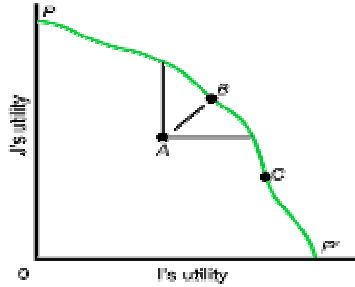


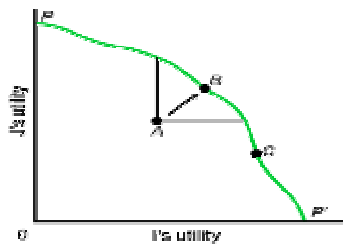
## Chapter 15

1 . Refer to the graph below. At which points can I's utility be increased only if J's utility is decreased?



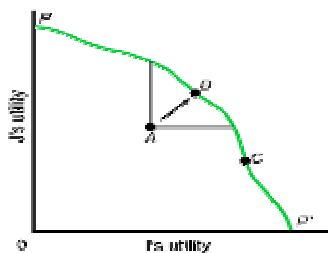
- a. Only at point A.
- b. At points B and C.
- c. At points A and B.
- d. None of the above. I's utility always increases if J's utility decreases.

2 . Refer to the graph below. At which point could I and J be made better off?



- a. At point A.
- b. At point C.
- c. At point B.
- d. At points B and C.

3 . Refer to the graph below. How does point B compare to point C?



- a. Only point C is efficient and desirable.
- b. Both B and C are efficient but may not be equally desirable.
- c. Only point B is efficient and desirable.
- d. Both B and C are desirable combinations of utility, but may not be efficient.
- e. Neither B nor C is efficient or desirable.

- 4 . What can we say about wealth and income as measures of well-being?
- Wealth and income are both indirect, imperfect measures of well-being.
  - Income is a better measure of well-being than wealth.
  - Wealth is a better measure of well-being than income.
  - Both wealth and income are good, direct measures of well-being.
  - Wealth and income could be substituted for other equally accurate measures of well-being.

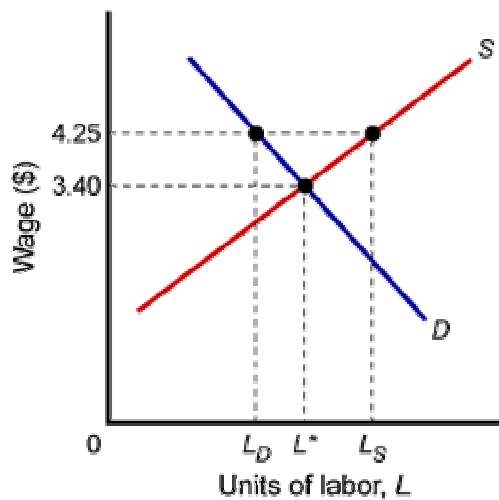
- 5 . Which of the following is/are true?
- People who have more years on the job tend to earn higher wages.
  - The wage earned by "unique" workers depends on demand.
  - In economics, going to college is called "investing in human capital."
  - People born with the "right genes" can earn higher incomes.
  - All of the above.

- 6 . The stock of knowledge, skills, and talents that people possess is called:
- Compensating differentials.
  - Property income.
  - Economic income.
  - The people's utility possibilities frontier.
  - Human capital.

- 7 . All factors of production are paid a return equal to the market value of what they produce at the margin called:
- Marginal revenue product.
  - Marginal cost.
  - Marginal revenue.
  - Marginal benefit.
  - E Marginal product of labor.

- 8 . Which of the following jobs is more likely to pay a compensating differential?
- Insurance salesman.
  - Waiter.
  - Lawyer.
  - Mine detonator.
  - Professor.

9 . Refer to the graph below. In this graph, \$4.25 represents the minimum wage. The graph demonstrates that:



- a. The minimum wage significantly reduces income inequality.
- b. The minimum wage is an important measure to reduce unemployment.
- c. After the minimum wage is imposed, quantity supplied is greater than quantity demanded.
- d. All of the above.

10 . Which of the following is not considered property income?

- a. Payments arising from the ownership of real property.
- b. Interest payments derived from financial holdings.
- c. Rents.
- d. Profits and interest.
- e. None of the above. All of the above are considered to be property income.

11 . According to the textbook, part of the government's attempts to offset some of the problems of inequality and poverty consists of:

- a. Providing compensating differentials.
- b. Establishing a minimum wage.
- c. Providing transfer payments.
- d. All of the above.

12 . The amount of money a household can spend during a given period without increasing or decreasing its net assets is called:

- a. Compensating differentials.
- b. Economic income.
- c. Money income.
- d. Human capital.
- e. Property income.

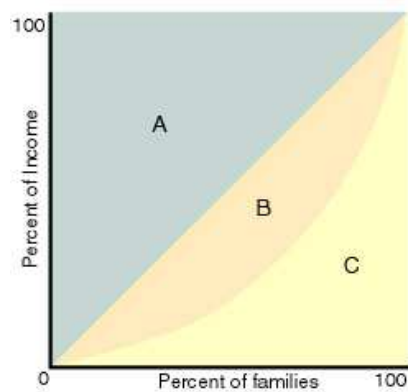
13 . More recently, the proportions of personal income that come from wages, property, and transfer payments in the United States are, respectively:

- a. 65%, 32%, 3%.
- b. 60%, 25%, 16%.
- c. 40%, 40%, 20%.
- d. 50%, 28%, 22%.

14 . Which of the following assertions is incorrect?

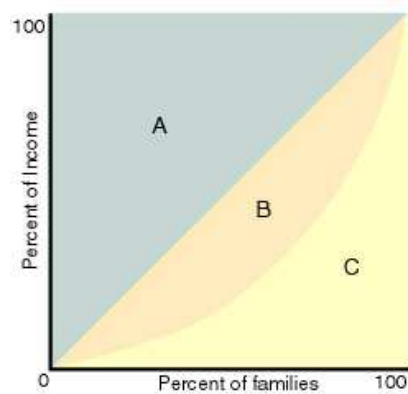
- a. Income distribution has remained stable over a long time.
- b. The top quintile of households in the United States earn nearly half of total income.
- c. Most families receive little through inheritance.
- d. Most of the families' wealth or property comes from saving.
- e. Most of the transfer payments in this country go to the poor.

15 . Refer to the graph below. If the distribution of income were more equal, which area in this Lorenz curve would be larger?



- a. B and C.
- b. C
- c. A
- d. A and B.
- e. B

16 . Refer to the graph below. What happens in this graph when society achieves a perfect distribution of income?



- a. Area C disappears.
- b. Area A disappears.
- c. Area B disappears.
- d. All areas become one.
- e. Nothing happens.

- 17 . A Gini coefficient equal to one means:
- Maximum equality.
  - Maximum inequality.
  - A perfect distribution between equality and inequality.
  - An income distribution closer to the 45-degree line of the Lorenz Curve.
- 18 . For purposes of keeping statistics and administering public programs, poverty is defined as:
- The condition of people to have very low incomes.
  - Three times the cost of the Department of Agriculture's minimum food budget.
  - The minimum bundle of necessities required to survive, according to the Bureau of Labor Statistics.
  - All of the above.
  - None of the above. Poverty is culturally defined; thus, it cannot be measured.
19. Which of the following statements about the statistics of poverty is/are true?
- Poverty in the United States has declined steadily after the 1960s.
  - The official count of people in poverty tends to understate the true number.
  - Poverty among the elderly has been reduced considerably since the 1960s.
  - Poverty tends to be widespread, with no substantial differences between demographic groups.
  - All of the above.
20. Which of the following statements is/are incorrect?
- Poverty among African Americans is more than twice the poverty rate among whites.
  - The proportion of Hispanics in poverty is about the same as the proportion of African Americans in poverty.
  - Poverty among children has remained the same since the 1960s.
  - The distribution of income is much more unequal than the distribution of wealth.
  - There are ample data to prove that the "feminization of poverty" in the United States is a fact.
- 21 . Utilitarian justice refers to one of the following ideas. Which one?
- We have a social contract with one another.
  - The value of a commodity depends only on the amount of labor required to produce it.
  - We should not rely on charity. Help for the poor and hungry should be considered a public good.
  - A dollar in the hand of a rich person is worth less than a dollar in the hand of a poor person.
- 22 . Which of the following statements is correct?
- Marx saw profit as an illegitimate expropriation by capitalists of the fruits of labor's efforts.
  - Marx was the first to point out that capital, like labor, is productive and has a marginal product.
  - The works of Marx were mostly a roadmap for the construction of a socialist economy.
  - All of the above.

23. Which of these statements about the Social Security system is incorrect?
- Both employers and employees contribute to FICA (Federal Insurance Corporation Association) in equal amounts.
  - Well over 90% of all workers contribute to Social Security.
  - People with low salaries don't get as much out of the system as people with high salaries.
  - People who earned more receive a higher level of benefits.
  - All of the above.
24. Today, most welfare is paid out in the form of:
- Temporary assistance for needy families.
  - General Assistance, which goes to the very poor, regardless of family circumstances.
  - Unemployment compensation.
  - Aid to Families with Dependent Children (AFDC).
  - Certificates of deposit.
25. Which of the following statements about unemployment compensation is incorrect?
- Most unemployment benefits last 20 weeks.
  - The average unemployed worker receives about 36% of his or her normal wages.
  - All companies pay the same amount of tax to support the system.
  - Unemployment benefits are paid regardless of a person's income from other sources and regardless of assets.
  - Recipients of unemployment compensation must demonstrate willingness and ability to seek and accept suitable employment.

#### Essay type questions

- List five arguments against government redistribution of income.
- List five arguments in favor of government redistribution of income.
- We should not rely on private charity. Help for the poor and hungry should be considered a public good. Use your knowledge of public goods to support this argument.

## True False Questions

1. Productivity is the main determinant of how much people get paid.  
True  
False
2. The basis for redistributing income is that the distribution of income in a market economy is not efficient.  
True  
False
3. Some people earn more income than others because they have the right genes.  
True  
False
4. Compensating differentials are cash benefits paid to workers in low-paying occupations.  
True  
False
5. A family with lower money income is necessarily worse off than a family with higher money income.  
True  
False
6. Income derived from ownership of financial assets is considered property income.  
True  
False
7. The biggest single transfer program at the federal level goes to the poor.  
True  
False
8. If income is equally distributed, the Lorenz curve would be a 45o line, and the Gini coefficient would be zero.  
True  
False
9. Single-person households tend to have higher incomes than multi-person households.  
True  
False
10. The distribution of wealth is more equal than the distribution of income.  
True  
False