The Macro Economy Today 14th edition Schiller Test Bank

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Chapter 02 Test Bank

Student: _____

1.

Approximately how much of the world's output does the United States produce?

A.
5 percent.

B.
17 percent.

C. 30 percent.
D.
12 percent.

2. The United States has roughly how much of the world's population?
A. 5 percent.
B. 10 percent.
C. 15 percent.
D. 20 percent.

3. The United States has roughly how much of the world's arable land?
A. 14 percent.
B. 12 percent.
C. 10 percent.
D. 8 percent.

4. The best definition of GDP is
A. The sum of the physical amounts of goods and services in the economy.
B.
A dollar measure of final output produced during a given time period within a nation’s borders.

C. A measure of the per capita economic growth rate of the economy.
D. A physical measure of the capital stock of the economy.

5.

The measure of final goods and services produced in the United States is the

A. GDP of the United States.
B. Percentage change in the GDP of the United States.
C. Per capita GDP in the United States.
D. Total sales of all goods during the year.

6. Approximately how much of the world's output does China produce?
A. 13 percent.
B. 0 percent.
C. 9 percent.
D. 1.5 percent.

7. China has roughly how much of the world's population?
A. 10 percent.
B. 20 percent.
C. 30 percent.
D. 40 percent.

8. Which of the following countries (or regions) produces the most output annually?
   A. Japan.
   B. United States.
   C. China.
   D. Germany.

9. Which of the following statements is true about the U.S. economy?
A.
   The United States produces nearly one-fifth of the world's production.

   B. The United States has the world's third largest economy.
   C. The United States produces less than half as much as China does.
   D. The United States produces less than one-third as much as Japan does.

10. Per capita GDP is
   A. The sum of consumer goods, investment goods, government services, and net exports.
   B. A dollar measure of the economic growth rate of a country.
   C. The value of the factors of production used to produce output in a country.
   D.
   The dollar value of GDP divided by total population.

11. Average GDP per person is
   A. Also known as GDP.
   B. Also known as per capita GDP.
   C. The value of the factors of production used to produce output in a country.
   D. A measure of the economic growth rate of a country.

12. Which of the following is an indicator of how much output the average person would get if all output were divided up evenly among the population?
   A. GDP.
   B.
   Economic growth.

   C. Per capita GDP.
   D. Real GDP.

13. Those who are interested in assessing the relative standard of living of different countries over a given time period are most likely to look at
   A. GDP.
   B. Percentage change in GDP.
   C. Population.
   D. Per capita GDP.

14. The best measure of how much output the average person would get if all output were divided evenly among the population would be
   A. GDP.
   B. The economic growth of the economy.
   C. Per capita GDP.
   D. The capital stock of the economy.

15. Average living standards are best measured using
   A. GDP.
   B. The economic growth of the economy.
   C. Per capita GDP.
   D. The capital stock of the economy.

16. What percentage of the world's population subsists on incomes of less than $2 a day?
   A. 33 percent.
   B. 50 percent.
   C. 60 percent.
   D. 70 percent.

17. Per capita GDP will rise if GDP
    A. Increases more rapidly than the population increases.
    B. Increases at the same rate as the population increases.
    C. Decreases and the population increases.
    D. Increases more slowly than the population increases.

18. Per capita GDP will definitely fall if
    A. The population falls.
    B. The rate of economic growth falls.
    C. The rate of economic growth is less than the rate of population growth.
    D. There is a decrease in the size of the working population.

19. Per capita GDP will definitely rise if
    A. The population falls and GDP does not fall.
    B. The rate of economic growth falls.
    C. The rate of economic growth is less than the rate of population growth.
    D. There is a decrease in the size of the working population.

20. If population growth is less than output growth for a country,
    A. Real GDP has decreased.
    B. Average living standards will decrease.
    C. GDP must have fallen at a fairly rapid rate.
    D. The per capita living standard will increase.

21. If output growth exceeds population growth for a country,
    A. Average living standards will increase.
    B. GDP must have fallen at a very rapid rate.
    C. Per capita GDP will decrease.
    D. This country must have overcome the problem of opportunity costs.

22. Economic growth
    A. Is an increase in output or real GDP.
    B. Causes a contraction in the production possibilities curve.
    C. Involves reduced capacity in the short run.
    D. None of the choices are correct.

23. On average, since 1900 U.S. output has grown roughly ____ times faster than population growth.
    A. 5
    B. 4
    C. 3
    D. 2

24. On average, since 1900 the population of the United States has grown by roughly ____ percent per year.
    A. 9
    B. 6
    C. 3
    D. 1

25. On average, since 1900 U.S. output has grown by roughly ____ percent per year.
    A. 9
    B. 6
    C. 3
    D. 1

26. Which of the following countries experienced a decline in total output from 2000 to 2009?
    A. Canada.
    B. Zimbabwe.
    C. China.
    D. Burundi.

27. Which of the following countries had the highest average growth rate for per capita GDP from 2000 to 2009?
    A. Canada.
    B. Haiti.
    C. China.
    D. Burundi.

28. The current U.S. economy is based primarily on the production of
    A. Agricultural goods.
    B. Goods for federal government use.
    C. Manufacturing goods.
    D. Services.

29. As the U.S. economy relies more and more heavily on the production of services rather than goods,
    A. GDP will decrease since there will be less real production.
    B. International trade will become more difficult.
    C. Mass unemployment will result.
    D. Nearly all future job growth will be in service-producing industries.

30. Which of the following is considered a service in the calculation of GDP?
A.
    Manufacturing reclining chairs.

    B.
    Constructing new homes.

    C. Tax preparation.
    D.
    Manufacturing automobiles.

31. Differences in size of real GDP across countries are best explained by
    A. Population growth.
    B. Human capital.
    C. Large farming sector.
    D. None of the choices are correct.

32. Which of the following has been a century-long trend in the United States?
    A. Decline of total value of world trade.
    B. Relative increase in farming to manufacturing.
    C. Relative decline in manufacturing to the service sector.
    D. Relative decline in service sector to manufacturing.

33. Which of the following contains the two sectors whose percentage contribution to the real GDP has declined since 1900?
    A. Farming and manufacturing.
    B. Manufacturing and exports.
    C. Farming and services.
    D. Services and exports.

34.

    During the past 100 years, the United States has transformed into primarily

    A. A manufacturing economy.
    B. A closed economy with little foreign trade.
    C. An agricultural economy.
    D. A service economy.

35. To an economist, the four factors of production are
    A. Labor, workers, profit, and services.
    B. Land, labor, capital, and entrepreneurship.
    C. Entrepreneurship, machinery, workers, and profit.
    D. None of the choices are correct.

36.

The 'WHAT goods and services does the US produce'question can best be answered using data about which of the following?

A. The distribution of output in markets, specifically among manufacturing, services, and agricultural sectors.

B. Per capita GDP.
C. Productivity.
D. The distribution of GDP among different income quintiles.

37. As of the year 2000, services accounted for what percentage of total U.S. output?
A. 25 percent.
B. 50 percent.
C. 80 percent.
D. 90 percent.

38. As of the year 2000, manufacturing, mining, and construction accounted for what percentage of total U.S. output?

A. 15 percent.
B. 19 percent.
C. 28 percent.
D. None of the choices are correct.

39. As of the year 2000, agriculture accounted for what percentage of total U.S. output?
A. 1 percent.
B. 5 percent.
C. 8 percent.
D. None of the choices are correct.

40. Which component(s) of U.S. real GDP decreased in size relative to total U.S. real GDP from 1950 to 2000?
A. Only agriculture.
B. Only manufacturing.
C. Agriculture and manufacturing.
D. Only services.

41. Which component(s) of U.S. real GDP increased in size relative to total U.S. real GDP from 1950 to 2000?
A. Only agriculture.
B. Only manufacturing.
C. Agriculture and manufacturing.
D. Only services.

42. According to the World View chart in the text, from highest to lowest real GDP, which is correct?
A. United States, Japan, China, Germany, Britain.
B. United States, China, Japan, Germany, Russia.
C. United States, China, Japan, Germany, Britain.
D. United States, China, Germany, Japan, Canada.

43. According to the World View chart in the text, from highest to lowest real GDP per capita, which is correct?
A. United States, Japan, France, Canada, China.
B. United States, China, Japan, Germany, Russia.
C. United States, Canada, Japan, France, South Korea.
D. United States, China, India, Jordan, Germany, Japan, Russia.

44. As of 2010, per capita GDP in the United States was approximately how many times the world average?
A. 3.
B. 5.
C. 7.
D. 9.

45. As of 2010, per capita GDP in the United States was approximately
A. $26,000.
B. $37,000.
C. $47,000.
D. None of the choices are correct.

46. A capital-intensive production process is one that
    A. Has a high ratio of labor to capital.
    B. Has a high ratio of capital to labor.
    C. Is used only in the United States.
    D. All of the choices are correct.

47. A labor-intensive production process is one that
    A. Has a low ratio of labor to capital.
    B. Has a low ratio of capital to labor.
    C. Is used only in the United States.
    D. All of the choices are correct.

48. The United States has a larger real GDP than China because
    A. The U.S. population is smaller but works in capital-intensive jobs.
    B. The U.S. population is smaller but works in labor-intensive jobs.
    C. The U.S. population is larger but works in capital-intensive jobs.
    D. The U.S. population is larger but works in labor-intensive jobs.

49.

    As a country's human capital capacity increases, we observe that the relative number of

    A. Labor-intensive production processes increases.
    B. Capital-intensive production processes increases.
    C. Sector service jobs decreases.
    D. None of the choices are correct.

50. Regarding increasing productivity, factor mobility is
    A. Important in that it helps to fix a stable labor-intensive production process.
    B. Important in that it helps to fix a stable capital-intensive production process.
    C. Important in that it helps to reallocate resources in a dynamic economy.
    D. Not important in either a stable or dynamic economy.

51. Factor mobility aids in economic development when
    A. A region suffers a natural disaster such as an earthquake or tornado.
    B. A technological advance causes some firms to go out of business.
    C. There is an increase in both outsourcing and insourcing.
    D. All of the choices are correct.

52. How will an increase in factor mobility, *ceteris paribus*, affect an economy's production possibilities curve?
    A. Shift the curve inward.
    B.
       Result in a movement from outside the curve to a point on the curve.

    C. Shift the curve outward.
    D. Result in a movement along the curve.

53. How will a decrease in technology from a natural disaster such as a hurricane, *ceteris paribus*, affect an economy's production possibilities curve?
    A. Shift the curve inward.
    B. Result in a movement from inside the curve to a point on the curve.
    C. Shift the curve outward.
    D. Result in a movement along the curve.

54. A U.S. firm that outsources jobs would be
    A. Building a factory in Canada and hiring Canadian workers.
    B. Buying raw materials from a Chinese firm instead of a U.S. firm.
    C. Buying computers assembled in Mexico that used U.S. parts.
    D. All of the choices are correct.

55. Although the necessary role of government in the economy is highly debated, many people agree that it should
    A. Provide a legal framework.
    B. Protect the environment.
    C. Protect consumers and labor.
    D. All of the choices are correct.

56. In providing a legal framework, the government
    A. Protects patents to encourage entrepreneurship.
    B. Protects copyrights to encourage textbook protection.
    C. Protects the ownership of private property to encourage the private sector.
    D. All of the choices are correct.

57. When the government provides a legal framework,
    A. Private market transactions suffer and government market transactions suffer.
    B. Private market transactions suffer and government market transactions benefit.
    C. Private market transactions benefit and government market transactions benefit.
    D. None of the choices are correct.

58. When the government provides a legal framework,
    A. Domestic market transactions suffer and foreign trade market transactions suffer.
    B. Domestic market transactions benefit and foreign trade market transactions benefit.
    C. Domestic transactions benefit and foreign market transactions suffer.
    D. None of the choices are correct.

59. The term *externalities* refers to
    A. Only positive benefits of a market activity borne by a third party.
    B. Only negative costs of a market activity borne by a third party.
    C. The negative costs and positive benefits of a market activity borne by a third party.
    D. None of the choices are correct.

60. An example of a positive externality is
    A. Increased factory use of private sector robotics that came from government research.
    B. Increased health problems from air pollution.
    C. Increased business profits at a hardware store that benefited from a tornado.
    D. None of the choices are correct.

61. The government regulates monopolies in order to
    A. Ensure that product quality meets minimum standards, such as testing of new drugs.
    B. Prohibit mergers or acquisitions that would lessen competition.
    C. Protect consumers from false advertising.
    D. All of the choices are correct.

62. The government intervenes in the economy to protect labor by
    A. Enforcing child labor laws to prevent child exploitation.
    B. Ensuring workplace safety conditions.
    C. Ensuring minimum wages in addition to overtime provisions.
    D. All of the choices are correct.

63. According to economists, which of the following is NOT a factor of production?
    A. Land.
    B. Labor.
    C. Money.
    D. Entrepreneurship.

64. An example of human capital would be
    A. A computer.
    B. Carpentry skills.
    C. A carpenter's saw.
    D. All of the choices are correct.

65. The term *factor of production* refers to
    A. Only those goods that are produced and then used to produce other goods and services.
    B. Labor only.
    C. Any resource input used to produce goods and services.
    D. Factories and machinery only.

66. Human capital is defined as the
    A. Amount of machinery, factories, and buildings an individual owns.
    B. Dollar value of all the stocks and bonds an individual owns.
    C. Knowledge and skills workers possess.
    D. None of the choices are correct.

67. How will an increase in the level of human capital, *ceteris paribus*, affect an economy's production possibilities curve?
    A. Shift the curve inward.
    B. Result in a movement from inside the curve to a point on the curve.
    C. Shift the curve outward.
    D. Result in a movement along the curve.

68. As a nation's average education level increases, the nation's level of productivity
    A. Increases, and the production possibilities curve shifts to the right.
    B. Decreases, and the nation's production possibilities curve shifts to the left.
    C. Increases, and the nation moves to a new point on the same production possibilities curve.
    D. Decreases, and the nation moves to a new point on the same production possibilities curve.

69. Which of the following will increase the level of human capital in an economy?
    A. An increase in land mass.
    B. An increase in literacy rates.
    C. An increase in factory capacity.
    D. A decrease in the population.

70. In terms of an economy's production possibilities curve, a decrease in the level of human capital, *ceteris paribus*, will cause
    A. An inward shift of the curve.
    B. A movement from the curve to a point inside the curve.
    C. A movement along the curve.
    D. An expansion of the curve.

71. Productivity is a measure of
    A. Output per unit of input.
    B. Output per dollar of input.
    C. Input per unit of output.
    D. Input per dollar of output.

72. Productivity
    A. Rises when the value of output rises relative to the cost of inputs.
    B. Falls when the value of output rises relative to the cost of inputs.
    C. Rises when the ratio of output to input increases.
    D. Falls when factors of production cost more.

73. Which of the following definitely means productivity has increased?
    A. More output from fewer workers.
    B. Less output from fewer workers.
    C. More output from more workers.
    D. Less output from more workers.

74. When economists describe a production process as capital-intensive, they mean that the
    A. Process uses a high ratio of machinery and other capital to labor.
    B. Process needs a greater emphasis on labor in order to increase productivity.
    C. Capital used in the process reflects the most advanced technology.
    D. Capital used in the process tends to wear out (depreciate) very rapidly.

75. Production processes that use a high ratio of capital to labor inputs are referred to as
    A. Labor-intensive.
    B. Production-intensive.
    C. Capital-intensive.
    D. Factor-intensive.

76. Which of the following contributes to the high productivity of American workers?
    A. The labor-intensive production process in the United States.
    B. The abundance of capital relative to labor.
    C. The low level of factor mobility.
    D. The decreasing investment in human capital.

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77. Which of the following is likely to be most capital-intensive?
A. Farming in developing countries.
B. Production of clothing in rural China.
C. Oil refining in the United States.
D. None of the choices are correct.

78. The investment in human capital through education and training can result in
A. Greater productivity.
B. Low factor mobility.
C. Less capital-intensive production.
D. Reduced output per labor hour.

79. *Factor mobility* refers to
A. Technological change in the use of capital.
B. The ease of reallocating resources.
C. Technological change in the use of labor.
D. The increase in labor productivity.

80. When workers move from one industry to another in response to demand changes, this is an example of
A. Factor quality.
B. Factor mobility.
C. Capital stock.
D. The decreasing investment in human capital.

81. One characteristic that has allowed the U.S. economy to change the mix of output in response to consumer demand is the
A. Factor mobility which is the increased ease with which resources move from one industry to another.
B. Abundance of scarce resources.
C. Large number of proprietorships.
D. Labor-intensive production process.

82. Whenever technology advances, an economy can produce more output with
A. Fewer resources.
B. More resources.
C. Current resources.
D. No resources.

83. Which of the following does *not* contribute to the high productivity of the U.S. economy?
A. The capital stock.
B. Factor mobility.
C. Negative externalities.
D. Technology.

84. Which of the following will contribute to accelerated growth for the U.S. economy?
A. A decrease in factor mobility.
B. A decrease in government involvement in copyright laws.
C. Increased use of outsourcing for inputs and increased use of comparative advantage for trade in final goods and services.
D. A decrease in tax credits for research and development.

85. Outsourcing leads to
A. Increases in productivity and increases in total output.
B. Increases in productivity and decreases in total output.
C. Decreases in productivity and increases in total output.
D. Decreases in productivity and decreases in total output.

86. Outsourcing leads to
    A. Increases in total output, but with temporary job losses for some domestic workers.
    B. Increases in total output, but with permanent job losses for some domestic workers.
    C. Decreases in total output, but with no changes in the number of domestic jobs available.
    D. Decreases in total output, along with permanent job losses for some domestic workers.

87. Which of the following would be a legitimate government activity in the U.S. economy?
A.

    The enactment of antitrust laws to protect consumers.

    B. The regulation of water pollution.
    C. Enforcing child labor laws.
    D. All of the choices are correct.

88. The government establishes the rules of the game for economic transactions in order to
    A. Legitimatize and enforce contracts.
    B. Discourage the production of capital.
    C. Discourage the ownership of property.
    D. Encourage spillover costs.

89. The term *externalities* refers to
    A. Black-market economic activity.
    B. The impact on markets of imported goods.
    C. The costs or benefits of a market activity borne by a third party.
    D. The inequitable distribution of income.

90. The cost or benefit of a market activity borne by a third party is
    A. An externality.
    B. A government directive.
    C. A monopoly.
    D. Black-market economic activity.

91. Which of the following is an example of an external cost?
    A. Unemployment.
    B. Unfair pricing behavior by a monopoly.
    C. Automobile exhaust fumes.
    D. Poverty.

92. When the production of a good creates external costs,
    A. Profits for the producer of the good will be lower.
    B. Production of the good will be lower.
    C. Society's collective well-being will be lower.
    D. The level of environmental pollution will be lower.

93.

    Goods that have spillover costs affect our collective well-being and therefore can be overproduced because

    A. The government has failed to establish rules for contracts.
    B. Most businesses are more concerned about profits than how the environment is affected.
    C. The government has failed to enforce contract provisions.
    D. The government is concerned about broad economic welfare.

94. Government intervention to reduce the level of pollution is prompted by the existence of
    A. An inequitable distribution of income.
    B. Negative externalities.
    C. A monopoly.
    D. Government failure.

95. The government regulates food additives
    A. To keep food producers from dominating their markets.
    B. To restrain the market power of food producers.
    C. To assess their safety.
    D. To prevent externalities.

96. A monopoly exists when
A. A small number of firms are the only producers of a good.
B. A large number of firms are producing a good.
C. The government intervenes on behalf of consumers.
D. One firm produces all the output for a particular good or service.

97. When unregulated monopolies exist,
A. Prices tend to be higher than with a competitive market.
B. Quality tends to be higher than with a competitive market.
C. Production tends to be higher than with a competitive market.
D. Externalities occur.

98. The purpose of antitrust policy in the United States is to
A. Encourage competition among producers.
B. Check the validity of advertising claims.
C. Determine drug safety and performance.
D. Encourage business mergers and acquisitions.

99. In a market economy with no government intervention, the HOW to produce question is based on
A. Production costs alone.
B. Production costs plus environmental considerations.
C. Environmental considerations only.
D. Consumer demand.

100. The result of government intervention in the market is that
A. Society is always better off.
B. The production possibilities curve always shifts outward.
C. Society could be made better or worse off.
D. Society is always worse off.

101. Which of the following statements about the way markets allocate resources is most accurate from society's perspective?
A. The market always allocates resources in the best way.
B. The market may not always allocate resources in a way that is not in society's best interest.
C. Resource allocation by markets may not be perfect, but it is always better than government allocation of resources.
D. Markets always fail to allocate resources properly, so we must rely on the government to determine the proper use of our resources.

102. The bottom 80 percent of the families in the United States receive approximately _____ percent of total income.
A. 10
B. 20
C. 50
D. 90

103. The theory of how to grow GDP is
A. An equity concept while the theory of how to divide GDP is an equity concept.
B. An equity concept while the theory of how to divide GDP is an efficiency concept.
C. An efficiency concept while the theory of how to divide GDP is an equity concept.
D. An efficiency concept while the theory of how to divide GDP is an efficiency concept.

104.

Income inequality tends to be greatest in

A. Poorest countries.
B. Middle-income countries.
C. Richest countries.
D. None of the choices are correct.

105. A country that increased its literacy rate and thereby its average human capital would probably

A.

Decrease GDP.

B.

Increase GDP.

C.

Have not impact on GDP.

D.

None of the choices are correct.

106. A rich country that opened its borders to trade with a poor country would cause in the long run
A. Increased GDP for the rich country but not the poor country.
B. Increased GDP for the rich country and the poor country.
C. Increased GDP for the poor country but not the rich country.
D. None of the choices are correct.

107. A rich country that opened its borders to trade with a poor country would cause in the long run
A. More equitable distribution of income GDP for the rich country but not the poor country.
B. More equitable distribution of income GDP for the poor country but not the rich country.
C. More equitable distribution of income GDP for the rich country and the poor country.
D. None of the choices are correct.

108.

As of 2013, to be in the top quintile for income distribution in the United States, a family needed in income at least

A. $52,000.
B. $85,000.

C.

$106,000.

D.

$140,000.

109. As of 2010, to be in the bottom quintile for income distribution in the United States, a family needed in income no more than
A. $15,000.
B. $21,000.
C. $27,000.
D. $35,000.

110. As of 2010, for income distribution in the United States, the minimum family earnings in the top quintile were approximately _____ times the maximum family earnings in the bottom quintile.
A. 3
B. 5
C. 7
D. 10

111. A laissez faire economy
    A. Relies predominantly on government policy rather than free market action.
    B. Relies predominantly on free market action rather than government policy.
    C. Relies equally on government policy and free market action.
    D. None of the choices are correct.

112. The income distribution of the United States is basically the nation's answer to the
    A. WHAT question.
    B. HOW question.
    C. FOR WHOM question.
    D. WHAT, HOW, and FOR WHOM questions.

113. Which of the following statements is true concerning income inequality?
    A. Income is equally distributed in poor countries.
    B. Developed countries have greater income inequality than developing countries.
    C. The government has no way to alter income inequality.
    D. The free market produces an unequal distribution of income.

114. One-fifth of the population, rank ordered by income, is
    A. A population quintile.
    B. An income quintile
    C. An earnings-population quintile.
    D. None of the choices are correct.

115. The richest 20 percent of the families in the United States receive approximately _____ percent of total income.
    A. 10
    B. 20
    C. 50
    D. 90

116. The 20 percent of families with the lowest income in the United States receive approximately _____ percent of total income.
    A. 1
    B. 3
    C. 15
    D. 20

117. When compared to the average household in most low-income countries, poor people in the United States receive
    A. About the same amount of goods and services.
    B. Somewhat fewer goods and services.
    C. Far fewer goods and services.
    D. Far more goods and services.

118. Income inequality is
    A. Often greatest in the richest countries.
    B. An issue because households in the lowest quintile receive more than their share of income.
    C. Often greatest in the poorest countries.
    D. Not an issue in the United States because of the redistribution of income through the federal tax system.

119. Income inequalities are greatest in
    A. Highly developed countries.
    B. Poor countries.
    C. Rich countries.
    D. Countries with many factors of production.

120. According to the World View titled "Income Share of the Rich," in which of the following would the top tenth of the population be most likely to receive the highest percentage of the country's income?
    A. Namibia.
    B. South Africa.
    C. Canada.
    D. Japan.

121. According to the World View titled "Income Share of the Rich," in which of the following would the top tenth of the population be most likely to receive the highest percentage of the country's income?
    A. Japan.
    B. The United States.
    C. Germany.
    D. Haiti.

122. According to the World View excerpt that compares GDP figures for several nations, Japan's real GDP is approximately
    A. Second only to that of the United States.
    B. More than that of China.
    C. More than that of Germany.
    D. All of the choices are correct.

123. According to the World View excerpt that compares GDP figures for several nations, Russia's real GDP is approximately
    A. More than that of Germany.
    B. More than that of China.
    C. More than that of South Korea.
    D. None of the choices are correct.

124. The World View article titled "The Education Gap between Rich and Poor Nations" says that 85 percent of all Americans graduate from high school. This is an example of
    A. The inequitable distribution of income.
    B. A negative externality.
    C. Investment in human capital.
    D. Capital-intensive production.

125. The World View article titled "The Education Gap between Rich and Poor Nations" says that a greater percentage of people graduate from high school in rich nations than in poor nations. This investment in human capital can lead to
    A. Lower productivity.
    B. Increased output per worker.
    C. Lower labor quality.
    D. A bigger capital stock.

126. The World View article in the text titled "Income Share of the Rich" reports, "In poor, developing countries the richest tenth of the population typically gets 40 to 50 percent of all income." Which of the following is a form of government intervention designed to change this situation?
    A. Antitrust laws.
    B. Spillover costs.
    C. Laissez faire.
    D. Rich nations opening up their domestic markets to exports from poor nations.

127. In the United States today, nearly _____ of the population has attained a college degree.
    A. 30 percent
    B. 15 percent
    C. 50 percent
    D. 40 percent

128. The role of the government in establishing how private business can operate includes all of the following except
    A. Providing a legal framework.
    B. Providing raw materials to business.
    C. Protecting the environment.
    D. Protecting consumers from defective products.

129. According to the World View article that compares GDP per capita figures for several nations, which of the following nations has the highest GDP per capita?
    A. Japan.
    B. Great Britain.
    C. United States.
    D. China.

130. Externalities measure
    A. Only costs of a market activity borne by a third party.
    B. Only benefits of a market activity borne by a third party.
    C. Either costs or benefits of a market activity borne by a third party.
    D. None of the choices are correct.

131. Over many years the capital stock in the United States has grown to approximately
    A. $50 trillion.
    B. $40 trillion.
    C. $30 trillion.
    D. $20 trillion.

132. The GDP is a measure of the market value of all final goods and services produced in the economy in a given time period.
    True False

133. The GDP of the United States includes production by foreign-owned firms that are located in the United States. True False

134. The standard of living rises when population growth exceeds economic growth. True False

135. The relative decline in goods production compared to services produced means that we're producing fewer goods than in earlier decades.
    True False

136. On average over the last century, the U.S. population has grown three times as fast as the U.S. real GDP. True False

137. A good approximation of a country's standard of living is per capita GDP, which is population divided by real GDP. True False

138. According to the World Bank, nearly one-third of the people on earth subsist on incomes of less than $2 per day. True False

139. In the years from 2000 through 2009, China's standard of living or per capita GDP grew faster than that of the United States.
    True False

140. Education and training are examples of investment in human capital. True False

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

142. Outsourcing is a source of increased U.S. output.
    True False

143. Government intervention is sometimes used to reduce the external costs of production.
    True False

144. Monopolists can dictate the price or the quantity of the product they produce, but not both.
    True False

145. The richest fifth of U.S. households get nearly half of all U.S. income.
    True False

146. Income inequalities are often greatest in the poorest countries.
True False

147. How is per capita GDP calculated, and what does it tell us about the economy?

148. How is per capita GDP affected by GDP growth and population growth?

149. Compare the composition of U.S. output in the year 1900 with its composition in the year 2000.

150. What are externalities, and how do they affect who pays the true cost of a polluting factory?

151. What factors contribute to the high level of productivity of the American worker?

152. What is human capital, and how does it affect U.S. productivity?

Chapter 02 Test Bank Key

1.

Approximately how much of the world's output does the United States produce?

A.
5 percent.

B.
17 percent.

C. 30 percent.
D.
12 percent.

The United States is a very significant force in the world economy.

AACSB: Reflective Thinking
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Blooms: Remember
Difficulty: 01 Easy
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Topic: WHAT AMERICA PRODUCES

2. The United States has roughly how much of the world's population?
A. 5 percent.
B. 10 percent.
C. 15 percent.
D. 20 percent.
The United States is able to produce so much with a small fraction of the world's population.

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3. The United States has roughly how much of the world's arable land? A. 14 percent.
B. 12 percent.
C. 10 percent.
D. 8 percent.
The United States has always been a major player in agriculture, even today.

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4. The best definition of GDP is
A. The sum of the physical amounts of goods and services in the economy.
B.
A dollar measure of final output produced during a given time period within a nation’s borders.

C. A measure of the per capita economic growth rate of the economy.
D. A physical measure of the capital stock of the economy.
GDP is a measure of how well a nation is doing economically, especially in terms of its production of all final goods and services.

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5.

The measure of final goods and services produced in the United States is the

A. GDP of the United States.
B. Percentage change in the GDP of the United States.
C. Per capita GDP in the United States.
D. Total sales of all goods during the year.
The total market value of all final goods and services produced within a nation's borders in a given time period is GDP.

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6. Approximately how much of the world's output does China produce?
A. 13 percent.
B. 0 percent.
C. 9 percent.
D. 1.5 percent.
China plays a significant role in the world economy.

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Blooms: Remember
Difficulty: 01 Easy
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7. China has roughly how much of the world's population?
A. 10 percent.
B. 20 percent.
C. 30 percent.
D. 40 percent.
China is the most populous country in the world.

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Blooms: Remember
Difficulty: 01 Easy
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8. Which of the following countries (or regions) produces the most output annually?
A. Japan.
B. United States.
C. China.
D. Germany.
The United States is the largest economy in the world based on GDP.

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9. Which of the following statements is true about the U.S. economy?
A.
The United States produces nearly one-fifth of the world's production.

B. The United States has the world's third largest economy.
C. The United States produces less than half as much as China does.
D. The United States produces less than one-third as much as Japan does.
The United States is a prosperous country because it produces a large amount of output with a relatively small population.

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Blooms: Remember
Difficulty: 01 Easy
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10. Per capita GDP is
A. The sum of consumer goods, investment goods, government services, and net exports.
B. A dollar measure of the economic growth rate of a country.
C. The value of the factors of production used to produce output in a country.
D. The dollar value of GDP divided by total population.

Per capita GDP is an important measure of economic well-being.

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11. Average GDP per person is A. Also known as GDP.
B. Also known as per capita GDP.
C. The value of the factors of production used to produce output in a country.
D. A measure of the economic growth rate of a country.
GDP divided by the population is the average or per capita GDP.

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12. Which of the following is an indicator of how much output the average person would get if all output were divided up evenly among the population?
A. GDP.
B. Economic growth.
C. Per capita GDP.
D. Real GDP.
Per capita GDP is an important measure of living standards.

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13. Those who are interested in assessing the relative standard of living of different countries over a given time period are most likely to look at
A. GDP.
B. Percentage change in GDP.
C. Population.
D. Per capita GDP.
Comparing living standards between countries allows us to see which countries are more or less prosperous per person.

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14. The best measure of how much output the average person would get if all output were divided evenly among the population would be
A. GDP.
B. The economic growth of the economy.
C. Per capita GDP.
D. The capital stock of the economy.
GDP per capita is an indicator of the average standard of living.

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15. Average living standards are best measured using
A. GDP.
B. The economic growth of the economy.
C. Per capita GDP.
D. The capital stock of the economy.
Per capita GDP means GDP per person.

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Difficulty: 01 Easy
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16. What percentage of the world's population subsists on incomes of less than $2 a day?
A. 33 percent.
B. 50 percent.
C. 60 percent.
D. 70 percent.
Poverty exists across the world and affects many people.

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Blooms: Remember
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17. Per capita GDP will rise if GDP
A. Increases more rapidly than the population increases.
B. Increases at the same rate as the population increases.
C. Decreases and the population increases.
D. Increases more slowly than the population increases.
As long as the growth in GDP outpaces population growth, living standards will rise.

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18. Per capita GDP will definitely fall if
A. The population falls.
B. The rate of economic growth falls.
C. The rate of economic growth is less than the rate of population growth.
D.
There is a decrease in the size of the working population.

In countries with high population growth rates, living standards will fall if GDP growth does not keep pace.

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19. Per capita GDP will definitely rise if
A. The population falls and GDP does not fall.
B. The rate of economic growth falls.
C. The rate of economic growth is less than the rate of population growth.
D.
There is a decrease in the size of the working population.

Low population growth rates coupled with higher rates of economic growth make per capita GDP rise.

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20. If population growth is less than output growth for a country,
A. Real GDP has decreased.
B. Average living standards will decrease.
C. GDP must have fallen at a fairly rapid rate.
D. The per capita living standard will increase.
If the percentage change in the numerator (real GDP) increases faster than the percentage change in the denominator (population), the per capita living standard will increase.

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21. If output growth exceeds population growth for a country,
A. Average living standards will increase.
B. GDP must have fallen at a very rapid rate.
C. Per capita GDP will decrease.
D.
This country must have overcome the problem of opportunity costs.

Growth in output is important for economic growth.

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22. Economic growth
A. Is an increase in output or real GDP.
B. Causes a contraction in the production possibilities curve.
C. Involves reduced capacity in the short run.
D. None of the choices are correct.
Economic growth reflects more production and consumption.

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23. On average, since 1900 U.S. output has grown roughly ____ times faster than population growth.
A. 5
B. 4
C. 3
D. 2
Since 1900, real GDP has grown at 3 percent while population has grown at 1 percent.

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Blooms: Remember
Difficulty: 01 Easy
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Topic: WHAT AMERICA PRODUCES

24. On average, since 1900 the population of the United States has grown by roughly ____ percent per year.
A. 9
B. 6
C. 3
D. 1
Population growth is important to fill jobs in a growing economy.

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Blooms: Remember
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Topic: WHAT AMERICA PRODUCES

25. On average, since 1900 U.S. output has grown by roughly ____ percent per year.
A. 9
B. 6
C. 3
D. 1
Living standards can rise when real GDP is growing at a larger percentage than population.

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Blooms: Remember
Difficulty: 01 Easy
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Topic: WHAT AMERICA PRODUCES

26. Which of the following countries experienced a decline in total output from 2000 to 2009? A. Canada.
B. Zimbabwe.
C. China.
D. Burundi.
Some countries, such as Zimbabwe, are unable to successfully grow their economies as population growth is greater than GDP growth.

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Blooms: Remember
Difficulty: 01 Easy
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27. Which of the following countries had the highest average growth rate for per capita GDP from 2000 to 2009?

A. Canada.
B. Haiti.
C. China.
D. Burundi.
China's real GDP grew at the fastest rate on the planet while its population growth was almost stagnant.

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Blooms: Remember
Difficulty: 01 Easy
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28. The current U.S. economy is based primarily on the production of
A. Agricultural goods.
B. Goods for federal government use.
C. Manufacturing goods.
D. Services.
Production in the U.S. economy is mostly directed toward services.

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Blooms: Remember
Difficulty: 01 Easy
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29. As the U.S. economy relies more and more heavily on the production of services rather than goods,
A. GDP will decrease since there will be less real production.
B. International trade will become more difficult.
C. Mass unemployment will result.
D. Nearly all future job growth will be in service-producing industries.
A service sector that is growing faster than the manufacturing sector will cause growth in service sector jobs relative to manufacturing jobs.

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Blooms: Understand
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30. Which of the following is considered a service in the calculation of GDP? A. Manufacturing reclining chairs.

B. Constructing new homes.

C. Tax preparation.

D. Manufacturing automobiles.

Any consumption spending on intangibles is for services.

AACSB: Analytic
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Blooms: Analyze
Difficulty: 03 Hard
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Topic: WHAT AMERICA PRODUCES

31. Differences in size of real GDP across countries are best explained by A. Population growth.
B. Human capital.
C. Large farming sector.
D. None of the choices are correct.
Real GDP growth is determined not by quantity of factors of production but by quality of factors of production such as human capital.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
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Topic: WHAT AMERICA PRODUCES

32. Which of the following has been a century-long trend in the United States?
A. Decline of total value of world trade.
B. Relative increase in farming to manufacturing.
C. Relative decline in manufacturing to the service sector.
D. Relative decline in service sector to manufacturing.
The service sector as a percentage of real GDP has grown relative to the manufacturing sector.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
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Topic: WHAT AMERICA PRODUCES

33. Which of the following contains the two sectors whose percentage contribution to the real GDP has declined since 1900?
A. Farming and manufacturing.
B. Manufacturing and exports.
C. Farming and services.
D. Services and exports.
Farming and manufacturing are less important in the overall economy today compared to the service sector.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
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Topic: WHAT AMERICA PRODUCES

34.

During the past 100 years, the United States has transformed into primarily

A. A manufacturing economy.
B. A closed economy with little foreign trade.
C. An agricultural economy.
D. A service economy.
Once households have enough food they begin to demand more consumption items with an increasing percentage being services.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
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35. To an economist, the four factors of production are A. Labor, workers, profit, and services.
B. Land, labor, capital, and entrepreneurship.
C. Entrepreneurship, machinery, workers, and profit.
D. None of the choices are correct.
The general terms for the four factors of production are land, labor, capital, and entrepreneurship.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation Blooms: Understand
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Topic: WHAT AMERICA PRODUCES

36.

The 'WHAT goods and services does the US produce'question can best be answered using data about which of the following?

A.
The distribution of output in markets, specifically among manufacturing, services, and agricultural sectors.

B. Per capita GDP.
C. Productivity.
D. The distribution of GDP among different income quintiles.
Markets tell producers what the economy should produce. The composition of GDP and output reflects what country is producing.

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Blooms: Understand
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Topic: WHAT AMERICA PRODUCES

37. As of the year 2000, services accounted for what percentage of total U.S. output?
A. 25 percent.
B. 50 percent.
C. 80 percent.
D. 90 percent.
Services have played an increasingly important role in the U.S. economy and are likely to do so in the future.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
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Topic: WHAT AMERICA PRODUCES

38. As of the year 2000, manufacturing, mining, and construction accounted for what percentage of total U.S. output?
A. 15 percent.
B. 19 percent.
C. 28 percent.
D. None of the choices are correct.
Although manufacturing, mining, and construction are important parts of our economy, their relative size in U.S. real GDP has shrunk significantly since World War II.

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Blooms: Remember
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Topic: WHAT AMERICA PRODUCES

39. As of the year 2000, agriculture accounted for what percentage of total U.S. output?
A. 1 percent.
B. 5 percent.
C. 8 percent.
D. None of the choices are correct.
Technological advancements make it possible to produce the same amount with fewer workers, causing the relative agricultural component of U.S. real GDP to shrink significantly.

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Blooms: Remember
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Topic: WHAT AMERICA PRODUCES

40. Which component(s) of U.S. real GDP decreased in size relative to total U.S. real GDP from 1950 to 2000?
A. Only agriculture.
B. Only manufacturing.
C. Agriculture and manufacturing.
D. Only services.
Although agriculture, along with manufacturing, mining, and construction, are important parts of our economy, their relative size in U.S. real GDP has shrunk significantly since World War II.

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41. Which component(s) of U.S. real GDP increased in size relative to total U.S. real GDP from 1950 to 2000?
A. Only agriculture.
B. Only manufacturing.
C. Agriculture and manufacturing.
D. Only services.
Due to technological advances, the agricultural component of U.S. real GDP has shrunk significantly, and with the significant increase in per capita income the demand for services has increased.

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42. According to the World View chart in the text, from highest to lowest real GDP, which is correct?
A. United States, Japan, China, Germany, Britain.
B. United States, China, Japan, Germany, Russia.
C. United States, China, Japan, Germany, Britain.
D. United States, China, Germany, Japan, Canada.
Although other countries are catching up, the United States still has the largest real GDP.

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43. According to the World View chart in the text, from highest to lowest real GDP per capita, which is correct?
A. United States, Japan, France, Canada, China.
B. United States, China, Japan, Germany, Russia.
C. United States, Canada, Japan, France, South Korea.
D. United States, China, India, Jordan, Germany, Japan, Russia.
The United States leads the world not only in real GDP but also in GDP per capita.

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Blooms: Remember
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Topic: WHAT AMERICA PRODUCES

44. As of 2010, per capita GDP in the United States was approximately how many times the world average? A. 3.
B. 5.
C. 7.
D. 9.
The United States produces five times the world average per capita GDP.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
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45. As of 2010, per capita GDP in the United States was approximately
A. $26,000.
B. $37,000.
C. $47,000.
D. None of the choices are correct.
U.S. per capita GDP, at $47,000 in 2010, was five times the world average per capita GDP.

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46. A capital-intensive production process is one that A. Has a high ratio of labor to capital.
B. Has a high ratio of capital to labor.
C. Is used only in the United States.
D. All of the choices are correct.

Ceteris paribus, the greater the amount of physical capital employed in the production process, the greater the productivity of the workers up to the point of diminishing returns.

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Blooms: Remember
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Topic: HOW AMERICA PRODUCES

47. A labor-intensive production process is one that
A. Has a low ratio of labor to capital.
B. Has a low ratio of capital to labor.
C. Is used only in the United States.
D. All of the choices are correct.

Ceteris paribus, the smaller the amount of physical capital employed in the production process, the less the productivity of the workers.

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Accessibility: Keyboard Navigation
Blooms: Remember
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Topic: HOW AMERICA PRODUCES

48. The United States has a larger real GDP than China because
A. The U.S. population is smaller but works in capital-intensive jobs.
B. The U.S. population is smaller but works in labor-intensive jobs.
C. The U.S. population is larger but works in capital-intensive jobs.
D. The U.S. population is larger but works in labor-intensive jobs.
Real GDP is simply the product of (average productivity per capita) * (population). The U.S. product is larger than the China product.

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Accessibility: Keyboard
Navigation Blooms: Remember
Difficulty: 01 Easy
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Topic: HOW AMERICA PRODUCES

49.

As a country's human capital capacity increases, we observe that the relative number of

A. Labor-intensive production processes increases.
B. Capital-intensive production processes increases.
C. Sector service jobs decreases.
D. None of the choices are correct.

Ceteris paribus, as the labor force accrues more human capital, they are supplied with more physical capital.

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50. Regarding increasing productivity, factor mobility is
A. Important in that it helps to fix a stable labor-intensive production process.
B. Important in that it helps to fix a stable capital-intensive production process.
C. Important in that it helps to reallocate resources in a dynamic economy.
D. Not important in either a stable or dynamic economy.
As factor mobility increases, this allows for management to be more flexible to opportunities in a dynamic economy.

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51. Factor mobility aids in economic development when
A. A region suffers a natural disaster such as an earthquake or tornado.
B. A technological advance causes some firms to go out of business.
C. There is an increase in both outsourcing and insourcing.
D. All of the choices are correct.
The more fluid the factor mobility, the more easily the economy and its micro components will adjust to a dynamic economy.

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52. How will an increase in factor mobility, *ceteris paribus*, affect an economy's production possibilities curve? A. Shift the curve inward.
B.
Result in a movement from outside the curve to a point on the curve.

C. Shift the curve outward.
D. Result in a movement along the curve.

Ceteris paribus, as factors become more flexible to dynamic situations, the production possibilities curve will shift outward.

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53. How will a decrease in technology from a natural disaster such as a hurricane, *ceteris paribus*, affect an economy's production possibilities curve?
A. Shift the curve inward.
B. Result in a movement from inside the curve to a point on the curve.
C. Shift the curve outward.
D. Result in a movement along the curve.

Ceteris paribus, if there is a power outage or infrastructure decay, the production possibilities curve will shift inward.

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54. A U.S. firm that outsources jobs would be
A. Building a factory in Canada and hiring Canadian workers.
B. Buying raw materials from a Chinese firm instead of a U.S. firm.
C. Buying computers assembled in Mexico that used U.S. parts.
D. All of the choices are correct.
Basically if you send any money offshore, you are outsourcing jobs.

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55. Although the necessary role of government in the economy is highly debated, many people agree that it should
A. Provide a legal framework.
B. Protect the environment.
C. Protect consumers and labor.
D. All of the choices are correct.
As per capita income increases, an increasing role of government is requested by its citizens.

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56. In providing a legal framework, the government
A. Protects patents to encourage entrepreneurship.
B. Protects copyrights to encourage textbook protection.
C. Protects the ownership of private property to encourage the private sector.
D. All of the choices are correct.
Without guarantees from both buyer and seller as established in contracts, many market activities would cease to exist, thereby harming the economy.

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57. When the government provides a legal framework,
A. Private market transactions suffer and government market transactions suffer.
B. Private market transactions suffer and government market transactions benefit.
C. Private market transactions benefit and government market transactions benefit.
D. None of the choices are correct.
Without guarantees from both buyer and seller as established in contracts, many private market and government activities would suffer, thereby harming the economy.

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58. When the government provides a legal framework,
A. Domestic market transactions suffer and foreign trade market transactions suffer. **B.**
Domestic market transactions benefit and foreign trade market transactions benefit. C.
Domestic transactions benefit and foreign market transactions suffer.
D. None of the choices are correct.
Without guarantees from both buyer and seller as established in contracts, both domestic transactions and foreign trade transactions would suffer, thereby harming the economy.

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59. The term *externalities* refers to
A. Only positive benefits of a market activity borne by a third party.
B. Only negative costs of a market activity borne by a third party.
C. The negative costs and positive benefits of a market activity borne by a third party.
D. None of the choices are correct.
An externality is anything that affects a third party to a market transaction.

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60. An example of a positive externality is
A. Increased factory use of private sector robotics that came from government research.
B. Increased health problems from air pollution.
C. Increased business profits at a hardware store that benefited from a tornado.
D. None of the choices are correct.
An externality is anything that affects a third party to a market transaction.

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61. The government regulates monopolies in order to
A. Ensure that product quality meets minimum standards, such as testing of new drugs.
B. Prohibit mergers or acquisitions that would lessen competition.
C. Protect consumers from false advertising.
D. All of the choices are correct.
There will typically be government intervention to limit the powers of a monopoly in order to protect consumers.

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62. The government intervenes in the economy to protect labor by A. Enforcing child labor laws to prevent child exploitation.
B. Ensuring workplace safety conditions.
C. Ensuring minimum wages in addition to overtime provisions.
D. All of the choices are correct.
The U.S. government has increasingly intervened in the workplace to beneficially increase working conditions.

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63. According to economists, which of the following is NOT a factor of production?
A. Land.
B. Labor.
C. Money.
D. Entrepreneurship.
Money does not directly do anything. It lets you go out and buy factors of production that do things.

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64. An example of human capital would be
A. A computer.
B. Carpentry skills.
C. A carpenter's saw.
D. All of the choices are correct.
Human capital represents the quality of labor, including skills and abilities.

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65. The term *factor of production* refers to
A. Only those goods that are produced and then used to produce other goods and services.
B. Labor only.
C. Any resource input used to produce goods and services.
D. Factories and machinery only.
This includes land, labor, capital, and entrepreneurship.

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66. Human capital is defined as the
A. Amount of machinery, factories, and buildings an individual owns.
B. Dollar value of all the stocks and bonds an individual owns.
C. Knowledge and skills workers possess.
D. None of the choices are correct.
Human capital depicts the quality of labor and is an important factor of production that allows greater productivity.

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67. How will an increase in the level of human capital, *ceteris paribus*, affect an economy's production possibilities curve?
A. Shift the curve inward.
B. Result in a movement from inside the curve to a point on the curve.
C. Shift the curve outward.
D. Result in a movement along the curve.
An increase in any resource will lead to economic growth.

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68. As a nation's average education level increases, the nation's level of productivity
A. Increases, and the production possibilities curve shifts to the right.
B. Decreases, and the nation's production possibilities curve shifts to the left.
C. Increases, and the nation moves to a new point on the same production possibilities curve.
D. Decreases, and the nation moves to a new point on the same production possibilities curve.
Human and physical capital increase the productivity of a nation's workers.

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69. Which of the following will increase the level of human capital in an economy? A. An increase in land mass.
B. An increase in literacy rates.
C. An increase in factory capacity.
D. A decrease in the population.
Education, training, and skills count as human capital.

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70. In terms of an economy's production possibilities curve, a decrease in the level of human capital, *ceteris paribus*, will cause
A. An inward shift of the curve.
B. A movement from the curve to a point inside the curve.
C. A movement along the curve.
D. An expansion of the curve.
A decrease in any resource, including human capital, will decrease a nation's production possibilities curve.

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71. Productivity is a measure of
A. Output per unit of input.
B. Output per dollar of input.
C. Input per unit of output.
D. Input per dollar of output.
Productivity is the amount of output produced by the average worker-for example, output per labor hour.

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72. Productivity
A. Rises when the value of output rises relative to the cost of inputs.
B. Falls when the value of output rises relative to the cost of inputs.
C. Rises when the ratio of output to input increases.
D. Falls when factors of production cost more.
The amount we can produce with our inputs in a given time frame is what productivity is measuring. It measures how much output can be produced with a certain amount of inputs.

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73. Which of the following definitely means productivity has increased?
A. More output from fewer workers.
B. Less output from fewer workers.
C. More output from more workers.
D. Less output from more workers.
If the numerator (output) is changing faster than the denominator (input), then the quotient (productivity) is increasing. Productivity goes hand-in-hand with living standards.

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74. When economists describe a production process as capital-intensive, they mean that the
A. Process uses a high ratio of machinery and other capital to labor.
B. Process needs a greater emphasis on labor in order to increase productivity.
C. Capital used in the process reflects the most advanced technology.
D. Capital used in the process tends to wear out (depreciate) very rapidly.
In the United States much production is capital-intensive.

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75. Production processes that use a high ratio of capital to labor inputs are referred to as
A. Labor-intensive.
B. Production-intensive.
C. Capital-intensive.
D. Factor-intensive.
A great deal of U.S. output comes from capital-intensive production.

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76. Which of the following contributes to the high productivity of American workers? A. The labor-intensive production process in the United States.
B. The abundance of capital relative to labor.
C. The low level of factor mobility.
D. The decreasing investment in human capital.

Ceteris paribus, the more capital a nation has relative to labor, the more productive its workers will be.

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77. Which of the following is likely to be most capital-intensive?
A. Farming in developing countries.
B.
Production of clothing in rural China.

C. Oil refining in the United States.
D. None of the choices are correct.
Capital-intensive means there is a high ratio of capital to labor used in production.

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78. The investment in human capital through education and training can result in
A. Greater productivity.
B. Low factor mobility.
C. Less capital-intensive production.
D. Reduced output per labor hour.
Human and physical capital both increase the productivity of workers.

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79. *Factor mobility* refers to
A. Technological change in the use of capital.
B. The ease of reallocating resources.
C. Technological change in the use of labor.
D. The increase in labor productivity.
The more mobile resources are, the easier it is to pursue production in growing, high value-added industries.

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80. When workers move from one industry to another in response to demand changes, this is an example of
A. Factor quality.
B. Factor mobility.
C. Capital stock.
D. The decreasing investment in human capital.
Economies will tend to grow faster when they are more dynamic.

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81. One characteristic that has allowed the U.S. economy to change the mix of output in response to consumer demand is the

A. Factor mobility which is the increased ease with which resources move from one industry to another.

B. Abundance of scarce resources.
C. Large number of proprietorships.
D. Labor-intensive production process.

Economies will be more responsive to change when resources can be easily reallocated to more productive uses.

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82. Whenever technology advances, an economy can produce more output with

A. Fewer resources.
B. More resources.
C. Current resources.
D. No resources.

Technological advances are one of the forces that keeps shifting resources from one industry to another; shifting the production possibilities curve outward.

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83. Which of the following does *not* contribute to the high productivity of the U.S. economy?

A. The capital stock.
B. Factor mobility.
C. Negative externalities.
D. Technology.

Negative externalities make the internal costs inexpensive in the short run, but cause higher 'fix-it'costs in the long run. Positive externalities usually created by government technology spillovers help productivity in the long run.

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84. Which of the following will contribute to accelerated growth for the U.S. economy?

A. A decrease in factor mobility.
B. A decrease in government involvement in copyright laws.

C. Increased use of outsourcing for inputs and increased use of comparative advantage for trade in final goods and services.
D. A decrease in tax credits for research and development.

Outsourcing of inputs, as well as comparative advantage in selection of productive output, make a country more efficient in production and able to enjoy a higher standard of living.

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85. Outsourcing leads to
A. Increases in productivity and increases in total output.
B. Increases in productivity and decreases in total output.
C. Decreases in productivity and increases in total output.
D. Decreases in productivity and decreases in total output.
Outsourcing allows U.S workers to pursue their comparative advantage, leading to an increase in productivity and total output capabilities which increases living standards.

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86. Outsourcing leads to
A. Increases in total output, but with temporary job losses for some domestic workers.
B. Increases in total output, but with permanent job losses for some domestic workers.
C. Decreases in total output, but with no changes in the number of domestic jobs available.
D. Decreases in total output, along with permanent job losses for some domestic workers.
While outsourcing may eliminate some domestic jobs in the short run, it ultimately creates many more domestic jobs in the long run.

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87. Which of the following would be a legitimate government activity in the U.S. economy? A.
The enactment of antitrust laws to protect consumers.

B. The regulation of water pollution.
C. Enforcing child labor laws.
D. All of the choices are correct.
The government makes many contributions to society by providing public goods along with environmental and child labor regulation.

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88. The government establishes the rules of the game for economic transactions in order to
A. Legitimatize and enforce contracts.
B. Discourage the production of capital.
C. Discourage the ownership of property.
D. Encourage spillover costs.
Without guarantees from both buyer and seller as established in contracts, many market activities would cease to exist, thereby harming the economy.

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89. The term *externalities* refers to
A. Black-market economic activity.
B. The impact on markets of imported goods.
C. The costs or benefits of a market activity borne by a third party.
D. The inequitable distribution of income.
Externalities are things like pollution that hurt third parties.

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90. The cost or benefit of a market activity borne by a third party is
A. An externality.
B. A government directive.
C. A monopoly.
D. Black-market economic activity.
An example such as secondhand smoke is a cost imposed on third parties.

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91. Which of the following is an example of an external cost?
A. Unemployment.
B. Unfair pricing behavior by a monopoly.
C. Automobile exhaust fumes.
D. Poverty.
Clean air benefits everyone; pollution harms parties not directly involved in the use of a good.

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92. When the production of a good creates external costs,
A. Profits for the producer of the good will be lower.
B. Production of the good will be lower.
C. Society's collective well-being will be lower.
D. The level of environmental pollution will be lower.
External costs are spillover costs involved in a market transaction which affects a third party member. The government can potentially restore well-being to those harmed by external costs.

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93.

Goods that have spillover costs affect our collective well-being and therefore can be overproduced because

A. The government has failed to establish rules for contracts.
B. Most businesses are more concerned about profits than how the environment is affected.
C. The government has failed to enforce contract provisions.
D. The government is concerned about broad economic welfare.
What is best for the individual is not the best for society when negative externalities are present.

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94. Government intervention to reduce the level of pollution is prompted by the existence of A. An inequitable distribution of income.
B. Negative externalities.
C. A monopoly.
D. Government failure.
Negative externalities that are present in an economic activity justify government intervention to improve on the market outcome.

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95. The government regulates food additives
A. To keep food producers from dominating their markets.
B. To restrain the market power of food producers.
C. To assess their safety.
D. To prevent externalities.
Governments should intervene to reduce or eliminate external costs.

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96. A monopoly exists when
A. A small number of firms are the only producers of a good.
B. A large number of firms are producing a good.
C. The government intervenes on behalf of consumers.
D. One firm produces all the output for a particular good or service.

There will typically be government intervention to limit the powers of a monopoly.

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97. When unregulated monopolies exist,
A. Prices tend to be higher than with a competitive market.
B. Quality tends to be higher than with a competitive market.
C. Production tends to be higher than with a competitive market.
D. Externalities occur.
Since the monopolist has no competitors, prices will typically be higher because there is no one else to buy the good from.

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98. The purpose of antitrust policy in the United States is to
A. Encourage competition among producers.
B. Check the validity of advertising claims.
C. Determine drug safety and performance.
D. Encourage business mergers and acquisitions.
Competition among firms usually benefits consumers and therefore the economy as a whole.

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99. In a market economy with no government intervention, the HOW to produce question is based on
A. Production costs alone.
B. Production costs plus environmental considerations.
C. Environmental considerations only.
D. Consumer demand.
Firms in quest of greater profits are always looking for ways to lower costs.

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100. The result of government intervention in the market is that
A. Society is always better off.
B. The production possibilities curve always shifts outward.
C.
Society could be made better or worse off.

D. Society is always worse off.
Government intervention might lead to government failure simply replacing a market failure--leaving society no better off, and possibly even worse off.

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101. Which of the following statements about the way markets allocate resources is most accurate from society's perspective?
A. The market always allocates resources in the best way.
B.
The market may not always allocate resources in a way that is not in society's best interest.

C. Resource allocation by markets may not be perfect, but it is always better than government allocation of resources.
D. Markets always fail to allocate resources properly, so we must rely on the government to determine the proper use of our resources.
Markets are usually the best way to allocate resources, but sometimes they do not work in society's best interests.

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102. The bottom 80 percent of the families in the United States receive approximately _____ percent of total income.
A. 10
B. 20
C. 50
D. 90
The top 20 percent of families get 50 percent of the income, and the bottom 80 percent of families get 50 percent of the income.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

103. The theory of how to grow GDP is
A. An equity concept while the theory of how to divide GDP is an equity concept.
B. An equity concept while the theory of how to divide GDP is an efficiency concept.
C. An efficiency concept while the theory of how to divide GDP is an equity concept.
D. An efficiency concept while the theory of how to divide GDP is an efficiency concept.
How to make GDP larger is an objective efficiency concept. How to divide GDP is a subjective equity concept.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

104.

Income inequality tends to be greatest in

A. Poorest countries.
B. Middle-income countries.
C. Richest countries.
D. None of the choices are correct.
Poor countries have low GDPs relative to population size and are not necessarily controlled by democratic governments.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

105. A country that increased its literacy rate and thereby its average human capital would probably

A.
Decrease GDP.

B.
Increase GDP.

C.
Have not impact on GDP.

D.
None of the choices are correct.

A higher literacy rate will increase productivity and GDP and make more equitable distribution of GDP.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

106. A rich country that opened its borders to trade with a poor country would cause in the long run
A. Increased GDP for the rich country but not the poor country.
B. Increased GDP for the rich country and the poor country.
C. Increased GDP for the poor country but not the rich country.
D. None of the choices are correct.
Open trade allows for specialization in production between nations that causes cost savings, lower prices, higher employment, higher incomes, and ultimately higher standards of living for all nations.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

107. A rich country that opened its borders to trade with a poor country would cause in the long run
A. More equitable distribution of income GDP for the rich country but not the poor country.
B. More equitable distribution of income GDP for the poor country but not the rich country.
C. More equitable distribution of income GDP for the rich country and the poor country.
D. None of the choices are correct.
Open trade allows specialization in production between nations that causes cost savings, lower prices, higher employment, higher incomes, and ultimately higher standards of living for all nations. The emphases here are on higher employment in the export markets for both countries along with lower cost of purchases in the newly opened import markets.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

108.

As of 2013, to be in the top quintile for income distribution in the United States, a family needed in income at least

A. $52,000.
B. $85,000.
C $106,000.

D. $140,000.

A great deal of income goes to the top fifth of families. The minimum family earnings in the top quintile ($106,000) were approximately five times the maximum family earnings in the bottom quintile ($21,000).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

109. As of 2010, to be in the bottom quintile for income distribution in the United States, a family needed in income no more than
A. $15,000.
B. $21,000.
C. $27,000.
D. $35,000.
The minimum family earnings in the top quintile ($102,000) were approximately five times the maximum family earnings in the bottom quintile ($21,000).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

110. As of 2010, for income distribution in the United States, the minimum family earnings in the top quintile were approximately _____ times the maximum family earnings in the bottom quintile.
A. 3
B. 5
C. 7
D. 10
A great deal of income goes to the top fifth of families. The minimum family earnings in the top quintile ($102,000) were approximately five times the maximum family earnings in the bottom quintile ($21,000).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

111. A laissez faire economy
A. Relies predominantly on government policy rather than free market action.
B. Relies predominantly on free market action rather than government policy.
C. Relies equally on government policy and free market action.
D. None of the choices are correct.
A laissez faire economy has a minimum of government influence.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

112. The income distribution of the United States is basically the nation's answer to the
A. WHAT question.
B. HOW question.
C. FOR WHOM question.
D. WHAT, HOW, and FOR WHOM questions.
Who ultimately gets the goods and services will shape the income distribution in a nation.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

113. Which of the following statements is true concerning income inequality?
A. Income is equally distributed in poor countries.
B. Developed countries have greater income inequality than developing countries.
C. The government has no way to alter income inequality.
D. The free market produces an unequal distribution of income.
Income inequality will vary depending on how active the government is in the economy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

114. One-fifth of the population, rank ordered by income, is
A. A population quintile.
B. An income quintile
C. An earnings-population quintile.
D. None of the choices are correct.
The top fifth of the income distribution represents the highest income earners.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

115. The richest 20 percent of the families in the United States receive approximately _____ percent of total income.
A. 10
B. 20
C. 50
D. 90
A great deal of income goes to the top fifth of families.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

116. The 20 percent of families with the lowest income in the United States receive approximately _____ percent of total income.
A. 1
B. 3
C. 15
D. 20
Very little income is received by the bottom fifth of households.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

117. When compared to the average household in most low-income countries, poor people in the United States receive
A. About the same amount of goods and services.
B. Somewhat fewer goods and services.
C. Far fewer goods and services.
D. Far more goods and services.
Even the worst off in the United States do far better than their counterparts in many regions of the world.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

118. Income inequality is
A. Often greatest in the richest countries.
B. An issue because households in the lowest quintile receive more than their share of income.
C. Often greatest in the poorest countries.
D. Not an issue in the United States because of the redistribution of income through the federal tax system.
Income distribution can vary a great deal from country to country.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

119. Income inequalities are greatest
in A. Highly developed countries.
B. Poor countries.
C. Rich countries.
D. Countries with many factors of production.
Wealthier countries tend to redistribute more income than poorer countries, thereby reducing income inequality somewhat.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

120. According to the World View titled "Income Share of the Rich," in which of the following would the top tenth of the population be most likely to receive the highest percentage of the country's income?
A. Namibia.
B. South Africa.
C. Canada.
D. Japan.
Poorer countries tend to have greater income inequality.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

121. According to the World View titled "Income Share of the Rich," in which of the following would the top tenth of the population be most likely to receive the highest percentage of the country's income?
A. Japan.
B. The United States.
C. Germany.
D. Haiti.
Income inequality tends to be greater in poorer countries.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

122. According to the World View excerpt that compares GDP figures for several nations, Japan's real GDP is approximately
A. Second only to that of the United States.
B. More than that of China.
C. More than that of Germany.
D. All of the choices are correct.
Japan is a very prosperous nation.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WORLD VIEW

123. According to the World View excerpt that compares GDP figures for several nations, Russia's real GDP is approximately
A. More than that of Germany.
B. More than that of China.
C. More than that of South Korea.
D. None of the choices are correct.
Russia's transformation from primarily a command economy to more of a market economy is causing it to move upward in the rank structure of countries as measured by real GDP.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WORLD VIEW

124. The World View article titled "The Education Gap between Rich and Poor Nations" says that 85 percent of all Americans graduate from high school. This is an example of
A. The inequitable distribution of income.
B. A negative externality.
C. Investment in human capital.
D. Capital-intensive production.
Human capital includes education received at various levels such as high school and college.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: WORLD VIEW

125. The World View article titled "The Education Gap between Rich and Poor Nations" says that a greater percentage of people graduate from high school in rich nations than in poor nations. This investment in human capital can lead to
A. Lower productivity.
B. Increased output per worker.
C. Lower labor quality.
D. A bigger capital stock.
Human and physical capital both increase worker productivity.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: WORLD VIEW

126. The World View article in the text titled "Income Share of the Rich" reports, "In poor, developing countries the richest tenth of the population typically gets 40 to 50 percent of all income." Which of the following is a form of government intervention designed to change this situation?
A. Antitrust laws.
B. Spillover costs.
C. Laissez faire.
D. Rich nations opening up their domestic markets to exports from poor nations.
If rich nations opened up their markets to exports from poor countries, both rich and poor countries would benefit from trade, and there would be a more equitable distribution of income throughout the world.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: WORLD VIEW

127. In the United States today, nearly _____ of the population has attained a college degree.
A. 30 percent
B. 15 percent
C. 50 percent
D. 40 percent
Human capital has increased in the United States due to the heavy investment in education over many years.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

128. The role of the government in establishing how private business can operate includes all of the following except
A. Providing a legal framework.
B. Providing raw materials to business.
C. Protecting the environment.
D. Protecting consumers from defective products.
The government plays important roles to safeguard the rights of individuals and society at large.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

129. According to the World View article that compares GDP per capita figures for several nations, which of the following nations has the highest GDP per capita?
A. Japan.
B. Great Britain.
C. United States.
D. China.
The United States has the highest GDP per capita because it produces one-fifth of the world's output with only 5 percent of the world's population.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WORLD VIEW

130. Externalities measure
A. Only costs of a market activity borne by a third party.
B. Only benefits of a market activity borne by a third party.
C. Either costs or benefits of a market activity borne by a third party.
D. None of the choices are correct.
Externalities are benefits received or costs paid indirectly by third parties to a market transaction. Externalities are by-products of a market transaction affecting bystanders.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

131. Over many years the capital stock in the United States has grown to approximately
A. $50 trillion.
B. $40 trillion.
C. $30 trillion.
D. $20 trillion.
Every year, positive investment spending causes the capital stock to grow.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

132. The GDP is a measure of the market value of all final goods and services produced in the economy in a given time period.
TRUE
GDP measures the total production of final goods and services in an economy and is an important variable for comparing two economies.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

133. The GDP of the United States includes production by foreign-owned firms that are located in the United States.

TRUE
The key issue is, where does the production take place?

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

134. The standard of living rises when population growth exceeds economic growth.
FALSE
If population is growing faster than output, this means that productivity and GDP per capita is falling and thereby standard of living is falling.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

135. The relative decline in goods production compared to services produced means that we're producing fewer goods than in earlier decades.
FALSE
Not necessarily: the actual production can go up while the relative share of production declines.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

136. On average over the last century, the U.S. population has grown three times as fast as the U.S. real GDP.
FALSE
On average over the last century, the U.S. real GDP has grown three times as fast as the U.S. population.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

137. A good approximation of a country's standard of living is per capita GDP, which is population divided by real GDP.
FALSE
A good approximation of a country's standard of living is per capita GDP, which is real GDP divided by population.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

138. According to the World Bank, nearly one-third of the people on earth subsist on incomes of less than $2 per day.
TRUE
Low income individuals in the United States enjoy a higher standard of living than billions of poor people in other nations.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

139. In the years from 2000 through 2009, China's standard of living or per capita GDP grew faster than that of the United States.
TRUE
Regarding the per capita GDP, the numerator (real GDP) grew faster and the denominator (population) grew more slowly for China than for the United States. In essence, China had a larger quotient and thereby larger growth in its standard of living.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

140. Education and training are examples of investment in human capital.
TRUE
Human capital leads to greater productivity as workers are able to use more productive physical capital.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 03 Hard
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

141. The high productivity of the U.S. economy results from using highly educated workers in a capital-intensive production process.
TRUE
Greater use of physical capital leads to higher productivity of workers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

142. Outsourcing is a source of increased U.S. output.
TRUE
Outsourcing allows greater specialization and therefore higher living standards.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

143. Government intervention is sometimes used to reduce the external costs of production.
TRUE
Externalities will not be corrected purely by the market; some intervention of government is necessary to correct them.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

144. Monopolists can dictate the price or the quantity of the product they produce, but not both.
TRUE
With no competitors, the monopolist has much more ability to sell its product on terms favorable to the company.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

145. The richest fifth of U.S. households get nearly half of all U.S. income.
TRUE
The greatest share of income goes to the top fifth of households.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

146. Income inequalities are often greatest in the poorest countries.
TRUE
Richer nations tend to be better at reducing income inequality than are poorer nations.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Learning Objective: 02-04 How incomes are distributed in the United States and elsewhere.
Topic: FOR WHOM AMERICA PRODUCES

147. How is per capita GDP calculated, and what does it tell us about the economy?

Per capita GDP is the dollar value of GDP divided by total population. It indicates how much output each person would get if the output were divided evenly among the population. It can be used to measure average living standards.

AACSB: Analytic
Blooms: Analyze
Difficulty: 03 Hard
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

148. How is per capita GDP affected by GDP growth and population growth?

Per capita GDP is the dollar value of GDP divided by total population. If GDP increases and population is constant, then per capita GDP will grow. If population and GDP grow at the same time, then GDP must grow at a more rapid rate than population for per capita GDP to increase. Even if GDP grows, if population grows at a more rapid rate, then per capita GDP will decline.

AACSB: Analytic
Blooms: Analyze
Difficulty: 03 Hard
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

149. Compare the composition of U.S. output in the year 1900 with its composition in the year 2000.

At the beginning of the 1900s, about two-thirds of U.S. output consisted of farm goods, manufactured goods, and mining, whereas in the year 2000, 80 percent of U.S. output consisted of services.

AACSB: Analytic
Blooms: Analyze
Difficulty: 03 Hard
Learning Objective: 02-01 The relative size of the U.S. economy.
Topic: WHAT AMERICA PRODUCES

150. What are externalities, and how do they affect who pays the true cost of a polluting factory?

Externalities are the market effects felt either beneficially or detrimentally by third parties in a market exchange. Another way to look at this is that externalities are by-products affecting bystanders. An example would be when a factory gets rid of production waste more cheaply by polluting a river than by disposing of the waste in a manner that does not affect the environment. By polluting the river, the factory has a lower internal cost of production, a lower price of output, and thereby a larger quantity demanded of its product. What is not in the final price of the product is the external cost of the pollution paid by those living downstream and suffering health costs and loss of income.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

151. What factors contribute to the high level of productivity of the American worker?

Productivity is affected by the size of the capital stock, the quality of human capital, factor mobility, technological advance, and our ability to outsource and trade.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 01 Easy
Learning Objective: 02-03 How the U.S. is able to produce so much output.
Topic: HOW AMERICA PRODUCES

152. What is human capital, and how does it affect U.S. productivity?

Human capital is the knowledge and skills possessed by the workforce. The U.S. economy has invested heavily in human capital through education and job training. The high productivity of the U.S. economy is the direct result of the high quality of its resources, including well-educated workers.

AACSB: Reflective Thinking
Blooms: Remember
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Learning Objective: 02-03 How the U.S. is able to produce so much output.
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Chapter 02 Test Bank Summary

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