MAKING ECONOMICS COME ALIVE

WITH
John Stossel

TEST BANK QUESTIONS to Accompany Video Clips

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A Spanish version of this Test Bank, an Instructor’s Guide (English and Spanish versions), and a PowerPoint slide presentation (English version only) are also contained in accompanying files on the DVD.
Part 1: Economics of Property Rights

1) Private ownership of property
   a. provides owners with an incentive to maintain and conserve resources.
   b. creates an incentive for owners to ignore the wishes of others.
   c. causes the Tragedy of the Commons to occur.
   d. leads to the overuse of resources.

2) When private ownership rights are clearly defined and well enforced, owners of resources
   a. have no incentive to consider the desires of others or the potential future value of the resource.
   b. have an incentive to develop and expand resources that are expected to be valuable in the future.
   c. have an incentive to consume the resource as quickly as possible before others seize it.
   d. have little incentive to take care of the resource or conserve it for the future.

3) Why is private ownership an important source of economic prosperity?
   a. It eliminates the opportunity cost of using a resource.
   b. It provides owners with a strong incentive to develop and use assets in ways that others value highly.
   c. It allows owners to do anything they want with their property.
   d. It makes it possible for owners to ignore the desires of others without having to bear the cost.

4) Secure property rights promote economic progress because they
   a. encourage individuals to produce efficiently and undertake productive activities.
   b. weaken the incentive to take actions that increase the value of resources.
   c. transfer the costs of a decline in property value to the government.
   d. discourage property owners from engaging in activities that provide value to others.

5) Which of the following will most likely occur under a system of clearly defined and enforced private property rights?
   a. Resource owners will fail to conserve vital resources, even if they expect their scarcity to increase.
   b. Resource owners will ignore the wishes of others, including others who would like to use the resource that is privately owned.
   c. Resource owners will fail to consider the wishes of potential future buyers when they decide how to employ privately owned resources.
   d. Resource owners will gain by discovering and employing their resources in ways that are highly valued by others.
6) Which of the following would a private owner be prohibited from doing?
   a. selling the property to another person
   b. erecting a fence designed to keep others from using the property
   c. painting the property a color that others do not like
   d. using the property in a manner that invades or infringes on the property of another

7) Private ownership allows people to decide how they will use their property, as long as
   a. their property is put to productive use.
   b. they do not invade or damage the property of others.
   c. they get permission from government officials who can be counted on to direct the use of property into activities that promote the general welfare.
   d. they do not derive personal gain from the use of their property.
Part 2: Regulation and Unintended Consequences

1) Which of the following requires a person to obtain a license before they can work as a florist?
   a. Texas
   b. Florida
   c. Louisiana
   d. All 50 states require a license before one is permitted to work as a florist.

2) Consumers will tend to patronize those businesses that
   a. charge the lowest prices, regardless of quality.
   b. provide them with the most value for their expenditure.
   c. are licensed by the state.
   d. are licensed by the federal government.

3) When a business or occupation is licensed,
   a. consumers can be assured that the quality of the product or service will be high.
   b. the regulators issuing the licenses can be counted on to serve the interests of consumers.
   c. the licensing will often be used to limit entry and the competitiveness of the market.
   d. political factors will not influence the standards and procedures for receipt of a license.

4) In economics, unintended secondary effects refer to the
   a. value of the goods that an individual must give up as the result of choosing an alternative.
   b. indirect effects that often result from an action or policy change.
   c. direct and highly visible intended consequences of an action
   d. profit derived by producers who are subsidized by the government.

5) If policy-makers want gasoline to be produced from corn-based ethanol, why is it necessary to subsidize it?
   a. because it is more costly to produce gasoline from corn-based ethanol than from petroleum
   b. because automobiles run better on gasoline produced from ethanol
   c. because food prices are lower when gasoline is produced from corn-based ethanol
   d. because gasoline would not be produced if it was not subsidized
6) Which of the following was an unintended consequence of the subsidies and mandated expansion in output of gasoline produced from corn-based ethanol?
   a. higher food and grain prices
   b. a reduction in the demand for battery powered automobiles because of the low prices of gasoline produced from ethanol
   c. sharply lower prices for feed grains because of a reduction in the demand for corn
   d. a substantial reduction in crude oil prices because of the low-cost production of gasoline from ethanol

7) Which of the following is an unintended secondary effect of increases in the minimum wage?
   a. an increase in the wages of low-skill workers
   b. an improvement in the training opportunities available to low-skill workers
   c. an increase in the unemployment rate of teen-agers
   d. an increase in the earnings of low-skill workers with full-time jobs that they are able to retain

8) Which of the following was an unintended consequence of regulations that made mortgage credit for the purchase of housing more readily available to persons with low and moderate incomes during the decade following 1995?
   a. an increase in loans to borrowers with sub-prime credit and later an increase in the default rate on these loans
   b. a reduction in the demand for housing and weak housing prices during 2000-2005
   c. a reduction in the default rate on mortgage loans because low and moderate income households take more pride in home ownership
   d. a downturn in housing construction because easier credit is bad for this industry

9) Which of the following were helped by the large subsidies the federal government provided for the production of ethanol?
   a. taxpayers
   b. poor people in less developed countries with largely grain based diets
   c. beef producers
   d. grain farmers and ethanol refiners
Part 3: Public Choice Economics and Crony Capitalism

1) When subsidies, tax credits, and government favoritism are increasingly used to allocate goods and services,
   a. lobbying activities will increase.
   b. contributions for political campaigns will increase.
   c. political corruption will become more widespread.
   d. All of the above are true.

2) Which of the following is most indicative of crony capitalism?
   a. low entry barriers and highly competitive markets
   b. government subsidies and favoritism of businesses that provide support for important political officials
   c. low-cost production of goods that are highly valued by consumers
   d. use of lots of capital to produce goods and services

3) Special-interest programs are highly attractive to vote-seeking politicians because
   a. these programs are highly efficient and therefore they tend to enhance the general welfare of the populace.
   b. members of special-interest groups favoring these programs are less likely to vote than the taxpayers who pay for them.
   c. low-income recipients are the primary beneficiaries of the programs.
   d. members of special-interest groups favoring these programs feel strongly about them while most other voters will be uninformed on the issue.

4) Politicians have incentive to support special-interest groups at the expense of unorganized, widely dispersed groups (for example, taxpayers or consumers)
   a. only when the benefits that accrue to the special-interest group exceed the costs imposed on others.
   b. when non-special-interest voters are unconcerned or uninformed, and campaign funds are readily available from the special-interest group.
   c. only if the government action is efficient.
   d. only if the government action reduces the size of the budget deficit.

5) Which of the following provides the strongest evidence that consumers value a good more than the resources required for its production?
   a. Production of the good is funded by a political majority.
   b. The good is purchased by consumers willing to pay a price sufficient to cover its costs.
   c. Production of the good is heavily subsidized by the government.
   d. Consumption of the good is fully funded by the government.
6) When the government is heavily involved in projects that provide benefits to some businesses at the expense of others, this will increase the incentive of businesses to
   a. develop better products in order to satisfy consumers.
   b. invest in projects that increase the value of the resources.
   c. spend more time lobbying and seeking government favors.
   d. spend less time lobbying and seeking government favors.

7) The political attractiveness of tariffs, quotas, and other trade restrictions is primarily the result of
   a. the political clout of foreigners.
   b. the political clout of domestic consumers.
   c. the special interest nature of trade restrictions.
   d. the attractiveness of sound economic policies to elected political officials.

8) Politicians will often be able to gain from support of trade restrictions because
   a. organized interest groups benefiting from the restrictions will make large contributions to political campaigns while most others will not feel strongly about the restrictions.
   b. the restrictions will lead to lower prices and substantial benefits for consumer groups.
   c. foreigners benefiting from the restrictions will be a major source of political contributions.
   d. the restrictions will generate substantial benefits for consumer groups at the expense of well-organized labor and industrial interests.

9) Why do nations often impose trade barriers that make it difficult for their own citizens to trade with people in another country?
   a. Trade restrictions are a good way for a country to increase the income levels of its citizens.
   b. Trade restrictions improve the efficiency of resource use.
   c. Trade restrictions provide gains to domestic residents at the expense of foreigners.
   d. Trade restrictions often provide benefits to highly visible special interest groups while imposing a less visible cost on the general populace.
Part 4: Government Spending, Deficits, and Debt

1) What was the size of the national debt in 2010?
   a. $20.5 million
   b. $800.5 billion
   c. $13.5 trillion
   d. $135 trillion

2) Which of the following is true of the federal budget deficit?
   a. The federal budget deficit is usually larger than the national debt.
   b. The federal budget deficit is equal to the interest payments on the national debt.
   c. The federal budget deficit is equal to the excess of federal spending relative to federal revenues during a year.
   d. The federal budget deficit is financed by the printing of money and therefore it is equal to the increase in the money supply during the year.

3) The difference between the national debt and the federal budget deficit is
   a. nothing; the national debt and the budget deficit are the same thing.
   b. the national debt is financed primarily through government bonds, while the deficit is financed through taxes.
   c. the federal budget deficit represents the total amount of outstanding government debt while the national debt includes only the increase in the debt during the current year.
   d. the national debt represents the cumulative effect of all previous budget deficits and surpluses, while the federal budget deficit reflects only the additions to the debt during the current year.

4) How much approximately does the federal government spend for each person living in the United States?
   a. $200
   b. $2,000
   c. $10,000
   d. $20,000

5) What is the largest expenditure in the federal budget?
   a. Social Security
   b. Medicare
   c. Medicaid
   d. Combat operations in Iraq and Afghanistan
6) In 2010, what percentage of GDP was spent by the federal government?
   a. 10 percent
   b. 25 percent
   c. 40 percent
   d. 70 percent

7) Income redistribution expenditures are
   a. payments made to individuals who are employed by the government.
   b. payments made to individuals who provide goods and services to the government.
   c. transfers of income from taxpayers to recipients who do not provide related services for the payments.
   d. omitted from the government expenditure figures.

8) During 2009-2010, the federal budget
   a. was balanced during both years.
   b. ran a surplus of approximately 2 percent of GDP.
   c. ran a deficit of approximately 2 percent of GDP.
   d. ran a deficit of approximately 10 percent of GDP.

9) Which of the following is true?
   a. A budget deficit will reduce the national debt.
   b. A budget deficit will increase the national debt.
   c. A balanced budget will increase the national debt.
   d. A budget surplus will increase the national debt.

10) The national debt is
    a. the difference between a nation's exports and imports of goods and services.
    b. the sum of the personal debt of all citizens in the United States.
    c. the cumulative effect of all past budget deficits and surpluses of the federal government.
    d. equal to the current size of the budget deficit.

11) The total indebtedness of the federal government in the form of outstanding interest-earning bonds is the
    a. budget deficit.
    b. budget surplus.
    c. national debt.
    d. trade deficit.
12) The persistent budget deficits of recent decades are
   a. surprising, because politicians have a strong incentive to balance the
government's budget.
   b. an expected result, because politicians have an incentive to levy taxes rather
than spend on current programs.
   c. surprising, because politicians have a strong incentive to run budget
surpluses and thereby indicate that their actions have generated a profit.
   d. an expected result, because politicians have an incentive to spend on current
programs rather than levy taxes.

13) As the baby boomers begin moving into the retirement phase of life during the years
following 2010, spending on Social Security and Medicare will
   a. rise and this will make it more difficult for the federal government to
balance its budget.
   b. fall and this will make it more difficult for the federal government to balance
its budget.
   c. rise and this will make it easier for the federal government to balance its
budget.
   d. fall and this will make it easier for the federal government to balance its
budget.
Part 5: International Trade and Trade Barriers

1) When the residents of a nation are free to trade with foreigners, domestic producers will be able to
   a. export more of the goods which are costly to supply domestically.
   b. export a larger quantity of the goods that can be produced domestically at a relatively low cost.
   c. exploit foreign workers by setting up production facilities in other countries.
   d. survive in the marketplace even if they do not produce efficiently.

2) High tariffs and other restraints on international trade will
   a. increase employment and thereby promote the growth of real GDP.
   b. reduce the volume of trade and the realization of gains from specialization, exchange, and the competitive process.
   c. protect domestic producers and thereby promote additional gains from trade.
   d. reduce the volume of imports without affecting the volume of exports.

3) International trade is advantageous because trade makes it possible for people in each country to
   a. import more than they export.
   b. export more than they import.
   c. employ more of their domestic resources producing things that are costly for them to produce domestically.
   d. acquire goods from foreigners more economically than they could be produced domestically.

4) If import restrictions prohibit foreigners from selling various goods and services in the U.S. market,
   a. the U.S. will be able to export more goods abroad.
   b. foreigners will have fewer U.S. dollars with which to buy U.S. goods and services.
   c. the U.S. will be able to produce more output than would otherwise be the case.
   d. the domestic producers in the protected industries will supply goods to U.S. consumers at lower prices than would otherwise be the case.
5) “Trade restrictions such as tariffs and quotas are like a blockade that a nation imposes on its own people.” Is this statement true?
   a. Yes, both the trade restrictions and a blockade will reduce the gains from specialization and trade.
   b. No, trade restrictions will help the residents of a nation achieve a higher income level; a blockade will not.
   c. No, a blockade will help the residents of a nation achieve a higher income level; trade restrictions will not.
   d. Uncertain, the statement is true if the gains of the residents exceed those of foreigners; otherwise it is false.

6) If the United States imposed higher tariffs and bought less from foreigners,
   a. U.S. employment would increase.
   b. unemployment in the United States would decline.
   c. U.S. exports would also increase because foreigners would want to buy more from U.S. producers.
   d. U.S. exports would decline because foreigners would be earning fewer of the dollars needed to purchase goods and services from Americans.

7) If the exchange rate of the dollar relative to other currencies is determined by market forces,
   a. the purchases of Americans from foreigners will be equal to the sales of Americans to foreigners.
   b. Americans will gain from the international trade only if foreigners lose an equal amount.
   c. the gains of Americans from international trade will be just equal to the gains of foreigners from the trade.
   d. imports from foreigners will create jobs in other countries but employment in the United States will decline by an equal amount.

8) If foreigners are investing more in the United States than Americans are investing abroad, this is likely to result in
   a. a balance of trade surplus in the United States.
   b. a balance of trade deficit in the United States.
   c. higher interest rates in the United States.
   d. an increase in the money supply of the United States.
9) The law of comparative advantage indicates that if a group of individuals wants to maximize their joint output, then each good should be supplied by
   a. the low opportunity cost producer.
   b. the person with the lowest wage rate.
   c. the person that can accomplish the task most rapidly.
   d. the person with the most advanced technical knowledge.

10) When a nation is experiencing a trade deficit, it is
   a. importing more goods and services than it is exporting
   b. exporting more goods and services than it is importing.
   c. exploiting foreign workers.
   d. being exploited by foreign investors.
Part 6: Why Some Nations Prosper and Others Stagnate

1) In order to achieve a high economic freedom rating, a country must
   a. elect political officials democratically.
   b. protect property rights, enforce contracts even-handedly, and rely extensively on markets to allocate goods and services.
   c. provide citizens with housing, health care, and other basic goods free of charge.
   d. use the taxing power of the state to redistribute income from the rich to the poor and thereby promote income equality.

2) Which of the following would increase a country’s Economic Freedom of the World rating?
   a. elimination of tariffs and removal of restrictions on voluntary exchange with foreigners
   b. regulations that restricted international trade
   c. licensing requirements that make it difficult to enter and compete in many markets
   d. a high level of government spending rather than reliance on markets

3) Which of the following would reduce a country’s Economic Freedom of the World rating?
   a. free trade and low taxes
   b. high tariffs and trade restrictions
   c. a legal system that secures private property rights and provides even-handed enforcement of contracts
   d. competitive markets and minimal government regulation

4) Which of the following economies are most free?
   a. India and Zimbabwe
   b. Algeria and the Democratic Republic of the Congo
   c. Hong Kong and Singapore
   d. Argentina and Brazil

5) Which of the following is most important if a country is going to grow rapidly and achieve a high level of per person income?
   a. economic freedom
   b. political democracy
   c. a large land area populated with few people
   d. large deposits of mineral resources
6) The Economic Freedom of the World index indicates that countries with more economic freedom
   a. grow more rapidly than those that are less free.
   b. have lower levels of per capita income than those that are less free.
   c. have lower investment rates than those that are less free.
   d. are mostly large countries with vast natural resources.

7) The Economic Freedom of the World index of the Fraser Institute indicates that the world’s freest economy is in
   a. Australia
   b. Hong Kong
   c. Japan
   d. United States
**Answer Key**

**Answers for Part 1 Questions:**

- Question 1: a
- Question 2: b
- Question 3: b
- Question 4: a
- Question 5: d
- Question 6: d
- Question 7: b

**Answers for Part 2 Questions:**

- Question 1: c
- Question 2: b
- Question 3: c
- Question 4: b
- Question 5: a
- Question 6: a
- Question 7: c
- Question 8: a
- Question 9: d

**Answers for Part 3 Questions:**

- Question 1: d
- Question 2: b
- Question 3: d
- Question 4: b
- Question 5: b
- Question 6: c
- Question 7: c
- Question 8: a
- Question 9: d
### Answers for Part 4 Questions:

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Question 5:  a
Question 6:  a
Question 7:  b