**Chapter 2 review**

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1. The market system is often also known as:   
A) Capitalism  
B) Socialism  
C) Central planning  
D) Regulation

2. One element of the command system is:   
A) Capitalism  
B) Free markets  
C) Private ownership  
D) Central planning

3. The economies of North Korea and South Korea are:   
A) Similar in that they are both basically command systems  
B) Similar in that they are both basically market systems  
C) Different in that North Korea has a command system while South Korea has a market system  
D) Different in that South Korea has a command system while North Korea has a market system

4. *Laissez-faire* capitalism is characterized by:   
A) Very limited government role in the economy  
B) Active government intervention in the economy  
C) Individuals and firms abiding by a government economic plan  
D) A very fair distribution of income and wealth

5. By free enterprise, we mean that:   
A) Products are provided free to those who can't afford to buy them  
B) Individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose  
C) Individual producers are free to produce whatever the government decides are needed by the society  
D) Individuals are free to buy whatever products will satisfy their needs the most

6. In a market economy, entrepreneurs are most concerned with:   
A) Maximizing utility or satisfaction from limited incomes  
B) Increasing the wages and salaries of workers  
C) Maximizing profits or minimizing losses  
D) The selfish pursuit of money

7. Competition denotes a condition where:   
A) The diffusion of economic power limits its potential abuse  
B) A given product can be purchased at a wide range of prices  
C) There are significant hurdles to entering a market  
D) A few large sellers are constantly jostling for market share

8. The system where workers concentrate on specialized tasks to make a product is referred to as:   
A) A coincidence of wants  
B) Roundabout production  
C) Freedom of enterprise  
D) Division of labor

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

10. Which of the following is necessary to make a trade in a barter economy?   
A) Money  
B) Unlimited wants  
C) A medium of exchange  
D) A coincidence of wants

11. Anything that is generally acceptable in trading for goods and services is a:   
A) Medium of exchange  
B) Measure of value  
C) Store of value  
D) Token money

12. If a nation restricts trade with other nations, then the most likely effect is:   
A) Lower prices of goods and services in the nation  
B) Increased specialization of production  
C) Expand the economic wealth of the nation  
D) Make consumers in the nation worse off

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

14. The term *consumer* *sovereignty* means that:   
A) Government is responsible for protecting consumers' interests  
B) What is produced is ultimately determined by what consumers buy  
C) There are no limits on what consumers may buy in a market system  
D) Producers have a strong influence over what consumers buy

15. The market system is said to be characterized by "consumer sovereignty." This is because:   
A) A large number of consumer goods are produced  
B) The prices of consumer goods are regulated by government  
C) Consumer goods are more profitable than investment goods  
D) Of the role of consumers in determining what goods are produced

16. The production technique that is most efficient is the one that produces a given amount of output:   
A) using the least amount of labor and capital resources  
B) at the highest price  
C) at the lowest total cost  
D) yielding the maximum total revenues

17. With an increase in profits in a particular industry, we would expect:   
A) Firms to leave the industry  
B) Firms to produce less  
C) Firms to enter the industry  
D) People to buy less

18. Under what circumstances would you expect economic profits to be zero in a particular industry?   
A) During a recession  
B) When there is little competition in the industry  
C) When the industry is neither expanding nor contracting  
D) When the demand for the product being produced is increasing

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

19. Refer to the above table. Which technique is economically the most efficient way of producing Zenia?   
A) A  
B) B  
C) C  
D) D

20. Refer to the above table. If each of the 70 Zenias that are produced sells for $1 each, what will be the economic profit for the firm?   
A) $7  
B) $10  
C) $13  
D) $19

21. Refer to the above table. If the price of labor declines from $3 to $2 per unit, then what is the least costly way of producing Zenias?   
A) A  
B) B  
C) C  
D) D

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

22. Based on the data shown above, the economically most efficient production technique is:   
A) A  
B) B  
C) C  
D) D

23. Refer to the above table. Using the technique cited in the previous question will result in an:   
A) Economic loss of $2  
B) Economic profit of $1  
C) Economic profit of $2  
D) Economic profit of $3

24. Refer to the above table. At the $3 price for labor the most efficient technique will result in an:   
A) Economic loss of $2  
B) Economic profit of $l  
C) Economic profit of $2  
D) Economic profit of $3

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

Chapter 2 review Key

1. A

2. D

3. C

4. A

5. B

6. C

7. A

8. D

9. D

10. D

11. A

12. D

13. A

14. B

15. D

16. C

17. C

18. C

19. D

20. C

21. B

22. A

23. D

24. B

25. D

Chapter 2 review Summary

|  |  |
| --- | --- |
| *Category* | *# of Questions* |
| AACSB: Analytic | 23 |
| AACSB: Reflective Thinking | 2 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 1 Remember | 1 |
| Blooms: Level 2 Understand | 3 |
| Blooms: Level 2 Understand | 1 |
| Blooms: Level 2 Understand | 2 |
| Blooms: Level 2 Understand | 1 |
| Blooms: Level 2 Understand | 1 |
| Blooms: Level 3 Apply | 2 |
| Blooms: Level 3 Apply | 5 |
| Difficulty: 1 Easy | 8 |
| Difficulty: 2 Medium | 13 |
| Difficulty: 3 Hard | 4 |
| Learning Objective: 02-01 Differentiate between a command system and a market system. | 4 |
| Learning Objective: 02-02 List the main characteristics of the market system. | 8 |
| Learning Objective: 02-03 Explain how the market system decides what to produce; how to produce it; and who obtains it. | 10 |
| Learning Objective: 02-04 Discuss how the market system adjusts to change and promotes progress. | 3 |
| McConnell - Chapter 02 | 27 |
| Topic: Characteristics of the Market System | 8 |
| Topic: Economic Systems | 4 |
| Topic: Five Fundamental Questions | 12 |
| Topic: The "Invisible Hand" | 1 |