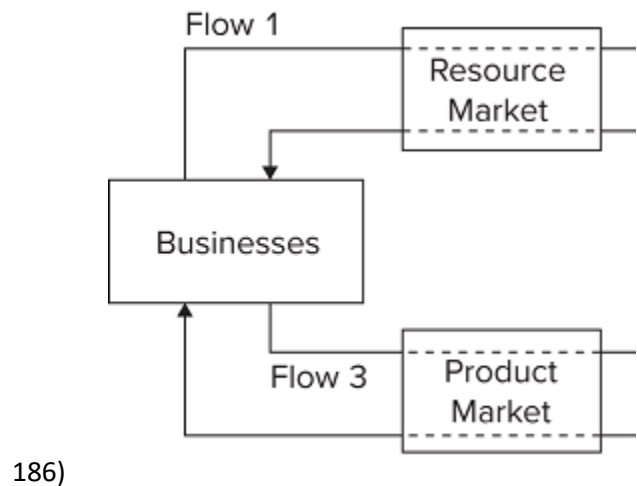
Refer to the diagram. Flow 4 represents

- A) wage, rent, interest, and profit income.
- B) land, labor, capital, and entrepreneurial ability.
- C) goods and services.
- D) consumption expenditures and business revenue.
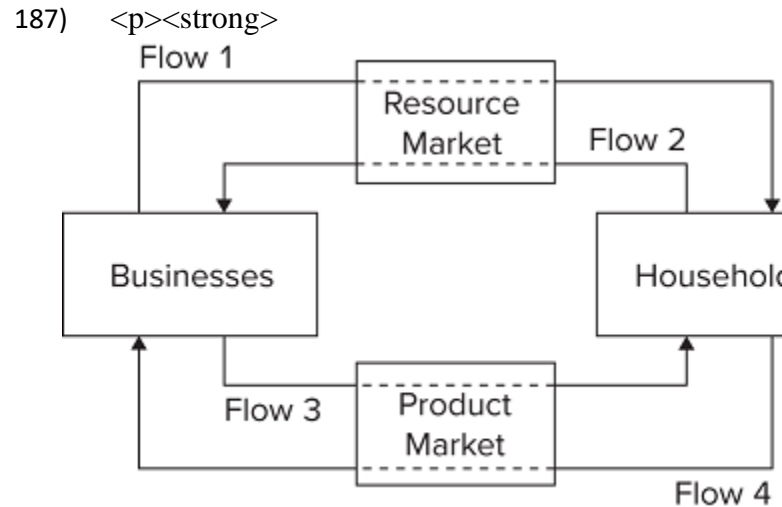
Refer to the diagram. Flow 1 represents

- A) a money flow from households to businesses.
- B) consumption expenditures.
- C) a flow of money income to households.
- D) a flow of products from households to businesses.

188) Which of the following would be determined in the product market?

- A) the price of 100 acres of commercial property
- B) the price of a new screen printing machine used in t-shirt production
- C) the price of an energy drink that you just put in your shopping basket
- D) the price of a new self-driving tractor-trailer

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189) Which of the following would be determined in the product market?
- A) the price of your new laptop
- B) 10,000 bushels of wheat
- C) the price of new shelves for a grocery store
- D) the price of railroad ties purchased by B&O Railroad

190) Which of the following will be determined in the resource market? The price of a
- A) pair of jeans.
- B) new snowboard.
- C) concert ticket.
- D) Boeing 787 plane.

191) Which of the following will be determined in the resource market? The price of a
- A) new tractor-trailer for a Nascar race team.
- B) all of the answer choices are correct.
- C) pizza oven for a restaurant.
- D) load of lumber for a construction project.

192) In terms of the circular flow diagram, households make expenditures in the _____ market and receive income through the _____ market.
- A) product; financial
- B) resource; product
- C) product; resource
- D) capital; product

193) In terms of the circular flow diagram, businesses obtain revenue through the _____ market and make expenditures in the _____ market.
- A) product; financial
- B) resource; product
- C) product; resource
- D) capital; product

194) Households and businesses are
- A) both buyers in the resource market.
- B) both sellers in the product market.
- C) sellers in the resource and product markets respectively.
- D) sellers in the product and resource markets respectively.

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(1)

(3)

Businesses

(4)

(2)

195)
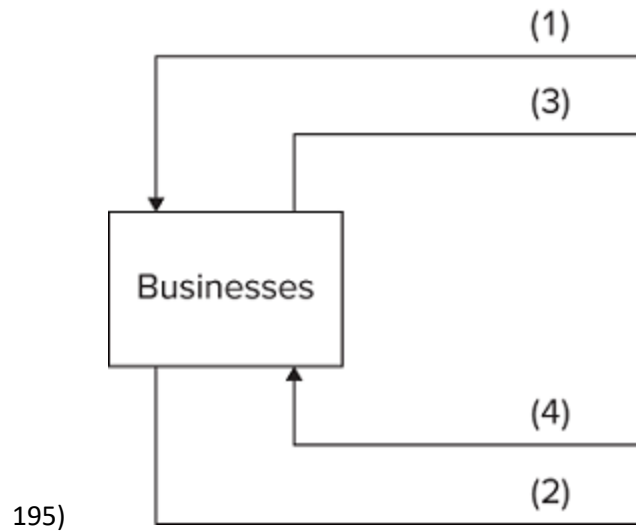
Refer to the diagram. Arrows (1) and (2) represent

A) goods and resources, respectively.

B) money incomes and output, respectively.

C) output and money incomes, respectively.

D) resources and goods, respectively.

(1)

(3)

Businesses

(4)

(2)

196)
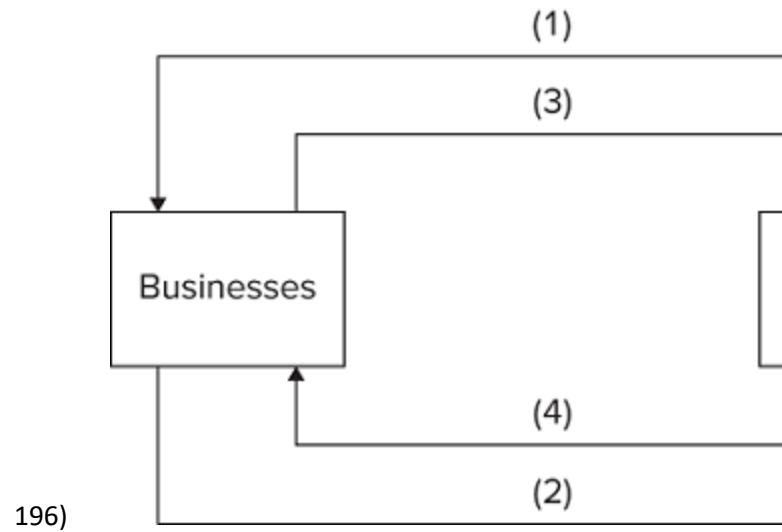
Refer to the diagram. Arrows (3) and (4) represent

A) goods and services, respectively.

B) incomes and consumption expenditures, respectively.

C) resources and goods, respectively.

D) consumption expenditures and income, respectively.

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197)
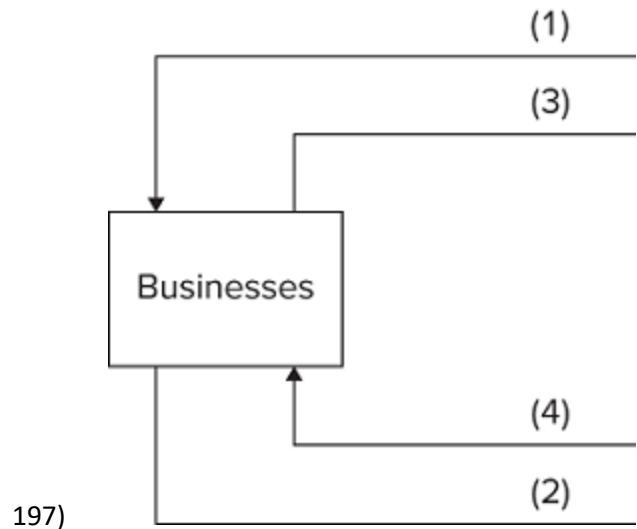
Refer to the diagram. Arrows (1) and (3) are associated with
- A) the money market.
- B) the resource market.
- C) the product market.
- D) international trade.

198) Which of the following best illustrates the circular flow model in action?
- A) Charlotte goes to work and builds cars; she uses the income she receives to buy food at the grocery store.
- B) Evan buys a new couch; the owner of the furniture store uses some of the money from the sale to pay her supplier and uses the rest to take her family out to dinner.
- C) Boeing experiences a surge in orders for new airplanes, prompting the company to hire more workers.
- D) All of these answers illustrate the workings of the circular flow model.

199) In a market system,
- A) firm owners and employees share business risk more or less equally.
- B) a firm's employees and suppliers are largely shielded from risk, relative to business owners.
- C) employees and suppliers face the greatest risks, because firms can shut down without notice and leave them unpaid.
- D) a firm's owners are largely shielded from risk because they can walk away from the business at any time.

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200) In a market system, employees and suppliers
   A) are usually shielded from risk but at the cost of not sharing in the profits of the firm.
   B) are usually shielded from risk and share in the profits of the firm.
   C) are generally subject to as much risk as the owners of the firm but get to share in the profits.
   D) bear as much risk as the owners of the firm but do not get to share in the profits.

201) A market system tends to restrict business risk to owners and investors. This results in which of the following benefits?
   A) a more stable macroeconomy with fewer recessions
   B) Firms are better able to attract inputs, as the inputs do not have to share the risk.
   C) Government agencies are better prepared to help when businesses fail.
   D) consistently lower prices for consumers

202) A market system tends to restrict business risk to owners and investors. This results in which of the following benefits?
   A) It encourages more people to become entrepreneurs.
   B) Firms have to pay more to attract inputs, as these inputs have to share the risk.
   C) Firms focus attention on prudent risk management, as it is profitable to manage risk.
   D) Income becomes more equally distributed.

203) Liam and Amelia are the owners of a pet store. They invested $100,000 each and pay an employee named Olivia $28,000 per year. This year's revenues are $300,000, while costs are $240,000. Who will receive the $60,000 in profit?
   A) The three of them, Liam, Amelia, and Olivia will share the profits.
   B) just Olivia
   C) No one, they had a loss of $40,000.
   D) Liam and Amelia

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204) Benjamin and Evelyn are the owners of a bicycle shop. They invested $100,000 each and pay an employee named Noah $28,000 per year. This year's revenues are $300,000, while costs are $240,000. Who will receive the $60,000 in profit?

- A) The three of them, Benjamin, Evelyn, and Noah will share the profits.
- B) just Noah
- C) Benjamin and Evelyn
- D) No one, they had a loss of $40,000.

205) Henry and Harper decide to open a concession stand next to a city park that has a number of sports fields. They each contribute $1,000 and rent a small food trailer and buy supplies. They anticipate being busy, so they hire James to help out and pay him weekly. The first summer, they make $12,000 and incur $6,000 in costs. How much profit is made and who will receive it?

- A) Henry will get the profit of $6,000 since it was his idea.
- B) Henry and Harper will share the $6,000 of profit.
- C) No one, they had a loss of $6,000.
- D) Henry, Harper, and James will share the profit of $6,000.

206) Lucas and Sophia decide to open a car washing business over the summer and they begin by each contributing $50. They buy supplies and hire 2 helpers who are paid at the end of each day. By the end of the summer, they had received $2,800 in total revenue and incurred total costs of $3,000. Who is responsible for the $200 loss?

- A) Lucas
- B) Sophia
- C) Lucas, Sophia, and the 2 helpers
- D) Lucas and Sophia

207) Riley and Ryan decide to open a dog walking business over the summer and they begin by each contributing $50. They buy supplies and hire 2 helpers who are paid at the end of each day. By the end of the summer, they had received $2,800 in total revenue and incurred total costs of $3,000. Who is responsible for the $200 loss?

- A) Riley
- B) Riley and Ryan
- C) Ryan
- D) Riley, Ryan, and the 2 helpers

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208) Economic systems differ from one another based on who owns the factors of production and
   A) how many resources are available in the economy and where they are located.
   B) how economic activities are coordinated and directed.
   C) what kinds of products are produced in the economy and how they are sold.
   D) how big the population is and the makeup of the population.

209) The market system is an economic system that
   A) produces more consumer goods than capital goods.
   B) produces more capital goods than consumer goods.
   C) gives private individuals the right to own resources used in production.
   D) emphasizes the government's power to control markets and direct economic activity.

210) The market system is also known as _____, while the command system is also known as _____.
   A) capitalism; socialism
   B) socialism; communism
   C) central planning; laissez-faire
   D) a production system; a planning system

211) Laissez-faire capitalism limits the government's economic functions to the following, *except*
   A) protecting private property rights.
   B) establishing a legal environment to enforce contracts among individuals.
   C) preventing individuals and firms from coercing others.
   D) setting prices of individual goods and services.

212) One major element of the command system is
   A) an emphasis on private ownership of resources.
   B) individual decentralized decision making.
   C) reliance on supply-and-demand forces to guide economic activity.
   D) central planning conducted by the government.

213) The government may impose industrial safety regulations and occupational licensing requirements in which of the following economic systems?
   A) the laissez-faire economy
   B) pure capitalism
   C) a mixed-market economy
   D) macroeconomic systems

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214) In a command system,
   A) self-interest motivates and commands each business firm's decisions and actions.
   B) the head of each family decides and commands what to do with the family's resources.
   C) a government-appointed planning board makes production and allocation decisions.
   D) market traders command what outputs are produced and how they are allocated.

215) Which of the following would *not* be emphasized in a capitalist economy?
   A) private ownership of capital and other resources
   B) competition and decentralized decisions regarding production and consumption
   C) reliance on market forces to coordinate economic activity
   D) prevention of firms from exposing themselves to financial risk

216) The government may not implement policies intended to redistribute income in which of the following economic systems?
   A) laissez-faire capitalism
   B) command systems
   C) a mixed economy
   D) the market system

217) The economies of North Korea and Cuba are
   A) similar in that they are both basically command systems.
   B) similar in that they are both basically market systems.
   C) different in that North Korea has a command system, while Cuba has a market system.
   D) different in that Cuba has a command system, while North Korea has a market system.

218) *Laissez-faire* capitalism is characterized by
   A) a very limited government role in the economy.
   B) active government intervention in the economy.
   C) individuals and firms abiding by a government economic plan.
   D) the economic system of the United States today.

219) By freedom of enterprise, we mean that individual
   A) workers are free to look for jobs and work for whichever firm will hire them.
   B) firms are free to employ resources, to produce output, and to sell products.
   C) producers are free to produce whatever the government decides is needed by the society.
   D) consumers are free to buy whatever products will satisfy their needs the most.

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220) Capitalism gets its name from the fact that capital resources are mostly
A) owned by the state or government.
B) given the highest priority in the economy's income distribution.
C) treated as private property.
D) in the form of money and financial resources.

221) The main characteristics of a modern market system include all of the following *except*
A) entrepreneurs are free to obtain and use resources to produce goods and services.
B) consumers are free to buy the goods and services that their budgets allow.
C) economic power is diffused by competition among economic units.
D) government is restricted to national defense and does not intervene at all in various markets.

222) In a market system, self-interest is the motivating force that
A) makes individuals unwilling to deliver anything of value to others.
B) makes owners of resources always want to use their resources themselves.
C) leads the economy to chaos and confusion, especially the larger economies.
D) coordinates and creates consistency in the operations of various parts of the economy.

223) Which of the following statements about self-interest in a market system is false?
A) Self-interest usually motivates an individual to deliver something of value to others.
B) Self-interest of entrepreneurs implies seeking maximum profits or minimum losses.
C) Self-interest applies only to capitalists and entrepreneurs, not to workers employed by others.
D) In a market system, consumers are just like firms: self-interest is what motivates them.

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224) Which of the following statements about self-interest in a market system is false?

    A) Self-interest usually motivates an individual to deliver something of value to others.

    B) Self-interest of entrepreneurs implies seeking maximum profits or minimum losses.

    C) Self-interest applies to businesses as they attempt to maximize their production costs.

    D) In a market system, consumers are motivated by self-interest to seek the lowest prices for the products they want.

225) Consumers express self-interest when they

    A) seek the lowest price for a product.

    B) reduce business losses.

    C) collect economic profits.

    D) exclude others in their thinking.

226) Private property and freedom of choice in a market system have the following implications, *except*

    A) individuals are free to take on the financial risks involved in a business.

    B) trades that take place in the economy are mutually agreeable transactions among individuals.

    C) economic agents can act in their own self-interest.

    D) large firms are allowed to coerce other firms and individuals.

227) Which of the following statements about the right to private ownership is false?

    A) It enables individuals to obtain, use, and dispose of land and capital resources as they see fit.

    B) It encourages investment and innovation, and thus fosters economic growth.

    C) It extends to intangibles such as pieces of music and computer programs.

    D) It weakens the incentive to maintain the property that one already owns.

228) Competition is more likely to exist when

    A) there is easy entry into and exit out of industries.

    B) a government-issued license is required to set up a firm in an industry.

    C) the government purchases most goods and services.

    D) economic power is concentrated among a few large firms.

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229) Competition in a market system denotes a condition where
   A) the diffusion of economic power limits its potential abuse.
   B) any given product can be purchased at a wide range of prices.
   C) contractual agreements among individual firms are restricted and avoided.
   D) a few large, dominant sellers are constantly jostling for market share.

230) Which of the following statements about markets and prices is correct?
   A) In a market system, buyers and sellers must be in face-to-face contact with each other.
   B) Prices affect the distribution of goods in a market system, but not the allocation of resources.
   C) In a market system, rising and falling prices may be due to changing demands by consumers.
   D) The operation of a market system has little, if any, effect on the distribution of income in the economy.

231) In a capitalist system, the decisions and actions of millions of consumers and firms are highly coordinated by
   A) the state governments.
   B) markets and prices.
   C) a central planning agency.
   D) an international organization.

232) All of the following statements describe a market economy *except*
   A) government prescribes the market prices for goods and services.
   B) prices provide important signals to buyers and sellers.
   C) the allocation of resources is determined by their prices.
   D) the actions of buyers and sellers establish a product's price.

233) A characteristic of the market system is
   A) extensive use of direct or manual methods of production.
   B) a focus on labor, as opposed to capital resources.
   C) reliance on the use of technologically advanced capital goods in production.
   D) avoidance of producing goods that do not satisfy consumer wants directly.

234) Which of the following does not foster innovation and technological advance?
   A) competition in markets
   B) freedom of choice and enterprise
   C) self-interest and personal rewards
   D) fear and avoidance of risk

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235) The Heritage Foundation in 2021 ranked which of the following economies to have the highest economic freedom?
A) the United States
B) Germany
C) Japan
D) Singapore

236) A production system where various workers concentrate on different specialized tasks to contribute toward a whole product is referred to as
A) a coincidence of wants.
B) incentivized production.
C) freedom of enterprise.
D) division of labor.

237) How does human specialization contribute toward increasing an economy's output?
A) It takes advantage of individual's differences in abilities.
B) It is a process of creative destruction.
C) It pushes each worker to master the whole product.
D) It encourages people to be a "jack-of-all-trades."

238) With specialization in a market economy, individual
A) firms produce a wide range of products.
B) producers consume little or none of the products they produce.
C) producers consume most of the output that they produce.
D) consumers have to produce most of what they consume.

239) Which of the following is *not* a reason why specialization and trade are beneficial to society?
A) The total output of economic goods may be increased even without any increase in resources.
B) Scarce resources are utilized more efficiently by taking advantage of differences among them.
C) Human specialization fosters learning by doing, thus lowering the costs of products.
D) Firms and workers become less dependent on others for producing goods and services.

240) A required element for specialization to lead to an increase in the satisfaction of society's wants is
A) a capitalist economy.
B) exchange and trade.
C) the use of money.
D) a central plan.

241) Specialization is beneficial
A) at the individual firm level, but not at the national and international levels.
B) at the individual, regional, and even international levels.
C) only if there are differences in the abilities of resources.
D) only as long as money and capital goods are employed.

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242) Which is an example of barter?
 A) A person trades a desk for a box of tools.
 B) A person buys clothes at a used clothing store.
 C) a gift of tuition money from parents to their children
 D) the purchase of stock on the New York Stock Exchange

243) An economic system in which money is *not* used as a medium of exchange is a
 A) planned economy.
 B) market economy.
 C) mixed economy.
 D) barter economy.

244) Which of the following is necessary to make a trade in a barter economy?
 A) money
 B) unlimited wants
 C) a medium of exchange
 D) a coincidence of wants

245) The use of money for exchange and trade
 A) increases the importance of barter.
 B) fosters more specialization in production.
 C) reduces consumer sovereignty.
 D) raises the need for a coincidence of wants.

246) Anything that is generally acceptable in trading for goods and services is a
 A) medium of exchange.
 B) capital good.
 C) store of value.
 D) resource.

247) Which of the following is the main problem with the barter system of exchange?
 A) It encourages self-interest.
 B) It fosters the division of labor.
 C) It requires a coincidence of wants.
 D) It undermines the right to bequeath.

248) International specialization and trade
 A) must be done on a barter system.
 B) often requires the exchange of currencies.
 C) does not illustrate the division of labor.
 D) requires active government regulation.

249) Why might a company use barter rather than money to make a trade?
 A) Barter trade is generally more efficient than money-based trade.
 B) Barter can enable two firms to trade when their cash flows are limited.
 C) Money requires a coincidence of wants; barter is more direct.
 D) Money is efficient only for large transactions, so barter is preferred for smaller transactions.

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250) Which of the following is assumed to be most limited in scope under a market system?
   A) entrepreneurship
   B) self-interest
   C) specialization
   D) government

251) If a nation restricts trade with other nations, then the most likely effect is
   A) lower prices of goods and services in the nation.
   B) increased specialization of production.
   C) expanded economic wealth of the nation.
   D) consumers in the nation are made worse off.

252) Which is one of the five fundamental questions that need to be dealt with in any economic system?
   A) What makes the rate of unemployment low?
   B) Who will be the richest group in the economy?
   C) How will goods and services be produced?
   D) How high should the prices of goods and services be?

253) Which of the following is *not* one of the five fundamental questions that an economy must deal with?
   A) How will the goods and services be produced?
   B) Why should the goods and services be produced?
   C) Who is to receive the goods and services produced in the economy?
   D) In what ways will progress be promoted?

254) Consumer sovereignty and "dollar votes" guide the market system in dealing with which fundamental economic question?
   A) What goods and services will be produced?
   B) How is the output to be produced?
   C) How can the system accommodate change?
   D) Who is to receive the output?

255) Identify one example of creative destruction below.
   A) E-bikes have made Ferris wheels obsolete.
   B) Drone delivery systems eliminated the need for ocean-going cargo ships.
   C) Smartphones have eliminated the need for printed maps.
   D) A new brand of cereal called "Power Up" temporarily reduces demand for "Break Fast" brand cereal.

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256) Capital accumulation
   A) is not important in a market system since consumers do not buy capital goods directly.
   B) occurs through the increased dollar votes for these goods by entrepreneurs and business owners.
   C) is not necessary if technological advance is occuring.
   D) All of these choices are correct.

257) The term *consumer sovereignty* means that
   A) government is responsible for protecting consumers' interests.
   B) what is produced is ultimately determined by what consumers buy.
   C) there are no limits on what consumers may buy in a market system.
   D) producers have strong control over what consumers buy.

258) The market system is said to be characterized by "consumer sovereignty." This is because
   A) a sovereign government determines which consumer goods will be produced.
   B) the prices of consumer goods are regulated by a sovereign government.
   C) firms must match their production decisions to the consumers' choices.
   D) consumer goods are considered to be more important than capital goods.

259) The term *dollar votes* in a market system means
   A) inflation will occur if consumers don't spend wisely.
   B) voters may be offered dollars to help elect certain political candidates.
   C) government is responsible for determining what will be considered legal tender.
   D) consumers "vote" for certain products to be produced by how they spend their incomes.

260) In a market system, the "What will be produced?" question is ultimately decided by
   A) profitability of products.
   B) costs of production.
   C) workers in the firms.
   D) industry analysts.

261) Payments that a firm makes to obtain needed resources comprise its
   A) costs.
   B) profits.
   C) capital.
   D) revenues.

262) In a market system, more resources will move toward an industry and expand its production if the industry has
   A) positive revenues.
   B) positive costs.
   C) $TC < TR$.
   D) $TC > TR$.

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263) In a market system, if firms in an industry persistently earn total revenues that are less than total costs, then that industry will
   A) have some firms go out of business.
   B) attract more resources toward it.
   C) experience entry of new firms.
   D) get government protection from failure.

264) In a market system, which of the following will eliminate high-cost producers and allow only the low-cost producers to survive?
   A) competition
   B) money
   C) a sovereign government
   D) specialization

265) If the total costs of producing 1,500 units of output is $15,000 and this output sold to consumers for a total of $16,500, then the firm would earn economic profits of
   A) $31,500.
   B) $16,500.
   C) $1,500.
   D) $15,000.

266) If the total costs of producing 1,500 units of output is $12,000 and this output sold to consumers for a total of $15,000, then the firm would earn economic profits of
   A) $3,000.
   B) $15,000.
   C) $18,000.
   D) $27,000.
   E) $12,000.

267) If the total costs of producing 1,900 units of output is $15,400 and this output sold to consumers for a total of $18,500, then the firm would earn economic profits of
   A) $31,900.
   B) $3,100.
   C) $15,400.
   D) $16,900.

268) The production technique that is most efficient is the one that produces a given amount of output
   A) using the least amount of labor resources.
   B) at the highest price per unit.
   C) at the lowest cost.
   D) that yields the highest revenues.

269) Economic efficiency is the primary guide in answering which of the fundamental questions in a market economy?
   A) What goods and services will be produced?
   B) How will the goods and services be produced?
   C) How will the system accommodate change?
   D) Who will get the output?

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270) Suppose a firm can produce 70 units of a product, Zenia, by combining labor, land, capital, and entrepreneurial ability, as in the four alternative techniques shown in the table below. Assume further that the firm can hire labor at $3 per unit, land at $3 per unit, capital at $6 per unit, and entrepreneurship at $9 per unit.

	Production Techniques			
	A	B	C	D
Labor	4	10	6	5
Land	5	3	3	3
Capital	5	2	4	4
Entrepreneurship	1	1	1	1

Refer to the provided table. Which technique is the most economically efficient way of producing Zenia?

A) A
B) B
C) C
D) D

271) Suppose a firm can produce 74 units of a product, Zenia, by combining labor, land, capital, and entrepreneurial ability, as in the four alternative techniques shown in the following table. Assume further that the firm can hire labor at $3 per unit, land at $5 per unit, capital at $7 per unit, and entrepreneurship at $9 per unit.

	Production Techniques			
	A	B	C	D
Labor	1	10	6	5
Land	5	3	3	3
Capital	2	2	3	1
Entrepreneurship	2	1	1	4

Refer to the provided table. Which technique is the most economically efficient way of producing Zenia?

A) B
B) C
C) A
D) D

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272) Suppose a firm can produce 70 units of a product, Zenia, by combining labor, land, capital, and entrepreneurial ability, as in the four alternative Techniques shown in the table below. Assume further that the firm can hire labor at $3 per unit, land at $3 per unit, capital at $6 per unit, and entrepreneurship at $9 per unit.

	Production Techniques			
	A	B	C	D
Labor	4	10	6	5
Land	5	3	3	3
Capital	5	2	4	4
Entrepreneurship	1	1	1	1

Refer to the provided table, and suppose that the firm uses production Technique D. If each of the 70 units of Zenia that are produced sells for $1 apiece, then how much will be the total profits of the firm from 70 units of Zenia?

A) $70
B) $57
C) $13
D) $83

273) Suppose a firm can produce 170 units of a product, Zenia, by combining labor, land, capital, and entrepreneurial ability, as in the four alternative techniques shown in the following table. Assume further that the firm can hire labor at $3 per unit, land at $8 per unit, capital at $11 per unit, and entrepreneurship at $14 per unit.

	Production Techniques			
	A	B	C	D
Labor	9	20	16	10
Land	5	3	3	3
Capital	5	2	3	1
Entrepreneurship	3	1	1	4

Refer to the provided table, and suppose that the firm uses production technique C. If each of the 170 units of Zenia that are produced sells for $1 apiece, then how much will be the total profits of the firm from all units of Zenia?

A) $70
B) $57
C) $51
D) $83

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274) Suppose a firm can produce 70 units of a product, Zenia, by combining labor, land, capital, and entrepreneurial ability, as in the four alternative techniques shown in the table below. Assume further that the firm can hire labor at $3 per unit, land at $3 per unit, capital at $6 per unit, and entrepreneurship at $9 per unit.

	Production Techniques			
	A	B	C	D
Labor	4	10	6	5
Land	5	3	3	3
Capital	5	2	4	4
Entrepreneurship	1	1	1	1

Refer to the provided table. If the price of labor declines from $3 to $2 per unit, then which technique is the least costly way of producing Zenias?

A) A

B) B

C) C

D) D

275) Suppose a firm can produce 74 units of a product, Zenia, by combining labor, land, capital, and entrepreneurial ability, as in the four alternative techniques shown in the following table. Assume further that the firm can hire labor at $3 per unit, land at $5 per unit, capital at $8 per unit, and entrepreneurship at $11 per unit.

	Production Techniques			
	A	B	C	D
Labor	4	10	6	5
Land	5	3	3	3
Capital	5	2	3	1
Entrepreneurship	3	2	1	4

Refer to the provided table. If the price of labor declines from $3 to $2 per unit, then which technique is the least costly way of producing Zenias?

A) D

B) A

C) C

D) B

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276) The following table illustrates alternative production techniques for producing 18 widgets that can be sold for $1 each, for a total revenue of $18.

Resource	Price Per Unit of Resource	Production Techniques			
		A	B	C	D
Labor	$2	3	2	1	2
Land	$1	2	1	3	1
Capital	$4	1	2	2	3
Entrepreneurship	$3	1	2	1	1

Based on the data given in the table, the most economically efficient production technique is

A) A.
B) B
C) C
D) D

277) The following table illustrates alternative production techniques for producing 18 frisbees that can be sold for $2 each, for a total revenue of $36.

Resource	Price Per Unit of Resource	Production Techniques			
		A	B	C	D
Labor	$3	3	2	1	2
Land	$1	4	1	3	1
Capital	$4	1	2	2	1
Entrepreneurship	$3	1	2	1	1

Based on the data given in the table, the most economically efficient production technique is

A) C.
B) B.
C) D.
D) A.

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278) The following table illustrates alternative production Techniques for producing 18 widgets that can be sold for $1 each for a total revenue of $18.

Resource	Price Per Unit of Resource	Production Techniques			
		A	B	C	D
Labor	$2	3	2	1	2
Land	$1	2	1	3	1
Capital	$4	1	2	2	3
Entrepreneurship	$3	1	2	1	1

Using Ttechnique A will result in an
- A) economic loss of $2.
- B) economic profit of $1.
- C) economic profit of $2.
- D) economic profit of $3.

279) The following table illustrates alternative production techniques for producing 18 batteries that can be sold for $2 each for a total revenue of $36.

Resource	Price Per Unit of Resource	Production Techniques			
		A	B	C	D
Labor	$2	3	2	1	2
Land	$1	5	1	3	1
Capital	$4	1	2	2	3
Entrepreneurship	$3	1	2	1	1

Using technique C will result in an
- A) economic profit of $20.
- B) economic loss of $16.
- C) economic profit of $1.
- D) economic profit of $2.

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280) The following table illustrates alternative production techniques for producing 18 widgets that can be sold for $1 each for a total revenue of $18.

Resource	Price Per Unit of Resource	Production Techniques			
		A	B	C	D
Labor	$2	3	2	1	2
Land	$1	2	1	3	1
Capital	$4	1	2	2	3
Entrepreneurship	$3	1	2	1	1

If the price per unit of labor were to increase from $2 to $3, the most efficient production technique would then be

A) A.
B) B.
C) C.
D) D.

281) The following table illustrates alternative production techniques for producing 18 golf balls that can be sold for $1 each for a total revenue of $18.

Resource	Price Per Unit of Resource	Production Techniques			
		A	B	C	D
Labor	$2	3	2	1	2
Land	$1	2	1	3	1
Capital	$4	1	2	2	3
Entrepreneurship	$3	1	2	1	1

If the price per unit of labor were to increase from $2 to $3, the most efficient production technique would then be

A) D.
B) A.
C) B.
D) C.

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282) The following table illustrates alternative production techniques for producing 18 widgets that can be sold for $1 each for a total revenue of $18.

Resource	Price Per Unit of Resource	Production Techniques			
		A	B	C	D
Labor	$2	3	2	1	2
Land	$1	2	1	3	1
Capital	$4	1	2	2	3
Entrepreneurship	$3	1	2	1	1

If the price of labor increases from $2 to $3, then the results of using Technique C will change from an economic

- A) loss of $2 to a loss of $1.
- B) profit of $2 to a profit of $1.
- C) profit of $1 to a profit of $2.
- D) loss of $1 to a loss of $2.

283) The following table illustrates alternative production techniques for producing 18 batteries that can be sold for $1 each for a total revenue of $18.

Resource	Price Per Unit of Resource	Production Techniques			
		A	B	C	D
Labor	$2	3	2	1	2
Land	$1	2	1	3	1
Capital	$4	1	2	2	3
Entrepreneurship	$3	1	2	1	1

If the price of land were to increase from $1 to $3, then the results of using Technique A will change from an economic

- A) loss of $1 to a profit of $3.
- B) profit of $3 to a loss of $1.
- C) loss of $1 to a loss of $2.
- D) loss of $2 to a loss of $1.

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284) Answer the question based on the following information: Suppose 24 units of product Y can be produced by employing just labor and capital in the four ways shown below. Assume the prices of labor and capital are $3 and $5, respectively.

	Production Techniques			
	#1	#2	#3	#4
Labor	2	3	5	4
Capital	6	5	3	4

Which technique is most economically efficient in producing Y?

- A) 1
- B) 2
- C) 3
- D) 4

285) Answer the question based on the following information: Suppose 40 units of product Y can be produced by employing just labor and capital in the four ways shown in the following table. Assume the prices of labor and capital are $6 and $7, respectively.

	Production Techniques			
	1	2	3	4
Labor	2	4	2	4
Capital	1	2	4	1

Which technique is economically most efficient in producing Y?

- A) 2
- B) 1
- C) 3
- D) 4

286) Answer the question based on the following information: Suppose 24 units of product Y can be produced by employing just labor and capital in the four ways shown below. Assume the prices of labor and capital are $3 and $5, respectively.

	Production Techniques			
	#1	#2	#3	#4
Labor	2	3	5	4
Capital	6	5	3	4

How much profit will be made if the price of Y is $1.50 each?

- A) $0
- B) $24
- C) $36
- D) $6

287) Answer the question based on the following information: Suppose 40 units of product Y can be produced by employing just labor and capital in the four ways shown in the following table. Assume the prices of labor and capital are $6 and $7, respectively.

	Production Techniques			
	1	2	3	4
Labor	2	4	2	4
Capital	1	2	4	1

How much profit will be made if the price of Y is $1.50 each?

- A) $1
- B) $60
- C) $41
- D) $19

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288) Answer the question based on the following information: Suppose 24 units of product Y can be produced by employing just labor and capital in the four ways shown below. Now assume the prices of labor has risen to $6 but the price of capital is still $5, respectively.

	Production Techniques			
	#1	#2	#3	#4
Labor	2	3	5	4
Capital	6	5	3	4

Now which technique is economically most efficient in producing Y? How much profit will be made producing the 24 units of Y if the price of Y has risen to $2 and total revenues are now $48?

  A) 1; $6
  B) 2; $5
  C) 3; $3
  D) 4; $4

289) Answer the question based on the following information: Suppose 45 units of product Y can be produced by employing just labor and capital in the four ways shown in the following table. Now assume the price of labor has risen to $10 but the price of capital is still $9, respectively.

	Production Techniques			
	#1	#2	#3	#4
Labor	2	3	5	4
Capital	6	5	3	3

Now which technique is economically most efficient in producing Y? How much profit will be made producing the 45 units of Y if the price of Y has risen to $2 and total revenue is now $90?

  A) 1; $5
  B) 3; $4
  C) 4; $23
  D) 2; $3

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290) Answer the question based on the following information: Suppose 50 units of product Z can be produced by employing just labor and capital in the four ways shown below. Assume the prices of labor and capital are $4 and $5, respectively.

	Production Techniques			
	A	B	C	D
Labor	10	12	6	8
Capital	5	4	9	8

Which technique is most economically efficient in producing Z?

- A) A
- B) B
- C) C
- D) D

291) Answer the question based on the following information: Suppose 47 units of product Z can be produced by employing just labor and capital in the four ways shown in the following table. Assume the prices of labor and capital are $9 and $10, respectively.

	Production Techniques			
	A	B	C	D
Labor	20	22	16	18
Capital	6	5	14	13

Which technique is most economically efficient in producing Z?

- A) A
- B) C
- C) D
- D) B

292) Answer the question based on the following information: Suppose 50 units of product Z can be produced by employing just labor and capital in the four ways shown below. Assume the prices of labor and capital are $4 and $5, respectively.

	Production Techniques			
	A	B	C	D
Labor	10	12	6	8
Capital	5	4	9	8

Also assume the price of product Z is $2. How much profit will be made when the firm uses the most economically efficient method of producing Z?

- A) $35
- B) $32
- C) $31
- D) $28

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293) Answer the question based on the following information: Suppose 120 units of product Z can be produced by employing just labor and capital in the four ways shown in the following table. Assume the prices of labor and capital are $9 and $10, respectively.

	Production Techniques			
	A	**B**	**C**	**D**
Labor	20	22	16	6
Capital	6	5	14	13

Also assume the price of product Z is $2. How much profit will be made when the firm uses the most economically efficient method of producing Z?

A) $46

B) $47

C) $43

D) $0

294) In a market system, production will be organized

A) in combinations and ways that maximize the cost per unit of output.

B) in combinations and ways that minimize profits.

C) in combinations and ways that minimize the cost per unit of output.

D) in ways that maximize the amount of labor and minimize the amount of capital used.

295) In a market system, the distribution of goods and services among consumers is largely determined by

A) the willingness and ability of consumers to pay the prices.

B) whoever needs the goods and services the most.

C) whoever has the closest connection to firms and the government.

D) a random factor that is almost impossible to predict.

296) "For whom is a given mix of goods and services to be produced? How, in other words, are the society's outputs to be distributed among its members?" In a market economy, this question is resolved primarily in the

A) public sector through the mechanism of central planning.

B) business sector through the mechanism of advertising.

C) private sector through the earning and spending of income.

D) money market through borrowing and saving by households and businesses.

297) The distribution of income in a market system is a primary factor that resolves which of the following fundamental economic questions?

A) What goods and services will be produced?

B) How will the goods and services be produced?

C) How will the system accommodate change?

D) Who will get the output?

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298) In a market economy, the incomes of consumers depend primarily upon
   A) government policies in setting wages and interest rates.
   B) the quantity and prices of resources that they possess.
   C) the amount of savings that they have accumulated.
   D) how closely connected they are to government and business leaders.

299) If economic profits in a particular industry increase, then we would expect
   A) resources to be diverted away from that industry.
   B) firms in that industry to produce less output.
   C) firms to enter that industry, thus expanding it.
   D) consumers to buy less from that industry.

300) In a market system, resources will move away from an industry when
   A) profits of firms in the industry are rising.
   B) demand for the industry's product is decreasing.
   C) the production of output in the industry is rising.
   D) profits of firms in other industries are falling.

301) "Creative destruction" in a market system is brought about by
   A) entrepreneurship.
   B) striking workers.
   C) regulation by the government.
   D) money-based trade.

302) An increase in the demand for a product and a reduction in its costs of production would
   A) decrease the profits of producers.
   B) encourage firms to leave an industry.
   C) encourage firms to enter an industry.
   D) cause a shortage of the product.

303) In a market system, as one industry expands while another contracts, resources will flow
   A) away from the expanding industry toward the contracting one.
   B) across industries, driven by the changes in resource prices paid by firms.
   C) toward the industry where the product demand is declining.
   D) because resource allocation will have to equalize between the two industries.

304) The market system communicates changes in market conditions and elicits appropriate responses from businesses and resource suppliers through changes in prices. This is known as the
   A) guiding function of prices.
   B) monetary function of prices.
   C) circular flow of income.
   D) market determination of prices.

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305) The emergence of ride-sharing companies like Lyft and Via, that are replacing much taxi service, is an example of
   A) roundabout production.
   B) derived demand.
   C) creative destruction.
   D) specialization.

306) Which of the following does *not* illustrate the idea of creative destruction?
   A) Smartphone apps have shrunk the market for wristwatches.
   B) Online retail sales have increased, while brick-and-mortar sales have slowed down.
   C) The opening of a new mall reduces the traffic in another mall.
   D) A firm has to destroy some of the expired products in its inventory.

307) The idea that the desires of resource suppliers and firms to further their own self-interest will automatically further the public interest is known as
   A) consumer sovereignty.
   B) the invisible hand.
   C) derived demand.
   D) creative destruction.

308) Which of the following best describes the "invisible-hand" concept?
   A) Ample regulation of business by the government will maximize the public's best interests.
   B) The market system works best when resources are free to move from one use to another.
   C) The problem of scarcity can best be overcome in a system of mixed capitalism.
   D) Self-interest in a market system will automatically promote the public interest as well.

309) The highly influential book by Adam Smith, who brought up the "invisible-hand" notion, is titled
   A) *Freakonomics*.
   B) *The Principles of Economics*.
   C) *The Age of the Economist*.
   D) *The Wealth of Nations*.

310) The "invisible-hand" concept refers to the
   A) guiding function of prices in a market system.
   B) implicit influence that the government has on the actions of firms.
   C) regulatory structure that markets must operate in.
   D) underlying money flows that promote the trading of goods and services.

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311) Businesses seeking higher profits and resource suppliers seeking higher incomes lead to changes in the allocation of resources among different firms and end up with
   A) consumers at the losing end.
   B) output that society wants.
   C) unnecessary conflict and turmoil.
   D) a need for government action.

312) The major virtues of the market system include all of the following, *except*
   A) it promotes an efficient allocation of resources.
   B) it leads to equality in the distribution of income.
   C) it provides incentives for greater production and higher incomes.
   D) it emphasizes the freedom to pursue self-interest.

313) The market economy is regarded as "efficient" in that
   A) it achieves the lowest rate of unemployment.
   B) it leads to the lowest level of poverty in the society.
   C) it directs resources toward products that the society wants most.
   D) it puts the best people in government positions.

314) One basic problem faced by central planners, but hardly present in a market system, has to do with
   A) determining the production goals or targets in a factory.
   B) having limited resources and trying to match them with unlimited wants.
   C) coordinating production in various industries so that bottlenecks do not develop.
   D) providing financial resources for increasing the real flows of products in the economy.

315) The major "success indicator" for business managers in command economies like the Soviet Union and China *in the past* was
   A) the quantity or volume of production.
   B) product quality and variety.
   C) the amount of profits a producer makes.
   D) morale of workers in a firm.

316) A characteristic of centrally planned economies is that
   A) the price is relatively unimportant in allocating resources.
   B) profits are the main measure of success of a firm.
   C) entrepreneurship is quite prevalent and highly rewarded.
   D) there are many incentives for innovation and hard work.

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317) Which of the following is true of an economy that operates entirely through central planning?
- A) An individual's success in business is based on political savvy rather than economic profitability.
- B) There is relative ease in matching resource allocation to consumer demand by the central planners.
- C) Central planners receive market information and coordinate economic activity through the price mechanism.
- D) The system adapts easily to technological change, because there is a healthy entrepreneurial spirit.

318) In a command economy like the old Soviet Union, one is able to improve one's lot and get ahead in society largely through
- A) entrepreneurship and risk-taking.
- B) innovation and profits.
- C) participating in the political hierarchy.
- D) getting high prices for one's products and resources.

319) In the circular flow model of the market system, households' major role is to
- A) buy both products and resources.
- B) sell both products and resources.
- C) buy products and sell resources.
- D) sell products and buy resources.

320) In the circular flow model of the market system, business's major role is to
- A) buy products and resources.
- B) sell products and resources.
- C) buy products and sell resources.
- D) sell products and buy resources.

321) The circular flow model illustrates
- A) the importance of having a central plan for the economy.
- B) how capital and other resources are created.
- C) how money is created by the banking system.
- D) the interdependence of businesses and consumers.

322) The simple circular flow model shows that workers and capital owners offer their services to firms through the
- A) product markets.
- B) resource markets.
- C) money markets.
- D) financial markets.

323) In the circular flow model, households earn their incomes in the
- A) resource markets.
- B) product markets.
- C) capitalist markets.
- D) money markets.

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324) According to the circular flow model, product markets are where
- A) households earn their money incomes.
- B) households acquire economic resources from businesses.
- C) businesses acquire their inputs from households.
- D) businesses earn their revenues from households.

325) The money income of households consists of all the following, *except*
- A) wages.
- B) profits.
- C) interest.
- D) revenues.

326) Which of the following would be primarily determined in the resource markets?
- A) the airfares charged by airlines for family vacations
- B) the wage rates for computer programmers and engineers
- C) the number of Wifi connections installed in homes
- D) the amount of money in circulation issued by the government

327) Consider the circular flow model, suppose that businesses buy a total of $200 billion of the four resources (labor, land, capital, and entrepreneurial ability) from households. If households receive $100 billion in wages, $20 billion in rent, and $45 billion in interest, how much are households paid for providing entrepreneurial ability?
- A) $35 billion
- B) $100 billion
- C) $60 billion
- D) $360 billion

328) Consider the circular flow model; suppose that businesses buy a total of $240 billion of the four resources (labor, land, capital, and entrepreneurial ability) from households. If households receive $140 billion in wages, $28 billion in rent, and $53 billion in interest, how much are households paid for providing entrepreneurial ability?
- A) $100 billion
- B) $19 billion
- C) $60 billion
- D) $360 billion

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329) Consider the circular flow model, suppose that businesses buy a total of $5,200 billion of the four resources (labor, land, capital, and entrepreneurial ability) from households. If households receive $3,800 billion in wages, $600 billion in interest, and $500 billion in entrepreneurial ability, how much are households paid in rent?
   A) $4,900 billion
   B) $500 billion
   C) $5,200 billion
   D) $300 billion

330) Consider the circular flow model; suppose that businesses buy a total of $7,700 billion of the four resources (labor, land, capital, and entrepreneurial ability) from households. If households receive $4,300 billion in wages, $1,100 billion in interest, and $1,000 billion in entrepreneurial ability, how much are households paid in rent?
   A) $4,900 billion
   B) $5,200 billion
   C) $500 billion
   D) $1,300 billion

331) Consider the circular flow model, If households spend $65 billion on goods and $85 billion on services, how much in revenue do businesses receive in the product market?
   A) $20 billion
   B) $85 billion
   C) $150 billion
   D) $65 billion

332) Consider the circular flow model, If households spend $140 billion on goods and $200 billion on services, how much in revenue do businesses receive in the product market?
   A) $340 billion
   B) $140 billion
   C) $200 billion
   D) $60 billion

333) Refer to the provided figure. If box A represents households, B the product market, and C businesses, and if flow (3) represents revenues, then flow (1) would represent
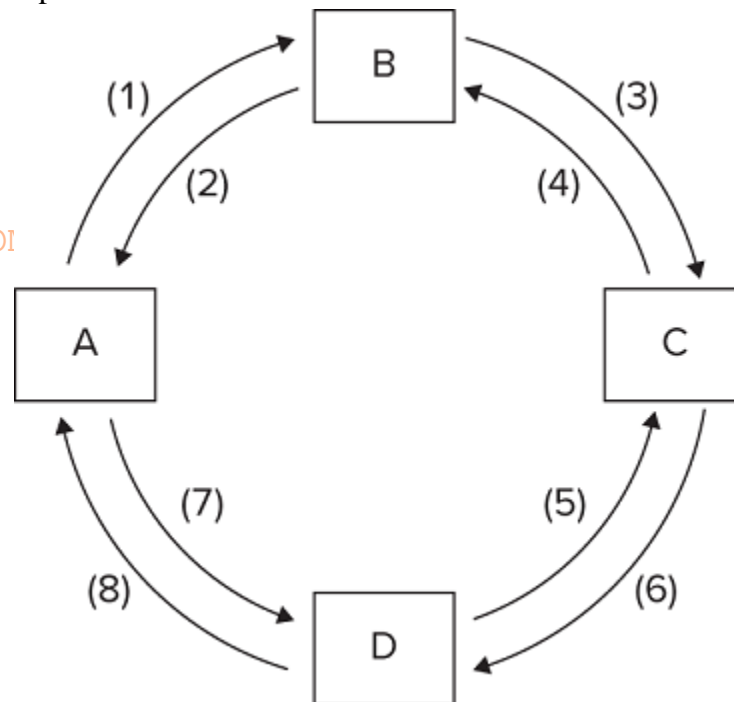
   A) costs.
   B) money income.
   C) consumption expenditures.
   D) resources.

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334) Refer to the provided figure. If box A represents households, D the resource market, and C businesses, then flow (8) would represent _____, while flow (7) would represent _____.
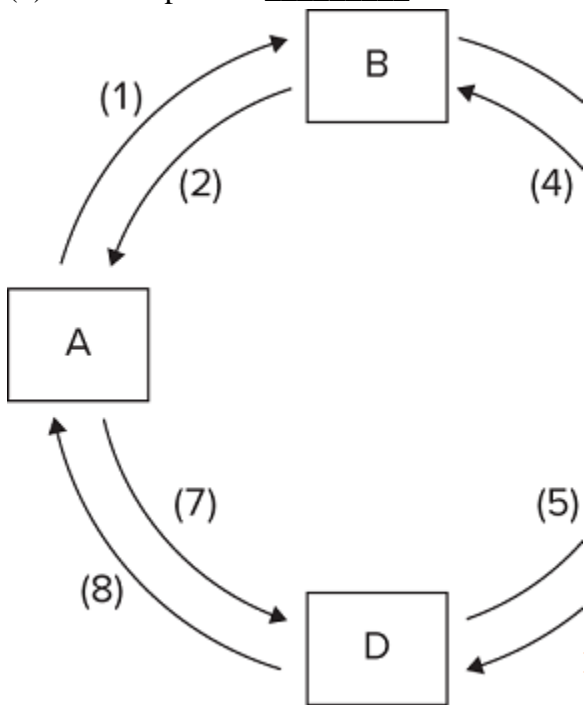
A) goods and services; consumption expenditures
B) consumption expenditures; goods and services
C) resources; money income
D) money income; resources

335) Refer to the provided figure. If box A represents households, B the product market, and C businesses, then flow (2) and flow (4) would represent
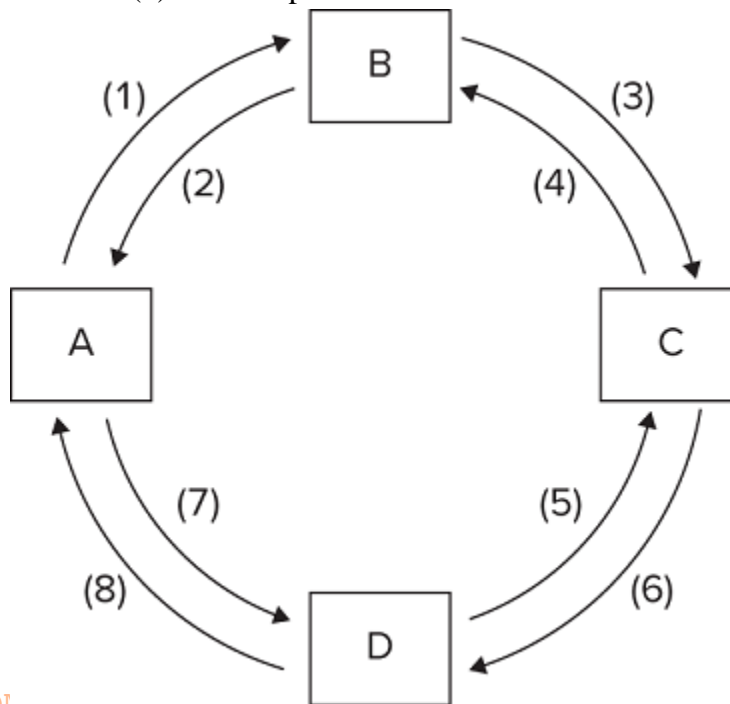
A) the flow of labor and other resources.
B) the flow of goods and services.
C) business spending revenues.
D) money incomes and consumer spending.

336) In the circular flow diagram, households get their ability to pay for their consumption expenditures from the
A) revenues they receive for their products.
B) costs they incur for resources.
C) incomes they earn for their resources.
D) goods and services they get in the product markets.

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337) In the circular flow diagram, firms get their ability to pay for the costs of production from the
   A) revenues they receive for their products.
   B) resources they acquire in the resource markets.
   C) incomes they earn for their resources.
   D) goods and services they get in the product markets.

338) In a market system, the task of assessing and managing the business risk of a firm is taken on by the firm's
   A) labor.
   B) capital suppliers.
   C) entrepreneurs.
   D) customers.

339) Which of the following guides sensible decisions regarding the management of business risk in a market system?
   A) the profit and loss system
   B) the "invisible hand"
   C) taxes and subsidies
   D) consumer sovereignty

340) In a market system, a firm's employees are typically shielded from business risk by
   A) profit-sharing agreements.
   B) wage contracts.
   C) the Social Security program.
   D) paid vacation leaves.

341) One essential trade-off involving business risk in a market system is reflected in which of the following statements?
   A) Access to the firm's profits and gains are open only to those who take on the business risk of the firm.
   B) Those who receive guaranteed payments from the firm are also guaranteed a share of the firm's profits.
   C) Those who make bad decisions regarding risk will suffer losses; those who decide wisely will gain profits.
   D) Those who bear the business risk of the firm are guaranteed to always gain profits.

342) In a market system, which of the following is a major benefit of making the firm's owners and investors exclusively shoulder the business risk?
   A) Those who deeply dislike business risk will not have anything to do with the business.
   B) This allows firms to more easily attract labor and other suppliers of inputs.
   C) This reduces the business risk in the economy.
   D) It makes it easier for the government to monitor and manage the business risk.

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343) Entrepreneurs
A) have a large financial incentive to avoid unnecessary risks and make prudent decisions.
B) are unconcerned about the potential risks in their business because they can always start another business.
C) must give their employees any profits earned by the business.
D) are protected from business risk but the employees of the business are not.

344) Employees, suppliers, and lenders
A) are shielded from business risks and get to share in the profits of the business.
B) are shielded from business risks but do not get to share in the profits of the business.
C) are not shielded from business risks and do not get to share in the profits of the business.
D) are not shielded from business risks but get to share in the profits of the business.

345) (Consider This) When the government subsidizes property insurance premiums,
A) taxpayers must pay for damages and reconstrucion costs in the event of a flood or fire.
B) households decide to build in floodplains rather than on higher ground.
C) the cost of the insurance is artificially low.
D) All of these choices are correct.

346) As a residual claimant, a firm's owners
A) are paid before the suppliers to the firm.
B) are paid before the employees of the firm.
C) receive whatever profit or loss remains after all other parties have been paid.
D) are paid before the local bank that had loaned the firm $5,000.

347) (Consider This) Which of the following is *not* correct? Insurance policies
A) can help guide people toward better decisions by putting a price on risk.
B) for fire, in fire-prone areas, have premiums that usually cost less than fire insurance in rainy locations.
C) for locations with risks of flooding or fires may be so expensive it results in less construction in the area.
D) can be purchased for flooding and may be subsidized by the government which results in people choosing to live in floodplains.

348) (Consider This) The Bitcoin currency is issued by
A) the United States Federal Reserve.
B) the United States Treasury.
C) the World Bank.
D) no government of any country.

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349) (Consider This) Bitcoin mining operations tend to maximize profits by
 A) paying their labor minimum wage.
 B) using super computers.
 C) using low-cost electricity.
 D) operating in areas with little regulation.

350) (Consider This) Identify the *incorrect* statement about Bitcoin below.
 A) Bitcoin is an electronic "cryptocurrency" that is not issued by any government.
 B) Bitcoin exists and transacts entirely in cyberspace.
 C) Creation of additional Bitcoins is done entirely electronically.
 D) Bitcoin mining is restricted to only a few high-tech companies in Silicon Valley.

351) (Consider This) Today, South Korea's economy
 A) produces a GDP per capita of $1,700.
 B) is considered a command economy.
 C) has a lower GDP per capita than North Korea's economy.
 D) is more developed and prosperous, producing an average annual income of $42,765.

352) (Consider This) Which of the following is *not* a consequence of government subsidized flood insurance?
 A) More people will choose to live in areas susceptible to flooding.
 B) Taxpayers will have to help pay for the rebuilding of flooded properties.
 C) It makes actual risks of flooding look artificially low.
 D) More people will choose to live and work on higher ground.

353) (Last Word) Today, Venezuela's economy is
 A) thriving, thanks to Bolivarian Socialism.
 B) expanding due to the clever idea of printing money to pay the government's bills.
 C) considered a laissez-faire economic system.
 D) ruined due to actions of incompetent political leaders.

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354) (Last Word) Which of the following helps explain why the economy of Venezuela collapsed?

A) increased oil production due to government nationalization of the industry

B) government price controls that increase competition among small businesses

C) a substantial crackdown on corruption caused many companies to be put out of business

D) hyperinflation caused by printing money to pay for government spending

355) (Last Word) What happened when Hugo Chavez launched a campaign to totally change Venezuela's economy and society to Socialism?

A) Initially, people were better off as literacy programs and rural health clinics became widespread.

B) Formerly prosperous industries were nationalized, and friends of Chavez were put in charge, to the ruin of the industries like oil.

C) Reduced production in the nation put a severe strain on the government's finances and the government no longer had enough tax revenue to pay its bills.

D) All of these choices are correct.

356) (Last Word) In Venezuela, the successor of Hugo Chavez, Nicolas Maduro

A) quickly returned the economy to capitalism after he became president.

B) continued pursuing the same Bolivian Socialism policies as Chavez.

C) had led Vernezuela to be in the top 10 most economically free nations by 2018.

D) continued taking over industries, but gave the owners fair compensation for them.

357) (Last Word) Which of the following statements is correct?

A) Under Chavez and Maduro, Venezuela experienced increased production in the industries that were nationalized.

B) The Venezuela government took over the oil industry and saw a surge in production from 1.4 million barrels per day to 3.4 million barrels per day.

C) Maduro attempted to solve Venezuela's financial problems by encouraging citizens to barter for what they wanted.

D) As a result of socialist policies, citizens of Venezuela experienced an inflation rate that rose from 25 percent in 2012 to 1.3 million percent in 2018.

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ESSAY. Write your answer in the space provided or on a separate sheet of paper.

358) Define the term economic system. Discuss the two ways in which economic systems can differ.

359) Explain the term "laissez-faire capitalism."

360) Explain what is meant by a command economy.

361) List nine characteristics of the market system.

362) Why is the right of private property an essential characteristic of a market system?

363) What role does freedom play in capitalism? How important is it to the operation of a competitive market economy?

364) Explain the importance of self-interest in the operation of a market system.

365) What conditions are necessary for economic competition to exist?

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366) Describe two types of specialization in production.

367) Describe three ways that human specialization contributes to society's output.

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368) What advantage does a money economy have over a barter economy?

369) What are the Five Fundamental Questions that every economy must answer?

370) How does "consumer sovereignty" determine the types and quantities of the goods produced in an economy?

371) Adam Smith, in his 1776 book the *Wealth of Nations,* describes the concept of "an invisible hand." Explain what he means by an "invisible hand."

372) Describe the three major virtues of a market system.

373) What are the two main problems that have caused the demise of the command systems?

374) (Consider This) Explain the differences in economic systems between North and South Korea and the economic outcomes of the two systems.

375) What is the relationship between businesses and households in the circular flow diagram?

376) Discuss the benefits of restricting business risk to the owners.

377) Discuss the importance of protecting intellectual property rights.

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378) What drives technological advance in a market system?

379) (Consider This) Explain what Bitcoin is and how it is created. How do bitcoin miners decide where and how to produce Bitcoin?

380) In a market system, how will the production be organized?

381) In a market system, who will get the output?

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Answer Key

Test name: Chapter 02

1) TRUE
The proponents of laissez-faire maintain that governments are corrupted by special interests that use the government's economic influence to benefit themselves rather than society at large. To prevent that from happening, they argue that government's only role should be preventing individuals and firms from coercing each other, thus ensuring that only mutually beneficial economic transactions are negotiated and completed. The result should be the highest possible level of human satisfaction because, after all, who knows better what people want than the people themselves?

2) TRUE
3) FALSE
4) TRUE
5) FALSE
6) FALSE
7) TRUE
Households are defined as one or more persons occupying a housing unit. Households buy the goods and services that businesses make available in the product market with their money income.

8) TRUE
9) TRUE
10) FALSE
11) TRUE
12) TRUE
13) FALSE
14) TRUE
15) TRUE
16) FALSE

17) FALSE
18) TRUE
19) TRUE
20) TRUE
21) TRUE
22) FALSE
23) FALSE
24) FALSE
25) FALSE
26) FALSE
27) FALSE
28) FALSE
29) FALSE
30) TRUE
31) FALSE
32) FALSE
33) FALSE
34) FALSE
35) TRUE
36) TRUE
37) FALSE
38) TRUE
39) FALSE
40) FALSE
41) FALSE
42) FALSE
43) FALSE
44) FALSE
45) TRUE
46) FALSE
47) FALSE
48) TRUE
49) TRUE
50) TRUE

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Insurance policies can help guide people toward better decisions by putting a price on risk. Consider fire or flood insurance and its effect on building decisions. Anyone wanting to build a new home or business in a fire-prone or flood-prone area will face substantially higher insurance costs than they would if they built in a less risky locations unless the government subsidizes their insurance premiums. If people are confronted with unsubsidized rates for flood insurance, they chose to live and work in less risky locations. But with government subsidized property insurance, they could be burned out or flooded out repeatedly, with taxpayers picking up the tab for flood damages and reconstruction costs. This is a predictable consequence of making the financial costs of risky behavior look artificially low.

51) TRUE
52) TRUE
53) FALSE
54) FALSE
55) TRUE
56) TRUE
57) B

The command system is a system in which government owns most property resources and *economic* decision making is set by a central *economic* plan created and enforced by the government. The government owns most of the business firms, which produce according to government directives.

58) D

The command system is a system in which government owns most property resources and economic decision making is set by a central economic plan created and enforced by the government. The government owns most of the business firms, which produce according to government directives.

59) C

In laissez-faire systems, the government's role is limited to protecting private property and establishing a legal environment in which contracts are enforced and people interact in markets to buy and sell goods, services, and resources. Entrepreneurs and businesspeople make their own decisions about what to produce and how to produce it.

60) A

In laissez-faire systems, the government's role is limited to protecting private property and establishing a legal environment in which contracts are enforced and people interact in markets to buy and sell goods, services, and resources. Entrepreneurs and businesspeople make their own decisions about what to produce and how to produce it.

61) D
62) A
63) B
64) B
65) C
66) A
67) D

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The market system is characterized by a mixture of centralized government economic initiatives and decentralized actions taken by individuals and firms. The precise mixture varies by country, but in each case the system features the private ownership of resources and the use of markets and prices to coordinate and direct economic activity. In the market system, individuals and businesses seek to achieve their economic goals through their own decisions regarding work, consumption, or production.

68) D

69) D
Historically, command economies have not been successful mainly due to their inherient coordination problem and the incentive problem. In fact, the Soviet Union callapsed in 1992.

70) B
One of the consequences of command economies is a lack of product variety since there is more emphasis on production quantities rather than product mix or product quality. Economic power is very centralized by governments of communist countries unlike the decentralized power found in laissez-faire economies. Production goals are set by the government's central planning board. The Soviet Union did fail and collapse in 1992.

71) A

72) C

The market system is characterized by use of technologically advanced capital goods and extensive specialization. The market system's other characteristics include: private property; freedom of enterprise and choice; self-interested behavior; markets and prices; competition; use of money; and an active, but limited, government.

73) D
Characteristics of a market system include: private property, freedom of enterprise, freedom of choice, self-interest, competition, it conveys the choices made by buyers and sellers, use of capital goods, technological advance, specialization, use of money, and an active but limited government.

74) C
The market system is characterized by use of technologically advanced capital goods. Specialization is extensive in a market system with other characteristics that include: private property; freedom of enterprise and choice; self-interested behavior; markets and prices; competition; use of money; and an active, but limited, government.

75) A

76) B

77) D

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With property rights, owners are encouraged to invest in property since any person who wants something must pay for it. If a person really wants something you have, they must offer you something that you value in return and cannot just take it from you. Owners are the beneficiaries of actions they take to maintain or improve their property as it preserves or increases its value.

78) C
Property rights encourage people to cooperate by helping to ensure that only mutually agreeable economic transactions take place. They encourage investment, innovation, and economic growth. Nobody would stock a store, build a factory, or clear land for farming if someone else, or the government itself, could take away that property at any moment. They also encourage owners to maintain or improve their property so as to preserve or increase its value and enable people to spend their time and resources increasing the production of goods and services, rather than having to devote money and time to protecting and retaining the property they already possess.

79) C
Private property rights encourages owners to maintain or improve their property to preserve or enhance value.

80) C

Private property rights encourage people to cooperate by helping to ensure that only mutually agreeable economic transactions take place. They encourage investment, innovation, and economic growth. Nobody would stock a store, build a factory, or clear land for farming if someone else, or the government itself, could take away that property at any moment. Private property rights also encourage owners to maintain or improve their property so as to preserve or increase its value and enable people to spend their time and resources increasing the production of goods and services, rather than having to devote money and time to protecting and retaining the property they already possess.

81) C
82) B
Even intagible items have legally enforceable property rights and intellectual property like patents, copyrights, and trademarks are protected in market systems. Such long-term protection encourages people to write books, compose music, create social media platforms, and invent new products and production processes.

83) C
84) D

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Freedom of choice allows owners to employ or dispose of their property and money as they see fit. It also allows workers to try to enter any line of work for which they are qualified. Finally, it ensures that consumers are free to buy the goods and services that best satisfy their wants and that their budgets allow. These choices are free only within legal limitations, however. Illegal choices such as human trafficking and drug trafficking are punished through fines or imprisonment.

85) C

86) B

87) B

88) C

Competition among buyers and sellers diffuses economic power throughout the economy. When many buyers and many sellers act independently of each other in a market, no single buyer or seller can dictate the price of the product or resource because other buyers and sellers can undercut that price.

89) A

The diffusion of economic power inherent in competition limits the potential abuse of that power. A producer that charges more than the competitive market price will lose sales to other producers. An employer who pays less than the competitive market wage rate will lose workers to other employers. Competition is the key regulatory force in the market system.

90) C

In a competitive system, producers can enter or leave an industry; no insurmountable barriers prevent an industry from expanding or contracting. This freedom to expand or contract provides the economy with the flexibility needed to remain efficient over time. Freedom of entry and exit enables the economy to adjust to changes in consumer tastes, technology, and resource availability.

91) C

92) A

93) D

94) B

95) A

96) A

97) C

98) C

99) A

100) D

101) B

102) C

103) D

Every economy faces five fundamental questions: What goods and services will be produced?; How will the goods and services be produced?; Who will get the output?; How will the system accommodate change?; How will the system promote technological progress?

104) D

The Five Fundamental Questions are:
What goods and services will be produced?
How will the goods and services be produced?
Who will get the output?
How will the system accommodate change?
How will the system promote technological progress?

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105) C

As prices and profits in an industry rise, self-interest will induce existing producers to expand output and entice new competitors to enter the industry. But if prices and profits fall in an industry, firms in the industry will scale down, or exit the industry entirely.

106) B

As prices and profits in an industry rise, self-interest will induce existing producers to expand output and entice new competitors to enter the industry. But if prices and profits fall in an industry, firms in the industry will scale down, or exit the industry entirely.

107) D
108) D
109) B
110) B
111) D

As prices and profits in an industry rise, self-interest will induce existing producers to expand output and entice new competitors to enter the industry. But if prices and profits fall in an industry, firms in the industry will scale down, or exit the industry entirely.

112) C

As prices and profits in an industry rise, self-interest will induce existing producers to expand output and entice new competitors to enter the industry. But if prices and profits fall in an industry, firms in the industry will scale down, or exit the industry entirely.

113) A

As consumers increase their spending on a product, causing the prices and profits in the industry to rise, self-interest will induce existing producers to expand output and entice new competitors to enter the industry. But if consumers decrease their spending on a product, causing prices and profits to fall in an industry, firms in the industry will scale down, or exit the industry entirely.

114) D

As consumers increase their spending on a product, causing the prices and profits in the industry to rise, self-interest will induce existing producers to expand output and entice new competitors to enter the industry. But if consumers decrease their spending on a product, causing prices and profits to fall in an industry, firms in the industry will scale down, or exit the industry entirely.

115) C

As prices and profits in an industry rise, self-interest will induce existing producers to expand output and entice new competitors to enter the industry. But if prices and profits fall in an industry, firms in the industry will scale down, or exit the industry entirely.

116) B

As prices and profits in an industry rise, self-interest will induce existing producers to expand output and entice new competitors to enter the industry. But if prices and profits fall in an industry, firms in the industry will scale down, or exit the industry entirely.

117) B
118) B

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119)   D
120)   B
121)   B
122)   C
123)   B

The most efficient technique is the least-cost technique, so begin calculating total costs for each technique by multiplying the price per unit of resource by the number of units used for each resource then add resource costs together.

Technique #1 [($4 × 2) = $8 + ($3 × 1) = $3 + ($3 × 5) = $15 + ($2 × 3) = $6; $8 + $3 + $15 + $6 = $32];

Technique #2 [($4 × 4) = $16 + ($3 × 2) = $6 + ($3 × 2) = $6 + ($2 × 1) = $2; $16 + $6 + $6 + $2 = $30];

Technique #3 [($4 × 2) = $8 + ($3 × 4) = $12 + ($3 × 3) = $9 + ($2 × 1) = $2; $8 + $12 + $9 + $2 = $31];

Technique #4 [($4 × 4) = $16 + ($3 × 1) = $3 + ($3 × 1) = $3 + ($2 × 4) = $8; $16 + $3 + $3 + $8 = $30];

Technique #5 [($4 × 4) = $16 + ($3 × 3) = $9 + ($3 × 2) = $6 + ($2 × 1) = $2; $16 + $9 + $6 + $2 = $33];

So, technique 2 and 4 are the most efficient production techniques.

124)   C

The most efficient technique is the least-cost technique, so begin calculating total costs for each technique by multiplying the price per unit of resource by the number of units used for each resource then add resource costs together.

Technique #1 [($8 × 2) = $16 + ($7 × 1) = $7 + ($7 × 5) = $35 + ($6 × 3) = $18; $16 + $7 + $35 + $18 = $76];

Technique #2 [($8 × 4) = $32 + ($7 × 2) = $14 + ($7 × 2) = $14 + ($6 × 1) = $6; $32 + $14 + $14 + $6 = $66];

Technique #3 [($8 × 2) = $16 + ($7 × 4) = $28 + ($7 × 3) = $21 + ($6 × 1) = $6; $16 + $28 + $21 + $6 = $71];

Technique #4 [($8 × 4) = $32 + ($7 × 1) = $7 + ($7 × 1) = $7 + ($6 × 4) = $24; $32 + $7 + $7 + $24 = $70];

Technique #5 [($8 × 3) = $24 + ($7 × 3) = $21 + ($7 × 2) = $14 + ($6 × 1) = $6; $24 + $21 + $14 + $6 = $65];

So, technique 5 is the most efficient production technique.

125)   A

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The most efficient technique is the least-cost technique, so begin calculating total costs for each technique by multiplying the price per unit of resource by the number of units used for each resource then add resource costs together.

Technique #1 [($4 × 2) = $8 + ($3 × 1) = $3 + ($3 × 5) = $15 + ($2 × 3) = $6; $8 + $3 + $15 + $6 = $32];

Technique #2 [($4 × 4) = $16 + ($3 × 2) = $6 + ($3 × 2) = $6 + ($2 × 1) = $2; $16 + $6 + $6 + $2 = $30];

Technique #3 [($4 × 2) = $8 + ($3 × 4) = $12 + ($3 × 3) = $9 + ($2 × 1) = $2; $8 + $12 + $9 + $2 = $31];

Technique #4 [($4 × 4) = $16 + ($3 × 1) = $3 + ($3 × 1) = $3 + ($2 × 4) = $8; $16 + $3 + $3 + $8 = $30];

Technique #5 [($4 × 4) = $16 + ($3 × 3) = $9 + ($3 × 2) = $6 + ($2 × 1) = $2; $16 + $9 + $6 + $2 = $33];

So, technique 2 and 4 are the most efficient production techniques. Find total revenue by multiplying price by quantity, so $2 × 20 = $40. Total revenue minus total cost equals economic profit, TR − TC = economic profit, $40 − $30 = $10 economic profit.

126) D

The most efficient technique is the least-cost technique, so begin calculating total costs for each technique by multiplying the price per unit of resource by the number of units used for each resource then add resource costs together.

Technique #1 [($7 × 2) = $14 + ($6 × 1) = $6 + ($6 × 5) = $30 + ($5 × 3) = $15; $14 + $6 + $30 + $15 = $65];

Technique #2 [($7 × 4) = $28 + ($6 × 2) = $12 + ($6 × 2) = $12 + ($5 × 1) = $5; $28 + $12 + $12 + $5 = $57];

Technique #3 [($7 × 2) = $14 + ($6 × 4) = $24 + ($6 × 2) = $12 + ($5 × 1) = $5; $14 + $24 + $12 + $5 = $55];

Technique #4 [($7 × 4) = $28 + ($6 × 1) = $6 + ($6 × 1) = $6 + ($5 × 4) = $20; $28 + $6 + $6 + $20 = $60];

Technique #5 [($7 × 4) = $28 + ($6 × 3) = $18 + ($6 × 2) = $12 + ($5 × 1) = $5; $28 + $18 + $12 + $5 = $63];

So, technique 3 is the most efficient production technique. Find total revenue by multiplying price by quantity, so $2 × 30 = $60. Total revenue minus total cost equals economic profit, TR − TC = economic profit, $60 − $55 = $5 economic profit.

127) B

Total costs for the new technique [($4 × 3) = $12 + ($3 × 3) = $9 + ($3 × 1) = $3 + ($2 × 2) = $4; $12 + $9 + $3 + $4 = $28] and is the least-costly technique now. Since the other techniques are more expensive, technique 1 costs $32; technique 2 costs $30; technique 3 costs $31; technique 4 costs $30; and technique 5 costs $33; the firm would shift to the new technique because it is more profitable.

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128)   A
Total costs for the new technique [($5 × 3) = $15 + ($4 × 3) = $12 + ($4 × 1) = $4 + ($3 × 2) = $6; $15 + $12 + $4 + $6 = $37] and is the least-costly technique now. Since the other techniques are more expensive, technique 1 costs $43; technique 2 costs $39; technique 3 costs $41; technique 4 costs $40; and technique 5 costs $43; the firm would shift to the new technique because it is more profitable.

129)   D
The total cost of producing product A can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: Technique #1 is ($2 × 4) + ($3 × 2) = $14; Technique #2 is ($2 × 3) + ($3 × 3) = $15; Technique #3 is ($2 × 2) + ($3 × 5) = $19; and Technique #4 is ($2 × 5) + ($3 × 1) = $13. Technique 4 is the least-costly Technique.

130)   D
Technique 3 is most efficient.

131)   D

The total cost of producing product A can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: technique #1 is ($4 × 2) + ($4 × 1) = $12; technique #2 is ($4 × 4) + ($4 × 2) = $24; technique #3 is ($4 × 2) + ($4 × 1) = $12; and technique #4 is ($4 × 1) + ($4 × 1) = $8. Technique 4 is the least costly technique.

132)   B
The total cost of producing product X can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: Technique I is ($2 × 4) + ($3 × 2) = $14; Technique II is ($2 × 3) + ($3 × 3) = $15; Technique III is ($2 × 2) + ($3 × 5) = $19. The least-costly technique is Technique I.

133)   C
Technique 1 with total costs of $12 is the most economically efficient.

134)   A

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The total cost of producing product X can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: technique #1 is ($7 × 3) + ($2 × 1) = $23; technique #2 is ($7 × 4) + ($2 × 2) = $32; technique #3 is ($7 × 2) + ($2 × 1) = $16. Technique 3 is the least costly technique.

135)   B

The total cost of producing product A can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital by the quantity of capital used) and adding the two amounts. Total cost of: Technique #1 is ($2 × 4) + ($3 × 2) = $14; Technique #2 is ($2 × 3) + ($3 × 3) = $15; Technique #3 is ($2 × 2) + ($3 × 5) = $19; and Technique #4 is ($2 × 5) + ($3 × 1) = $13. Technique 4 is the least-costly technique.To find profit, first calculate total revenue by multiplying the price of product A times quantity sold; $0.50 × 30 = $15 and then subtract total cost from total revenue; TR − TC = profit; $15 − $13 = $2.

136)   D

economic profit of $2 is realized when the firm is producing efficiently.

137)   C

The total cost of producing product A can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: technique #1 is ($3 × 4) + ($4 × 2) = $20; technique #2 is ($3 × 4) + ($4 × 2) = $20; technique #3 is ($3 × 2) + ($4 × 4) = $22; and technique #4 is ($3 × 4) + ($4 × 1) = $16.
To find profit, first calculate total revenue by multiplying the price of product A times quantity sold; $0.50 × 36 = $18 and then subtract total cost from total revenue; TR − TC = profit; $18 − $16 = $2.
Technique #4 is the least-costly technique.

138)   A

Total revenue for the firm is found by multiplying price of the product times the quantity. So, $5 × 120 = $600.

139)   D

Total revenue for the firm is found by multiplying price of the product times the quantity. So, $4 × 240 = $960.

140)   B

Total cost for the firm is found by multiplying the price of each resource by the number of units used of that resource. Then sum the cost of all the resources for total cost. So, ($120 × 2) + ($30 × 1) + ($50 × 2) + ($20 × 3) = $430.

141)   D

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Total cost for the firm is found by multiplying the price of each resource by the number of units used of that resource. Then sum the cost of all the resources for total cost. So, ($120 × 2) + ($30 × 1) + ($50 × 2) + ($20 × 3) = $430.

142) A

Profits are found by finding total revenue and then subtracting total cost. Total revenue for the firm is found by multiplying price times the quantity. So, $5 × 120 = $600. Total cost for the firm is found by multiplying the price of each resource by the number of units used of that resource. Then sum the cost of all the resources for total cost. So, ($120 × 2) + ($30 × 1) + ($50 × 2) + ($20 × 3) = $430. So, total revenue minus total cost is $600 − $430 = $170. The firm will continue to make cupcakes because it is making a profit.

143) B

Profits are found by finding total revenue and then subtracting total cost. Total revenue for the firm is found by multiplying price times the quantity. So, $20 × 100 = $2,000. Total cost for the firm is found by multiplying the price of each resource by the number of units used of that resource. Then sum the cost of all the resources for total cost. So, ($120 × 2) + ($30 × 1) + ($50 × 2) + ($20 × 3) = $430. So, total revenue minus total cost is $2,000 − $430 = $1,570. The firm will continue to make cheesecakes because it is making a profit.

144) B
145) A

The answer to the question "What will be produced?" is "Goods and services that are profitable." The answer to the question "How will the goods and services be produced?" is "In ways that minimize the cost of output." The answer to the question "Who will get the goods and services?" is "Those most willing and able to pay for them." and the answer to the question "How will the system accommodate change?" is "Through the guiding function of prices and the incentive function of profits."

146) B

The answer to the question "What will be produced?" is "Goods and services that consumers want to buy." The answer to the question "How will the goods and services be produced?" is "In ways that minimize the cost of output." The answer to the question "Who will get the goods and services?" is "Those most willing and able to pay for them." and the answer to the question "How will the system accommodate change?" is "Through the guiding function of prices and the incentive function of profits."

147) D
148) A
149) B

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The answer to the question "What will be produced?" is "Goods and services that are profitable." The answer to the question "How will the goods and services be produced?" is "In ways that minimize the cost of output." The answer to the question "Who will get the goods and services?" is "Those most willing and able to pay for them." and the answer to the question "How will the system accommodate change?" is "Through the guiding function of prices and the incentive function of profits." The answer to the question "How will the system promote technological progress?" is "Through the profit potential that encourages development of new technology."

150) A

The answer to the question "What will be produced?" is "Goods and services that are profitable." The answer to the question "How will the goods and services be produced?" is "In ways that minimize the cost of output." The answer to the question "Who will get the goods and services?" is "Those most willing and able to pay for them." and the answer to the question "How will the system accommodate change?" is "Through the guiding function of prices and the incentive function of profits." The answer to the question "How will the system promote technological progress?" is "Through the profit potential that encourages development of new technology."

151) D
152) A
153) C

154) B
155) A
156) C

Every economy faces five fundamental questions: What goods and services will be produced?; How will the goods and services be produced?; Who will get the output?; How will the system accommodate change?; How will the system promote technological progress?

157) D
158) A
159) B
160) D
161) A
162) D

Of the various virtues of the market system, three stand out: efficiency, incentives, and freedom.

163) B
164) C
165) A
166) A

The coordination probem refers to the chronic failure of command economies to harmonize the economic activities of producers so as to efficiently satisfy consumer demands; caused by command economies eschewing economic coordination via markets, prices, and profits in favor of central planning. The incentive problem refers to the difficulty common to command economies wherein the numerical production targets set by central planning boards cause managers to produce substandard or unwanted output.

167) B

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The coordination problem refers to the chronic failure of command economies to harmonize the economic activities of producers so as to efficiently satisfy consumer demands; caused by command economies eschewing economic coordination via markets, prices, and profits in favor of central planning. The incentive problem refers to the difficulty common to command economies wherein the numerical production targets set by central planning boards cause managers to produce substandard or unwanted output.

168) B
169) D

The centrally planned economies suffered from a coordination problem and an incentive problem that only became worse as economies became more complicated.

170) D
171) B
172) D
173) C
174) A
175) A
176) C
177) C
178) C
179) C

The resource market is where households sell resources to businesses. The households sell resources to generate income, and the businesses buy resources to produce goods and services. Productive resources flow from households to businesses, while money flows from businesses to households in the form of wages, rents, interest, and profits. The product market is where businesses sell goods and services to households to generate revenue. Goods and services flow from businesses through the product market to households.

180) B

The resource market is where households sell resources to businesses. The households sell resources to generate income, and the businesses buy resources to produce goods and services. Productive resources flow from households to businesses, while money flows from businesses to households in the form of wages, rents, interest, and profits. The product market is where businesses sell goods and services to households to generate revenue. Goods and services flow from businesses through the product market to households.

181) B
182) A

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Flow 1 represents a money flow of wages, rent, interest, and profit income to households. Flow 2 represents a real flow of resources: land, labor, capital, and entrepreneurial ability. Flow 3 represents the flow of goods and services from businesses to households. Flow 4 represents a money flow of household consumption expenditures that becomes revenue for businesses.

183)   D
Flow 4 represents consumption expenditures and business revenue.

184)   B
185)   C
186)   D
187)   C
Flow 1 represents a money flow of wages, rent, interest, and profit income. Flow 2 represents a real flow of resources: land, labor, capital, and entrepreneurial ability. Flow 3 represents the flow of goods and services from businesses to households. Flow 4 represents a money flow of household consumption expenditures that becomes revenue for businesses.

188)   C
The price of goods and services are determined in the product market and the energy drink is a good. The commercial property, screen printing machine, and self-driving tractor-trailer are all resources and their prices will be determined in the resource market.

189)   A

The price of goods and services are determined in the product market. The price of resources will be determined in the resource market.

190)   D
The price of resources will be determined in the resource market and in this problem, the resource is the Boeing 787. The prices of jeans, the new snowboard, and a concert ticket will all be determined in the product market.

191)   B
The price of resources will be determined in the resource market. The price of goods and services are determined in the product market.

192)   C
193)   C
194)   C
195)   D
196)   B
197)   B
198)   D
199)   B
200)   A
201)   B
202)   C
203)   D

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The profit belongs to the owners, Liam and Amelia. The profit is found by taking total revenue and subtracting total costs so, $300,000 − $240,000 = $60,000. Olivia is an employee and is paid wages for her work. The owners are the legal recipients of whatever profit or loss remains after all other parties have been paid. The possibility of a profit after everyone else has been paid is the owner's compensation for bearing business risk.

204)   C

The profit belongs to the owners, Benjamin and Evelyn. The profit is found by taking total revenue and subtracting total costs so, $300,000 − $240,000 = $60,000. Noah is an employee and is paid wages for her work. The owners are the legal recipients of whatever profit or loss remains after all other parties have been paid. The possibility of a profit after everyone else has been paid is the owner's compensation for bearing business risk.

205)   B

The profit belongs to the owners, Henry and Harper. The profit is found by taking total revenue and subtracting total costs so, $12,000 − $6,000 = $6,000. James is an employee and is paid wages for his work. The owners are the legal recipients of whatever profit or loss remains after all other parties have been paid. The possibility of a profit after everyone else has been paid is the owner's compensation for bearing business risk.

206)   D

The owners, Lucas and Sophia, are responsible for the loss. The amount of the loss is found by taking total revenue and subtracting total costs so, $2,800 − $3,000 = −$200. The helpers are employees and are paid wages. The owners are the legal recipients of whatever profit or loss remains after all other parties have been paid.

207)   B

The owners, Riley and Ryan, are responsible for the loss. The amount of the loss is found by taking total revenue and subtracting total costs so, $2,800 − $3,000 = −$200. The helpers are employees and are paid wages. The owners are the legal recipients of whatever profit or loss remains after all other parties have been paid.

208)   B
209)   C
210)   A
211)   D
212)   D
213)   C
214)   C
215)   D
216)   A
217)   A

Although government ownership of resources and capital in China is still extensive, the nation has increasingly relied on markets to organize and coordinate its economy. North Korea and Cuba are the last prominent remaining examples of largely centrally planned economies. Other countries using mainly the command system include Turkmenistan, Laos, Belarus, Myanmar, Venezuela, and Iran.

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218) A
219) B
220) C
221) D
222) D
223) C
224) C

The following statement is false: Self-interest applies to businesses as they attempt to maximize their production costs.

225) A

Entrepreneurs try to maximize profit or minimize loss. Property owners try to get the highest price for the sale or rent of their resources. Workers try to maximize their utility (satisfaction) by finding jobs that offer the best combination of wages, hours, benefits, and working conditions. Consumers try to obtain products at the lowest possible price.

226) D
227) D
228) A
229) A
230) C
231) B
232) A
233) C
234) D
235) D
236) D
237) A
238) B
239) D
240) B
241) B
242) A
243) D
244) D

245) B
246) A
247) C
248) B
249) B
250) D
251) D
252) C
253) B
254) A
255) C

Creative destruction occurs when the creation of new products and production methods completely destroys the market positions of firms that are wedded to existing products and older ways of doing business.

256) B

Most technological advances require additional capital goods. The market system provides the resources necessary to produce additional capital goods through increased dollar votes for those goods. Entrepreneurs and business owners often use some of their profits to purchase capital goods. They do so because their additional capital may generate even greater profits in the future if the technological innovation that required the additional capital is successful.

257) B

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In the market system, consumers are sovereign (in command). *Consumer sovereignty* is crucial in determining the types and quantities of goods produced. Consumers spend their income on the goods they are most willing and able to buy. Through these *"dollar votes"* they register their wants in the market. If the dollar votes for a certain product are great enough to create a profit, businesses will produce and sell that product. In contrast, if the dollar votes do not create sufficient revenues to cover costs, businesses will not produce the product. Thus consumers collectively direct resources to industries that are meeting their wants and away from industries that are not meeting their wants.

258) C
259) D
260) A
261) A
262) C
263) A
264) A
265) C

Economic profits are found by subtracting total costs from total revenue. TR − TC = economic profits; $16,500 − $15,000 = $1,500.

266) A
Revenue − Cost = $15,000 − $12,000 = $3,000

267) B

Economic profits are found by subtracting total costs from total revenue. TR − TC = economic profits; $18,500 − $15,400 = $3,100.

268) C
269) B
270) D

The most economically efficient method is the least-cost method. Begin by calculating total cost of each technique by multiplying price of each resource times the number of units used and then add the amounts.
Technique A is [($3 × 4) = $12; ($3 × 5) = $15; ($6 × 5) = $30; ($9 × 1) = $9; $12 + $15 + $30 + $9 = $66].
Technique B is [($3 × 10) = $30; ($3 × 3) = $9; ($6 × 2) = $12; ($9 × 1) = $9; $30 + $9 + $12 + $9 = $60].
Technique C is [($3 × 6) = $18; ($3 × 3) = $9; ($6 × 4) = $24; ($9 × 1) = $9; $18 + $9 + $24 + $9 = $60].
Technique D is [($3 × 5) = $15; ($3 × 3) = $9; ($6 × 4) = $24; ($9 × 1) = $9; $15 + $9 + $24 + $9 = $57].
The least-cost technique is Technique D.

271) C

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The most economically efficient method is the least cost method. Begin by calculating total cost of each technique by multiplying price of each resource times the number of units used and then add the amounts.

Technique A is [($3 × 1) = $3; ($5 × 5) = $25; ($7 × 2) = $14; ($9 × 2) = $18; $3 + $25 + $14 + $18 = $60]

Technique B is [($3 × 10) = $30; ($5 × 3) = $15; ($7 × 2) = $14; ($9 × 1) = $9; $30 + $15 + $14 + $9 = $68]

Technique C is [($3 × 6) = $18; ($5 × 3) = $15; ($7 × 3) = $21; ($9 × 1) = $9; $18 + $15 + $21 + $9 = $63]

Technique D is [($3 × 5) = $15; ($5 × 3) = $15; ($7 × 1) = $7; ($9 × 4) = $36; $15 + $15 + $7 + $36 = $73].

The least cost technique is Technique A.

272)   C

The total cost of Technique D is [($3 × 5) = $15; ($3 × 3) = $9; ($6 × 4) = $24; ($9 × 1) = $9; $15 + $9 + $24 + $9 = $57]. Total revenue is found by multiplying the price of the product times the quantity sold, TR = $1 × 70 = $70. Profit equals total revenue minus total cost. $70 − $57 = $13.

273)   C

The most economically efficient method is the least cost method. Begin by calculating total cost of each technique by multiplying price of each resource times the number of units used and then add the amounts.

Technique A is [($3 × 9) = $27; ($8 × 5) = $40; ($11 × 5) = $55; ($14 × 3) = $42; $27 + $40 + $55 + $42 = $164]

Technique B is [($3 × 20) = $60; ($8 × 3) = $24; ($11 × 2) = $22; ($14 × 1) = $14; $60 + $24 + $22 + $14 = $120]

Technique C is [($3 × 16) = $48; ($8 × 3) = $24; ($11 × 3) = $33; ($14 × 1) = $14; $48 + $24 + $33 + $14 = $119]

Technique D is [($3 × 10) = $30; ($8 × 3) = $24; ($11 × 1) = $11; ($14 × 4) = $56; $30 + $30 + $11 + $56 = $153].

Total revenue is found by multiplying the price of the product times the quantity sold, TR = 170 × $1 = $170. Profit equals total revenue minus total cost. $170 − $119 = $51.

274)   B

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The least-costly technique now is B. Calculate the total cost of each technique by multiplying price of each resource times the number of units used and then add the amounts.

Technique A is [($2 × 4) = $8; ($3 × 5) = $15; ($6 × 5) = $30; ($9 × 1) = $9; $8 + $15 + $30 + $9 = $62].

Technique B is [($2 × 10) = $20; ($3 × 3) = $9; ($6 × 2) = $12; ($9 × 1) = $9; $20 + $9 + $12 + $9 = $50].

Technique C is [($2 × 6) = $12; ($3 × 3) = $9; ($6 × 4) = $24; ($9 × 1) = $9; $12 + $9 + $24 + $9 = $54].

Technique D is [($2 × 5) = $10; ($3 × 3) = $9; ($6 × 4) = $24; ($9 × 1) = $9; $10 + $9 + $24 + $9 = $52].

275) C

The least costly technique now is B. Calculate the total cost of each technique by multiplying price of each resource times the number of units used and then add the amounts.

Technique A is [($2 × 4) = $8; ($5 × 5) = $25; ($8 × 5) = $40; ($11 × 3) = $33; $8 + $25 + $40 + $33 = $106]

Technique B is [($2 × 10) = $20; ($5 × 3) = $15; ($8 × 2) = $16; ($11 × 2) = $22; $20 + $15 + $16 + $22 = $73]

Technique C is [($2 × 6) = $12; ($5 × 3) = $15; ($8 × 3) = $24; ($11 × 1) = $11; $12 + $15 + $24 + $11 = $62]

Technique D is [($2 × 5) = $10; ($5 × 3) = $15; ($8 × 1) = $8; ($11 × 4) = $44; $10 + $15 + $8 + $44 = $77]

276) A

The least-costly technique is A. Calculate the total cost of each technique by multiplying the price of each resource times the number of units used and then add the amounts.

Technique A is [($2 × 3) = $6; ($1 × 2) = $2; ($4 × 1) = $4; ($3 × 1) = $3; $6 + $2 + $4 + $3 = $15].

Technique B is [($2 × 2) = $4; ($1 × 1) = $1; ($4 × 2) = $8; ($3 × 2) = $6; $4 + $1 + $8 + $6 = $19].

Technique C is [($2 × 1) = $2; ($1 × 3) = $3; ($4 × 2) = $8; ($3 × 1) = $3; $2 + $3 + $8 + $3 = $16].

Technique D is [($2 × 2) = $4; ($1 × 1) = $1; ($4 × 3) = $12; ($3 × 1) = $3; $4 + $1 + $12 + $3 = $20].

277) C

The least costly technique is D. Calculate the total cost of each technique by multiplying the price of each resource times the number of units used and then add the amounts.

278) D

Calculate the total cost of Technique A by multiplying the price of each resource times the number of units used and then add the amounts. [($2 × 3) = $6; ($1 × 2) = $2; ($4 × 1) = $4; ($3 × 1) = $3; $6 + $2 + $4 + $3 = $15]. Then subtract total cost from total revenue to find economic profit. $18 − $15 = $3.

279) A

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Calculate the total cost of technique C by multiplying the price of each resource times the number of units used and then add the amounts. Then subtract total cost from total revenue to find profit.

280)   C
Now the most efficient production Technique is technique C.
Technique A is [($3 × 3) = $9; ($1 × 2) = $2; ($4 × 1) = $4; ($3 × 1) = $3; $9 + $2 + $4 + $3 = $18].
Technique B is [($3 × 2) = $6; ($1 × 1) = $1; ($4 × 2) = $8; ($3 × 2) = $6; $6 + $1 + $8 + $6 = $21].
Technique C is [($3 × 1) = $3; ($1 × 3) = $3; ($4 × 2) = $8; ($3 × 1) = $3; $3 + $3 + $8 + $3 = $17].
Technique D is [($3 × 2) = $6; ($1 × 1) = $1; ($4 × 3) = $12; ($3 × 1) = $3; $6 + $1 + $12 + $3 = $22].

281)   D
Calculate the total cost of technique C by multiplying the price of each resource times the number of units used and then add the amounts. Then subtract total cost from total revenue to find profit. Now the most efficient production technique is technique C.

282)   B

When labor cost $2 per unit, Technique C was [($2 × 1) = $2; ($1 × 3) = $3; ($4 × 2) = $8; ($3 × 1) = $3; $2 + $3 + $8 + $3 = $16].
When labor increased to $3 per unit, Technique C cost [($3 × 1) = $3; ($1 × 3) = $3; ($4 × 2) = $8; ($3 × 1) = $3; $3 + $3 + $8 + $3 = $17].
Then subtract total cost from total revenue to find economic profit. With labor at $2, $18 − $16 = $2. With labor at $3, $18 − $17 = $1. Therefore, economic profit decreased from $2 to $1.

283)   B
When land cost $1 per unit, technique A cost [($2 × 3) = $6; ($1 × 2) = $2; ($4 × 1) = $4; ($3 × 1) = $3; $6 + $2 + $4 + $3 = $15].
When land increased to $3 per unit, technique A cost [($2 × 3) = $6; ($3 × 2) = $6; ($4 × 1) = $4; ($3 × 1) = $3; $6 + $6 + $4 + $3 = $19]. Then subtract total cost from total revenue to find economic profit. With land at $1, $18 − $15 = $3. With land at $3, $18 − $19 = −$1. Therefore, economic profit decreased from $3 to −$1.

284)   C
The most economically efficienct Technique for producing product Y is #3 since total costs are lowest using it [($3 × 5) + ($5 × 3)] = $30. Whereas, total costs for Technique #1 is [($3 × 2) + ($5 × 6)] = $36; total cost for #2 is [($3 × 3) + ($5 × 5)] = $34; and total cost for Technique #4 is [($3 × 4) + ($5 × 4)] = $32.

285)   B

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The total cost of producing product Y can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: technique #1 is ($6 × 2) + ($7 × 1) = $19; technique #2 is ($6 × 4) + ($7 × 2) = $38; technique #3 is ($6 × 2) + ($7 × 4) = $40; and technique #4 is ($6 × 4) + ($7 × 1) = $31. The most economically efficienct technique for producing product Y is 1.

286)   D

The most economically efficient technique for producing product Y is #3 since total costs are lowest using it [($3 × 5) + ($5 × 3)] = $30. Total revenues are ($1.50 × 24) = $36. Total revenue minus total costs = profit, so profit will be $36 − $30 = $6.

287)   C

The total cost of producing product Y can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: technique #1 is ($6 × 2) + ($7 × 1) = $19; technique #2 is ($6 × 4) + ($7 × 2) = $38; technique #3 is ($6 × 2) + ($7 × 4) = $40; and technique #4 is ($6 × 4) + ($7 × 1) = $31.Total revenue is ($1.50 × 40) = $60. Total revenue minus total costs = profit, so profit will be $60 − $19 = $41.
The most economically efficienct technique for producing product Y is #1.

288)   A
The most economically efficienct technique for producing product Y is #1 since total costs are lowest using it [($6 × 2) + ($5 × 6)] = $42. Whereas, total costs for technique #2 is [($6 × 3) + ($5 × 5)] = $43; total cost for #3 is [($6 × 5) + ($5 × 3)] = $45; and total cost for technique #4 is [($6 × 4) + ($5 × 4)] = $44. Total profits are found by Total Revenue − Total costs = Total profit so, $48 − $42 = $6.

289)   C

The total cost of producing product Y can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: technique #1 is ($10 × 2) + ($9 × 6) = $74; technique #2 is ($10 × 3) + ($9 × 5) = $75; technique #3 is ($10 × 5) + ($9 × 3) = $77; and technique #4 is ($10 × 4) + ($9 × 3) = $67.
Total profit is found by Total Revenue − Total Costs = Total Profit, so $90 − $67 = $23.
The most economically efficient technique for producing product Y is #4.

290)   A

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The most economically efficienct Technique for producing product Z is Technique A since total costs are lowest using it [($4 × 10) + ($5 × 5)] = $65. Whereas, total costs for Technique B is [($4 × 12) + ($5 × 4)] = $68; total cost for C is [($4 × 6) + ($5 × 9)] = $69; and total cost for Technique D is [($4 × 8) + ($5 × 8)] = $72.

291)   A

The total cost of producing product Z can be found by finding the cost of labor (multiplying the price of labor by the quantity of labor used) and then find the cost of capital (multiplying the price of capital times the quantities of capital used) and adding the two amounts. Total cost of: technique A is ($9 × 20) + ($10 × 6) = $240; technique B is ($9 × 22) + ($10 × 5) = $248; technique C is ($9 × 16) + ($10 × 14) = $284; and technique D is ($9 × 18) + ($10 × 13) = $292. The most economically efficient technique for producing product Z is technique A.

292)   A

The most economically efficienct Technique for producing product Z is Technique A since total costs are lowest using it [($4 × 10) + ($5 × 5)] = $65. Whereas, total costs for Technique B is [($4 × 12) + ($5 × 4)] = $68; total cost for C is [($4 × 6) + ($5 × 9)] = $69; and total cost for Technique D is [($4 × 8) + ($5 × 8)] = $72. Total revenue is equal to price times quantity so, ($2 × 50) = $100. Then total profits are found by total revenue − total costs = total profit so, $100 − $65 = $35.

293)   D

The most economically efficient technique for producing product Z is technique A since total costs are lowest using it [($9 × 20) + ($10 × 6)] = $240. Whereas, total cost for technique B is [($9 × 22) + ($10 × 5)] = $248; total cost for C is [($9 × 16) + ($10 × 14)] = $284; and total cost for technique D is [($9 × 18) + ($10 × 13)] = $292. Total revenue is equal to price times quantity so, ($2 × 120) = $240. Then total profit is found by Total Revenue − Total Costs = Total Profit, so $240 − $240 = $0.

294)   C

Inefficiency drives up costs and lowers profits. As a result, any firm wishing to maximize its profits will make great efforts to minimize production costs. These efforts include using the right mix of labor and capital. They also mean locating production facilities optimally to hold down production and transportation expenses.

295)   A
296)   C
297)   D
298)   B
299)   C
300)   B
301)   A
302)   C
303)   B
304)   A
305)   C
306)   D
307)   B
308)   D
309)   D
310)   A
311)   B

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312) B
313) C
314) C
315) A
316) A
317) A
318) C
319) C
320) D
321) D
322) B
323) A
324) D
325) D
326) B
327) A

Resources flow from households to businesses through the resource market, and products flow from businesses to households through the product market. Opposite these real flows are monetary flows. Households receive income from businesses (their costs) through the resource market, for instance, labor earns wages; land earns rent; capital earns interest; and the entrepreneur earns the profit. Businesses receive revenue from households (their expenditures) through the product market for goods and services. In this problem, the costs of the business should equal the money income of the household and entrepreneurial ability earns $35 billion. $200 − 100 − 20 − 45 = $35.

328) B

Resources flow from households to businesses through the resource market, and products flow from businesses to households through the product market. Opposite these real flows are monetary flows. Households receive income from businesses (their costs) through the resource market, for instance, labor earns wages; land earns rent; capital earns interest; and the entrepreneur earns the profit. Businesses receive revenue from households (their expenditures) through the product market for goods and services. In this problem, the costs of the business should equal the money income of the household and entrepreneurial ability earns $19 billion. $240 − 140 − 28 − 53 = $19.

329) D

Resources flow from households to businesses through the resource market, and products flow from businesses to households through the product market. Opposite these real flows are monetary flows. Households receive income from businesses (their costs) through the resource market, for instance, labor earns wages; land earns rent; capital earns interest; and the entrepreneur earns the profit. Businesses receive revenue from households (their expenditures) through the product market for goods and services. In this problem, the costs of the business should equal the money income of the household and the rent income from the land resource is $300 billion. $5,200 − 3,800 − 600 − 500 = $300.

330) D

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Resources flow from households to businesses through the resource market, and products flow from businesses to households through the product market. Opposite these real flows are monetary flows. Households receive income from businesses (their costs) through the resource market, for instance, labor earns wages; land earns rent; capital earns interest; and the entrepreneur earns the profit. Businesses receive revenue from households (their expenditures) through the product market for goods and services. In this problem, the costs of the business should equal the money income of the household and the rent income from the land resource is $1,300 billion. $7,700 − 4,300 − 1,100 − 1,000 = $1,300.

331) C

Businesses receive revenue from households (their expenditures) through the product market for goods and services. In this problem, the revenue of the business should equal the money spent by the household on goods and services, so $65 + $85 = $150 billion.

332) A

Businesses receive revenue from households (their expenditures) through the product market for goods and services. In this problem, the revenue of the business should equal the money spent by the household on goods and services, so $140 + $200 = $340 billion.

333) C
334) D
335) B
336) C

337) A
338) C
339) A
340) B
341) A
342) B
343) A

The suppliers and employees are safeguarded. Because they are paid on time and in full, they are shielded from the firm's business risks and whether it is generating a profit or a loss. However, they are not legally entitled to share in the profits if the firm ends up being profitable. That privilege is reserved under the market system for the firm's owners; it is their reward for bearing business risk.

344) B

The market system shields employees, suppliers, and lenders from business risks, but in exchange for that protection, they do not share any profit that might be earned.

345) D

When the government subsidizes insurance premiums, millions of people who would have otherwise chosen to live and work on higher ground, live and work in floodplains because the federal government subsidizes flood insurance by about 50 percent. If those people had been confronted with unsubsidized rates for flood insurance, they would have chosen to live and work on higher ground. But as things now stand, they could be flooded out repeatedly, with taxpayers picking up the tab for flood damages and reconstruction costs.

346) C

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Because everyone else is legally entitled to get paid before the firm's owners, the firm's owners are called residual claimants. That is, the owners are the legal recipients (claimants) of whatever profit or loss remains (is residual) after all other parties have been paid.

347) B
Insurance policies can help guide people toward better decisions by putting a price on risk. Consider fire insurance and its effect on building decisions. Anyone wanting to build a new home or business in a fire-prone area like Southern California will face substantially higher fire insurance costs than they would if they built in a drizzly locale like coastal Washington. Other things equal, Southern California will see less construction.

348) D
349) C
350) D
Bitcoin is an electronic "cryptocurrency" accepted as payment for goods and services around the world. Bitcoin characteristics include not being issued by any government and existing and transacting entirely in cyberspace. The creation of additional Bitcoins is also done entirely electronically with anyone in the world able to download a free piece of software and start "mining" for Bitcoins by having their computers solve some of the difficult mathematical calculations required to maintain the Bitcoin payments system.

351) D
352) D
353) D

354) D
355) D
Some of Chavez's initial policy efforts were beneficial, including mass literacy programs and the construction of rural health clinics. Unfortunately, his early anti-poverty programs were just the start of a campaign to totally transform Venezuela's economy and society to Bolivarian Socialism. Industries were nationalized, meaning that they were taken over by the government without compensation to their owners. This included the oil industry, which had pumped 3.4 million barrels per day when Chavez took over in 1998 but just 1.4 million barrels per day 20 years later. Chavez and Maduro ruined the industry by putting "friends" in charge of the oil rigs. These cronies were corrupt, directing into their own pockets the money needed for equipment repairs. The result was leaking pipelines, broken drills, and ever declining production.
The reduced production put a strain on the government's finances and it could no longer raise enough tax revenue to pay its bills so they resorted to printing money to pay its bills.
Rapid money printing always results in a hyperinflation, or a super-fast increase in the overall level of prices in the economy.

356) B

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The autonomy that businesses usually enjoy in a mixed economy was slowly eliminated by Chavez and his successor, Nicolas Maduro, who both pursued an economic policy that they termed Bolivarian Socialism. Industries were nationalized, meaning that they were taken over by the government without compensation to their owners. Under socialism, Venezuela had no economic freedom and people were starving.

357)   D

Under Bolivarian Socialism, industries were nationalized, including the oil industry, which had pumped 3.4 million barrels per day when Chavez took over in 1998 but just 1.4 million barrels per day 20 years later. Chavez and Maduro ruined the industries that they took over and amid ever declining production, the government could no longer raise enough tax revenue to pay its bills. So, they resorted to printing money to pay its bills. Rapid money printing always results in hyperinflation and Venezuela's inflation rate skyrocketed from 25 percent per year in 2012 to 1.3 million percent per year in 2018.

358)   Essay

An economic system is a particular set of institutional arrangements and a coordinating mechanism for solving the economizing problem. Economic systems differ as to who owns the factors of production and the method used to motivate, coordinate, and direct economic activity.

359)   Essay

This is a hypothetical economic system in which the government's economic role is limited to protecting private property and establishing a legal environment appropriate to the operation of markets in which only mutually agreeable transactions would take place between buyers and sellers. It is sometimes referred to as "pure capitalism."

360)   Essay

A method of organizing an economy in which property resources are publicly owned and government uses central economic planning to direct and coordinate economic activities. It is also known as socialism or communism.

361)   Essay

The nine key features are:
1. private property
2. freedom of enterprise and choice
3. self-interest
4. competition
5. markets and prices
6. technology and capital goods
7. specialization
8. use of money
9. active, but limited government.

362)   Essay

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This right of private property, along with the freedom to negotiate binding legal contracts, enables individuals and businesses to obtain, use, and dispose of property resources as they see fit. Property rights encourage investment, innovation, maintenance of property, and economic growth. No one would stock a store, build a factory, or clear land for farming if someone else, or the government, could take it away. Also, property rights encourage owners to maintain or improve their property to preserve or increase its value. Finally, property rights enable people to use their time and resources to produce more goods and services, rather than having to use them to protect and retain the property they already own.

363)   Essay

Within legal limitations, freedom of enterprise and freedom of choice play a role in capitalism. Freedom of enterprise is important because it ensures that entrepreneurs and private businesses are free to obtain and use economic resources to produce their choice of goods and services and to sell them in their chosen markets. Freedom of choice is important because it allows owners to employ or dispose of their property and money as they see fit. It also allows workers to try to enter any line of work for which they are qualified. Finally, it ensures that consumers are free to buy the goods and services that best satisfy their wants and that their budgets allow.

364)   Essay

Self-interest is important because it is the motivating force in a market system. Self-interest simply means that each economic unit tries to achieve its own particular goal. Entrepreneurs try to maximize profit or minimize loss. Property owners try to get the highest price for the sale or rent of their resources. Workers try to maximize their utility (satisfaction) by finding jobs that offer the best combination of wages, hours, benefits, and working conditions. Consumers try to obtain products at the lowest possible price. Self-interest provides direction and consistency to what might otherwise be a chaotic economy.

365)   Essay

Broadly defined, competition requires two or more buyers and two or more sellers acting independently in a particular product or resource market. (Usually there are many more than two buyers and two sellers.) Also, necessary is the freedom of sellers and buyers to enter or leave (exit) markets, based on their economic self-interest.

366)   Essay

Economics Edition 23 by McConnell

One type of specialization is human specialization, which is sometimes referred to as the division of labor. This means the work required to produce a product has been divided into a number of different tasks. Then the workers that are best suited to each task will be assigned to it. Geographic specialization works on a regional or international basis when producers concentrate on producing only one or a few products that they are best suited for and exchanging their surplus to another region that has also specialized in production that they are best suited for. Both kinds of specialization increase efficiency in the use of limited resources.

367)   Essay

Human specialization makes use of differences in abilities, which means that individuals can take advantage of the differences in their abilities and skills; fosters learning by doing, which means that as individuals devote time to a single task, they develop the skills required; and saves time, which means that as a person devotes time to a single task, that person avoids the loss of time incurred in shifting from one job to another.

368)   Essay

In economies where people use money as the medium of exchange, trade is easier. Money is a convenient social invention that facilitates the exchange of goods and services. To serve as money, an item needs to pass only one test: Sellers must be willing to accept it as payment for their goods and services. Barter is the direct exchange of one good or service for another good or service. This is a problem because it requires a coincidence of wants between the buyer and the seller, the seller has to have what the buyer wants and the buyer has to have what the seller wants; if this coincidence of wants is missing, no trade takes place.

369)   Essay

There are five fundamental questions that every economy must answer. What goods and services will be produced? How will the goods and services be produced? Who will get the output? How will the system accommodate change? How will the system promote technological progress?

370)   Essay

Economics Edition 23 by McConnell

Consumers register their preferences for the type and quantity of goods and services they want in the market when they buy something. The dollars spent are like voting for that product to continue to be produced. If the dollar votes for a certain product are great enough to create a profit, businesses will produce and sell that product. In contrast, if the dollar votes do not create sufficient revenues to cover costs, businesses will not produce the product. Thus, consumers collectively direct resources to industries that are meeting their wants and away from industries that are not meeting their wants.

371)   Essay

Firms and resource suppliers, seeking to further their own self-interests and operating within the framework of a highly competitive market system, will simultaneously, as though guided by an "invisible hand," promote the public interest. Firms and resource suppliers have their own interests in mind, but competition forces them to consider other people's interests. The invisible hand of competition ensures that when firms maximize their own profits and resource suppliers maximize their own incomes, they also help to maximize society's output and income.

372)   Essay

The three major virtues of the market system are efficiency, incentives, and freedom. Efficiency is realized as the market system promotes the efficient use of resources by guiding them into the production of the goods and services most wanted by society. It encourages the development and adoption of new and more efficient production techniques. Incentives found in the market system encourage skill acquisition, hard work, innovation, and entrepreneurship. Greater work skills and effort mean greater production and higher incomes, which usually translate into a higher standard of living. Successful innovations generate economic rewards. Lower-cost production raises profits while freeing up resources to be used elsewhere. Freedom is the major noneconomic argument for the market system is its emphasis on personal freedom. Unlike central planning, the market system coordinates economic activity without coercion. Entrepreneurs and workers are free to further their own self-interest, subject to the rewards and penalties imposed by the market system itself.

373)   Essay

Economics Edition 23 by McConnell

The first difficulty was the coordination problem. The central planners had to coordinate the millions of individual decisions by consumers, resource suppliers, and businesses. A lack of a reliable success indicator added to the coordination problem in the Soviet Union and China prior to its market reforms. The command economies also faced an incentive problem. Central planners determined the output mix. When they misjudged how many automobiles, shoes, shirts, and chickens were wanted at the government-determined prices, persistent shortages and surpluses of those products arose. Thus, many products were unavailable or in short supply, while other products were overproduced and sat for months or years in warehouses.

374)   Essay

North Korea, under the influence of the Soviet Union, established a command economy that emphasized government ownership and central government planning. South Korea, protected by the United States, established a market economy based upon private ownership and the profit motive. Today, South Korea is far more prosperous, with South Koreans enjoying an average annual income (GDP per capita) of $42,765 per year versus $1,700 in North Korea. That differential is especially startling when you find out that North Korea was richer and more highly industrialized when the countries were separated in 1953.

375)   Essay

Households buy the goods and services that businesses make available in the product market. Households obtain the income needed to buy those products by selling resources in the resource market. Businesses sell goods and services in the product market in order to obtain revenue, and they incur costs in the resource market when they purchase the labor, land, capital, and entrepreneurial ability that they need to produce their goods and services.

376)   Essay

Many people deeply dislike risk and would not be willing to participate in a business venture if they were exposed to the possibility of losing money. Many workers just want to do their jobs and get paid twice a month without having to worry about whether their employer is doing well or not. The same is true for most suppliers, whose only concern is receiving full and prompt payment for the inputs they supply to businesses. This makes it much easier for firms to attract labor and other inputs, which in turn helps the economy innovate and grow. The profit system helps to achieve prudent risk management by focusing owners on the responsibility and the rewards for successfully managing risk. Owners can provide the risk-managing input of entrepreneurial ability themselves or hire it by paying a skilled manager. But either way, some individual's full-time job includes the specialized task of managing business risk.

377)   Essay

Economics Edition 23 by McConnell

The importance of protecting intellectual property with patents, copyrights, and trademarks is that this kind of long-term protection encourages people to write books, compose music, create social media platforms, and invent new products and production processes. As long as we know our work is legally protected, we are willing to create and produce new things.

378)   Essay

Society desires a higher standard of living that includes new and better products and the market system provides a strong incentive for technological advance. Better products and processes supplant inferior ones. An entrepreneur or firm that introduces a popular new product will gain revenue and economic profit at the expense of rivals. Technological advance also includes new and improved methods that reduce production or distribution costs. By passing part of its cost reduction to the consumer through a lower product price, a firm can increase sales and obtain economic profit at the expense of rival firms.

379)   Essay

Bitcoin is an electronic "cryptocurrency" accepted as payment for goods and services by millions of people around the world. It is not issued by any government and exists and transacts entirely in cyberspace. The creation of additional Bitcoins is done electronically, with anyone in the world able to download a free piece of software and start "mining" for Bitcoins by having their computers solve some of the difficult mathematical calculations required to maintain the Bitcoin payments system. Since computers operate on electricity, mining Bitcoins is at its most profitable when Bitcoin miners utilize the least-costly electricity. So large-scale Bitcoin mining operations tend to cluster around low-cost sources of electricity, including hydroelectric dams in the United States and geothermal electricity plants in Iceland. Market forces encourage low-cost production, even for intangible items like Bitcoin.

380)   Essay

Production will be organized in combinations and ways that minimize the cost per unit of output. Inefficiency drives up costs and lowers profits. As a result, any firm wishing to maximize its profits will make great efforts to minimize production costs. These efforts include using the right mix of labor and capital. They also mean locating production facilities optimally to hold down production and transportation expenses.

381)   Essay

Economics Edition 23 by McConnell

In a market economy, a good or service is distributed to consumers on the basis of their ability and willingness to pay the market price. Consumers who are unwilling or unable to pay the price will not obtain the product. The more income a consumer can generate from selling resources, the more output they will be able to purchase and consume.