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

1) Which of the following is NOT a function of the federal government?  
A) collecting property taxes  
B) making transfers to state and local governments  
C) making social security and welfare payments  
D) imposing a personal income tax  
E) providing public goods and services  

Answer: A  
Explanation: A) B) C) D) E)  

2) The Colorado Ski Shop sold 60 ski jackets to a Belgium company’s headquarters located in Paris, France. The ski jackets are a 
A) U.S. export good.  
B) U.S. consumption service.  
C) government good.  
D) capital good.  
E) U.S. import.  

Answer: A  
Explanation: A) B) C) D) E)  

3) In the circular flow model, which of the following owns the factors of production?  
A) firms, households, and all levels of government  
B) only firms  
C) only federal, state, and local governments  
D) both firms and households  
E) only households  

Answer: E  
Explanation: A) B) C) D) E)
4) _______ is the human resource that organizes labor, land, and capital.
   A) Human skill
   B) Profit
   C) A gift of nature
   D) Human capital
   E) Entrepreneurship

Answer: E
Explanation: A) B) C) D) E)

5) The percentage of the world’s population that lives in the advanced economies is _______.
   A) between 51 percent and 70 percent.
   B) between 20 percent and 30 percent.
   C) less than 20 percent.
   D) more than 71 percent.
   E) between 31 percent and 50 percent.

Answer: C
Explanation: A) B) C) D) E)

6) Wages are paid to _______ and interest is paid to _______.
   A) entrepreneurs; land
   B) labor; entrepreneurs
   C) labor; land
   D) labor; capital
   E) entrepreneurs; capital

Answer: D
Explanation: A) B) C) D) E)

7) According to the functional distribution of income, in the United States _______.
   A) land earns most of the income.
   B) the income earned by capital and labor are approximately equal.
   C) capital earns most of the income.
   D) labor earns most of the income.
   E) entrepreneurs earned most of the income.

Answer: D
Explanation: A) B) C) D) E)
8) Which of the following is true?
   i. The advanced economies account for more than half of global production.
   ii. Almost four out of every five people in the world live in the developing economies.
   iii. In the advanced economies, agriculture accounts for a larger part of total production than in
        the developing economies.
   A) i, ii, and iii
   B) Only i
   C) Only i and ii
   D) Only ii and iii
   E) Only i and iii
Answer: C
Explanation:

9) In the circular flow model,
   A) only firms sell in markets.
   B) only households buy from markets.
   C) the money used to buy goods and the goods themselves travel in the same direction.
   D) some firms only sell and some firms only buy.
   E) both firms and households buy or sell in different markets.
Answer: E
Explanation:

10) Approximately ________ people live in the United States and ________ people live in the world.
    A) 310 million; 3 billion
    B) 210 million; 6 billion
    C) 310 million; 7 billion
    D) 410 million; 8 billion
    E) 210 million; 5 billion
Answer: C
Explanation:
11) Which of following groups of countries are all advanced economies?
   A) Hong Kong, Japan, France, and the United Kingdom
   B) Italy, the United States, China, and Russia
   C) Australia, Brazil, and the United States
   D) Mexico, Canada, Germany, and Egypt
   E) Singapore, Russia, France, and Chad

Answer: A
Explanation: A) B) C) D) E)

12) The income earned by entrepreneurs is
   A) profit or loss.
   B) a mixture of rent, wages, interest, and profit.
   C) wages.
   D) rent, wages, and interest.
   E) interest.

Answer: A
Explanation: A) B) C) D) E)

13) When the total U.S. production of goods and services is divided into consumption goods and services, capital goods, government goods and services, and export goods and services, the largest component is
   A) export goods and services.
   B) consumption goods and services.
   C) government goods and services.
   D) capital goods.
   E) capital goods and government goods and services tie for the largest component.

Answer: B
Explanation: A) B) C) D) E)
14) The circular flow model shows the flow of  
A) only money throughout the economy.  
B) expenditure and income throughout the economy.  
C) only tax payments and government expenditures.  
D) only funds in stock and bond markets.  
E) goods market and factor markets as they move through the economy.  
Answer: B  
Explanation:  

15) The owners of the resource _______ are paid _______ .  
A) entrepreneurship; wages  
B) labor; profit  
C) land; wages  
D) capital; interest  
E) capital; rent  
Answer: D  
Explanation:  

16) A real flow in the circular flow diagram is  
   i) a firm’s payments of wages to its workers.  
   ii) a household’s purchase of a new car.  
   iii) a farmer’s use of land to grow corn.  
   A) i and iii  
   B) ii and iii  
   C) i only  
   D) i, ii and iii  
   E) ii only  
Answer: B  
Explanation:  

17) The concept of human capital describes  
A) the number of machines (capital) that have been produced by people (humans).  
B) the number of machines per employed worker.  
C) human population, that is, the quantity of labor.  
D) human skills, that is, the quality of labor.  
E) the number of workers per operating machine.  
Answer: D  
Explanation:  

18) Which of the following is NOT shown explicitly in the circular flow model?  
   A) the governments' purchases in the goods market  
   B) the taxes the governments collect from households  
   C) the governments' interaction with firms  
   D) the transfers the governments make to households  
   E) the legal system  
   Answer: E  
   Explanation: A) B) C) D) E)

19) Which factor of production is paid "interest"?  
   A) land  
   B) entrepreneurship  
   C) capital  
   D) human capital  
   E) labor  
   Answer: C  
   Explanation: A) B) C) D) E)

20) Which of the following is NOT classified as an advanced economy?  
   A) Russia  
   B) Hong Kong  
   C) the United Kingdom  
   D) South Korea  
   E) Australia  
   Answer: A  
   Explanation: A) B) C) D) E)

21) Compared to the world, the rate of U.S. population growth is  
   A) much faster than in the world as a whole.  
   B) about the same as in the world as a whole.  
   C) incomparable because we do not have accurate world population statistics.  
   D) slower than in the world as a whole.  
   E) incomparable because U.S. residents are born with a much greater chance of accumulating a lot of human capital.  
   Answer: D  
   Explanation: A) B) C) D) E)
22) Capital is a factor of production. An example of capital as a factor of production is
Answer: A
Explanation:  
A)  
B)  
C)  
D)  
E)  

23) The two biggest items of the U.S. federal government revenue that together account for over approximately 80 percent of total federal government revenue are
A) corporate income taxes and property taxes.  B) personal income taxes and Social Security taxes.  C) corporate income taxes and Social Security taxes.  D) personal income taxes and corporate income taxes.  E) personal income taxes and sales taxes.
Answer: B
Explanation:  
A)  
B)  
C)  
D)  
E)  

24) Human capital is
A) solely the innate ability we are born with.  B) the knowledge humans accumulate through education and experience.  C) any type of machinery.  D) machinery that needs human supervision.  E) the money humans have saved.
Answer: B
Explanation:  
A)  
B)  
C)  
D)  
E)  

25) The circular flow model shows that goods and services flow from
A) businesses to households.  B) the factor markets to the goods markets.  C) households to business.  D) the factor market to businesses.  E) the goods market to businesses.
Answer: A
Explanation:  
A)  
B)  
C)  
D)  
E)  


26) The personal distribution of income in the United States shows that
   A) the poorest 20 percent of individuals receive approximately 20 percent of total income.
   B) the richest 20 percent of individuals receive approximately 50 percent of total income.
   C) the richest 20 percent of individuals receive approximately 25 percent of total income.
   D) the poorest 60 percent of individuals receive approximately 50 percent of total income.
   E) income is equally distributed.

   Answer: B
   Explanation: A) B) C) D) E)

27) The difference between consumption and capital goods is that
   A) capital goods are used to produce additional goods while consumption goods are not.
   B) only big corporations can afford capital goods.
   C) consumption goods can be enjoyed by many people at the same time.
   D) it is illegal to export capital goods.
   E) capital goods are provided by the government.

   Answer: A
   Explanation: A) B) C) D) E)

28) Among the United States, Canada, Russia, India, and the United Kingdom, the country with the highest average income per person is
   A) Russia.
   B) India.
   C) Canada.
   D) the United Kingdom.
   E) the United States.

   Answer: E
   Explanation: A) B) C) D) E)

29) In the United States, the poorest 20 percent of households earn roughly _______ percent of total income.
   A) 20
   B) 0.5
   C) 15
   D) 3
   E) 10

   Answer: D
   Explanation: A) B) C) D) E)
30) The United States possesses a large amount of human capital. As a result of this fact, in the United States there is a
   A) large number of people and a great deal of land.
   B) highly skilled and educated labor force.
   C) large amount of machinery (capital) that is run by people (humans).
   D) large number of kind and generous humans.
   E) large amount of machinery and equipment.

Answer: B
Explanation: A) B) C) D) E)

31) When Ethan continues his education beyond high school he is increasing his
   A) capital.
   B) rent.
   C) human capital.
   D) wage rate.
   E) quantity of labor.

Answer: C
Explanation: A) B) C) D) E)

32) Which of the following are sources of revenue for state and local governments?
   i) property taxes
   ii) sales taxes
   iii) transfers from the federal government

A) i only      B) i, ii and iii     C) i and iii     D) ii and iii     E) i and ii

Answer: B
Explanation: A) B) C) D) E)

33) Which of the following correctly lists the categories of factors of production?
   A) machines, buildings, land, and money
   B) hardware, software, land, and money
   C) land, labor, capital, and entrepreneurship
   D) owners, workers, and consumers
   E) capital, money, and labor

Answer: C
Explanation: A) B) C) D) E)
34) In the goods market, firms ________ and households ________.
   A) purchase goods and services; supply goods and services
   B) hire land, labor, capital, and entrepreneurship services; supply goods and services
   C) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services
   D) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
   E) supply goods and services; purchase goods and services

   Answer: E
   Explanation: A) B) C) D) E)

35) In the circular flow model with the government sector, transfers
   A) to households flow in the same direction as do expenditures on goods and services.
   B) flow in the same direction as do taxes.
   C) flow only through the goods market.
   D) to firms flow in the same direction as do rent, wages, interest, and profits.
   E) flow in the opposite direction as do taxes.

   Answer: E
   Explanation: A) B) C) D) E)

36) As the circular flow model shows, the factors of production flow from
   A) households to firms through the goods market.
   B) firms to households through the factor market.
   C) firms to households through the goods market.
   D) the goods market through firms to the factor markets.
   E) households to firms through the factor market.

   Answer: E
   Explanation: A) B) C) D) E)
The figure above shows governments in the circular flow.

37) In the figure above, firms
   A) receive transfers from governments through factor markets.
   B) sell goods and services to governments in goods markets.
   C) own factors of production.
   D) pay taxes directly to governments.
   E) do all of the above.

Answer: D

Explanation: A)
38) In the figure above, which of the following is true?

i. Governments coordinate economic activities of households and firms.
ii. Governments buy goods and services in goods markets.
iii. Households pay taxes directly to firms.

A) Only i  B) ii and iii  C) Only iii  D) Only ii  E) i and ii

Answer: D
Explanation:  

39) Most countries in the world are classified as

A) developing.
B) advanced.
C) emerging market.
D) industrialized.
E) in transition.

Answer: A
Explanation:  

40) ________ paid for the use of land; ________ paid for the services of labor; and ________ paid for the use of capital.

A) Rent is; wages are; profit is
B) Mortgages are; interest is; wages are
C) Rent is; wages are; interest is
D) Rent is; interest is; wages are
E) Interest is; wages are; profit is

Answer: C
Explanation:  

41) The data show that more than 60 percent of the total income earned in the United States goes to

A) capital.
B) entrepreneurship.
C) profit.
D) land.
E) labor.

Answer: E
Explanation:  

42) A money flow in the circular flow diagram is
   i) the government's collection of taxes.
   ii) Chevrolet's production of SUVs.
   iii) Nike's payment of wages to its workers.
A) i only       B) ii and iii       C) ii only       D) i, ii and iii       E) i and iii
Answer: E
Explanation: A) B) C) D) E)

43) An example of a real flow in the circular flow diagram is
   A) a household's supply of work effort at its new business.
   B) Nike's payment of wages to workers in China.
   C) the government's payment of wages to a soldier.
   D) your county's collection of property taxes.
   E) a teacher's salary at the local high school.
Answer: A
Explanation: A) B) C) D) E)

44) Computers and insurance coverage produced in the United States and sold to people in other nations are categorized as
   A) U.S. government goods and services.
   B) foreign capital goods.
   C) U.S. exports of goods and services.
   D) U.S. consumption goods and services.
   E) U.S. imports of goods and services.
Answer: C
Explanation: A) B) C) D) E)

45) The charitable organization Creating Hope International trains women in Afghanistan to become tailors. This effort reduces
   A) entrepreneurship differences between advanced and developing economies.
   B) human capital differences between advanced and developing economies.
   C) physical capital differences between advanced and developing economies.
   D) manufacturing differences between advanced and developing economies.
   E) agricultural differences between advanced and developing economies.
Answer: B
Explanation: A) B) C) D) E)
46) In the advanced economies, ________ of the factories use advanced capital equipment and in the developing economies ________ of the factories use advanced capital equipment
   A) some; some
   B) virtually all; none
   C) virtually all; some
   D) virtually all; virtually all
   E) some; none of
   Answer: C
   Explanation: A) B) C) D) E)

47) A market is defined as
   A) any arrangement that brings buyers and sellers together.
   B) the physical place where goods and services are sold.
   C) the physical place where goods (but not services) are sold.
   D) another name for a store.
   E) a place where money is exchanged for goods.
   Answer: A
   Explanation: A) B) C) D) E)

48) In the United States, the productive factor that, as a group, receives the largest fraction of the nation's total income was
   A) consumption goods and services.
   B) capital.
   C) land.
   D) labor.
   E) entrepreneurship.
   Answer: D
   Explanation: A) B) C) D) E)
49) Goods produced in the United States and sold in other countries are called  
   A) capital goods.  
   B) imports.  
   C) exports.  
   D) foreign goods.  
   E) capital account goods.  
Answer: C  
Explanation:  
A)  
B)  
C)  
D)  
E)  

50) In economics, the factor of production "land" includes all of the following EXCEPT ________.
   A) wild plants  
   B) plastics  
   C) oil  
   D) animals, birds, and fish  
   E) energy  
Answer: B  
Explanation:  
A)  
B)  
C)  
D)  
E)  

51) When describing the IMF broad country classification, the most accurate statement is that  
   A) most of the world’s population lives in advanced economies.  
   B) the category with the greatest number of countries is the advanced economies.  
   C) most of the nations in Western Europe are considered emerging market economies.  
   D) the emerging market economies are countries that were, until the early 1990s, part of the Soviet Union or its satellites.  
   E) about 50 percent of the world’s population live in the advanced economies and the other 50 percent live in the emerging market and developing economies.  
Answer: D  
Explanation:  
A)  
B)  
C)  
D)  
E)
52) In the circular flow model, the factor markets are the markets in which
   A) consumption goods and services are bought and sold.
   B) investment goods and services are bought and sold.
   C) government goods and services are provided.
   D) governments impose all their taxes.
   E) land, labor, capital, and entrepreneurship are bought and sold.
   Answer: E
   Explanation: A) B) C) D) E)

53) As the circular flow model points out, a choice that households make is how
   A) many resources a firm will hire.
   B) many goods and services are produced.
   C) much the government will collect in taxes and how much the government will spend on
      transfer payments.
   D) much labor is hired.
   E) many goods and services are purchased.
   Answer: E
   Explanation: A) B) C) D) E)

54) Tax revenues are transferred from
   A) local governments to state and federal governments.
   B) state governments to the federal government.
   C) one state government to other state governments.
   D) the state and local governments to the federal government.
   E) the federal government to state and local governments.
   Answer: E
   Explanation: A) B) C) D) E)

55) Households receive transfers from ______ and firms receive transfers from ______.
   A) government; government and households
   B) government; government
   C) firms and government; government
   D) firms; households
   E) government; no one
   Answer: B
   Explanation: A) B) C) D) E)
56) U.S. exports of goods and services flow to households and firms in ________ and U.S. financial inflows of capital flow to households and firms in ________.
   A) the United States; the United States
   B) the United States; the rest of the world and the United States
   C) the rest of the world; the rest of the world
   D) the United States; the rest of the world
   E) the rest of the world; the United States

Answer: E

Explanation:
A) 
B) 
C) 
D) 
E)
The figure above shows the circular flow model.

57) In the figure above, which of the following represents a real flow?  
   A) Wages  
   B) Capital  
   C) Profit  
   D) Expenditures on real estate services  
   E) Both B and D  
   
   Answer: B  
   Explanation: A)
58) Compared to the developing economies, the advanced economies have ________ human capital and ________ physical capital.

A) the same; the same  
B) less; less  
C) more; more  
D) more; less  
E) less; more

Answer: C
Explanation: A) B) C) D) E)

59) Physical capital differences across countries can be seen in the fact that

A) students in India study the same subjects as those in the United States.  
B) more advanced economies typically have more sophisticated technology.  
C) the iPhone’s components are produced in 30 countries.  
D) advanced economies produce 53 percent of the world’s income.  
E) furniture factories in China use machines like those in North Carolina.

Answer: B
Explanation: A) B) C) D) E)

60) Which of the following correctly describes how the "global pie is baked"?

A) Emerging economies account for about 25 percent of the global pie.  
B) The U.S.’s share of economic pie is increasing while China’s share is decreasing.  
C) Advanced economies account for about 50 percent of the value of the world’s production.  
D) Asia accounts for about 40 percent of the global pie.  
E) The increase in manufacturing has taken place in mainly the advanced economies.

Answer: C
Explanation: A) B) C) D) E)
61) ______ the owners of the factors of production, while ______ what amounts of those factors to hire.

A) Households are; the government determines
B) The government is; firms determine
C) Firms are; households determine
D) Firms are; the government determines
E) Households are; firms determine

Answer: E
Explanation: 
A) 
B) 
C) 
D) 
E) 

62) In the circular flow model, the expenditures on goods and services flow in the

A) same direction as goods and services in all cases.
B) same direction as factor markets.
C) same direction as goods and services only if they both flow through the goods market.
D) same direction as goods and services only if they both flow through the factor market.
E) opposite direction as goods and services.

Answer: E
Explanation: 
A) 
B) 
C) 
D) 
E) 

63) The decisions of firms and households are

A) made independently of one another.
B) coordinated by but not totally controlled by the government.
C) coordinated by markets.
D) controlled by but not totally coordinated by the government.
E) unexplainable by the circular flow model.

Answer: C
Explanation: 
A) 
B) 
C) 
D) 
E) 

64) Which factor of production is paid "profit"?

A) capital
B) entrepreneurship
C) human capital
D) labor
E) land

Answer: B
Explanation: 
A) 
B) 
C) 
D) 
E)
65) Which factor of production does human capital enhance?
   i. land
   ii. labor
   iii. capital
   A) i and ii  B) i only  C) ii only  D) iii only  E) i, ii, and iii
   Answer: C
   Explanation: 

66) Entrepreneurship, as a factor of production, refers to
   A) the capital the firm uses.
   B) the value of the firm's stock.
   C) the technology used by firms.
   D) the human capital accumulated by workers.
   E) the human resource that organizes labor, land, and capital.
   Answer: E
   Explanation: 

67) In the circular flow model, which of the following is on the selling side in the goods market?
   A) exporters
   B) only firms
   C) both firms and households
   D) only households
   E) federal, state, and local governments
   Answer: B
   Explanation: 

68) The majority of the income earned in the United States is paid in
   Answer: C
   Explanation: 

21
69) One of the productive resources is capital. Capital includes
   A) tools, buildings, and machine tools.
   B) toys, t-shirts, CD players, and pencils.
   C) money borrowed from a bank.
   D) a company’s stocks and bonds.
   E) money in a savings account at a bank.

   Answer: A
   Explanation: A)

70) An example of a U.S. export is
   A) a washing machine made in Indiana sold to a buyer in France.
   B) pasta made in Italy sold to buyers in Spain.
   C) matchbooks made in Mexico sold to a buyer in New Jersey.
   D) a TV made in China sold to a buyer in Azerbaijan.
   E) diamonds mined in Africa sold to buyers in South America.

   Answer: A
   Explanation: A)

71) A circular flow model shows the interrelationship between the _______ market and the _______ markets.
   A) expenditure; income
   B) goods; factor
   C) household; goods
   D) household; factor
   E) business; household

   Answer: B
   Explanation: A)

72) Of the following, the largest source of revenue for the federal government is
   A) lottery revenue.
   B) property taxes.
   C) corporate income taxes.
   D) personal income taxes.
   E) sales taxes.

   Answer: D
   Explanation: A)
73) _______ earned the highest amount of income among the factors of production in the United States.
   A) Investment
   B) Land
   C) Entrepreneurship
   D) Capital
   E) Labor
Answer: E
Explanation: A) B) C) D) E)

74) What would be an example of capital good?
   A) Rihanna gets a haircut.
   B) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
   C) Apple sells computers to Japan.
   D) The local driver’s license office purchases a new digital camera and printer.
   E) Jeanette buys a new dress.
Answer: B
Explanation: A) B) C) D) E)

75) Which of the following is an example of an effort to decrease physical capital differences between an advanced and a developing economy?
   A) Through World Vision, women and children in Africa receive education.
   B) American troops build roads in Afghanistan.
   C) Creating Hope International trains women in Afghanistan to become tailors.
   D) Habitat for Humanity builds houses for low income families in the United States.
   E) Peace Corps volunteers teach English around the world.
Answer: B
Explanation: A) B) C) D) E)

76) In the United States, the poorest 20 percent of households receive about _______ percent of total income.
   A) 23  B) 15  C) 3  D) 49  E) 20
Answer: C
Explanation: A) B) C) D) E)
The figure above shows the circular flow model.

77) In the figure above, which of the following represents a money flow?
   A) Goods supplied
   B) Services sold
   C) Goods purchased
   D) Capital
   E) Interest

Answer: E

Explanation:
A)
B)
C)
D)
E)
78) State and local governments finance expenditures mainly from
   A) lottery funds.
   B) funds provided by the federal government.
   C) government bonds issued at the state level.
   D) tax revenue.
   E) private bank loans.

   Answer: D
   Explanation: 

79) The majority of the value of production in the world economy is produced in
   A) all of the developing economies taken together.
   B) China and other Asian developing economies.
   C) all of Africa and the Middle East taken together.
   D) all of the advanced economies taken together.
   E) all of the emerging market economies taken together.

   Answer: D
   Explanation: 

80) What would be an example of government good?
   A) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
   B) Donald Trump purchases furniture for his office.
   C) The local driver’s license office purchases a new digital camera and printer.
   D) Jake buys an iPhone.
   E) Rhianna gets a haircut.

   Answer: C
   Explanation: 

81) The circular flow model shows the
   A) flow of expenditure and incomes that arise from the households’, firms’, and governments’
      decisions.
   B) flow of natural resources from firms to the private market to government and back to firms.
   C) distribution of income to the different factors of production.
   D) combinations of the factors of production needed to produce goods and services.
   E) distribution of income and consumption goods across income levels.

   Answer: A
   Explanation: 

82) Which of the following is a function of the U.S. federal government?
   A) deciding how much to produce of private goods and services
   B) determining what wages firms will pay their workers.
   C) distributing private goods and services
   D) providing the legal and social framework for economic activity
   E) deciding for whom firms should produce goods and services

   Answer: D
   Explanation: A) B) C) D) E)

83) In the circular flow model,
   A) goods and services are sold by households and purchased by firms.
   B) the government buys goods and services from firms.
   C) the government has no direct interaction with either households or firms.
   D) the government is represented as a separate market.
   E) factor markets are where goods rather than services are bought and sold.

   Answer: B
   Explanation: A) B) C) D) E)

84) Jan is attending college and studying to be an investment broker. To improve her chances of employment following college, she has interned at a top brokerage firm during the last two summers. Jan's internship has increased her
   A) natural labor.
   B) human capital.
   C) natural resources.
   D) consumption services.
   E) entrepreneurship capital.

   Answer: B
   Explanation: A) B) C) D) E)
85) ______ economies include _________.
   A) Advanced; France, Australia and South Korea
   B) Emerging; Taiwan, Russia and Singapore
   C) Advanced; Russia, Canada and Singapore
   D) Advanced; the U.S., Taiwan and Russia
   E) Emerging; Saudi Arabia, Poland and Taiwan

Answer: A
Explanation:  
A)  
B)  
C)  
D)  
E)
The figure above shows governments in the circular flow.

86) In the figure above, governments
   A) collect taxes.
   B) hire factors of production.
   C) own factors of production.
   D) coordinate economic activities of households and firms.
   E) sell goods and services to household.

Answer: A

Explanation: A)
87) Canada is classified by the International Monetary Fund as
   A) a transition economy.
   B) a natural-resource based economy.
   C) an emerging market economy.
   D) an advanced economy.
   E) a developing economy.

Answer: D
Explanation: A) B) C) D) E)

88) The largest share of total production in the United States is
   A) capital goods.
   B) consumption goods and services.
   C) government goods and services.
   D) exported goods and services.
   E) imported goods and services.

Answer: B
Explanation: A) B) C) D) E)

89) Aaron locked himself out of his house and had to pay $40 to Brianna, who works for Lucky Locksmith, to open his door. Based on this transaction in the economy and using concepts from the circular flow model, which of the following is true?
   A) Aaron supplied goods and services.
   B) Brianna purchased goods and services.
   C) Aaron acted as a firm in this transaction.
   D) Brianna earned income from supplying her labor services.
   E) Aaron earned income from supplying his labor services.

Answer: D
Explanation: A) B) C) D) E)
90) In the circular flow model, which of the following flows in the opposite direction from the flow of factors of production?
   A) interests payments of Federal, state, and local governments
   B) firm’s profit incentives
   C) wages, rent, interest, and profit
   D) the goods market
   E) finished goods and services

Answer: C
Explanation: A) B) C) D) E)

91) The productive resource that organizes labor, land, and capital is
   A) capital.
   B) government.
   C) human capital.
   D) financial capital.
   E) entrepreneurship.

Answer: E
Explanation: A) B) C) D) E)
The figure above shows the circular flow model.

92) In the figure above, which of the following transactions take place in the factor markets?  
   i. Michael, a student, orders a computer from Dell online.  
   ii. Peter gets a job at a Wal-Mart store.  
   iii. Apple Computer opens a new store in Georgia

   A) ii and iii   B) Only ii   C) Only iii   D) Only i   E) i and ii

Answer: A
Explanation: A)
93) Nigeria would be classified by the International Monetary Fund as
   A) a developing economy.
   B) an emerging market economy.
   C) a transition economy.
   D) an advanced economy.
   E) a resource-based economy.

Answer: A
Explanation: A)

94) Of the following, the country with the highest average income per day in the world is
   A) the United States.
   B) France.
   C) China.
   D) Germany.
   E) Japan.

Answer: A
Explanation: A)

95) Over time, the percentage of total employment in services has _______ and in agriculture, employment has _______.
   A) increased; decreased
   B) stayed about the same; decreased
   C) increased; increased
   D) decreased; increased
   E) stayed about the same; increased

Answer: A
Explanation: A)

96) Items bought by businesses to help produce other goods and services are called
   A) exports of goods and services.
   B) government goods and services.
   C) capital goods.
   D) consumption goods and services.
   E) productive goods.

Answer: C
Explanation: A)
97) The emerging market economies are
   A) the nations with the highest standards of living.
   B) most of the nations of Western Europe.
   C) the nations that are currently agricultural in nature.
   D) the largest grouping including the nations of China and India.
   E) in transition from state-owned production to free markets.

   Answer: E
   Explanation: A)  B)  C)  D)  E)

98) If a product becomes more popular and consumers want more produced, which of the following best describes what happens to move more factors of production into that industry?
   A) The chief executive officers or presidents of corporations require that factors leave one industry and move to the other industry.
   B) Wages, rent, interest, and profit increase in that industry, thereby giving factors the incentive to move to that industry.
   C) An agency of the Federal government directs the movement of factors.
   D) Consumers increase their demand for the products and, as a result, the taxes the producers must pay decrease enabling the producers to hire more factors of production.
   E) Factor owners voluntarily move their factors because they want to satisfy the interests of consumers.

   Answer: B
   Explanation: A)  B)  C)  D)  E)

99) The circular flow model is used to show the
   A) recycling process of production materials.
   B) flow of supply and the flow of demand.
   C) flow of expenditures and incomes in the economy.
   D) flow of renewable natural resources.
   E) expansions and contractions of economic activity.

   Answer: C
   Explanation: A)  B)  C)  D)  E)
The figure above shows the circular flow model.

100) In the figure above, which of the following represents a real flow of a factor of production?
   A) Firms' expenditures on factors of production
   B) Labor
   C) Goods bought
   D) Services sold
   E) Wages

Answer: B
Explanation: A)
101) Which of the following correctly lists the categories of factors of production?  
   A) labor, money, stocks, and bonds  
   B) land, labor, capital, and entrepreneurship  
   C) land, buildings, capital, and entrepreneurship  
   D) forests, fish, buildings, capital, and entrepreneurship  
   E) labor, machines, buildings, capital, and entrepreneurship  

Answer: B  
Explanation:  
   A)  
   B)  
   C)  
   D)  
   E)  

102) Goods and services are produced by using four factors of production:  
   A) land, labor, capital, and money.  
   B) land, labor, capital, and entrepreneurship.  
   C) land, labor, money, and equipment.  
   D) natural resources, human resources, financial assets, and entrepreneurial resources.  
   E) labor, human capital, physical capital, and financial capital.  

Answer: B  
Explanation:  
   A)  
   B)  
   C)  
   D)  
   E)
The figure above shows governments in the circular flow.

103) In the figure above, households
A) pay taxes to governments through factor markets.
B) receive transfers directly from governments.
C) buy goods and services from governments in goods markets.
D) receive transfers from governments through factor markets.
E) sell factors of production to governments.

Answer: B
Explanation: A) B) C) D) E)
104) _______ are the largest components of state and local government revenue.
   A) Corporate income taxes and lottery income
   B) Transfers from federal government and corporate income taxes
   C) Transfers from federal government and sales taxes
   D) Individual income taxes and sales taxes
   E) Individual income taxes and corporate income taxes

Answer: C
Explanation: A) B) C) D) E)

105) The richest 20 percent of individuals in the United States receive about _______ of the nation’s total income.
   A) 91 percent
   B) 99 percent
   C) 51 percent
   D) 23 percent
   E) 21 percent

Answer: C
Explanation: A) B) C) D) E)

106) An example of a money flow in the circular flow diagram is
   A) a student’s payment of tuition to her university.
   B) a farmer’s use of land to grow wheat.
   C) the government’s operation of the court system.
   D) a firm’s production of goods to sell to a foreign country.
   E) the government’s financing of the national debt.

Answer: A
Explanation: A) B) C) D) E)

107) Capital, as a factor of production, refers to
   A) the tools and instruments used to produce other goods and services.
   B) the production technology used by firms.
   C) money, stocks, and bonds.
   D) stocks and bonds but not money.
   E) the production factors imported from abroad.

Answer: A
Explanation: A) B) C) D) E)
108) Human capital can be increased through
   A) decreases in population.
   B) increasing the nation's production of consumption goods.
   C) investment in new machinery.
   D) education, on-the-job training, and work experience.
   E) investment in new technology.

Answer: D
Explanation: A) B) C) D) E)

109) The national debt is the total amount the ________ government has ________ to make expenditures that exceed tax revenue.
   A) federal; loaned
   B) federal; taxed U.S. citizens
   C) state and local; borrowed
   D) federal; borrowed
   E) state and local; taxed U.S. citizens

Answer: D
Explanation: A) B) C) D) E)

110) The functional distribution of income measures which of the following?
   A) The distribution of earnings by the factors of production.
   B) The distribution of income among nations.
   C) The distribution of income among households.
   D) How federal tax revenues are related to the business function that employs taxpayers.
   E) The proportion of income generated by the four types of expenditures on goods and services.

Answer: A
Explanation: A) B) C) D) E)
111) In the circular flow model, rent, wages, interest, and profit paid flow from ________ through ________ to ________.
   A) firms; factor markets; households
   B) households; factor markets; firms
   C) firms; goods market; firms
   D) households; goods markets; firms as payment for goods
   E) firms; goods markets; households
Answer: A
Explanation: A)
   B)
   C)
   D)
   E)

112) Dividing the nation’s income among the factors of production, the largest percentage is paid to ________.
   A) labor.
   B) land.
   C) labor and capital, with each receiving about 41 percent of the total income.
   D) capital.
   E) entrepreneurship.
Answer: A
Explanation: A)
   B)
   C)
   D)
   E)

113) ________ choose the quantities of factors of production to hire and ________ choose the quantities of goods and services to produce.
   A) Firms; households
   B) Factor markets; goods markets
   C) Firms; firms
   D) Entrepreneurs; firms
   E) Markets; markets
Answer: C
Explanation: A)
   B)
   C)
   D)
   E)
114) Poland is classified as
   A) a transition economy.
   B) an advanced economy.
   C) private economy.
   D) a developing economy.
   E) an emerging market economy.

   Answer: E
   Explanation:         
                       A) 
                       B) 
                       C) 
                       D) 
                       E)

115) Most of the world’s population lives in
   A) emerging market economies.
   B) developing economies.
   C) transition economies.
   D) advanced economies.
   E) island nations.

   Answer: B
   Explanation:         
                       A) 
                       B) 
                       C) 
                       D) 
                       E)

116) In the circular flow model, consumption goods are bought and sold in the
   A) government market.
   B) monetary flows.
   C) financial market.
   D) factor markets.
   E) goods market.

   Answer: E
   Explanation:         
                       A) 
                       B) 
                       C) 
                       D) 
                       E)
The figure above shows governments in the circular flow.

117) Social Security tax is deducted from your paycheck. In the figure above this will be shown as
   A) taxes flowing from households to firms.
   B) wages flowing from firms to households.
   C) taxes flowing from households to governments.
   D) wages flowing from firms to governments.
   E) taxes flowing from firms to governments.

Answer: C
Explanation: A)
118) Capital is a factor of production. Which of the following is an example of capital?

i. $1,000 in money
ii. 100 shares of Microsoft stock
iii. $10,000 in bonds issued by General Motors
iv. a drill press in your local machine shop

A) iii only  B) i and ii  C) ii only  D) iv only  E) ii and iii

Answer: D
Explanation: A) B) C) D) E)

119) Over the past 70 years, which of the following has occurred?

i) The service sector has grown so that now about 80 percent of workers are now employed in the service industry.
ii) The manufacturing sector has shrunk, so now about 20 percent of workers are now employed in the production of goods.
iii) The percentage of workers employed in the service industry has increased steadily.

A) i, ii and iii  B) ii only  C) i only  D) i and iii  E) ii and iii

Answer: A
Explanation: A) B) C) D) E)

120) Items bought by individuals to provide personal enjoyment are termed

A) consumption or investment goods.
B) pleasure goods.
C) standard goods.
D) consumption goods.
E) personal goods.

Answer: D
Explanation: A) B) C) D) E)

121) Of the following, the federal government’s largest source of revenue is the

A) sales tax.
B) corporate income tax.
C) property tax.
D) social security tax.
E) transfers from state and local governments.

Answer: D
Explanation: A) B) C) D) E)
122) Income equality has
   A) increased within countries but has narrowed across countries.
   B) decreased in the United States as manufacturing has increased.
   C) not changed in the advanced economies over the past 50 years.
   D) narrowed within countries but increased across countries.
   E) increased in developing economies as manufacturing has decreased.

Answer: A
Explanation: A, B, C, D, E

123) Of the following, the largest source of revenue for the federal government is the

   A) lottery.
   B) transfers from state and local governments.
   C) personal income tax.
   D) revenue from the sale of public lands.
   E) corporation income tax.

Answer: C
Explanation: A, B, C, D, E

124) State and local governments spend about _______ of their expenditures on education.

   A) 14 percent
   B) 74 percent
   C) 19 percent
   D) 59 percent
   E) 34 percent

Answer: E
Explanation: A, B, C, D, E

125) In the circular flow model, there are two types of markets: the ________ market and the ________ market.

   A) goods; factor
   B) producers; consumers
   C) service; goods
   D) households; firms
   E) supply; demand

Answer: A
Explanation: A, B, C, D, E
126) In the factor market, firms ________ and households ________. 
   A) hire land, labor, capital, and entrepreneurship services; purchase goods and services 
   B) supply goods and services; purchase goods and services 
   C) purchase goods and services; supply goods and services 
   D) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit 
   E) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services 

Answer: D 
Explanation: 
A) 
B) 
C) 
D) 
E) 

127) Which of the following is a consumption good or service? 
   A) the Endeavor space shuttle 
   B) a United Parcel Service truck delivering Christmas gifts 
   C) a satellite dish installed by Cox Cable to download programs that are then distributed through its cable system 
   D) a United Airline ticket counter 
   E) a personal computer purchased in order to play games at home 

Answer: E 
Explanation: 
A) 
B) 
C) 
D) 
E) 

128) In the circular flow model, which of the following is on the buying side in the goods market? 
   i. firms 
   ii. households 
   iii. federal, state, and local governments 
   A) i and ii 
   B) i only 
   C) ii only 
   D) ii and iii 
   E) iii only 

Answer: D 
Explanation: 
A) 
B) 
C) 
D) 
E) 

129) In the circular flow model, the factors of production flow in the 
   A) same direction as does the goods market. 
   B) opposite direction as do the rents, wages, interest, and profits. 
   C) opposite direction as does the government. 
   D) opposite direction as does the goods market. 
   E) same direction as do the rents, wages, interest, and profits. 

Answer: B 
Explanation: 
A) 
B) 
C) 
D) 
E)
130) Goods and services produced in the United States and sold in other countries are called  
A) government goods and services.  
B) capital goods.  
C) consumption goods and services.  
D) export goods and services.  
E) import goods and services.  
Answer: D  
Explanation: A)  
B)  
C)  
D)  
E)  

131) Economists classify energy and water as part of which factor of production?  
A) entrepreneurship  
B) capital  
C) land if undeveloped and capital if developed  
D) land  
E) labor  
Answer: D  
Explanation: A)  
B)  
C)  
D)  
E)  

132) The income paid to labor is called  
A) profit.  
B) human capital.  
C) rent.  
D) wages.  
E) interest.  
Answer: D  
Explanation: A)  
B)  
C)  
D)  
E)  

133) The most people live in ________ economies and the fewest people live in ________ economies.  
A) advanced; developing  
B) developing; advanced  
C) emerging market; developing  
D) developing; emerging market  
E) advanced; emerging market  
Answer: D  
Explanation: A)  
B)  
C)  
D)  
E)
134) Factors of production are the
A) goods and services produced by the economy.
B) productive resources used by government to increase the productivity of consumption.
C) goods that are bought by individuals and used to provide personal enjoyment.
D) goods that are bought by businesses to produce productive resources.
E) productive resources used to produce goods and services.

Answer: E

Explanation:

A) B) C) D) E)

135) The largest component of federal government spending is for
A) prisons.
B) national defense.
C) education.
D) interest on the national debt.
E) Medicare and Medicaid.

Answer: E

Explanation:

A) B) C) D) E)

136) What would be an example of consumption good?
A) Donald Trump purchases furniture for his office.
B) Jake buys an iPhone.
C) The local driver’s license office purchases a new digital camera and printer.
D) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
E) Rhianna gets a haircut.

Answer: B

Explanation:

A) B) C) D) E)

137) If there is a national debt, we can conclude that the federal government has
A) purchased more goods and services than were needed.
B) spent money foolishly.
C) loaned funds to other nations in the past.
D) loaned funds to U.S. taxpayers in the past.
E) borrowed in the past.

Answer: E

Explanation:

A) B) C) D) E)
138) What determines the revenue flows received by businesses?
   A) what they pay the factors of production they employ.
   B) what they choose to produce, how much is sold, and the price received when sold
   C) an agency of the Federal government
   D) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
   E) financial institutions such as banks

Answer: B
Explanation: A) B) C) D) E)

139) ________ economies include ______________.
   A) Developing; China and Poland
   B) Developing; Poland and Russia
   C) Emerging; Poland and Brazil
   D) Developing; Saudi Arabia and South Africa
   E) Emerging; China and Canada

Answer: D
Explanation: A) B) C) D) E)

140) What would be an example of consumption service?
   A) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
   B) The local driver’s license office purchases a new digital camera and printer.
   C) Rhianna gets a haircut.
   D) Jake buys an iPhone.
   E) Donald Trump purchases furniture for his office.

Answer: C
Explanation: A) B) C) D) E)
141) Of the following, the largest source of tax revenue collected by state and local governments comes from
   A) sales taxes.
   B) individual income taxes.
   C) lottery revenues.
   D) corporate income taxes.
   E) death taxes.
Answer: A
Explanation: A)

142) The productive resource that includes all the "gifts of nature" is called
   A) entrepreneurship.
   B) land.
   C) land if undeveloped and capital if developed.
   D) labor.
   E) capital.
Answer: B
Explanation: A)

143) Households and firms in the U.S. economy interact with those in the rest of the world in the ________ market and in the ________ market.
   A) goods; factor
   B) government; goods
   C) firm; government
   D) goods; financial
   E) financial; factor
Answer: D
Explanation: A)
144) Property taxes are a major source of revenue for
   A) state and local governments.
   B) the federal governments.
   C) firms wanting to relocate their operations.
   D) consumers.
   E) the federal, state, and local governments.

Answer: A
Explanation:

145) An export good is a good produced
   A) by foreigners in the United States and purchased by U.S. households.
   B) in another country and purchased by foreigners not residing in the United States.
   C) in another country and purchased by U.S. residents.
   D) in the United States and sold to foreigners living in the United States.
   E) in the United States and sold in other countries.

Answer: E
Explanation:

146) As a factor of production, oil reserves are counted as
   A) labor.
   B) capital.
   C) financial capital.
   D) entrepreneurship.
   E) land.

Answer: E
Explanation:

147) The personal distribution of income shows
   A) that the richest 20 percent of households receive 23 percent of total income.
   B) that labor receives the largest percentage of total income.
   C) how profit accounts for the largest fraction of total income.
   D) that the poorest 20 percent of households receive less than 4 percent of total income.
   E) that interest accounts for most of the income of the richest 20 percent of households.

Answer: D
Explanation:
148) Goods and services bought by the government account for about ________ percent of total production.
   A) 17  B) 67  C) 2  D) 8  E) 35
Answer: A
Explanation: A)

149) The national debt is the total amount the ________ government has borrowed to make expenditures that ________ tax revenue.
   A) federal; exceed
   B) state and local; exceed
   C) state and local; are less than
   D) federal; are less than
   E) federal; are equal to
Answer: A
Explanation: A)

150) Payments to the factors of production are
   A) rent, wages, profit or loss, and bonus.
   B) rent, interest, bonds, and profit or loss.
   C) land, labor, capital, and entrepreneurship.
   D) rent, mortgage, interest, and bonds.
   E) rent, wages, interest, and profit or loss.
Answer: E
Explanation: E)

151) The personal distribution of income measures which of the following?
   A) The distribution of income among households
   B) Proportion of income generated by the four types of expenditures on goods and services
   C) The distribution of earnings by the factors of production
   D) How federal tax revenues are related to the type of businesses that employs the taxpayers
   E) The distribution of income among nations
Answer: A
Explanation: A)
152) _______ choose the quantities of goods and services to produce, while _______ choose the quantities of goods and services to buy
   A) Firms; only households
   B) Firms; households and the government
   C) The government; firms
   D) Households; the government
   E) Households; firms

Answer: B
Explanation: A) B) C) D) E)

153) In the circular flow model with the government sector, taxes
   A) on households flow in the same direction as do the goods and services.
   B) flow in the opposite direction as do transfers.
   C) flow from the goods market to the factor markets.
   D) on firms flow in the same direction as do factors of production.
   E) flow in the same direction as do transfers.

Answer: B
Explanation: A) B) C) D) E)
The figure above shows the circular flow model.

154) Margo orders a MacBook Pro computer from The Apple Store online to use it in her graphic design business. How will this be reflected in the figure above?

A) As a flow of goods and services bought
B) As goods and services supplied
C) As a flow of a factor of production
D) As expenditures on goods and services
E) It won't be shown in the figure because this transaction takes place neither in goods markets nor in factor markets.

Answer: C
Explanation: A) B) C) D) E)
155) The total amount the federal government has borrowed to make expenditures that exceed tax revenue is called
   A) federal expenditures.
   B) total government spending.
   C) personal income taxes.
   D) the national debt.
   E) the net government revenue.
Answer: D
Explanation: D

156) Terri is enrolled in her first economics course. She is required to give a presentation about the circular flow. Which of the following statements should she include in her presentation?
   A) The flows of goods and services and payments for the goods and services flow in the same direction.
   B) Firms pay wages for the amount of entrepreneurship they provide households.
   C) Households receive wages for the amount of entrepreneurship they provide firms.
   D) Firms choose the amount of the factors of production to provide households.
   E) Households choose the amount of the factors of production to provide the firms.
Answer: E
Explanation: E

157) Which of the following is not considered one of the factors of production?
   A) land
   B) labor
   C) technology
   D) entrepreneurship
   E) capital
Answer: C
Explanation: C
158) The total value of capital in the United States is around

A) $145 trillion.
B) $100 trillion.
C) $10 trillion.
D) $50 trillion.
E) $79 trillion.

Answer: D
Explanation: A) B) C) D) E)

159) Of the following, the largest single component of U.S. federal government expenditures is spent on

A) national defense.
B) purchases of goods and services for purposes other than national defense.
C) Medicare and Medicaid.
D) interest paid on the national debt.
E) transfers to state and local governments.

Answer: C
Explanation: A) B) C) D) E)

160) The income paid for the use of land is called

A) land capital.
B) profit.
C) interest.
D) rent.
E) wages.

Answer: D
Explanation: A) B) C) D) E)

161) Items that are purchased by individuals for their own enjoyment are called

A) exports of goods and services.
B) government goods and services.
C) consumption goods and services.
D) private goods.
E) capital goods.

Answer: C
Explanation: A) B) C) D) E)
162) Human capital ________ as you work. As a result, the ___________ of goods and services ________.

A) improves; quality; does not change.
B) decreases; quantity; decreases.
C) does not change; quality; does not change.
D) increases; quantity; increases.
E) declines; quality; increases.

Answer: D
Explanation: A)
B)
C)
D)
E)

163) Income taxes paid by corporations are

A) the major source of expenditure by the federal government.
B) the major source of revenue for local governments.
C) about 9 percent of the federal government's revenue.
D) the major source of revenue for the federal government.
E) the major source of revenue for state governments.

Answer: C
Explanation: A)
B)
C)
D)
E)

164) The largest category of state and local government expenditures is

A) highways.
B) social security.
C) interest on their debt.
D) public welfare.
E) education.

Answer: E
Explanation: A)
B)
C)
D)
E)

165) An item that is purchased to increase businesses' productive resources is

A) a productive good.
B) a government good.
C) an export.
D) a capital good.
E) a consumption good.

Answer: D
Explanation: A)
B)
C)
D)
E)
166) Of the following, the federal government obtains most revenue from
   A) excise taxes.
   B) property taxes.
   C) sales taxes.
   D) corporate income taxes.
   E) social security taxes.

Answer: E
Explanation: A) B) C) D) E)

167) Dan missed class the day the professor covered the circular flow model. Dan asked his friend Joan to explain markets to him. Joan correctly stated that a market
   A) must include a written contract between buyers and sellers.
   B) is any arrangement that brings buyers and sellers together.
   C) is only a place to purchase groceries.
   D) requires a physical location for buyers and sellers to get together.
   E) must have many buyers and only one seller, who is willing to sell to all the buyers.

Answer: B
Explanation: A) B) C) D) E)

168) The world population is approximately ________ people.
   A) 6.8 billion
   B) 680 million
   C) 2 trillion
   D) 6.8 trillion
   E) 6.8 million

Answer: A
Explanation: A) B) C) D) E)

169) As a percentage of total world production, production in the 29 advanced economies is about ________ percent of total world production and in the 118 developing economies is about ________ percent of total world production.
   A) 30; 46
   B) 19; 73
   C) 23; 62
   D) 53; 12
   E) 53; 39

Answer: E
Explanation: A) B) C) D) E)
170) In the United States, the richest 20 percent of households receive about ________ percent of total income.

A) 50  B) 23  C) 33  D) 15  E) 4

Answer: A
Explanation:

171) What determines the income flows that households receive?

A) financial institutions such as banks
B) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
C) what they choose to produce, how much is sold, and the price received when sold
D) an agency of the Federal government
E) what they choose to consume

Answer: B
Explanation:

172) An example of a capital good is

A) an iPod.
B) a fiber optic cable TV system.
C) a hair cut.
D) a slice of pizza.
E) an insurance policy.

Answer: B
Explanation:

173) Which of the following is NOT considered capital?

A) the furniture in the President’s office
B) stocks and bonds that are sold by Pepsico
C) a nail gun used for building houses
D) an assembly line at a General Motors plant
E) a computer used by your instructor for presentations in class

Answer: B
Explanation:
174) Within the circular flow model, economists define households as
   A) individuals or groups within the same legally defined family.
   B) married or engaged couples.
   C) families living in their own houses.
   D) individuals or groups living together.
   E) families with at least 2 children.

Answer: D
Explanation: A) B) C) D) E)

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

175) Label the flows in the simplified circular flow diagram that ignores the government.

Answer:
The figure above shows the labeled flows.

Explanation:

176) What is the difference between “capital” and “financial capital”? Which is a factor of production?

Answer: “Capital” is the actual physical good, such as a factory, an assembly line, or a computer server. “Financial capital” is stocks, bonds, or money. Financial capital is used to fund the purchase of the (physical) capital. Financial capital is NOT a factor of production because it is not used to help produce goods and services. Capital, however, is a factor of production because capital is used to help produce goods and services.

Explanation:

177) Describe the circular flow of the economy by discussing the two markets where households and firms meet.

Answer: Firms and households meet in two markets: the goods market and the factors market. In the goods market, households buy the goods and services that firms sell. In this market, households give firms money in exchange for the goods and services. In the factors market, households sell the services of the factors of production to firms, which buy the services of these factors. In the factors market, firms pay households money in exchange for the productive resources. Hence households earn their incomes in the factors market and spend their incomes in the goods market. And firms earn their revenue in the goods market and pay their costs in the factors market.

Explanation:
178) Explain the difference between consumption and capital goods.

Answer: A difference lies in the identity of the purchaser. Consumption goods (and services) are purchased by households and investment goods are purchased by firms. Households buy consumption goods to use for personal enjoyment. They contribute to the person’s standard of living. Firms buy capital goods to use as a factor of production. Capital goods are used along with the other factors of production, to help produce additional goods and services.

Explanation:

179) Describe the government's flows in the circular flow model of the economy.

Answer: The government has several flows in the circular flow model. First, the government taxes households and firms. Hence, funds flow from households and firms to the government. Second, the government transfers income back to households, via payments such as social security. In this case, funds flow from the government to households. The government also purchases goods and services from firms in the goods market. In this case, goods and services flow to the government and payments flow to firms.

Explanation:

180) Explain the structure of the circular flow model.

Answer: Households own the factors of production and sell the services from them to firms in the factor market. Income earned by households in the factor market is used to purchase goods and services from firms in the goods market. And the revenue the firms gain by selling the goods and services in the goods market is used to pay for the services of the factors of production they hire in the factor markets.

Explanation:

181) What effect, if any, will a good college education have on your human capital? Explain your answer.

Answer: Human capital refers to the skills people possess. These skills can be gained through education, on the job training, and experience. Thus your college education is increasing your human capital.

Explanation:

182) What is the largest source of tax revenue for the U.S. federal government and what is the largest expenditure item of the U.S. federal government?

Answer: The largest source of tax revenue for the U.S. federal government is personal income taxes, that is, the income taxes that individuals pay. The largest expenditure of the U.S. federal government is spending on Medicare and Medicaid.

Explanation:
183) Draw a circular flow diagram with households and firms and without government. Label the markets and the flows in the circular flow diagram.

Answer:

A circular flow diagram with the markets and flows labeled is in the figure above.

Explanation:

184) Discuss the distribution of income around the world. Which countries have the highest average incomes? Which countries have the lowest average incomes? How has the distribution of income changed in recent years?

Answer: Income is distributed unequally, with residents in the advanced economies having the highest average incomes. The highest living standard is in the United States, where the average income is $129 per day. Canada, Japan, the United Kingdom, and the Euro zone are close behind. In the poorest regions of the world, India and Africa, incomes are much lower. The average income is only $3 per day in India. The distribution of world income has become more equal in recent years because income in some very poor nations, especially China, has grown rapidly.

Explanation:

185) Explain how the largest sources of state tax revenues differs from the largest sources of federal tax revenues.

Answer: The two largest sources of federal tax revenues are from the personal income tax and Social Security taxes. Most state tax revenues are from sales and property taxes. There are no federal property or sales taxes. There is no state social security tax. And, although there are state income taxes, they do not take in as much revenue as do other state taxes.

Explanation:
186) What is meant by the term "human capital"?

Answer: Human capital refers to the skills people possess. These skills help increase the quality of labor. Human capital can be increased through education, on the job training, and experience. The knowledge and skill gained from these improvements are called human capital.

Explanation:

187) How are the roles of the household different in the goods market and in the factor markets?

Answer: In the goods market, households are buyers. They purchase the goods and services produced by the firms. In exchange for the goods and services, households pay firms. In the factor market, households are sellers. They provide the services from land, labor, capital, and entrepreneurship to the firms. In the factor markets, households receive payments from firms.

Explanation:

188) Compare and contrast the world population with that of the United States. Is the United States becoming a larger or a smaller part of the world’s population?

Answer: The U.S. population was approximately 311 million in 2011. It is growing at a rate of about one person in every 12 seconds. The world population in 2011 was about 7 billion and is growing at a rate of 30 people in the same 12 seconds. Hence the United States is becoming a smaller fraction of the world’s population.

Explanation:

189) What is a market? Must a market have a single physical location?

Answer: A market is any arrangement that allows buyers and sellers to get together and transact their business. Although some markets have a physical location, such as a farmers’ market where buyers and sellers of fresh corn can meet face-to-face, markets do not require an actual location. Indeed, many markets, such as the local market for apartments, do not have a single physical location. Nonetheless, buyers and sellers (tenants and landlords) arrange purchases and sales (the rental of apartments and houses) through means other than meeting in one central location.

Explanation:

190) It is conventional to divide the nation’s total production into four categories. Name and explain the four categories. In the United States, which category accounts for the largest share and the smallest share of the nation's total production?

Answer: The four categories of production are consumption goods and services, capital goods, government goods and services, and export goods and services. The division is based upon who purchases the goods and services. For instance, consumption goods and services are purchased by individuals for their own enjoyment whereas export goods and services are purchased by foreigners. In the United States, the largest of these four components is consumption goods and services. In 2011, consumption goods and services accounted for 61 percent of the total production. The smallest components were capital goods and export goods and services, which each accounted for 11 percent of the total production.

Explanation:
191) What is the difference between the functional and the personal distribution of income?  
Answer: The functional distribution of income shows how total income is divided among the factors of production. The personal distribution of income shows how total income is divided among households.

Explanation:

192) What are the two largest sources of tax revenues for the U.S. federal government?  
Answer: The largest source of tax revenue for the U.S. federal government is personal income taxes, that is, the income taxes that individuals pay. The second largest source of revenue is social security taxes. Personal income taxes account for about 41 percent of the federal government's revenue and social security taxes account for about 40 percent, so together these two sources of revenue are 81 percent of the federal government's total tax revenues.

Explanation:

193) In the United States, which factor of production earns the largest share of the nation's total income?  
Answer: The largest fraction of the nation's total income is earned by labor. In the United States, wages paid to labor account for about 69 percent of the nation's total income.

Explanation:

194) Identify the four factors of production, and tell what type of income is earned by each factor.  
Answer: The factors of production are land, which represents all the gifts of nature; labor, the work effort people put into producing goods and service; capital, goods that have been produced and are used as a productive resource to help produce other goods and services; and entrepreneurship, the human resource that organizes all the other factors of production. Land earns rent, labor earns wages, capital earns interest, and entrepreneurship earns profit or losses.

Explanation:

195) Explain the differences between "human capital," "financial capital," and "capital."  
Answer: Human capital is the knowledge and skills people obtain from education, on-the-job training, and work experience. Financial capital is money, stocks, and bonds. Capital is tools, instruments, machines, buildings, and anything that had to be produced prior to production of the desired goods and services.

Explanation:

196) Explain how public goods provided by the federal government differ from public goods provided by the state and local governments.  
Answer: The federal government provides goods and services such as national defense and the legal system. These are goods and services that benefit the entire nation or else substantial parts of it. The state and local governments provide mainly education and highways, which benefit primarily residents within the state or locality.

Explanation:
197) How many and what fraction of the world's people live in advanced economies? In emerging markets and developing economies?

Answer: There are approximately 7 billion people in the world. Of the 7 billion people, nearly 1 billion or 15 percent, live in advanced economies. About 85 percent, or nearly 5.8 billion people live in emerging market and developing economies.

Explanation:

198) Discuss the differences between developing and emerging market economies.

Answer: Although the average income in emerging market economies is less than that in advanced economies, developing countries generally have lower levels of income than emerging market economies. Emerging market economies are in some ways as developed as the advanced economies because they often have a well-trained labor force and a reasonable capital stock, both of which are typically missing in developing economies. But emerging market economies are struggling to raise their living standards. The main difference between emerging market economies and other economies is their economic system. Emerging market economies operated under state-owned production for many years and are now moving towards a free market system. Developing economies generally do not have the same history of a very long period of time operating under a system of state-owned production.

Explanation:

199) What are the payments each factor of production receives?

Answer: Rent is paid for the use of land. Wages are paid for the services of labor. Interest is paid for the use of productive capital. Entrepreneurs earn a profit.

Explanation:

200) The International Monetary Fund divides nations into three groups. What are the three groups and what are the characteristics of each group?

Answer: The International Monetary Fund divides nations into "advanced economies," "developing economies," and "emerging market economies." Advanced economies are the countries or regions that have the highest living standards. Industrialized nations such as the United States, Canada, and Japan are included, as are the newly industrialized Asian economies. Developing economies are the countries that have yet to achieve a high standard of living. Nations in Africa, Central America, and South America fall into this category. The emerging market economies are nations that are changing how they organize their economies. In the past, their economic system relied upon state-ownership of capital and direct government management of the economy. They now are moving to more reliance upon a system of free enterprise, that is, a system similar to what exists in the United States. Emerging market economies are Russia and the other nations in Eastern and Central Europe that used to be Russian satellites.

Explanation:

201) In the United States, how does the income received by the richest 20 percent of individuals compare with the income received by the other 80 percent?

Answer: In the United States, the richest 20 percent of individuals receive about 51 percent of the nation's total income. Thus the other 80 percent of individuals receive the remainder, about 49 percent of the nation's income. So the richest 20 percent of the individuals receive almost the same amount as the other 80 percent of people.

Explanation:
Answer Key
Testname: C2

1) A
2) A
3) E
4) E
5) C
6) D
7) D
8) C
9) E
10) C
11) A
12) A
13) B
14) B
15) D
16) B
17) D
18) E
19) C
20) A
21) D
22) A
23) B
24) B
25) A
26) B
27) A
28) E
29) D
30) B
31) C
32) B
33) C
34) E
35) E
36) E
37) D
38) D
39) A
40) C
41) E
42) E
43) A
44) C
45) B
46) C
47) A
48) D
49) C
50) B
Answer Key
Testname: C2

51) D
52) E
53) E
54) E
55) B
56) E
57) B
58) C
59) B
60) C
61) E
62) E
63) C
64) B
65) C
66) E
67) B
68) C
69) A
70) A
71) B
72) D
73) E
74) B
75) B
76) C
77) E
78) D
79) D
80) C
81) A
82) D
83) B
84) B
85) A
86) A
87) D
88) B
89) D
90) C
91) E
92) A
93) A
94) A
95) A
96) C
97) E
98) B
99) C
100) B
101) B
102) B
103) B
104) C
105) C
106) A
107) A
108) D
109) D
110) A
111) A
112) A
113) C
114) E
115) B
116) E
117) C
118) D
119) A
120) D
121) D
122) A
123) C
124) E
125) A
126) D
127) E
128) D
129) B
130) D
131) D
132) D
133) D
134) E
135) E
136) B
137) E
138) B
139) D
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142) B
143) D
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