

Common Sense Economics

Part III. Economic Progress and the Role of Government

Practice Test

Multiple Choice Questions

1. A government fulfills a protective function when it
 - a. gives cash payments to the poor.
 - b. provides funds for flood control projects and builds highways.
 - c. prevents illegal seizure of private property.
 - d. redistributes income.

Answer: c

2. Which of the following is the best example of a public good?
 - a. an amusement park like Disney World
 - b. a civic center owned and operated by the government
 - c. a state university
 - d. a regional flood control project

Answer: d

3. Which of the following is true?
 - a. If we want to get the most from our resources, the pricing of goods and allocation of investment should be decided by majority voting.
 - b. In a representative democracy, majority voting will assure that approved projects are productive.
 - c. There are good reasons to expect that majority voting will sometimes result in the approval of projects that are inefficient.
 - d. Private firms can force their customers to pay for products they produce, but the government cannot do so.

Answer: c

4. The political process is most likely to accept a project if it is efficient and reject it if it is inefficient when
 - a. the benefits of the project are highly concentrated, and costs are widely spread among voters.
 - b. the costs of the project are highly concentrated, and the benefits are widely spread among voters.
 - c. voters pay approximately in proportion to the benefits derived from the project.
 - d. the benefits of the project are realized in the future, while the costs are more visible during the current period.

Answer: c

5. How much does it cost to tax a dollar of revenue away from the private sector and transfer it to the government?
- one dollar
 - less than one dollar because the administration of and compliance with the tax laws creates jobs for people
 - less than a dollar because of the excess burden resulting from the elimination of productive exchanges by the taxes
 - more than a dollar because collection of the taxes requires resources that would otherwise be available for private sector production

Answer: d

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

Answer: d

7. Which of the following best explains the political attractiveness of debt financing relative to taxation?
- Debt financing pushes the visible cost of government into the future.
 - Debt financing exposes the current costs of government programs; taxes do not.
 - Debt financing reduces the attractiveness of special-interest spending.
 - Taxes allow politicians to supply voters with immediate benefits without having to impose a visible cost.

Answer: a

8. Politicians have incentive to support special-interest groups at the expense of unorganized, widely dispersed groups (for example, taxpayers or consumers)
- only when the benefits that accrue to the special-interest group exceed the costs imposed on others.
 - when nonspecial-interest voters are unconcerned or uninformed about the issue, and campaign funds are readily available from the special-interest group.
 - only if the government action is efficient.
 - Only if the government action will reduce the monopoly power of business or labor, and thereby lead to an improvement in the general welfare.

Answer: b

9. The difference between the national debt and a federal budget deficit is
- nothing; “debt” and “deficit” are identical.
 - the national debt is financed primarily through government bonds, while the deficit is financed through taxes.
 - 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.
 - 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.

Answer: d

10. Transfer payments are
- payments made to individuals who are employed by the government.
 - payments made to individuals who provide goods and services to the government.
 - transfers of income from taxpayers to recipients who do not provide related services for the payments.
 - omitted from the government expenditure figures.

Answer: c

11. The effectiveness of government antipoverty programs is reduced because they
- crowd out private/charitable efforts by families, individuals, churches and charitable organizations.
 - encourage young people to stay in school and postpone having children.
 - provide strong incentives for the poor to advance their education and secure full time jobs.
 - provide individuals with strong incentives to earn, learn and invest.

Answer: a

12. The increase in transfer payments initiated by the War on Poverty during the latter half of the 1960s resulted in
- a substantial reduction in the poverty rate.
 - a more equal distribution of income.
 - fewer single-parent families because a married couple receives benefits twice as large.
 - little change in the official poverty rate.

Answer: d

13. Central planning is an ineffective means of organizing an economy because
- most central planners are less intelligent than business entrepreneurs in market economies.
 - central planners cannot possibly obtain all the information necessary to allocate resources efficiently.
 - central planners do not respond predictably to incentives.
 - central planners have inadequate funding to meet the needs of their constituents.

Answer: b

14. When the government both provides a good and covers its costs through taxation,
- the government enterprises producing the good have a strong incentive to supply it at low cost.
 - consumers acting through markets are in a weak position to either discipline the suppliers or alter the quantity or quality of the good produced.
 - goods will only be supplied if consumers are willing to pay an amount sufficient to cover their production costs.
 - the invisible hand will direct consumers and producers toward an efficient level of output.

Answer: b

15. From the viewpoint of economic efficiency, does representative democracy do a good job of handling special-interest issues?
- Yes, special-interest groups are unable to benefit from government action unless they can convince the majority of voters that their position is sound.
 - No, legislators can often derive political gain from the support of special-interest projects that are inefficient.
 - Yes, the power of special interests is curtailed when decisions are made legislatively.
 - No, actions favored by well-organized special-interest groups are often rejected even when they would promote economic progress.

Answer: b

16. When decentralized governmental units operate independently and compete with each other, governments will attract residents and expand their tax base when
- they increase their tax rates.
 - they provide residents with fewer government services.
 - they provide residents with desired services at an attractive tax cost.
 - they discontinue desired government services in order to keep taxes low.

Answer: c

17. The U.S. constitution prohibits government from imposing tariffs and quotas that restrict _____. The authors of Common Sense Economics would also apply this prohibition to _____. Fill in the blanks.
- exports; imports
 - imports; exports
 - budget deficits; budget surpluses
 - budget surpluses; budget deficits

Answer: a

18. If a three-fourths majority of both houses of the U.S. Congress was required for approval of a spending project, economic analysis indicates that
- federal spending would increase sharply from the current level.
 - the political power of special-interest groups would increase.
 - inefficient government spending programs would expand.
 - the power of special interests would be curtailed and federal spending reduced.

Answer: d

19. A special-interest issue generates substantial personal benefits
- for all voters.
 - for the majority of voters.
 - for the vast overwhelming number of voters, but small personal costs are imposed on a small minority of voters.
 - for a small minority of voters, but small personal costs are imposed on the vast overwhelming number of voters.

Answer: d

20. The political structure that is most consistent with economic growth and progress is
- rule by the majority.
 - a dictatorship.
 - limited government, protection of individuals from aggression by others, and decentralized political decision-making.
 - centralization of power in the hands of an elected legislature and a president or prime minister.

Answer: c