

Economic Systems and Decision Making

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. A great variety of goods and services is characteristic of
 - a. a traditional economy.
 - b. a market economy.
 - c. a command economy.
 - d. all economic systems.

- _____ 2. The American economic system can be described as having a
 - a. command economy.
 - b. quota system.
 - c. traditional system.
 - d. free enterprise system.

- _____ 3. Refusing a job applicant on the basis of age is
 - a. called discrimination.
 - b. known as neutral action.
 - c. legal.
 - d. considered to be false advertisement.

- _____ 4. Public education in the United States is a service provided by
 - a. government.
 - b. central planners.
 - c. the Commerce Department.
 - d. private industries.

- _____ 5. The American government provides consumer protection against
 - a. discount buying.
 - b. high-priced imports.
 - c. false advertising.
 - d. high prices of food products.

- _____ 6. The concept of voluntary exchange means
 - a. that no money was exchanged.
 - b. using the barter system.
 - c. that people freely and willingly engage in market transactions.
 - d. that only workers will benefit from a transaction.

- _____ 7. In a modified private enterprise economy
 - a. there is no government intervention.
 - b. entrepreneurship is prohibited.
 - c. there is some government intervention.
 - d. no one can hold private property.

- _____ 8. A teenager would have the least number of career choices in a
 - a. traditional economy.
 - b. command economy.
 - c. market economy.
 - d. mixed economy.

- ___ 9. Choices in a command economy are made by
- private business.
 - assembly line workers.
 - competition.
 - government agencies.
- ___ 10. An advantage of a market economy is its ability to
- control the price of labor.
 - adjust to changes over time.
 - sell goods at a high price.
 - limit consumer choices.
- ___ 11. An organized way of providing for the wants and needs of people is known as
- an economic system.
 - economic interdependence.
 - a fixed income.
 - the profit motive.
- ___ 12. During periods of inflation, people living on a fixed income have
- no financial problems.
 - declining purchasing power.
 - unlimited resources.
 - no voice in the government.
- ___ 13. The power of the consumer in the market is
- supply and demand.
 - opportunity cost.
 - consumer sovereignty.
 - trade-offs.
- ___ 14. Which of the following is NOT considered an economic and social goal?
- economic efficiency
 - price stability
 - economic growth
 - entrepreneurship
- ___ 15. Which group of people ultimately determines the products that a free enterprise economy produces?
- Congress
 - property owners
 - consumers
 - local officials
- ___ 16. The purpose of government in a command economy is to
- prevent imports.
 - encourage the formation of corporations.
 - promote economic freedom.
 - make major economic decisions.
- ___ 17. Refusing a job applicant on the basis of religious preference is
- known as a neutral action.
 - considered to be false advertisement.
 - called discrimination.
 - legal.

- ___ 18. Both parties to a transaction benefit according to
- voluntary exchange.
 - consumer sovereignty.
 - fixed income.
 - command economy.
- ___ 19. Higher profits, new businesses, and higher paying jobs are all benefits derived from successful
- entrepreneurship.
 - charitable organizations.
 - monopolies.
 - central planning.
- ___ 20. The former Soviet Union is an example of
- capitalism.
 - a command economy.
 - a market economy.
 - free enterprise.
- ___ 21. An economic system is successful when it
- creates a large number of wealthy people.
 - maintains normal unemployment levels.
 - controls government agencies.
 - satisfies the needs of its people.
- ___ 22. An entrepreneur would most likely have the best chance for success in
- a command economy.
 - a market economy.
 - a traditional economy.
 - any of the economies.
- ___ 23. Consumer sovereignty refers to
- the power of buyers.
 - manufacturers.
 - advertising.
 - the media.
- ___ 24. In a modified private enterprise economy based on capitalism, government plays the role of
- definer of social and economic goals.
 - central planner deciding WHAT to produce.
 - regulator charged with preserving competition in the marketplace.
 - coordinator of basic economic activity.
- ___ 25. A rapid increase in the general level of prices is called
- inflation.
 - deflation.
 - a market economy.
 - a depression.
- ___ 26. The minimum wage is an example of a federal law that supports which economic goal?
- economic growth
 - economic equity
 - full employment
 - economic efficiency

- ___ 27. Under capitalism, an incentive to work, save, and invest is due to
- the Social Security system.
 - voluntary exchange.
 - the ability to own private property.
 - consumer sovereignty.
- ___ 28. The economic system in the United States can best be described as a
- modified private enterprise system.
 - pure free enterprise system.
 - traditional system.
 - command economy.
- ___ 29. Changes in a market economy tend to be
- revolutionary.
 - prohibited.
 - gradual.
 - discouraged.
- ___ 30. In the traditional Inuit society, there was the willingness to
- share goods and services.
 - hoard goods and services.
 - compete.
 - continually set new goals.

Matching

Match each item with the correct statement below.

- | | |
|--------------------|------------------------|
| a. Social Security | f. capitalism |
| b. command economy | g. traditional economy |
| c. inflation | h. mixed economy |
| d. fixed income | i. private property |
| e. profit motive | j. full employment |

- ___ 31. the concept that people have the right to control their possessions as they wish
- ___ 32. another name for a modified private enterprise economy
- ___ 33. economic activities stem from ritual, habit, or custom
- ___ 34. economy with extensive government involvement
- ___ 35. federal program that provides disability and retirement benefits
- ___ 36. a rise in the general level of prices
- ___ 37. income that doesn't increase even though the cost of living goes up
- ___ 38. the result of providing as many jobs as possible
- ___ 39. private citizens own the factors of production
- ___ 40. a reason why many people become entrepreneurs

Match each item with the correct statement below.

- | | |
|-----------------------|-------------------------|
| a. economic freedom | f. consumer sovereignty |
| b. entrepreneur | g. Social Security |
| c. voluntary exchange | h. economic system |
| d. profit | i. command economy |
| e. fixed income | j. market economy |

- ___ 41. buyers and sellers engaging in transactions

Name: _____

ID: A

- ___ 42. reflects goal of economic security
- ___ 43. central authority makes most economic decisions
- ___ 44. organized way of providing for needs and wants of a society
- ___ 45. extent to which a person is better off at the end of a period
- ___ 46. a cornerstone of American society
- ___ 47. income stays the same, even though cost of living goes up
- ___ 48. describes consumer as "ruler" of the market
- ___ 49. a risk-taker
- ___ 50. allows buyers and sellers to come together to exchange goods and services

Short Answer

- 51. **Critical Thinking** Compare a command economy to a market economy by listing a strength and weakness of each. State how each type of economy satisfies the wants and needs of individuals.
- 52. **Critical Thinking** List and explain four characteristics of a free enterprise economy.

Name: _____

ID: A

**Economic Systems and Decision Making
Answer Section**

MULTIPLE CHOICE

1. B
2. D
3. A
4. A
5. C
6. C
7. C
8. A
9. D
10. B
11. A
12. B
13. C
14. D
15. C
16. D
17. C
18. A
19. A
20. B
21. D
22. B
23. A
24. C
25. A
26. B
27. C
28. A
29. C
30. A

MATCHING

31. I
32. H
33. G
34. B
35. A
36. C
37. D

- 38. J
- 39. F
- 40. E

- 41. C
- 42. G
- 43. I
- 44. H
- 45. D
- 46. A
- 47. E
- 48. F
- 49. B
- 50. J

SHORT ANSWER

- 51. The strength of a command economy is that it can change direction drastically in a relatively short amount of time. Its weaknesses: It is not designed to meet the wants and needs of individuals, it lacks incentives for people to work hard, it requires a large decision-making bureaucracy, it does not have the flexibility to deal with minor problems, and people with new or unique ideas find it difficult to get ahead. In a command economy a central planning committee decides on how best to satisfy the needs of individuals. The strengths of a market economy: It can adjust to change over time, freedom exists for everyone involved, it has a relatively small degree of government interference, decision making is decentralized, it provides an incredible variety of goods and services to consumers, and has a high degree of consumer satisfaction. Weaknesses of a market economy: The rewards go to the most productive resources, and sometimes markets do not work as they should. A market economy satisfies the needs and wants of individuals by offering products that the consumer requests.
- 52. Four characteristics of a free enterprise economy: (1) economic freedom--people are free to choose their jobs, and businesses are free to hire the best people, (2) voluntary exchange--the act of buyers and sellers freely and willingly engaging in market transactions, (3) private property--people have the right and privilege to control their possessions as they wish, (4) profit motive--people are free to risk their savings or any part of their wealth in a business venture.