

# Chapter 2--The Power of Markets and the Wealth of Nations

Student: \_\_\_\_\_

1. Property rights need to be secure
  - A. to promote economic development.
  - B. to encourage environmentalism.
  - C. to promote an equal distribution of income.
  - D. all of these choices.
  
2. Property rights
  - A. only need to be found in wealthy segments of the population.
  - B. need to be universal.
  - C. do not promote incentives.
  - D. do not promote efficiency
  
3. Trade is promoted by
  - A. having a self-interested population.
  - B. proper incentives.
  - C. the presence of property rights.
  - D. all of these choices.
  
4. Prior to 1840, most businesses were
  - A. family-owned.
  - B. corporate in structure.
  - C. vertically integrated.
  - D. collections of partnerships.
  
5. Trade between countries is based on
  - A. absolute advantage only.
  - B. monopoly power.
  - C. comparative advantage.
  - D. none of these choices.
  
6. With economies of scale came
  - A. larger families.
  - B. simpler business forms.
  - C. the need for management structures beyond what a family could offer.
  - D. fewer economies of scope.

7. Data suggest that which of the following are necessary for high rates of economic growth?
- A. private property rights.
  - B. free markets.
  - C. clear incentives.
  - D. all of these choices.
8. In international trade the concept of 'relative opportunity cost' refers to
- A. absolute advantage.
  - B. comparative advantage.
  - C. technical costs.
  - D. institutional advantage.
9. The fundamental economic problem faced by individuals is
- A. scarcity.
  - B. comparative advantage.
  - C. fair allocations of goods and services.
  - D. randomness in the distribution of income.
10. Allocation schemes can be based on
- A. prices.
  - B. randomness.
  - C. government decisions.
  - D. all of these choices.
11. What incentive is created by a first-come first-serve allocation scheme?
- A. To engage in rent-seeking.
  - B. To have the most income.
  - C. To be first.
  - D. To be elected.
12. Economists argue that which allocation scheme leads to the most efficiency?
- A. market based.
  - B. government based.
  - C. random.
  - D. first-come, first-serve.
13. The cost of a choice is
- A. the price of the product selected.
  - B. the price of the product not selected.
  - C. the next best opportunity.
  - D. all of the opportunities given up.

14. All the costs of a transaction are referred to as
- A. transfer costs.
  - B. transactions costs.
  - C. marketing expenditures.
  - D. accounting costs.
15. Without contracts, what type of transactions would occur?
- A. forward purchases.
  - B. lateral purchases.
  - C. spot transactions.
  - D. side bars.
16. People trade because
- A. they are able to take advantage of others.
  - B. government regulates the market.
  - C. they must do so.
  - D. they make themselves better off.
17. Buying a product in one market and selling it in another is called
- A. competition.
  - B. arbitrage.
  - C. efficiency.
  - D. comparative advantage.
18. What motivates the actions of entrepreneurs in markets?
- A. profits.
  - B. cost savings.
  - C. revenue.
  - D. prestige.
19. A brand name is a type of
- A. cost saving.
  - B. buyback contract.
  - C. monopoly power.
  - D. entry requirement for a competitive market.
20. Economic freedom and economic prosperity are
- A. positively correlated.
  - B. negatively correlated
  - C. not correlated.
  - D. inconsistent with human rights.

21. In Argentina, agricultural production is directly related to
- A. government subsidies.
  - B. price controls.
  - C. import tariffs.
  - D. well-defined property rights..
22. Agriculture in Argentina became more efficient when \_\_\_\_\_ were introduced.
- A. subsidies.
  - B. property rights.
  - C. tariffs.
  - D. regulations
23. The ownership of property is not related to economic development.
- True False
24. Clearly defined property rights promote the efficient use of property.
- True False
25. Trade between countries is only based on absolute advantage.
- True False
26. Comparative advantage and relative opportunity costs are the same thing.
- True False
27. First-come, first-serve allocation schemes promote efficiency.
- True False
28. Opportunity cost is defined monetary terms.
- True False
29. It is impossible to create a free market system that promotes economic efficiency.
- True False
30. Arbitrage creates profits but has no effect on prices.
- True False
31. Creative destruction is one of the negative effects of market competition.
- True False

32. Monopoly is represented by a single seller.

True False

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## Key

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**TRUE**