

## **Chapter 2 Practice Test**

*Indicate whether the statement is true or false.*

- \_\_\_ 1. Socialist economies include aspects of both command and free-enterprise systems.
  - a. True
  - b. False
  
- \_\_\_ 2. Mixed economies work to the degree that they embrace democracy.
  - a. True
  - b. False
  
- \_\_\_ 3. There is always some degree of government involvement in a mixed economy.
  - a. True
  - b. False
  
- \_\_\_ 4. Mixed economies can evolve when societies with different kinds of economies interact.
  - a. True
  - b. False
  
- \_\_\_ 5. Communist countries like North Korea and Cuba are examples of mixed economies.
  - a. True
  - b. False

*Indicate the answer choice that best completes the statement or answers the question.*

- \_\_\_ 6. Which nation today is the **most** striking example of successful privatization?
  - a. Cuba
  - b. China
  - c. North Korea
  - d. Soviet Union
  
- \_\_\_ 7. Which of these is a major advantage of a market economy?
  - a. It can change direction rapidly as needed when markets change.
  - b. There is a high degree of individual freedom.
  - c. There is efficient government control of production and distribution.
  - d. People are likely to be offered goods and services they cannot afford.
  
- \_\_\_ 8. Which of the statements **best** describes the communist ideal?
  - a. a classless society in which everyone works for the common good
  - b. a classless society in which workers are motivated by financial incentives
  - c. a society in which the working class is motivated by incentives to produce goods
  - d. a society in which a small ruling class administers resources for the common good

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- \_\_\_ 9. Which of these is an accurate statement about mixed economies today?
- a. There are more mixed economies in the world than any other kind.
  - b. Very few economies today can be accurately described as “mixed.”
  - c. Mixed economies exist mostly in nations with communist governments.
  - d. Most nations that once had a mixed economy have evolved into command economies.
- \_\_\_ 10. How are economic transactions shaped in a traditional economy?
- a. Each community decides as a group for whom the group will produce.
  - b. Elders and ancestors make certain that things are done in specific ways.
  - c. The three basic questions of production do not arise in this type of economy.
  - d. Individuals form networks within which they buy, sell and trade as they choose.
- \_\_\_ 11. Which of these statements describes a disadvantage of a traditional economy?
- a. Everyone knows his or her role.
  - b. New ways of doing things are encouraged.
  - c. New ways of doing things are discouraged.
  - d. Difficult economic decisions are made by the state.
- \_\_\_ 12. Which country is an example of a capitalist country?
- a. Cuba
  - b. Singapore
  - c. Venezuela
  - d. North Korea
- \_\_\_ 13. How is the principle of “There’s No Such Thing As A Free Lunch” illustrated in a socialist economy?
- a. Socialist economies tend to collapse when they become too large.
  - b. The marketplaces in a socialist economy are free for anyone to enter.
  - c. Socialist policies offer advantages to the wealthy at the expense of those less well-off.
  - d. Socialist economies tend to offer extensive government services but have high tax rates.
- \_\_\_ 14. What kind of economy offers uniformity in wages regardless of individual productivity?
- a. all economies
  - b. traditional economies
  - c. command and socialist economies
  - d. market and free-enterprise economies

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- \_\_\_ 15. What is the main difference between Japanese capitalism and capitalism in the United States?
- a. Japan's government regulates private firms to keep competition at a minimum.
  - b. Japan does not permit the sale of corporate stock.
  - c. Japan has a more dedicated and loyal workforce.
  - d. Japan's government is highly involved in day-to-day business management.
- \_\_\_ 16. Which of the following is a disadvantage of a market economy?
- a. It sustains a high degree of uncertainty.
  - b. It restricts to personal freedom.
  - c. It discourages creativity and new ideas for doing things.
  - d. It does not allocate resources as efficiently as other types of economies.
- \_\_\_ 17. In a transitioning economy, why would privatization tend to raise a nation's overall standard of living?
- a. People are less likely to assume the risks of entrepreneurship.
  - b. It places the means of production in the hands of the government.
  - c. People are more likely to be productive when it benefits them personally.
  - d. It places a nation's ruling class in a position to administer the economy efficiently.
- \_\_\_ 18. Which of the following is a feature of Japanese capitalism that would be illegal in the United States?
- a. perestroika
  - b. keiretsu
  - c. privatization of business sectors
  - d. collectivization of industry and agriculture
- \_\_\_ 19. Which of these countries has an economy **most** similar to that of the former Soviet Union?
- a. Sweden
  - b. Norway
  - c. South Korea
  - d. North Korea
- \_\_\_ 20. Which of these statements apply to present-day Sweden?
- a. Its taxation and unemployment rates are relatively low.
  - b. Its unemployment rate and GDP per capita are relatively low.
  - c. Its unemployment rate and GDP per capita are relatively high.
  - d. Its GDP per capita and welfare payout rates are both relatively low.

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- \_\_\_ 21. Which statement describes a disadvantage of a command economy?
- a. Items tend to be produced solely for the sake of profit.
  - b. It cannot “change direction” easily if the need arises to do so.
  - c. It does little to help the less advantaged obtain the goods and services they need.
  - d. Nothing stops the government from producing things that people don’t need or want.
- \_\_\_ 22. In which of these systems is the government **most** likely to provide people with goods and services they could not otherwise afford?
- a. a market economy
  - b. a socialist economy
  - c. a traditional economy
  - d. a free-enterprise economy
- \_\_\_ 23. Which of these helps explain why mixed economies develop?
- a. People become unhappy with aspects of their current economy.
  - b. People are seldom exposed to the ideas and technologies of other cultures.
  - c. Government control of an economy tends to make a nation more prosperous.
  - d. Government control of an economy leads to a diversity of economic approaches.
- \_\_\_ 24. Which of the following states an advantage of a traditional economy?
- a. Property rights are based on tradition.
  - b. Creativity and original thought are rewarded.
  - c. Everyone knows exactly what their function is.
  - d. There's no bureaucracy to interfere with organizing the economy.
- \_\_\_ 25. Which of the following is a feature of a command economy that distinguishes it from a socialist economy?
- a. All production is managed by the government.
  - b. All economic decisions are made by the free market.
  - c. All economic decisions are based on custom and habit.
  - d. Some degree of private ownership and activity is allowed.
- \_\_\_ 26. What conclusion can be drawn about capitalism from South Korea’s economic growth in the late 20<sup>th</sup> century?
- a. Capitalism can restore a damaged economy.
  - b. There is no real difference between socialism and capitalism.
  - c. Socialism can revive an economy over a prolonged period of time.
  - d. A transition from capitalism to a command economy can involve struggle.

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- \_\_\_ 27. Which of the following represents a place where the transition to capitalism is nearly complete but far from fully effective?
- a. North Korea
  - b. South Korea
  - c. Eastern Europe
  - d. Western Europe
- \_\_\_ 28. Which of the following could raise the cost of production in a command economy?
- a. a newly discovered source of raw materials
  - b. a free media
  - c. a large and inefficient bureaucracy
  - d. a strict quota system
- \_\_\_ 29. Which of the following is the best description of the economic system in Cuba?
- a. It is a command economy with a strong central authority.
  - b. It is a command economy in transition to a mixed economic system.
  - c. It is a traditional economy with a strong central authority.
  - d. It is a mixed economy in transition to a command economy.
- \_\_\_ 30. Which of the following describes a move **away** from capitalism?
- a. Sweden's 1980s cutback on social programs
  - b. the transformation of the former Soviet Union to today's Russia
  - c. the nationalization of major industries in Hugo Chavez's Venezuela
  - d. economic reforms following the Great Depression in the United States
- \_\_\_ 31. Which of the following lists economic systems in order from **least** to **most** flexible?
- a. command, socialism, free market
  - b. free market, socialism, command
  - c. socialism, command, free market
  - d. free market, command, socialism
- \_\_\_ 32. Which of the following is a cause of struggle in the process of privatization?
- a. People must adjust to government control of their economy.
  - b. People must decide how best to get along without a free market.
  - c. People must adjust to the costs and risks that are part of capitalism.
  - d. People must become used to no longer owning their own homes and businesses.

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- \_\_\_ 33. Which of the following explains why products made under a command economy are more likely to be low quality?
- a. The workers who make them have little incentive to make them well.
  - b. The workers who make them are not given quality-control guidelines.
  - c. The workers who make them are left to manage production facilities on their own.
  - d. The workers who make them are forced by tradition to use old-fashioned methods.
- \_\_\_ 34. Which of these statements is descriptive of a market economy?
- a. Most media is state-owned and operated.
  - b. The government determines what is produced and by whom.
  - c. Major economic decisions are made for individuals, not by them.
  - d. Major economic decisions are made by individuals, not for them.
- \_\_\_ 35. Why did Sweden move from socialism to a more mixed economy in the 1980s?
- a. Its citizens objected to the nation's high rate of taxation.
  - b. Its citizens demanded that elements of communism be adopted.
  - c. Its government decided that welfare and health benefits were no longer needed.
  - d. Its government decided that opening the country's petroleum industry would boost the economy.
- \_\_\_ 36. Which of these economic systems have the **least** in common?
- a. market economy and capitalism
  - b. command economy and socialism
  - c. command economy and capitalism
  - d. free-enterprise economy and market economy
- \_\_\_ 37. Which type of economy is most prevalent in the world today?
- a. mixed
  - b. market
  - c. command
  - d. traditional
- \_\_\_ 38. Which statement describes why the people in a nation with a command economy might resist a shift to a free market economy?
- a. People who hold political power are threatened by fundamental changes.
  - b. Workers are reluctant to give up their participation in a classless society.
  - c. Workers are reluctant to accept complete government control of their economy.
  - d. Factory and business owners are reluctant to place their capital under worker authority.

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- \_\_\_ 39. Who did Karl Marx believe would be the beneficiaries of socialism?
- a. property owners
  - b. the government
  - c. workers
  - d. capitalists
- \_\_\_ 40. Which of these is the most striking example of the costs and risks of pure capitalism?
- a. the Gosplan
  - b. the Five-Year-Plan
  - c. the Great Depression
  - d. the Great Leap Forward

*Enter the appropriate word(s) to complete the statement.*

41. In a \_\_\_\_\_ economy, production questions are answered by the government.

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42. The way the 19<sup>th</sup>-century Inuit divided the “spoils of the hunt” demonstrates a \_\_\_\_\_ economy.

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43. In a \_\_\_\_\_ economy, questions of what, how, and for whom to produce are answered by the buying and selling activity of individuals.

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44. \_\_\_\_\_ is a system in which government owns and controls some, but not all, productive resources.

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45. Societies embrace various economic systems to deal with the fundamental problem of \_\_\_\_\_.

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*Match each item with the correct statement below.*

- a. black market
- b. capitalism
- c. command economy
- d. economic system
- e. Five-Year Plan
- f. Great Leap Forward
- g. market economy
- h. nationalization
- i. privatization
- j. traditional economy

- \_\_\_ 46. \_\_\_ system in which economic activity is the result of ritual, habit, or custom
- \_\_\_ 47. \_\_\_ efficient way of allocating resources and producing and distributing goods and services in a society
- \_\_\_ 48. \_\_\_ economic system in which a central authority makes the major economic decisions
- \_\_\_ 49. \_\_\_ system in which economic activity is driven by supply, demand, and the price system
- \_\_\_ 50. \_\_\_ economic system in which private citizens own and use resources to make a profit
- \_\_\_ 51. \_\_\_ conversion of state-owned property to individual ownership
- \_\_\_ 52. \_\_\_ comprehensive, centralized economic strategy for achieving rapid industrialization, used by the Soviet Union and China
- \_\_\_ 53. \_\_\_ Chinese strategy used to quickly revolutionize industrial agriculture and production
- \_\_\_ 54. \_\_\_ economic shift from private ownership to government ownership
- \_\_\_ 55. \_\_\_ economic sector in which goods and services are sold illegally



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*Match each item with the correct statement below.*

- a. capital-intensive
- b. collectivization
- c. communism
- d. European Union (EU)
- e. Great Depression
- f. market
- g. mixed economy
- h. population density
- i. socialism
- j. voucher

- \_\_\_ 56. \_\_\_system in which government owns and controls some factors of production
- \_\_\_ 57. \_\_\_mechanism through which buyers and sellers of an economic product or service come together
- \_\_\_ 58. \_\_\_system that has some combination of traditional, command, and market economies
- \_\_\_ 59. \_\_\_worst period of economic decline in U.S. history, lasting from approximately 1929 to 1939
- \_\_\_ 60. \_\_\_economic and political system in which factors of production are owned and directed by the state
- \_\_\_ 61. \_\_\_certificate used to purchase government-owned property during privatization
- \_\_\_ 62. \_\_\_forced common ownership of factors of production
- \_\_\_ 63. \_\_\_requiring large amounts of investment in equipment in relation to labor
- \_\_\_ 64. \_\_\_number of people per square mile of land area
- \_\_\_ 65. \_\_\_successor of the European Coal and Steel Community, established in 1993

*Write the letter of each term before the phrase that describes it.*

- a. GDP per capita
  - b. Gosplan
  - c. *keiretsu*
  - d. perestroika
  - e. Solidarity
- \_\_\_ 66. \_\_\_gross domestic product on a per person basis
  - \_\_\_ 67. \_\_\_central planning authority in the former Soviet Union
  - \_\_\_ 68. \_\_\_fundamental restructuring of the Soviet economy, introduced by President Mikhail Gorbachev
  - \_\_\_ 69. \_\_\_independent Polish labor union founded in 1980 by Lech Walesa
  - \_\_\_ 70. \_\_\_independently owned group of Japanese business firms united to regulate competition