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Correct answers located at the end of the chapter.

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

1) Technological change is a key force in shaping today's economy.
   - ◎ true
   - ◎ false

2) Globalization is the increasing exchange of goods, services, ideas, and people within a country.
   - ◎ true
   - ◎ false

3) Technological change is the only reason for globalization.
   - ◎ true
   - ◎ false

4) A laissez-faire economy has minimal government regulations or laws affecting the economy.
   - ◎ true
   - ◎ false

5) History suggests that economic competition is the most consistent force for economic growth and progress.
   - ◎ true
   - ◎ false

6) Deregulation includes reducing governmental control over some aspects of private industry, while increasing control of others.
   - ◎ true
   - ◎ false

7) The gross domestic product is the dollar value of all goods and services produced by the economy.
   - ◎ true
   - ◎ false

8) Most economists agree on the amount of government intervention necessary in an economy.
   - ◎ true
   - ◎ false

9) A centrally planned economy encourages investment and innovation.
   - ◎ true
   - ◎ false

10) Economics is the study of how individuals, businesses, and governments make decisions and trade-offs in the face of scarce resources.
   - ◎ true
   - ◎ false

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

11) Technological change has always been the most critical factor in raising living standards, even going as far back as the development of the
A) steam engine.
B) iPod.
C) microprocessor.
D) fluorescent light.

12) Globalization is the exchange of _____ among countries.
A) workers and jobs
B) communications
C) goods, services, ideas, and people
D) money and other financial assets

13) Which of the following is *not* part of an economy's financial markets?
A) The residential mortgage market
B) The stock market
C) Banks and brokerage firms
D) Political action committees

14) In a centrally planned economy, decisions are made by
A) private businesses.
B) large corporations.
C) low-level government employees.
D) top-level government officials.

15) In recent years, China and India have prospered economically by introducing
A) more central planning.
B) greater government intervention.
C) a stronger central bank.
D) more competition through markets.

16) Governments generally take responsibility for
A) deciding what is produced by most businesses.
B) determining the moral code.
C) making sure the economy remains healthy.
D) the purchasing decisions of households.

17) Over the past 30 years, most countries have moved in the direction of less intervention by government, a process known as
A) central planning.
B) economic competition.
C) deregulation.
D) marginalization.

18) Historically, the most consistent force for economic growth and progress has been
A) government regulation.
B) the gross domestic product.
C) technology integration.
D) economic competition.

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19) The gross domestic product is calculated by adding up the
A) value of all goods and services produced by domestic companies abroad.
B) number of all tangible goods produced in a domestic economy.
C) value of all goods and services produced within the nation.
D) value of services produced domestically and goods produced overseas.

20) Lower-income countries started to develop economically when they
A) pretended the rest of the world didn't exist.
B) began to produce what the rest of the world wanted.
C) raised tariffs on imported goods, such as steel and aluminum.
D) protected domestic manufacturing jobs.

21) A laissez-faire economy has
A) a large amount of government regulation.
B) a centrally planned economy.
C) rules that promote social equality.
D) very little government regulation of the economy.

22) Top-down management of an economy by the government generally
A) produces exceptional results in economic growth.
B) creates incentives and opportunities for businesses to expand.
C) causes significant increases in GDP.
D) leads to low rates of economic growth.

23) Which of the following is *not* a monetary measure of economic prosperity?
A) Annual household income
B) Household consumption
C) Life expectancy
D) Gross domestic product

24) Besides the gross domestic product, another measure of how well an economy is doing is
A) annual household income.
B) government tax rates.
C) presidential popularity polls.
D) publications in economic journals.

25) Which of the following countries is *not* among the 10 largest economies in the world?
A) Israel
B) China
C) France
D) India

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26) Which of the following is part of the U.S. economy's safety net?
A) Social Security
B) Blue Cross and Blue Shield
C) Church-affiliated soup kitchens
D) Private health insurance

27) Which of the following is an example of a technological change that is transforming an industry?
A) Filet mignon
B) Ralph Lauren clothing
C) Electric scooters
D) Starbucks coffee

28) Financial markets do *not* include which of the following?
A) Banks
B) Stock markets
C) Government regulatory agencies
D) Nonprofit organizations

29) Federal taxes have which of the following effects on the economy?
A) If taxes are increased, the economy expands due to a balanced budget.
B) If taxes are decreased, businesses will invest the difference back into the economy.
C) There is no definitive agreement on the effect.
D) Lower federal taxes will cause budget surpluses.

30) Over the past 30 years, most countries have moved toward
A) more government regulation of the economy.
B) less government regulation of the economy.
C) planned central economies.
D) closing the economy to imports.

31) Deregulation in the United States began with what industries in the 1970s?
A) The oil industry and the postal service
B) The automobile and food service industries
C) The agricultural and telecommunications industries
D) The airline and trucking industries

32) For the United States, one important benefit of foreign trade is
A) less domestic competition.
B) higher tax revenues from tariffs.
C) reality checks in the economy.
D) access to cheaper goods and services.

33) An example of a company that uses financial markets to raise money is
A) a local television news website.
B) your local carryout restaurant.
C) Ford Motor Company.
D) the Social Security Administration.

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34) At the beginning of the COVID-19 pandemic, the stock market experienced a sharp drop in prices followed by
A) a period of slower decline.
B) rapid rebound.
C) a period of several steep declines.
D) increasing volatility.

35) Economic competition sometimes has which of the following negative effects on a domestic economy?
A) It drives up interest rates.
B) It protects domestic jobs.
C) It increases the profits of foreign suppliers.
D) It drives down wages and profits.

36) Closed economies generally do _____ open economies, in the _____ run.
A) better than; long
B) worse than; long
C) worse than; short and long
D) better than; short and long

37) Globalization can act as a reality check, forcing everyone to
A) try harder and look for better ways of doing things.
B) ask for greater import protections.
C) pull up the drawbridge and pretend the rest of the world doesn't exist.
D) invest in larger factories.

38) In what way does the government impact the U.S. housing market?
A) By setting zoning rules and construction codes
B) By setting housing prices
C) By setting mortgage rates
D) By building most new residential structures

39) In the past decade, the income and wealth gap in the United States has
A) virtually disappeared.
B) increased.
C) decreased.
D) returned.

40) The top _____ percent of U.S. households earn more than half of the country's income.
A) 10
B) 20
C) 30
D) 40

41) Chinese leader Deng Xiaoping began what process in the 1980s?
A) The Chinese cultural revolution
B) Moving the economy toward central planning
C) Shifting away from a centrally planned economy
D) The Chinese political revolution

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42) In 2022, the gross domestic product of the United States was
A) $25.5 million.
B) $25.5 billion.
C) $25.5 trillion.
D) $59,800.

43) Which of the following countries have safety nets that offer better retirement benefits and more job security than the U.S. safety net?
A) European countries, such as France and Germany
B) Asian countries, such as China and India
C) Our nearest neighbors, Canada and Mexico
D) South American countries, such as Venezuela and Brazil

44) Technological change is generally
A) uneven.
B) slow.
C) fair.
D) undisruptive.

45) Nuclear power in the United States turned out to be
A) a boon to the economy.
B) well worth the time and investment.
C) far more expensive and troublesome than expected.
D) a hazard-free source of limitless power.

46) Supply and demand are examples of
A) the tools of economics.
B) outdated economic theories.
C) technological advances.
D) a primary source of disagreement among economists.

47) Renewable energy sources provided _____ of U.S. energy needs as of 2022.
A) 13 percent
B) 10 percent
C) 77 percent
D) almost 100 percent

48) Which of the following best explains why countries are becoming more and more interconnected?
A) Technological change
B) Increasing tariffs
C) Decreasing global incomes
D) Evolving financial markets

49) Most people have mixed feelings about the financial markets because
A) they can experience violent swings.
B) they are controlled by government regulators.
C) the stock market almost always falls in the long run.
D) they provide a means for the average person to become wealthy.

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50) Which is *not* an example of government intervention in the economy?
A) The Food and Drug Administration
B) The Troubled Asset Relief Program
C) The Social Security Administration
D) The Great Recession

51) Which of the following is *not* mentioned in the textbook as one of its three goals?
A) Presenting the basic tools of economics
B) Promoting an understanding of markets
C) Showing the ways in which the possibilities of today's economy are expanding
D) Teaching how to successfully invest money in the stock market

52) Which of the following is *not* mentioned in the textbook as a constraint that affects the economy?
A) Households must make purchasing choices based on income.
B) Businesses must make production choices based on technology.
C) Households must make purchasing choices based on government regulations.
D) Businesses must make production choices based on past investments in factories.

53) The textbook says that which of the following is among the key forces shaping today's economy?
A) Technological change
B) Government regulations
C) Changing consumer confidence
D) Labor unions

54) The textbook says that which of the following is among the key forces shaping today's economy?
A) Political scandals
B) Government regulations
C) Globalization
D) Increasing income inequality

55) The textbook says that which of the following is among the key forces shaping today's economy?
A) Socialism
B) Social networking
C) Accounting scandals
D) The evolution of financial markets

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56) Can economic competition be viewed as a positive force for growth and progress?
A) No, because economic competition historically had neither a positive nor a negative effect.
B) No, because there is more poverty today than in the past.
C) Yes, because economic competition of any type always leads to growth and progress.
D) Yes, as long as it is conducted within a fair set of rules.

57) Suppose the government decides to eliminate some, but not all, of the rules that govern how investment banks conduct their business. This would be an example of
A) a laissez-faire policy.
B) deregulation.
C) central planning.
D) economic competition.

58) By total economic output (gross domestic product), the United States ranks as the _____ largest economy in the world.
A) first
B) second
C) third
D) tenth

59) Gross domestic product is
A) not a useful indicator of prosperity.
B) the only indicator of prosperity that economists use.
C) one of many indicators of prosperity, some of which are monetary and some of which are not.
D) one of many indicators of prosperity, all of which are monetary in nature.

60) Which of the following is presented in the text as an issue about which reputable economists might disagree?
A) Whether unemployment rose significantly during the Great Recession
B) Whether the government should provide more scholarship funds
C) The impact on the federal budget of an increase in military spending
D) The definition of a market transaction

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61) Which of the following does *not* explain why there are so many disagreements among economists?
A) In some cases, there aren't enough data to answer the question.
B) In some cases, the controversy is aggravated by political agendas.
C) In some cases, individuals may stand to gain from policy changes.
D) In some cases, economists have simply not investigated the issue at hand.

62) As one is beginning to learn economics, one should expect to learn
A) a new way of thinking about the world.
B) everything one needs to become an economist.
C) the gross domestic product of every country in the world.
D) very little that will be useful in the real world.

63) In a market, buyers and sellers
A) are in the same place.
B) exchange goods and services for money.
C) compete with one another.
D) undermine the proper functioning of the economy.

64) Suppose a tenant sues his landlord in court. Does this count as a market transaction?
A) Yes, because the landlord and tenant are in the same place negotiating.
B) Yes, because there is a buyer (tenant) and a seller (landlord).
C) No, because there is a third party (the judge) enforcing rules.
D) No, because there are no voluntary exchanges taking place.

65) Suppose Kyra purchases and downloads an eBook from Amazon.com. Does this count as a market transaction?
A) Yes, because there is a voluntary exchange of money for a good or service.
B) Yes, because Amazon.com is a well-known marketplace.
C) No, because Kyra and Amazon.com are not physically in the same place.
D) No, because eBooks are not tangible products.

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66) Which of the following gives the best reason why the possibilities and choices of today's economy are expanding?
A) Because laws continue to change, making more activities legal
B) Because worldwide population continues to grow
C) Because the constraints that affect the economy change every day
D) Because people are more enlightened today than in the past

67) Due to the existence of financial markets, which of the following does *not* represent a constraint on small businesses?
A) Technology
B) Cash reserves of small banks
C) Available factories
D) Current production processes

68) Who competes with whom in a market?
A) Buyers and sellers compete with each other.
B) Buyers and sellers compete with the government.
C) Sellers compete with other sellers; buyers are not part of the competition.
D) Buyers compete with other buyers and sellers compete with other sellers.

69) Who makes decisions and trade-offs in the face of scarce resources?
A) Individuals
B) Businesses
C) Governments
D) All of these choices are correct.

70) Why do individuals and businesses have to make decisions?
A) Because resources are scarce
B) Because government regulations require it
C) Because they want to avoid trade-offs
D) Because it is the only way to increase income

71) Which of these is *not* presented in the chapter as an example of something that would have previously been impossible but that has now become commonplace?
A) People can buy almost anything online.
B) Businesses make production choices based on available technology.
C) Once-poor countries now challenge the United States in many market.
D) Ordinary people are able to invest in the stock market.

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72) Which of the following saw significant declines between late 2007 and early 2009?
A) The U.S. economy only
B) Stock prices and housing prices only
C) Housing prices only
D) Stock prices, housing prices, and the U.S. economy

73) The issue of online privacy is a good example of the difficulty associated with deciding the right level of government intervention in an economy because
A) the government lacks the technical know-how to appropriately assess the problem.
B) companies spend significant resources lobbying for more regulation.
C) too much regulation and too little regulation can both have a negative economic impact.
D) the U.S. Constitution does not directly refer to online privacy.

74) Which of the following is *not* a good indicator of prosperity?
A) Life expectancy
B) Environmental quality
C) Results from surveys of happiness
D) The size of the safety net

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

75) What are the main forces shaping today's economy, and how are they impacting the economy?

76) How does top-down management of an economy affect it?

77) Why is the gross domestic product one of the indicators of prosperity?

78) What does an economic safety net provide, and why would a country want to have one?

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79) Why do economists disagree on so many economic policy questions?

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Answer Key

Test name: Chapter 01

1) TRUE
2) FALSE
3) FALSE
4) TRUE
5) TRUE
6) FALSE
7) TRUE
8) FALSE
9) FALSE
10) TRUE
11) A
12) C
13) D
14) D
15) D
16) C
17) C
18) D
19) C
20) B
21) D
22) D
23) C
24) A
25) A
26) A
27) C
28) D
29) C
30) B
31) D
32) D
33) C
34) B
35) D
36) B
37) A
38) A
39) B
40) B
41) C
42) C
43) A
44) A
45) C
46) A
47) A
48) A
49) A
50) D
51) D
52) C
53) A
54) C
55) D
56) D
57) B
58) A
59) C
60) B
61) D
62) A
63) B
64) D
65) A
66) C
67) B
68) D
69) D
70) A
71) B
72) D
73) C
74) D
75) Short Answer
76) Short Answer
77) Short Answer

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78) Short Answer
79) Short Answer

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