1. "Under central planning, some group has to decide how to get the necessary inputs produced in the right amounts and delivered to the right places at the right time. This is a nearly impossible task without markets and profits." This quotation best identifies the:
A. incentive problem under central planning.
B. coordination problem under central planning.
C. self-sufficiency dilemma under communism.
D. resource overcommitment problem under communism.

2. Economic systems differ according to what two main characteristics?
A. Who owns the factors of production, and the methods used to coordinate economic activity.
B. The technology used in production, and the quantity and quality of natural resources.
C. How goods are produced, and who gets them.
D. The political system in place, and the degree of scarcity facing the economy.

3. The failure of Soviet central planning was reflected in:
A. a declining growth rate.
B. poor quality goods.
C. the failure to provide promised consumer goods.
D. all of the above.

4. Refer to the above diagram. Arrows (1) and (2) represent:
A. goods and resources respectively.
B. money incomes and output respectively.
C. output and money incomes respectively.
D. resources and goods respectively.

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

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

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

Production Techniques:

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Capital</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

7. Refer to the above information. If the price of product A is $.50, the firm will realize:
A. an economic profit of $4.
B. an economic profit of $2.
C. an economic profit of $6.
D. a loss of $3.

Answer the next question(s) using the following data which show all available techniques for producing 20 units of a particular commodity:

<table>
<thead>
<tr>
<th>Resource</th>
<th>Resource prices</th>
<th>Possible production techniques</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>#1</td>
</tr>
<tr>
<td>Land</td>
<td>$4</td>
<td>2</td>
</tr>
<tr>
<td>Labor</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Capital</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Entrepreneurial ability</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

8. Refer to the above data. In view of the indicated resource prices, the economically most efficient production technique(s) is (are) technique(s):
A. #1.
B. #2 and #4.
C. #3.
D. #1 and #3.
9. The division of labor means that:
A. labor markets are geographically segmented.
B. unskilled workers outnumber skilled workers.
C. workers specialize in various production tasks.
D. each worker performs a large number of tasks.

10. The regulatory mechanism of the market system is:
A. self-interest.
B. private property.
C. competition.
D. specialization.

11. Refer to the above diagram. Arrows (3) and (4) represent:
A. goods and services respectively.
B. incomes and consumer expenditures respectively.
C. resources and goods respectively.
D. consumer expenditures and income respectively.

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

13. The invisible hand concept suggests that:
A. changes in product demands are only randomly reflected in changes in the demands for resources.
B. profit maximization is inconsistent with an efficient allocation of resources.
C. government action is necessary to correct for market failures.
D. when firms maximize their profits, society's output will also be maximized.

14. The two general types of economic systems that exist today are:
A. market systems and capitalism.
B. socialism and central planning.
C. market systems and command systems.
D. laissez faire systems and pure command systems.

15. Which of the following is a fundamental characteristic of the market system?
A. property rights
B. central planning by government
C. unselfish behavior
D. government-set wages and prices
16. Refer to the above data. Assuming that the firm is motivated by self-interest and that the 20 units which can be produced with each technique can be sold for $2 per unit, the firm will:
A. realize an economic profit of $10.
B. realize an economic profit of $4.
C. not earn any economic profit.
D. close down rather than incur a loss by producing.

17. Which of the following is a distinguishing feature of a market system?
A. public ownership of all capital.
B. central planning.
C. wide-spread private ownership of capital.
D. a circular flow of goods, resources, and money.

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

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

20. (Consider This) According to Dallas Federal Reserve economist W. Michael Cox, taken to its extreme, the logic of "buying American" implies that:
A. we should buy everything from abroad.
B. people should only consume what they can produce themselves.
C. consumers should only buy goods from other states.
D. the best quality goods are found in the United States.

21. Which of the following is a limitation of the simple circular flow model?
A. product markets are ignored.
B. resource markets are ignored.
C. The determination of product and resource prices is not explained.
D. households are included, but not businesses.
22. Refer to the above diagram. Flow (4) represents:
A. wage, rent, interest, and profit income.
B. land, labor, capital, and entrepreneurial ability.
C. goods and services.
D. consumer expenditures.

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

24. Enterprise managers and workers in the Soviet Union often resisted innovations in production methods because:
A. production targets were often increased when innovation occurred.
B. there was a chronic shortage of computers.
C. workers could not be reallocated geographically.
D. innovations ordinarily increased dependence on world markets.
25. On the basis of the above information it can be said that:
A. no coincidence of wants exists between any two states.
B. a coincidence of wants exists between Michigan and Washington.
C. a coincidence of wants exists between Texas and Washington.
D. a coincidence of wants exists between Michigan and Texas.

26. The market system:
A. produces considerable inefficiency in the use of scarce resources.
B. effectively harnesses the incentives of workers and entrepreneurs.
C. is inconsistent with freedom of choice in the long run.
D. has slowly lost ground to emerging command systems.

27. (Consider This) In 1975 McDonald's introduced its Egg McMuffin breakfast sandwich, which remains popular and profitable today. This longevity illustrates the idea of:
A. opportunity cost.
B. upsloping supply.
C. consumer sovereignty.
D. specialization.

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

29. Households and businesses are:
A. both buyers in the resource market.
B. both sellers in the product market.
C. sellers in the resource and product markets respectively.
D. sellers in the product and resource markets respectively.

30. The market system's answer to the fundamental question "How will the goods and services be produced?" is essentially:
A. "With as much machinery as possible."
B. "Using the latest technology."
C. "By exploiting labor."
D. "At least-cost production."

Pre-Test Chapter 2 ed17 Key
