# Economics Ch. 2 & 3 Review

Use your textbook and notes to answer these questions then STUDY this review for test success.

1. Define ECONOMIC SYSTEM:

2. Define UTILITY:

3. Between 1867 and 1894, Karl Marx published a 3-volume study called

4. In what type of ECONOMIC SYSTEM does the government owns **some, but not all, factors of production**?

5. In a VOLUNTARY EXCHANGE, who benefits, the buyer or the seller?

6. Who holds the real power in the market place of a market economy,

* + the producer,
  + the seller,
  + the government, or
  + the consumer?

7. Comparing the following nations, which government plays the most **limited** role in the economy?

* North Korea
* Cuba
* Sweden
* France.
* the United States

8. What happens when a nation’s economy **privatizes?**

9. What happens when a nation’s economy **nationalizes**?

10. Who owns the **resources** in a **communist** economy?

11. In CAPITALISM, investment is driven by which party or parties?

* government controlled cooperatives
* governments seeking profits
* private parties following government policies
* private parties seeking profits

12. Define PROFIT MOTIVE –

13. Explain in one sentence, the strategy used by Individual booksellers that have competed well against chain booksellers and Internet giants.

14. The money left after production costs are subtracted from revenue is called what?

15. Public goods are funded by what?

16. A person who does not pay for a service but benefits from it is called a (n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

17. A side effect of a transaction that affects someone other than the buyer or producer is called a(n)

18. A **public transfer payment** happens when the government transfers income from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to recipients who do not provide anything in return.

19. A public \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_ are Government programs that protect people from economic hardship.

20. Adam Smith’s “invisible hand” works only in what kind of economy?

21. People are most likely to **agree** on economic goals and roles in what kind of economy?

* command economy,
* market economy,
* planned economy, or
* traditional economy

22. According to the philosopher, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, all of human history has been a struggle between the upper class owners of the factors of production and the lower class workers.

23. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ rights are important in a market economy because they are vital to any sale or exchange.

24. For a market economy to function, you MUST have which of the following?

* consumer sovereignty
* high taxes
* government-controlled factories
* national health insurance

25. How would you best describe the economy of the United States?

* laissez faire capitalism,
* laissez faire socialism,
* a modified command economy, or
* a modified capitalist economy.

Part 2: Interpreting Charts and Graphs

Using the exhibit, choose the letter of the best answer.

**3% Total Federal Spending, 2006**

**2%**

**3%**

**8%**

**20%**

**20%**

**13%**

**Social Security: 20%**

**Income Security: 13% Medicare: 13% Health: 10%**

**Education, Training, Employment, and Social Services: 4% Transportation: 3%**

**Natural Resources and Environment: 1% International Affairs: 1%**

**National Defense: 20% Net Interest: 8%**

**1%**

**3% 13%**

**Veterans Benefits and Services: 3% Administration of Justice: 3%**

**1% 4%**

**10%**

**Other: 2%**

**Source: Office of Management and Budget**

26. What percent of federal spending is allocated for

Medicare?

National defense?

Transportation?

Social Security?

27. Does the U.S. spend more money on its elderly through programs like Medicare and Social Security than it spends on other countries through the International Affairs budget item?

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| --- | --- | --- |
| **Contrasting Communism and Capitalism** | | |
|  | Communism | Capitalism |
| Property rights | Resources owned by the government | Resources owned by individuals or businesses |
| Allocation of goods and resources | Determined by centralized planning | Determined by market forces |
| Employment | Workers employed by government or government-owned cooperatives | Workers employed by private businesses or government, or are self-employed |
| Investment | Undertaken by government in accordance with the objectives of central planners | Undertaken by private parties seeking profits and higher future incomes |
| Income distribution | Determined by central planners in the government | Determined by market forces  that reward productivity and the ownership of economic resources |

28. With CAPITALISM, what determines the allocation of goods and resources?

29. How does this compare to COMMUNISM? What determines the allocation of goods and resources in a Communist economy?

30. Who hires the workers in a Capitalist economy?

In a Communist economy?

1. The way a society uses scarce resources to satisfy its people’s unlimited wants is called an ECONOMIC SYSTEM.

2. UTILITY is the satisfaction (some would say usefulness) you get by consuming (using) something.

**3. The Communist Manifesto**

4. socialist system

5. both the buyer and seller benefit in a voluntary exchange

6. the consumer

7. the United States

8. To **privatize** is to move from government ownership to private ownership

9. To **nationalize** is to move from private ownership to public ownership

10. Who owns the **resources** in a **communist** economy? The government owns the resources.

11. In CAPITALISM, investment is driven by private parties seeking profits (or their own self-interest).

12. The incentive to improve material well-being by seeking to gain from economic activities is called Profit motive.

13. Successful small booksellers have focused on **local needs**.

14. profit

15. taxes collected by the government

16. free rider

17. externality

18. taxpayers

19. safety net

20. market economy

21. traditional

22. Karl Marx

23. Private property right

24. consumer sovereignty

25. modified capitalist economy

26.