

Midterm Review

Economics Honors (Chapters 1-10)

True/False

Indicate whether the sentence or statement is true or false.

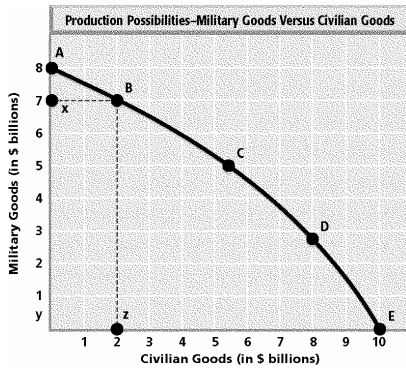
- ___ 1. Economic growth occurs when a nation's total output of goods and services increases over time.
- ___ 2. In economics, *land* refers to the natural resources needed for production, such as forests, minerals, and climate.
- ___ 3. Economic products consist of both goods and services that are useful, relatively scarce, and transferable to others.
- ___ 4. A nation's wealth refers to a worth that can be expressed in dollars and cents.
- ___ 5. The production possibilities frontier can be reached even if certain resources remain idle.
- ___ 6. Voluntary exchange is a characteristic of command economies.
- ___ 7. Preferred stock represents the nonvoting ownership of a corporation.
- ___ 8. One advantage of a corporation is the ease of obtaining a charter.
- ___ 9. Many schools, medical care facilities, and churches operate as nonprofit organizations.
- ___ 10. Labor unions use collective bargaining to negotiate job-related issues with management.
- ___ 11. Sole proprietorships must request a charter from the state in which they are organized.
- ___ 12. People form partnerships because it often improves a business's management and can usually attract capital more easily than proprietorships.
- ___ 13. Investors in corporations have unlimited liability for the company's debts.
- ___ 14. A professional association tries to improve the working conditions, skill levels, and public perceptions of the profession.
- ___ 15. The government is a nonprofit organization that plays a direct role in the economy by, for example, regulating public utilities that would operate with few or no competitors.
- ___ 16. Productivity will decrease if workers are unmotivated.
- ___ 17. When more suppliers enter the market, the market supply will typically decline.
- ___ 18. The theory of production deals with the relationship between the factors of production and the output of goods and services.
- ___ 19. The production function describes the relationship of changes in output to different amounts of a single input while other inputs are held constant.
- ___ 20. An increase in output as each new input is added, as in the addition of a worker, describes Stage I of the stages of production.
- ___ 21. The number of items sold multiplied by the average price of each item yields the total revenue of a business.
- ___ 22. The mix of variable costs and fixed costs that a business faces affects the way the business operates.
- ___ 23. Marginal cost is the change in total revenue when one more unit of output is sold.
- ___ 24. The four important measures of cost are: total cost, fixed cost, variable cost, and marginal cost.
- ___ 25. Economists often use an academic model to help analyze behavior and predict outcomes.
- ___ 26. Market equilibrium is the situation in which the quantity of output supplied is equal to the quantity demanded.
- ___ 27. If the price of an item is too high in a competitive market, a shortage appears until the price goes down.
- ___ 28. A private agency usually approves prices for water and electric utilities.
- ___ 29. "Truth in advertising laws" are designed to prevent market failures caused by inadequate information.
- ___ 30. The Clayton Antitrust Act was the first significant law against monopolies in the United States.
- ___ 31. The government can "internalize an externality" by using the tax system.
- ___ 32. The Sherman Antitrust Act prohibits monopolistic competition.
- ___ 33. When striking workers picket, they parade in front of the employer's business carrying signs about the dispute.
- ___ 34. Most Americans favored unions in the 1930s but shifted to favoring management after World War II.
- ___ 35. The agency shop requires that an employee join the union shortly after being hired.
- ___ 36. If an agreement cannot be reached during collective bargaining, workers use the boycott—refusing to work until their demands are met.
- ___ 37. Historically, unions were considered to be conspiracies against businesses and were prosecuted in the courts.
- ___ 38. During arbitration, a third party makes a non-binding compromise to resolve a dispute between labor and management.
- ___ 39. The traditional theory of wage determination states that wages are set according to the laws of supply and demand.
- ___ 40. Supply and demand are used to predict the incidence of a tax.
- ___ 41. Taxes on most personal property are seldom collected because of the problem of valuation.
- ___ 42. Distribution of income explains the way in which income is allocated to individuals, families, or other designated groups.
- ___ 43. When the government produces goods and services, it often competes with producers in the private sector.
- ___ 44. Interstate highway construction programs are examples of grants-in-aid.
- ___ 45. Approximately two-thirds of the federal budget consists of discretionary spending.
- ___ 46. Payments to aged and disabled Americans through the Social Security program make up the largest category of federal spending.
- ___ 47. Government spending can directly affect both the allocation of resources and the distribution of income.
- ___ 48. The fastest growing category of federal expenditures since 1980 has been defense.
- ___ 49. One of the major concerns about the national debt is that more than 50 percent of it is owed to investors outside of the United States.
- ___ 50. Consequences of the national debt include the redistribution of income and diminishing incentives to work, save, and invest.

Multiple Choice

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

- ___ 51. The situation in which some necessities have little value while some non-necessities have a much higher value is known as
 - a. paradox of value.
 - b. opportunity cost.
 - c. trade-offs.
 - d. economic interdependence.
- ___ 52. Manufactured goods needed to produce other goods and services are called
 - a. nondurable goods.
 - b. capital goods.
 - c. Gross Domestic Product (GDP).
 - d. consumer goods.
- ___ 53. To arrive at an economic decision, a decision-making grid may be used to evaluate
 - a. productivity.
 - b. marginal cost.
 - c. alternative choices of action.
 - d. opportunity cost.

- 54. The dollar value of all final goods and services and the most comprehensive measure of a country's total production output is
 - a. its standard of living.
 - b. financial capital.
 - c. a cost-benefit analysis.
 - d. Gross Domestic Product (GDP).
- 55. A popular model used to illustrate the concept of opportunity cost is
 - a. the production possibilities frontier.
 - b. entrepreneurship.
 - c. the paradox of value.
 - d. the factors of production.
- 56. An economy at its production possibilities frontier is operating
 - a. with slow economic growth.
 - b. at full potential.
 - c. without division of labor.
 - d. as a free enterprise economy.
- 57. The money used to buy the tools and equipment needed for production is known as
 - a. capital goods.
 - b. the factors of production.
 - c. financial capital.
 - d. wealth.
- 58. Actions in one part of the country or world that have an economic impact on what happens elsewhere are examples of
 - a. opportunity costs.
 - b. trade-offs.
 - c. specialization.
 - d. economic interdependence.



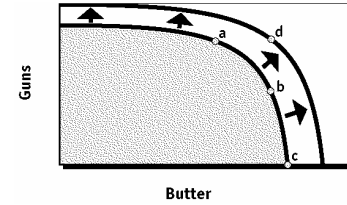
- 59. Study the graph. Suppose this nation starts with producing all military goods. It then decides to produce a mix of civilian and military goods represented by point B. What represents the cost in military goods given up?
 - a. the vertical distance between point x and point y
 - b. the horizontal distance between point y and point z
 - c. the horizontal distance between point z and point E
 - d. the vertical distance from point A to point x

“The study of economic theory is not defensible on aesthetic grounds — it hardly rivals in elegance the mathematics or physics our sophomores learn. The theory is studied only as an aid in solving real problems, and it is good only in the measure that it performs this function.”

George J. Stigler, "Monopolistic Competition in retrospect," in *Five Lectures on Economic Problems*, London: Longmans, Green and Co., 1949, p. 22.



- According to this author, a good economic theory is one that
 - a. is as elegant as a theory in mathematics or physics.
 - b. helps solve real problems.
 - c. includes mathematics.
 - d. is aesthetically sound.



- 61. Which of the following choices best describes what this production possibilities frontier is depicting?
 - a. alternative possibilities
 - b. opportunity cost
 - c. cost of idle resources
 - d. economic growth

Too much marketing today focuses on awareness rather than reasons to buy. In the old days, awareness advertising was more effective. There was less competition. All you had to worry about was whether or not people remembered your product. As technology and more kinds of media have come about, it's no longer enough to be remembered. The consumer has too many choices. Your marketing has to send the message that you are relevant. You need to be sending reasons to buy.

Source: *Business Week*, June 7, 1999



- This passage advises advertisers to focus on the economic concept of
 - a. scarcity.
 - b. the paradox of value.
 - c. utility.
 - d. opportunity cost.

Economic literacy is [like] having a working knowledge of a foreign language. If you are with a group of foreigners and don't speak their language at all, ...you feel excluded.... If you have a rudimentary working knowledge of the language, you can at least follow the drift of the conversation, ask a few questions and feel that, even if you are not getting the fine points, you are not totally left out and you have a basis for acquiring more knowledge. That, it seems to me, is what economic literacy means—a rudimentary working knowledge of the concepts and language of economic activity....

Source: Alice Rivlin, economist.




- According to Alice Rivlin in the passage, if you have a rudimentary working knowledge of economic concepts, you will be
 - a. left out of conversations about economic issues.
 - b. able to ask questions to gain more knowledge.
 - c. unable to talk about economic issues with foreigners.

- d. able to understand the fine points about economic issues.
- ___ 64. Which of the following is NOT considered an economic and social goal?
 a. economic efficiency c. price stability
 b. economic growth d. entrepreneurship
- ___ 65. Which group of people ultimately determines the products that a free enterprise economy produces?
 a. Congress c. local government
 b. property owners d. consumers
- ___ 66. The United States can best be described as having a
 a. modified private enterprise system. c. command economy.
 b. traditional system. d. pure free enterprise system.
- ___ 67. All of the following are characteristics of a command economy EXCEPT
 a. it can change direction drastically in a brief period of time.
 b. public services are available at little or no cost.
 c. it is not designed to meet the wants of consumers.
 d. it provides workers with few incentives to work hard.
- ___ 68. A market economy
 a. does not provide for everyone's basic needs.
 b. limits the choices of goods and services available.
 c. permits extensive government intervention.
 d. offers a high degree of certainty for its workers.
- ___ 69. The concept of voluntary exchange means
 a. that no money was exchanged.
 b. people freely and willingly engage in market transactions.
 c. only workers will benefit from the exchange.
 d. neither buyer nor seller has made a profit.
- ___ 70. The government's role in a mixed economy is that it is the
 a. definer of goals.
 b. central planner.
 c. regulator charged with preserving competition.
 d. coordinator of basic economic activity.



Steve Kelley


- ___ 71.  This cartoonist would like government to
 a. set higher ergonomic standards for the workplace.
 b. interfere with business less.
 c. protect business more.
 d. provide more public services.
- ___ 72. Unlike a general partnership, in a limited partnership

- a. all partners share equal financial responsibility for the firm's decisions.
 b. the inactive partner has limited liability for the business's debts.
 c. the partners must pay special business taxes.
 d. the business does not end with the death of a partner.
- ___ 73. This regulates the sale of stock in a corporation.
 a. labor unions c. stockbrokers
 b. Securities and Exchange Commission d. chamber of commerce
- ___ 74. A merger of corporations involved in different steps of manufacturing or marketing is known as a
 a. multinational merger. c. vertical merger.
 b. horizontal merger. d. conglomerate.
- ___ 75. Non-profit organizations may
 a. issue stock.
 b. pay dividends.
 c. provide goods and services to members.
 d. pay income taxes.
- ___ 76. The local chamber of commerce works to
 a. promote the welfare of its members and the community.
 b. earn dividends for members.
 c. protect its members from consumer complaints.
 d. aid member companies in negotiating with labor unions.
- ___ 77. In a general partnership,
 a. the business continues even if one partner dies.
 b. partners must pay specific business taxes.
 c. partners usually draw up legal papers called articles of partnership.
 d. partners are only liable for the business's debt up to the amount of their investment.
- ___ 78. An advantage of a corporation is that
 a. owners pay fewer taxes than owners of other forms of business.
 b. the business is subject to little government regulation.
 c. owners have limited liability for debt.
 d. owners have direct and immediate control over daily management of the business.

Grocery store giant Kroger Co. agreed Monday to purchase rival Fred Meyer Co. in a \$12.8 billion deal that will enable Kroger to reclaim its status as the nation's largest supermarket company.... [Analysts say] the merger is a good deal for both companies, one that should create the economies of scale necessary to remain competitive in the tough supermarket industry.

The merger also will enable Kroger to [stay] ahead of rival Albertson's, which otherwise would have eclipsed Kroger through its \$11.7 billion buyout of American Stores Co. in August.... Combined with Meyer, currently the fifth-largest grocery chain, Kroger will operate 2,200 supermarkets in 31 states, boasting \$43 billion in annual sales.

Source: "Kroger Bags Fred Meyer," *CNN/n*, October 19, 1998.

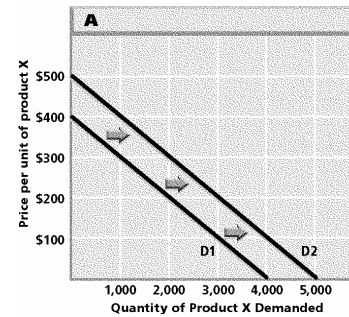
- ___ 79.  According to the passage, the merger enabled Kroger to
 a. diversify.
 b. acquire new product lines.
 c. become the industry's largest company.
 d. acquire a new corporate identity.
- ___ 80. For most products and services, increased price results in
 a. demand for fewer products. c. reduced demand for substitutes.
 b. demand for more products. d. increased demand for complements.
- ___ 81. Because a modest price increase has little or no effect, the demand for the product is
 a. complementary. c. elastic.

82. A business doubled the price of a product in order to increase profits. Which of the following scenarios might have occurred?
- A sharp increase in revenues demonstrated the elasticity of the product.
 - A small increase in revenues demonstrated the unit elasticity of the product.
 - A dramatic decline in revenues demonstrated the elasticity of the product.
 - A dramatic decline in revenues demonstrated the inelasticity of the product.
83. Consumers' willingness to replace a costly item with a less costly item is an example of
- the substitution effect.
 - the income effect.
 - demand elasticity.
 - complements.
84. An increase in the price of cameras results in a decrease in the demand for film. The two products are
- substitutes.
 - demand elastic.
 - unrelated.
 - complements.
85. When a customer's need for a product is not urgent, demand tends to be
- inelastic.
 - elastic.
 - complementary.
 - unit elastic.
86. When a manufacturer of pain medication reduced the price of the medication by 30%, profits declined by almost exactly 30%. Demand for the product is
- inelastic.
 - elastic.
 - unit elastic.
 - complementary.
- 87.

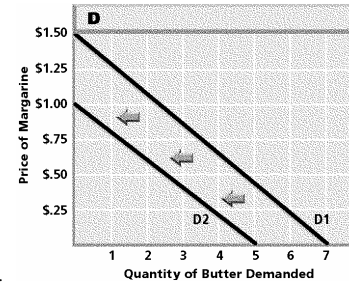
Demand Schedule for CDs	
Price per CD	Quantity Demanded (in millions)
\$10	1,100
\$12	900
\$14	700
\$16	500
\$18	300
\$20	100

DBO

- If you were to graph this demand schedule, the demand curve would
- slope upward from left to right.
 - slope downward from left to right.
 - be horizontal.
 - be vertical.



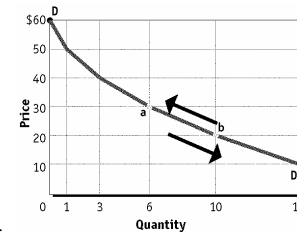
88. Which of the following choices could cause the movement shown in the graph?
- a decrease in income
 - an increase in population
 - a decrease in the price of a substitute
 - an increase in the price of a complement



89.

DBO

- The movement in the graph shows that the quantity demanded of butter decreased because the
- price of butter increased.
 - price of margarine decreased.
 - price of margarine increased.
 - price of butter decreased.



90.

DBO

- What does the movement shown on this graph represent?

- a. a change in demand
- b. the inverse relationship between price and quantity demanded
- c. the inverse relationship between price and marginal utility
- d. diminishing marginal utility

91. Rice is what you'll probably end up with these days if your local McDonald's is in Indonesia. With the collapse of the Indonesian currency, the rupiah, in 1998, potatoes...have quintupled in price. That means rice is turning with an increasing frequency as an alternative to the french fry.... It's not hard to fathom why fries are an endangered menu item says Jack Greenberg, CEO of McDonald's: "No one can afford them."

Source: Reprinted from December 14, 1998 issue of *Business Week*, by special permission, copyright © 1998 by The McGraw-Hill Companies, Inc.



Based on this passage, McDonald's is serving rice in its Indonesian restaurants because of

- a. a decrease in the price of a complement.
- b. an increase in the price of a complement.
- c. a decrease in price of a substitute.
- d. an increase in the price of a substitute.

92.

Price	Quantity Demanded	
	Old Demand Curve	New Demand Curve
\$80	0	1
70	2	5
60	4	8
50	7	10
40	12	15
30	15	22



The change from the old demand curve to the new demand curve shown in the table represents a

- a. movement upward along the demand curve.
- b. movement downward along the demand curve.
- c. shift of the demand curve to the left.
- d. shift of the demand curve to the right.

93. All of the following can change the market supply curve EXCEPT

- a. the cost of labor.
- b. the expectation that prices are about to increase.
- c. a change in the demand for the product.
- d. the numbers of sellers offering the product.

94. The supply of a product normally decreases if

- a. the cost of inputs goes down.
- b. more producers enter the market.
- c. the price of the product increases.
- d. taxes on the product increase.

95. When employees are getting in each other's way, the firm is operating

- a. in Stage I of production.
- b. in Stage II of production.
- c. in Stage III of production.
- d. as much as it possibly can.

96. Total cost is the sum of the

- a. fixed costs and overhead.
- b. all variable costs.
- c. fixed and variable costs.
- d. fixed and marginal costs.

97. The level of profit-maximizing output is reached when marginal cost is

- a. double marginal revenue.
- b. one-half of marginal revenue.
- c. less than marginal revenue.
- d. equal to marginal revenue.

98. When producers offer fewer products for sale at each and every price,

- a. the supply curve has shifted to the right.
- b. the supply curve has shifted to the left.
- c. the price per unit decreases.
- d. they expect subsidies.

99. Many businesses are engaging in e-commerce because

- a. subsidies are available to many e-commerce businesses.
- b. fixed costs are minimal.
- c. operating costs never increase.
- d. variable costs can be almost eliminated.

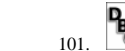
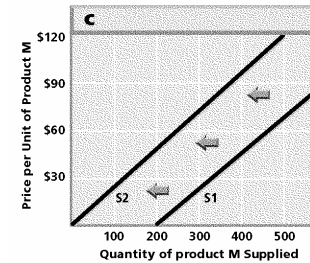
100.

Supply Schedule for CDs	
Price per CD	Quantity supplied (in millions)
\$10	100
\$12	300
\$14	500
\$16	700
\$18	900
\$20	1,100



If you were to graph this supply schedule, the supply curve would

- a. be horizontal.
- b. be vertical.
- c. slope upward from left to right.
- d. slope downward from left to right.



101. Which of the following choices could cause the movement shown in the graph?

- a. technology improves production
- b. inputs become cheaper
- c. the number of firms increases
- d. taxes increase

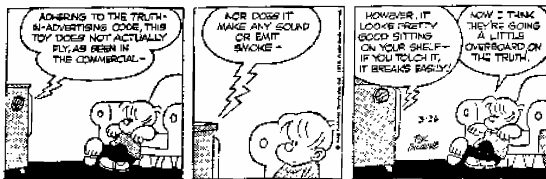
102. At a given price, a surplus occurs when

- a. the quantity demanded is more than the quantity supplied.
- b. the quantity demanded is the same as the quantity supplied.
- c. the quantity supplied is less than the quantity demanded.
- d. the quantity supplied is greater than the quantity demanded.

103. The federal minimum wage law demonstrates

- a. market equilibrium.
- b. a societal choice for economic equity over efficiency.
- c. the function of equilibrium price in a competitive market.

- d. government intervention to ensure the equilibrium price.
- ___ 104. All of the following are characteristics of allocation by rationing EXCEPT
- lack of fairness.
 - high administrative cost.
 - efficiency.
 - diminished incentive for workers.
- ___ 105. The theory of competitive pricing
- is an imperfect model of market performance.
 - is a set of ideal conditions and outcomes.
 - is ineffective when large swings in price occur.
 - demonstrates the need for subsidies and price ceilings.
- ___ 106. Perfect competition is characterized by all of the following EXCEPT
- a large number of buyers and sellers.
 - identical products.
 - sellers acting together to set prices.
 - well-informed buyers and sellers.
- ___ 107. A monopoly that is based on the ownership or control of a manufacturing method, process, or other scientific advance is a
- geographic monopoly.
 - natural monopoly.
 - government monopoly.
 - technological monopoly.
- ___ 108. A decrease in competition within an industry can result in
- more efficient resource allocation.
 - lower prices.
 - a firm wielding economic and political power.
 - increased output.
- ___ 109. The government is involved in the U.S. economy for all of the following reasons EXCEPT to
- promote and encourage competition.
 - prevent monopolies that deny the public the benefits of competition.
 - regulate industries in which a monopoly is in the public interest.
 - promote the development of market externalities.
- ___ 110. Under perfect competition,
- products are similar but not identical.
 - numerous restrictions prevent firms from entering the market.
 - no seller sells a product above the prevailing market price.
 - a single seller can affect price.
- ___ 111. When a major car company lowers its prices, other car makers will probably
- maintain existing prices.
 - raise their prices.
 - go out of business.
 - lower their prices.
- ___ 112. Mergers and acquisitions might result in
- more competition.
 - smaller companies.
 - increases in consumer demand.
 - inadequate competition.
- ___ 113. The Clayton Antitrust Act
- was opposed by labor unions.
 - defended monopolies.
 - outlawed price discrimination.
 - never went into effect.



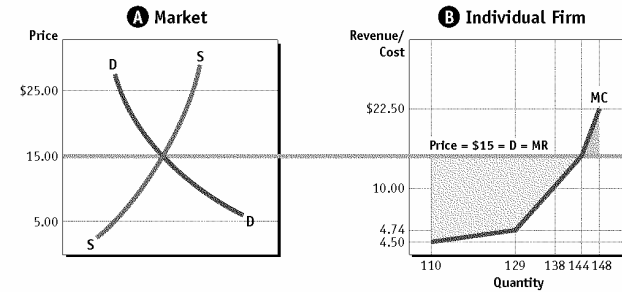
SOURCE: King Features Syndicate. All rights reserved.

___ 114.



- By passing truth-in-advertising laws, the government hopes to influence producers, such as the toy manufacturer in the cartoon, to
- hide product defects.
 - make better products.
 - stop advertising to children.
 - lower the prices of their products.

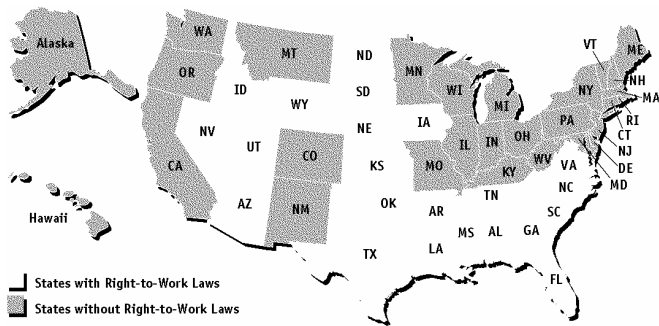
Perfect Competition



___ 115.



- In the graph, suppose the firm increases production to 148 units. This will result in
- an increase in total profit.
 - a decrease in total profit.
 - an increase in marginal revenue.
 - a decrease in marginal revenue.
- ___ 116. The Fair Labor Standards Act
- made it illegal to prosecute unions under the Sherman Antitrust Act.
 - prevented courts from issuing injunctions against unions engaged in peaceful strikes.
 - established the right of unions to collective bargaining.
 - established a federal minimum wage.
- ___ 117. All of the following can be used to establish more equal pay between men and women EXCEPT the
- Civil Rights Act of 1964.
 - Fair Labor Standards Act.
 - set-aside contracts.
 - Equal Pay Act of 1963.
- ___ 118. The National Labor Relations Act
- made it illegal to prosecute unions under the Sherman Antitrust Act.
 - established the right of unions to collective bargaining.
 - prevented courts from issuing injunctions against unions engaged in peaceful strikes.
 - established a federal minimum wage.
- ___ 119. Workers with knowledge-based education and managerial skills are
- unskilled labor.
 - semiskilled labor.
 - skilled labor.
 - professional labor.
- ___ 120. The invisible barrier that hinders women and minorities from advancement up the corporate ladder
- is the comparable worth issue.
 - is known as the glass ceiling.
 - has been ignored by Congress.
 - has been reinforced by use of set-aside contracts.



121. Source: National Right to Work Committee, 2001



Based on the illustration, workers in Texas

- a. must join their company's union.
- b. are not required to join their company's union.
- c. may not be locked out of their jobs by management.
- d. may not be forced to participate in their union's strikes.

122.

The union representing flight attendants at American Airlines rejected an offer of arbitration from federal mediators yesterday, assuring the start of a 30-day cooling-off period after which its members will be legally free to strike.

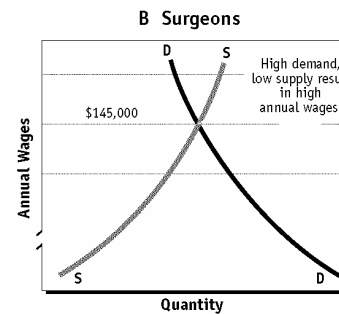
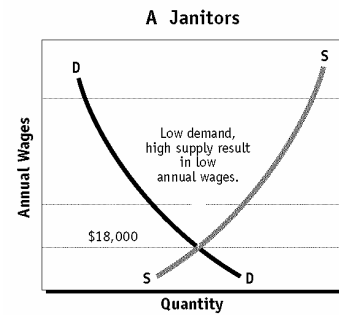
The major issue dividing the two sides is pay. The flight attendants now earn \$15,000 to \$35,000 a year, the union said. American said that the union's last proposal would cost the airline \$570 million more over six years than its final offer. The union said that the gap was closer to \$200 million.

Source: *The New York Times*, May 31, 2001.



If the union in the passage had accepted the offer of arbitration, how would this affect the outcome of negotiations?

- a. The union would not get what it wants because the arbitrator works for the government.
- b. The union would give up its right to collective bargaining.
- c. Both sides would have to accept the arbitrator's decision.
- d. The arbitrator would suggest a solution, but the two sides would not have to accept it.

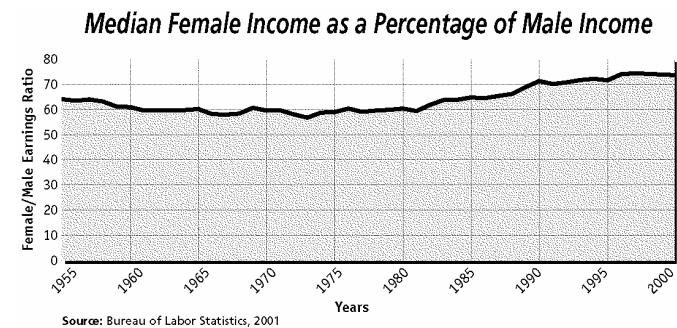


123.



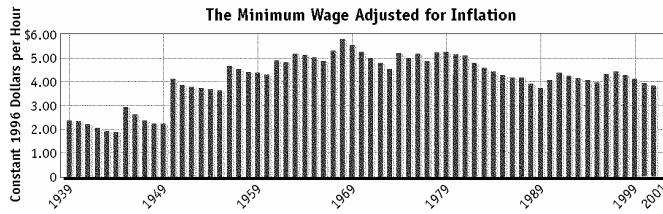
Study the graphs. Compared to janitors, the graph for surgeons shows

- a. high demand and high supply.
- b. high demand and low supply.
- c. low demand and high supply.
- d. low demand and low supply.



124. According to the graph, in 1980, women were earning approximately
- 20% less than men.
 - 60% less than men.
 - 40% less than men.
 - 30% less than men.

125. According to the graph, if men in general were earning approximately \$20,000 in 1965, women would have been earning approximately
- \$10,000.
 - \$12,000.
 - \$14,000.
 - \$8,000.



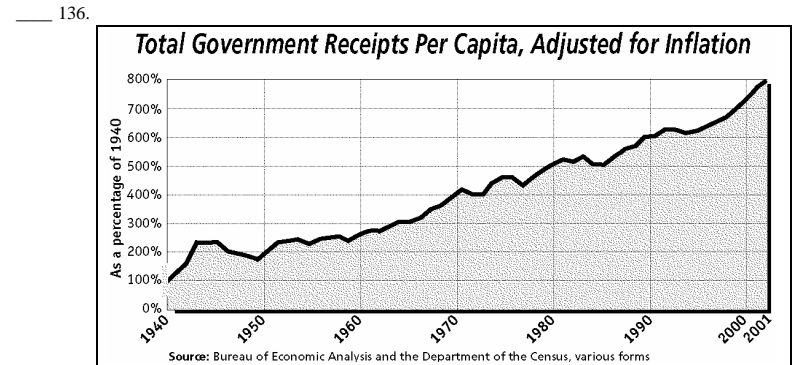
Sources: Statistical Abstract of the United States, Economic Report of the President, various issues

126. From the graph, you can conclude that 1968 had a
- higher minimum wage than in any other year.
 - lower inflation rate than in any other year.
 - higher inflation rate than in any other year.
 - minimum wage with more purchasing power than in any other year.
127. The incidence of a tax can more effectively be shifted from the supplier to the consumer if
- the demand curve is inelastic.
 - the demand curve is elastic.
 - it is not a luxury tax or an excise tax.
 - it is a property tax rather than an income tax.
128. Intergovernmental revenues are generally intended for
- education and public welfare.
 - public transportation.
 - environmental cleanup.
 - parks and recreation.
129. The alternative minimum tax
- is an additional tax above and beyond the base rate.
 - requires people to pay a minimum tax of 20 percent.
 - allows a reduction in business taxes based on investment in equipment.
 - allows larger-than-normal depreciation charges.
130. The flat tax
- would increase the need for individuals to hire tax accountants.
 - includes incentives that promote positive economic behavior.
 - allows too many loopholes.
 - simplifies the tax process.
131. The "incidence of a tax"
- is a benefit tax.
 - refers to those who bear the final burden of taxation.
 - is a special tax on individuals with high income.
 - is a tax paid by self-employed workers.
132. FICA includes taxes to pay for
- Social Security and Medicare.
 - Social Security and unemployment.
 - unemployment and Medicare.
 - Medicare and worker's compensation.

133. The Taxpayer Relief Act of 1997
- increased capital gains taxes.
 - eliminated tax credits for families with children.
 - changed marginal tax brackets to favor families.
 - did little to benefit people without children or capital gains.
134. The flat tax
- shifts the burden of taxes to businesses.
 - would complicate tax filing for most individuals.
 - departs from ability-to-pay principle of taxation.
 - is strictly proportional even when some income is exempted.

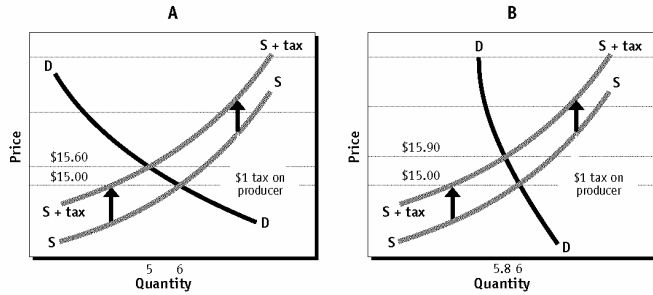
135. "We'll cut your taxes" is the most repeated campaign promise in the history of American politics. Yet somehow it is still considered visionary, worth a fight. Worth, indeed, a crusade.
- Why? It's in our blood. Historically, Americans have hated taxes, and not merely because we had to pay them. We've hated taxes because we've perceived them to be an infringement on our liberty—and the source of big, powerful, and mischievous government. This was true from the beginning. It wasn't just "taxation without representation" that bothered us so much. It was taxation. Period.
- Source: *The Washington Post*, April 12, 1999.

- This passage compares the feelings of Americans toward taxation today to those same feelings around the time of the
- Crusades.
 - Civil War.
 - American Revolution.
 - Great Depression.



- Based on the graph, the per capita government receipts for 1980 were
- 500 times greater than in 1940.
 - 5 times greater than in 1940.
 - 500 times greater than in 1970.
 - 5 times greater than in 1970.

Shifting the Incidence of a Tax



137. In panel B of the graph, how much of the cost of the tax did the producer pass on to the consumer?
- 90 cents
 - 10 cents
 - \$15.90
 - \$15.00

138. Every year at this time, Congress discovers, with a great public show of dismay and indignation, the existence of the American tax code and the agency that administers it, the Internal Revenue Service.

There are high-minded calls for abolishing the current tax system and replacing it...

Around April 15, Congress likes to pretend that the tax code just sort of appeared or [just] happened. But the Constitution puts the burden of taxes solely, exclusively and entirely on Congress' shoulders.

The tax code is the way it is because a majority of Congress wants it that way.

Source: "How the Tax Code Got This Way," *Denver Rocky Mountain News*, April 16, 1999.

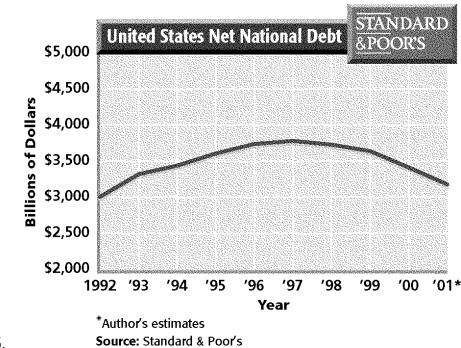
- Based on this passage, members of Congress probably like to pretend that the tax code just "sort of appeared" because they
- are not happy with the code.
 - don't want voters to associate them with taxes.
 - feel the Internal Revenue Service does not administer taxes fairly.
 - cannot fix the unfairness in the tax code.
139. All levels of government combined consume about
- one-tenth of the nation's output.
 - one-third of the nation's output.
 - one-half of the nation's output.
 - three-fourths of the nation's output.
140. An example of mandatory spending is financing for
- interest payments on the federal debt.
 - national defense.
 - welfare programs.
 - elementary and secondary education programs.
141. The largest category of spending for most local governments is
- elementary and secondary education.
 - police protection.

- hospitals.
 - public welfare.
142. The United States government accumulated huge deficits during the 1980s due to
- a shift in the incidence of taxes to corporations.
 - environmental cleanup.
 - a doubling of spending on national defense.
 - huge, annual increases in welfare.
143. The sequence for the approval of the federal budget is
- president to Congress to Supreme Court.
 - president to Congress back to president.
 - House Appropriations Committee to Congress to president.
 - Congress to House Speaker to president.
144. Legislation intended to establish a balanced budget was the
- Budget Enforcement Act.
 - Gramm-Rudman-Hollings Bill.
 - Omnibus Budget Reconciliation Act.
 - Economic Recovery Tax Act.
- 145.

Back in 1940, when the Social Security program was just getting under way, average life expectancy was less than 64 years. The program's designers expected that most people would contribute to the program most of their lives and die before collecting a dime in retirement benefits... Today, average life expectancy in the United States is more than 75 years... As life expectancy has soared, birthrates have declined, leaving fewer and fewer workers to support the ballooning number of retirees. In 1950, [the system] was solidly supported with 16 workers paying for each retiree; today, there are just over three workers per beneficiary.

Source: Carrie Lips, Cato Institute's Project on Social Security Privatization.

- According to the passage, the increase in average life expectancy has created a problem for the Social Security system because
- people are remaining in the workforce longer.
 - more people are collecting retirement benefits.
 - younger workers are having a harder time finding jobs.
 - people are retiring at a younger age.



- 146.

- Based on the graph, after 1997, the government was
- running a budget deficit.
 - running a budget surplus.
 - balancing the budget.
 - borrowing more to pay its bills.

- 147.

The federal budget deficit is gone, transformed by a strong economy into a string of projected surpluses that should grow larger for years to come....

Eliminating the deficit is hardly the end of the government's financial troubles, however.... [T]he national debt was built up over decades of deficit spending—the federal government has not run steady surpluses since the 1920s—and it remains an economic millstone of considerable proportion.

Source: *The New York Times*, January 31, 1999.



According to this passage, at the time it was written (1999), the national debt was

- eliminated.
- falling.
- rising.
- staying about the same.

148.

The new tax cut, coupled with falling corporate tax revenue, has gobbled up three-quarters of the projected federal budget surplus through 2004, a revised Congressional Budget Office estimate reveals.

As the surplus shrinks, budget experts from both parties now believe Congress and President Bush will have to tap funds reserved for Medicare to pay for the spending increases they want for the fiscal year that begins in October.

Only last January, budget forecasters had expected the surplus...to total a record \$489 billion from 2001 through 2004. That number has shrunk to \$127 billion.

Source: "Tax Cut Helps Drain Surplus," *Chicago Sun-Times*, June 27, 2001.



According to the passage, because of reduced revenue, the government may have to

- increase the corporate tax rate.
- reduce the size of the tax cut.
- reduce the spending increases they had planned for the year.
- reduce spending on health insurance for senior citizens.

Government Employment in the United States	
Employer	Number of Employees
Federal Government (excluding armed forces)	3,047,000
State Governments	4,595,000
Local Governments	
Counties	2,253,000
Municipalities	2,665,000
School districts	5,134,000
Townships	424,000
Special districts	627,000
Local Governments Total	11,103,000
All Governments Total	18,745,000

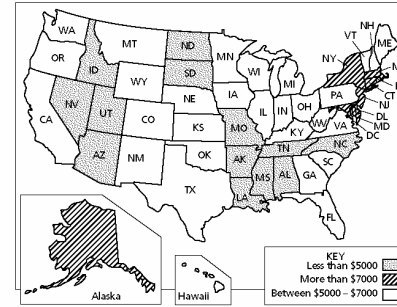


According to the table, most government employees work for

- the federal government.
- a state government.
- a local government.
- a school district.

149.

State Spending per Elementary and Secondary Student



In the late 1990s, the average expenditure per elementary and secondary student was \$5,885. Based on the map, which of the following states spent less than the average per student?

- Maine
- New Mexico
- North Carolina
- Massachusetts

150.

**Midterm Review
Answer Key**

Economics Honors (Chapters 1-10)

TRUE/FALSE

1. ANS: T	DIF: Average	REF: Page 15
2. ANS: T	DIF: Easy	REF: Page 7
3. ANS: T	DIF: Average	REF: Page 12
4. ANS: F	DIF: Average	REF: Page 14
5. ANS: F	DIF: Average	REF: Page 22
6. ANS: F	DIF: Average	REF: Page 47
7. ANS: T	DIF: Average	REF: Page 63
8. ANS: F	DIF: Average	REF: Page 65
9. ANS: T	DIF: Easy	REF: Page 75
10. ANS: T	DIF: Average	REF: Page 77
11. ANS: F	DIF: Average	REF: Pages 57-58
12. ANS: T	DIF: Average	REF: Page 61
13. ANS: F	DIF: Average	REF: Page 64
14. ANS: T	DIF: Average	REF: Page 77
15. ANS: F	DIF: Average	REF: Page 79
16. ANS: T	DIF: Easy	REF: Pages 116-117
17. ANS: F	DIF: Average	REF: Page 118
18. ANS: T	DIF: Average	REF: Page 122
19. ANS: T	DIF: Challenging	REF: Page 123
20. ANS: T	DIF: Average	REF: Page 125
21. ANS: T	DIF: Average	REF: Page 130
22. ANS: T	DIF: Average	REF: Pages 127-128
23. ANS: F	DIF: Average	REF: Page 129
24. ANS: T	DIF: Easy	REF: Pages 127-129
25. ANS: F	DIF: Average	REF: Page 143
26. ANS: T	DIF: Easy	REF: Page 143
27. ANS: F	DIF: Challenging	REF: Page 144
28. ANS: F	DIF: Average	REF: Page 181
29. ANS: T	DIF: Average	REF: Page 181
30. ANS: F	DIF: Easy	REF: Page 179
31. ANS: T	DIF: Challenging	REF: Page 181
32. ANS: F	DIF: Average	REF: Page 179
33. ANS: T	DIF: Easy	REF: Page 195
34. ANS: T	DIF: Average	REF: Page 196
35. ANS: F	DIF: Average	REF: Page 201
36. ANS: F	DIF: Average	REF: Page 195
37. ANS: T	DIF: Average	REF: Page 195
38. ANS: F	DIF: Challenging	REF: Page 202
39. ANS: T	DIF: Average	REF: Page 207
40. ANS: T	DIF: Challenging	REF: Page 225
41. ANS: T	DIF: Challenging	REF: Page 241
42. ANS: T	DIF: Easy	REF: Page 258
43. ANS: T	DIF: Average	REF: Page 258
44. ANS: T	DIF: Average	REF: Page 257
45. ANS: F	DIF: Challenging	REF: Page 260
46. ANS: T	DIF: Average	REF: Page 264

47. ANS: T	DIF: Average	REF: Page 258
48. ANS: F	DIF: Average	REF: Page 264
49. ANS: F	DIF: Average	REF: Page 275
50. ANS: T	DIF: Challenging	REF: Pages 276-277

MULTIPLE CHOICE

51. ANS: A	DIF: Average	REF: Page 13	
52. ANS: B	DIF: Average	REF: Pages 12-13	
53. ANS: C	DIF: Average	REF: Pages 19-20	
54. ANS: D	DIF: Average	REF: Page 9	
55. ANS: A	DIF: Average	REF: Page 21	
56. ANS: B	DIF: Average	REF: Page 22	
57. ANS: C	DIF: Average	REF: Page 7	
58. ANS: D	DIF: Average	REF: Page 17	
59. ANS: D	DIF: Average	REF: Page 23	MSC: Document Based Question
60. ANS: B	DIF: Easy	REF: Page 25	MSC: Document Based Question
61. ANS: D	DIF: Average	REF: Page 23	MSC: Document Based Question
62. ANS: C	DIF: Average	REF: Page 13	MSC: Document Based Question
63. ANS: B	DIF: Easy	REF: Pages 9-10	MSC: Document Based Question
64. ANS: D	DIF: Average	REF: Pages 41-43	
65. ANS: D	DIF: Easy	REF: Page 46	
66. ANS: A	DIF: Easy	REF: Page 51	
67. ANS: B	DIF: Challenging	REF: Pages 35-36	
68. ANS: A	DIF: Average	REF: Pages 36-38	
69. ANS: B	DIF: Average	REF: Page 47	
70. ANS: C	DIF: Average	REF: Page 51	
71. ANS: B	DIF: Easy	REF: Page 67	MSC: Document Based Question
72. ANS: B	DIF: Average	REF: Page 62	
73. ANS: B	DIF: Average	REF: Page 65	
74. ANS: C	DIF: Challenging	REF: Page 71	
75. ANS: C	DIF: Easy	REF: Page 75	
76. ANS: A	DIF: Average	REF: Page 78	
77. ANS: C	DIF: Average	REF: Page 60	
78. ANS: C	DIF: Average	REF: Page 64	
79. ANS: C	DIF: Easy	REF: Page 71	MSC: Document Based Question
80. ANS: A	DIF: Average	REF: Page 91	
81. ANS: B	DIF: Average	REF: Page 102	
82. ANS: C	DIF: Challenging	REF: Page 101	
83. ANS: A	DIF: Easy	REF: Page 98	
84. ANS: D	DIF: Average	REF: Page 98	
85. ANS: B	DIF: Average	REF: Page 102	
86. ANS: C	DIF: Average	REF: Page 103	
87. ANS: B	DIF: Average	REF: Page 91	MSC: Document Based Question
88. ANS: B	DIF: Challenging	REF: Page 99	MSC: Document Based Question
89. ANS: B	DIF: Average	REF: Page 96	MSC: Document Based Question
90. ANS: B	DIF: Average	REF: Pages 95-96	MSC: Document Based Question
91. ANS: D	DIF: Average	REF: Page 101	MSC: Document Based Question
92. ANS: D	DIF: Average	REF: Page 92	MSC: Document Based Question
93. ANS: C	DIF: Average	REF: Pages 116-118	
94. ANS: D	DIF: Average	REF: Page 117	

95. ANS: B	DIF: Challenging	REF: Page 125		146. ANS: B	DIF: Average	REF: Page 273	MSC: Document Based Question
96. ANS: C	DIF: Average	REF: Page 128		147. ANS: B	DIF: Average	REF: Page 273	MSC: Document Based Question
97. ANS: D	DIF: Challenging	REF: Page 131		148. ANS: D	DIF: Easy	REF: Page 273	MSC: Document Based Question
98. ANS: B	DIF: Average	REF: Page 115		149. ANS: C	DIF: Easy	REF: Page 268	MSC: Document Based Question
99. ANS: B	DIF: Easy	REF: Page 129		150. ANS: C	DIF: Easy	REF: Page 268	MSC: Document Based Question
100. ANS: C	DIF: Average	REF: Pages 114 -115					
	MSC: Document Based Question						
101. ANS: D	DIF: Challenging	REF: Page 117	MSC: Document Based Question				
102. ANS: D	DIF: Average	REF: Page 144					
103. ANS: B	DIF: Average	REF: Page 152					
104. ANS: C	DIF: Average	REF: Page 139					
105. ANS: B	DIF: Easy	REF: Page 148					
106. ANS: C	DIF: Challenging	REF: Page 164					
107. ANS: D	DIF: Easy	REF: Page 170					
108. ANS: C	DIF: Average	REF: Page 174					
109. ANS: D	DIF: Average	REF: Pages 175 -176					
110. ANS: C	DIF: Average	REF: Page 166					
111. ANS: D	DIF: Easy	REF: Page 168					
112. ANS: D	DIF: Average	REF: Page 174					
113. ANS: C	DIF: Average	REF: Page 179					
114. ANS: B	DIF: Average	REF: Page 182	MSC: Document Based Question				
115. ANS: B	DIF: Average	REF: Page 165	MSC: Document Based Question				
116. ANS: D	DIF: Challenging	REF: Page 196					
117. ANS: B	DIF: Average	REF: Page 196					
118. ANS: B	DIF: Average	REF: Page 196					
119. ANS: D	DIF: Average	REF: Page 206					
120. ANS: B	DIF: Average	REF: Page 214					
121. ANS: B	DIF: Average	REF: Page 201	MSC: Document Based Question				
122. ANS: C	DIF: Average	REF: Page 202	MSC: Document Based Question				
123. ANS: B	DIF: Average	REF: Page 207	MSC: Document Based Question				
124. ANS: C	DIF: Average	REF: Page 207	MSC: Document Based Question				
125. ANS: B	DIF: Average	REF: Page 207	MSC: Document Based Question				
126. ANS: D	DIF: Challenging	REF: Page 217	MSC: Document Based Question				
127. ANS: A	DIF: Challenging	REF: Page 225					
128. ANS: A	DIF: Average	REF: Page 241					
129. ANS: B	DIF: Challenging	REF: Page 245					
130. ANS: D	DIF: Average	REF: Page 249					
131. ANS: B	DIF: Average	REF: Page 225					
132. ANS: A	DIF: Average	REF: Page 233					
133. ANS: D	DIF: Challenging	REF: Page 246					
134. ANS: C	DIF: Challenging	REF: Page 249					
135. ANS: C	DIF: Easy	REF: Page 231	MSC: Document Based Question				
136. ANS: B	DIF: Average	REF: Page 224	MSC: Document Based Question				
137. ANS: A	DIF: Average	REF: Page 224	MSC: Document Based Question				
138. ANS: B	DIF: Average	REF: Page 250	MSC: Document Based Question				
139. ANS: B	DIF: Challenging	REF: Page 257					
140. ANS: A	DIF: Average	REF: Page 260					
141. ANS: A	DIF: Easy	REF: Page 268					
142. ANS: C	DIF: Easy	REF: Page 264					
143. ANS: B	DIF: Average	REF: Page 261					
144. ANS: B	DIF: Average	REF: Page 277					
145. ANS: B	DIF: Easy	REF: Page 262	MSC: Document Based Question				