Chapter 1

*Introduction*

Answers to End-of-Chapter Problems

**Q**: Economic activity around the world is mainly organized by:

1. internet connections.
2. family connections.
3. informal arrangements.
4. market transactions.

**A**: d) market for transactions.

**Explanation**: Today the vast majority of economic activity worldwide is organized by **market transactions**, which areactivities that produce and exchange goods and services that other people are willing to pay for. From poor rice farmers in Cambodia to multi-millionaire investment bankers on Wall Street, the market rules.

2.

**Q:** In the 10 years since the Great Recession, the labor market and housing market recovered:

1. in every country.
2. in most areas of the United States, but not everywhere.
3. in every part of the United States.

**A:** b) in most areas of the United States, but not everywhere.

**Explanation:** Since the Great Recession, most areas in the United States have recovered. During the recovery phase, not all parts of the country experienced growth at the same time.

**Q:** Technological change

1. moves faster in some industries than others.
2. is found equally in all parts of the economy.
3. moves fastest in the energy sector.
4. never benefits the economy.

**A:** a) moves faster in some industries than others.

**Explanation:** Technological change is uneven, moving much faster in some industries than others. Although information technology has evolved rapidly in recent decades, the pace of change in energy technologies has been much slower.

4.

**Q:** One benefit of globalization is

1. higher prices for most consumers.
2. lower prices for most consumers.
3. less international communication between businesses.
4. a lower standard of living for most people.

**A:** b) lower prices for most consumers.

**Explanation:** For a rich country like the United States, a big benefit of foreign trade is access to cheaper goods and services.

5.

**Q:** Many people have mixed feelings about financial markets because financial markets

1. can experience violent swings.
2. can work only in a centrally planned economy.
3. only hurt the economy.
4. always go down.

**A:** a) can experience violent swings.

**Explanation:** Most people justifiably have mixed feelings about financial markets, which can experience violent swings. For Americans who have a lot of their retirement money in the stock market, these downturns can seem devastating. Over the long run— say, 20 years—the stock market has historically almost always gone up. But in the short run it is subject to wide swings that can create large fortunes or steal hard-earned investments.

6.

**Q:** For each of the following, indicate whether it is more likely to be the result of economic competition or government intervention.

1. Protection against unsafe drugs.
2. Rapid innovation.
3. Help for poor families.
4. Strong economic growth.

**A:** a) government intervention; b) economic competition; c) government intervention; d) economic competition

**Explanation:**

1. Government intervention represents the actions taken by government to affect the economy.
2. Economic competition is the effort by people and businesses to achieve a desirable outcome given what everyone else is doing.
3. Government intervention represents the actions taken by government to affect the economy.
4. Economic competition provides stimulus for cost-savings, new efficiencies, and innovation that results in economic growth.

7.

**Q:** At its extreme, a laissez-faire approach to the economy means no government regulation at all. Let’s suppose we got rid of the rule that you need a medical degree to practice medicine. One disadvantage of such a change would be

1. more time spent in waiting rooms.
2. fewer doctors.
3. a higher price for most medical care.
4. a lower quality for most medical care.

**A:** d) a lower quality for most medical care.

**Explanation:** Without a medical degree and its associated education and training, there would be no assurance of the quality of medical services delivered. Consumers would have to determine skill through trial and error, which could result in increased fatalities.

8.

**Q:** One indicator of prosperity is gross domestic product. Gross domestic product measures the economy by

1. adding up annual household income.
2. looking only at household consumption.
3. counting the dollar value of the total output of a national economy over a year.
4. measuring annual wages and benefits.

**A:** c) counting the dollar value of the total output of a national economy over a year.

**Explanation:** There are plenty of ways to measure an economy. One key indicator is known as the gross domestic product (GDP), which is the dollar value of the total output of a national economy over a year.

9.

**Q:** If the government safety net were to disappear, which of the following outcomes would be likely to occur?

1. Elderly Americans would live longer.
2. Poor families would be able to buy more food.
3. The income and wealth gap between rich and poor would narrow.
4. The U.S. government would spend less on health care.

**A:** b and d.

**Explanation:** The safety net makes an enormous difference in the well-being of low-income households. The Supplemental Nutrition Assistance Program (SNAP), for example, provided low-cost food to roughly 47 million Americans in 2014, with the average person getting $1,500 in benefits. Medicaid helped about 72 million low-income people with medical payments in 2016. And the earned income tax credit—a tax program designed to help low-income wage earners—gave an average benefit of over $2,500 to 27 million U.S. tax filers.

10.

**Q:** Disagreements among economists are

1. unusual.
2. limited to health care and education.
3. frequent when considering the appropriate degree of government intervention.
4. rare when considering new technologies.

**A:** c) frequent when considering the appropriate degree of government intervention.

**Explanation:** In some areas of economics there is little disagreement. However, plenty of important policy questions divide economists when it comes to the right amount of government intervention in the economy.

11.

**Q:** Is the following statement true or false? Reputable economists agree that the response to the Great Recession was the appropriate level of intervention. (LO1-5)

**A:** False.

**Explanation**: Reputable economists disagree about whether the government’s response to the Great Recession was too big, too small, or just right. There is debate over how big the government’s role should be in health, education, and retirement. Likewise, there is no consensus among economists — or anyone else, for that matter—about how best to improve the educational system. An important ongoing controversy concerns the right level of federal taxes.