

Chapter 30

Income, Poverty, and Health Care

30.1 Income

- 1) The Lorenz curve shows
- A) the demand for jobs.
 - B) the supply of jobs.
 - C) the elasticity of jobs.
 - D) the distribution of income.

Answer: D

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 2) The graph which represents the distribution of income in an economy is called the
- A) Laffer curve.
 - B) Lorenz curve.
 - C) distribution curve.
 - D) aggregate demand curve.

Answer: B

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 3) According to the text, today's Lorenz curve is
- A) a straight line.
 - B) a vertical line.
 - C) more bowed than in 1929.
 - D) less bowed than in 1929.

Answer: D

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 4) According to the text, the lower half of U.S. households earn about what percentage of total income?
- A) 4 percent
 - B) 9 percent
 - C) 15 percent
 - D) 28 percent

Answer: D

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Revised

- 5) The Lorenz curve shows what portion of total money income is accounted for by
- A) different proportions of a country's households.
 - B) only the wealthiest citizens.
 - C) only poor people.
 - D) taxpaying citizens only.

Answer: A

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

- 6) In a Lorenz curve, perfect income equality is represented by
- A) a vertical line.
 - B) a horizontal line.
 - C) a rectangular hyperbola.
 - D) a 45-degree line originating from the origin.

Answer: D

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 7) The more bowed out the Lorenz curve, the
- A) less equal the income distribution.
 - B) more equal the income distribution.
 - C) greater the overall wealth in the economy.
 - D) less the overall wealth in the economy.

Answer: A

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The less bowed the Lorenz Curve, the
- A) more equal the income distribution.
 - B) less equal the income distribution.
 - C) greater the number of low-income people.
 - D) greater the number of high-income people.

Answer: A

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 9) A straight-line Lorenz curve shows
- A) an equal distribution of money income.
 - B) a greater than proportionate share of income going to middle-income households.
 - C) a high incidence of absolute poverty.
 - D) a highly unequal distribution of income.

Answer: A

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 10) The more bowed (skewed) the Lorenz curve,
- A) the more equal the distribution of income.
 - B) the greater the number of households in the society.
 - C) the more unequal the distribution of money income.
 - D) the greater the total income of the society.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The Lorenz curve is a geometric representation of
- A) the profile of earnings for a "typical" family over time.
 - B) the standard of living experienced by the poor in a country.
 - C) the difference between pre-tax and post-tax income.
 - D) the distribution of income.

Answer: D

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 12) The more bowed the Lorenz curve, the
- A) richer the society.
 - B) more unequal the distribution of money income.
 - C) poorer the society.
 - D) more equal the distribution of income.

Answer: B

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Suppose 10 percent of the families receive 10 percent of the income, 20 percent of the families receive 20 percent of the income, and so forth. The Lorenz curve would be
- A) a straight line at a 45-degree angle from the origin.
 - B) a straight line at a 30-degree angle from the origin.
 - C) the most bowed curve possible.
 - D) the horizontal axis.

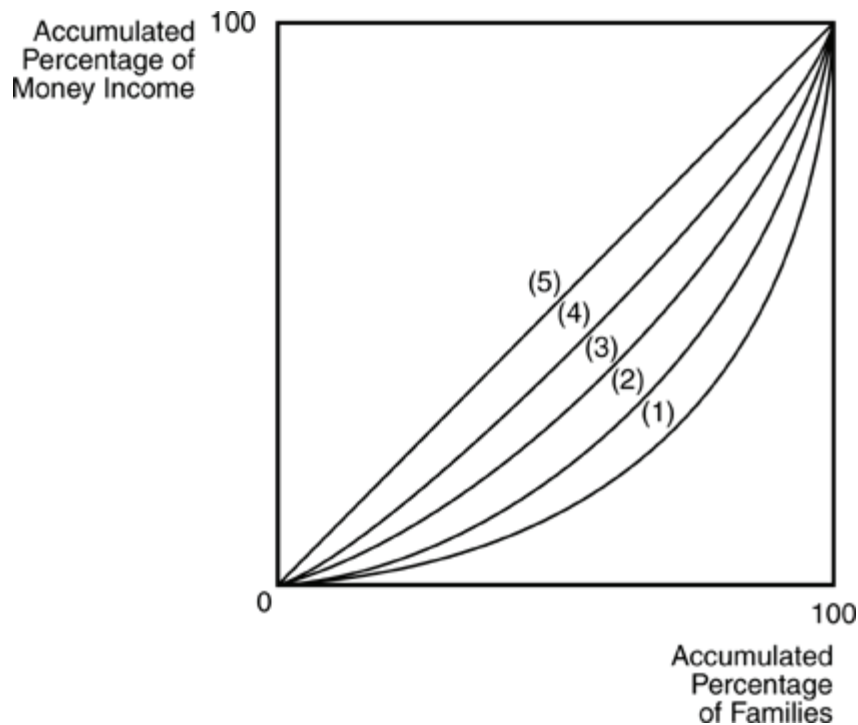
Answer: A

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition



14) The most unequal distribution of income in the above figure exists in

- A) country 4. B) country 1. C) country 5. D) country 3.

Answer: B

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

15) The country reflecting perfect income equality in the above figure is

- A) country 4. B) country 1. C) country 5. D) country 3.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

16) Which of the following would be considered income in kind?

- A) tax refunds B) food stamps
C) yard sales D) reduction in the tax rates

Answer: B

Diff: 2

Topic: 30.1 Income

AACSB: Reflective thinking skills

Question Status: Revised

- 17) One reason some economists are critical of the Lorenz curve is because
- A) it reflects income before taxes.
 - B) it reflects income after taxes.
 - C) it reflects only the top bracket of taxpayers.
 - D) it reflects only the poor in the country.

Answer: A

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

- 18) Which of the following is NOT a correct criticism of the Lorenz curve?
- A) It does not include payments in kind.
 - B) It does not deal with differences in family size.
 - C) It ignores the impact of age distribution on income distribution.
 - D) It refers to money income after taxes.

Answer: D

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 19) In calculating income for the Lorenz curve, one factor that is omitted, is
- A) capital gains income.
 - B) dividend payments.
 - C) in-kind transfer payments from the government.
 - D) pure economic rent.

Answer: C

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 20) Some economists criticize the Lorenz curve because it
- A) includes too many things in measuring income, such as food stamps, housing aid, and other government programs.
 - B) does not account for the effect of age on a family's income.
 - C) measures unreported income earned in the underground economy.
 - D) uses after-tax income when pre-tax income is more appropriate.

Answer: B

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

- 21) Some economists criticize the Lorenz curve because it
- A) accounts for differences in the size of households when it should not.
 - B) does not include the *cumulative* percentage of households.
 - C) does not include unreported income earned in the underground economy.
 - D) represents the inequality of *lifetime* income when it should just look at a specific time period.

Answer: C

Diff: 2

Topic: 30.1 Income

Question Status: New

- 22) Since World War II, the share of total income going to the bottom 20 percent of U.S. households has
- A) fallen by 20 percent.
 - B) increased by 10 percent.
 - C) remained constant.
 - D) more than doubled.

Answer: D

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Compared to a sampling of other developed nations, the U.S. income distribution is more unequal than many others. What accounts for this?
- A) The lowest-income families in the United States earn much less than the lowest-income households in other nations.
 - B) Marginal income tax rates are much higher in the United States than in any other nation.
 - C) The highest-income families in the United States earn much more than the highest-income households in other nations.
 - D) Other nations manipulate their data to look better.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 24) When examining the financial status of households, wealth is
- A) synonymous with income.
 - B) a flow variable whereas income is a stock variable.
 - C) a stock variable and includes both tangible assets and human capital.
 - D) not as important as income because wealth does not change over time.

Answer: C

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 25) The way income is allocated among the population is called the
- A) income curve.
 - B) income spread.
 - C) distribution of income.
 - D) Gini allocation.

Answer: C

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 26) Which of the following is the best definition of what economists define as *total* income?
- A) Payment for labor services.
 - B) Payment for labor services and for ownership of other factors of production.
 - C) Payment for labor services, for use of other factors of production, and gifts and government transfers.
 - D) Inheritance.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Revised

- 27) The Lorenz curve
- A) shows what portion of the population are living in poverty and what portion are living in wealth.
 - B) shows what portion of total money income is accounted for by different proportions of the nation's households.
 - C) shows what portion of the population is working as professionals, white- and blue-collar, workers and workers at menial tasks.
 - D) breaks down the income levels of each group in the economy.

Answer: B

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 28) The more bowed out the Lorenz curve is, the
- A) more equal the distribution of income.
 - B) less equal the distribution of income.
 - C) richer the society.
 - D) poorer the society.

Answer: B

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 29) A Lorenz curve that represents an unequal income distribution is
- A) a straight line starting at the origin.
 - B) a straight line starting at 100%
 - C) a bowed curved.
 - D) a line that has a kink in the middle of it.

Answer: C

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 30) A Lorenz curve that is perfectly straight indicates
- A) that society is very rich.
 - B) that a small portion of the population accounts for most of the income.
 - C) that a large portion of the population accounts for most of the income.
 - D) complete income equality.

Answer: D

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

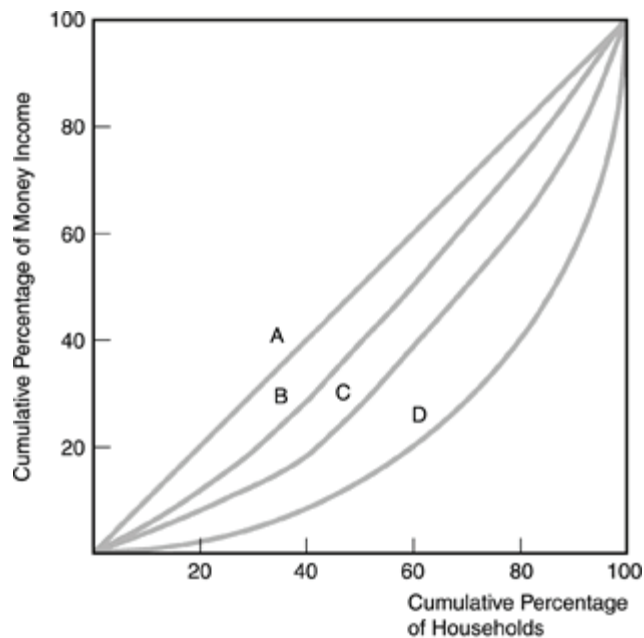
- 31) If everyone earned the same income, the Lorenz curve would be
- A) a rectangular hyperbola.
 - B) a straight line from the origin at a 45-degree angle.
 - C) the horizontal axis.
 - D) very bowed from the diagonal.

Answer: B

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition



- 32) The above figure displays
- A) income-inequality curves.
 - B) Gini Coefficients.
 - C) Lorenz curves.
 - D) Laffer curves.

Answer: C

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

33) Refer to the above figure. Which curve shows the most unequal distribution of income?

- A) A B) B C) C D) D

Answer: D

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

34) Refer to the above figure. Which curve shows the **second** most unequal distribution of income?

- A) A B) B C) C D) D

Answer: C

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: New

35) Refer to the above figure. For which Lorenz curve does the richest 25 percent make 50 percent of the nation's money income?

- A) A B) B C) C D) D

Answer: C

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

36) Refer to the above figure. For which Lorenz curve does the richest 40 percent make 50 percent of the nation's money income?

- A) A B) B C) C D) D

Answer: B

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: New

37) Refer to the above figure. Perfect income equality is shown by

- A) the horizontal axis. B) the vertical axis.
C) curve A. D) curve D.

Answer: C

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

38) Refer to the above figure. Where are the poorest households represented on the graph?

- A) The poorest households are to the left along the horizontal axis.
- B) The poorest households are to the right along the horizontal axis.
- C) The poorest households are all along the horizontal axis.
- D) The poorest households are concentrated in the middle.

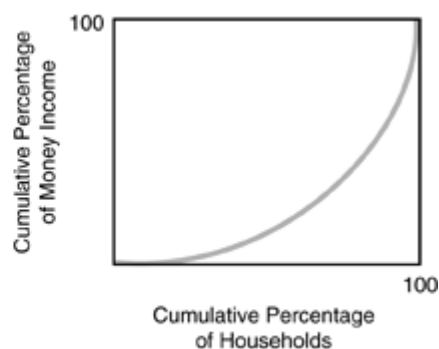
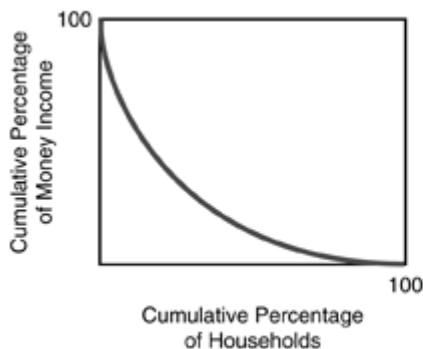
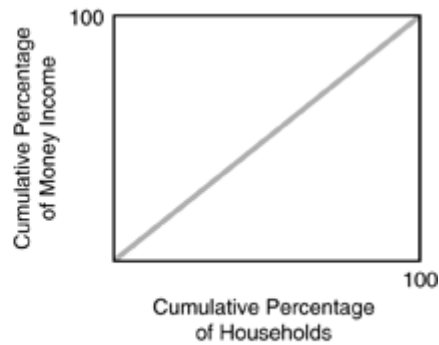
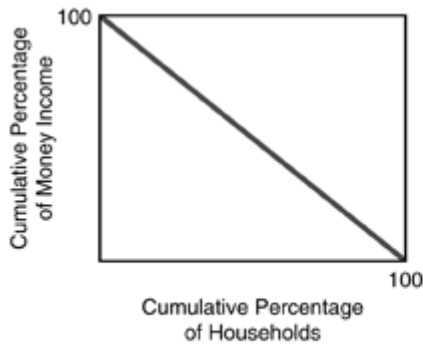
Answer: A

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition



39) Refer to the above figure. Which of the above panels represents complete income equality?

- A) Panel A
- B) Panel B
- C) Panel C
- D) Panel D

Answer: B

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Refer to the above figure. Which of the above graphs represents an unequal income distribution?

A) Panel A B) Panel B C) Panel C D) Panel D

Answer: D

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 41) Changes in the Lorenz curve since 1929 in the United States indicate that

A) the distribution of income today is identical to what it was in 1929.
B) the distribution of income is slightly less equal today than in 1929.
C) the distribution of income is slightly more equal today than in 1929.
D) the distribution of income is much more equal today than it was in 1929.

Answer: C

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 42) All of the following are criticisms of the Lorenz curve EXCEPT

A) The Lorenz curve does not include in-kind transfers.
B) The Lorenz curve does not account for age differences.
C) The Lorenz curve does not account for differences in the sizes of families.
D) The Lorenz curve does not account for differences in education levels.

Answer: D

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

- 43) Income in kind is defined as

A) income received in the form of a paycheck.
B) payment for services in the form of cash.
C) tips.
D) income received in the form of goods and services.

Answer: D

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 44) Income in the form of goods and services is

A) known as money income. B) known as income in kind.
C) not considered income by economists. D) not part of wealth.

Answer: B

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

45) All of the following are income in kind EXCEPT

- A) government provided housing.
- B) government provided education.
- C) tips received by a waitress.
- D) goods produced in the home.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Reflective thinking skills

Question Status: Previous Edition

46) All of the following are income in kind EXCEPT

- A) income received from family members.
- B) services produced in the home.
- C) government provided food stamps.
- D) government provided medical aid.

Answer: A

Diff: 1

Topic: 30.1 Income

AACSB: Reflective thinking skills

Question Status: New

47) Which of the following is not a true statement about the Lorenz curve?

- A) The Lorenz curve includes both money income and income in kind.
- B) The Lorenz curve does not include unreported income obtained from the underground economy.
- C) The Lorenz curve does not consider different sizes of households.
- D) The Lorenz curve does not consider age differences among wage earners.

Answer: A

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

48) Compared to the distribution of money income, the distribution of wealth is

- A) about the same.
- B) much more equal.
- C) much less equal.
- D) a little more equal.

Answer: C

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

49) The return on wealth (both human and nonhuman) is

- A) a stock variable.
- B) income.
- C) measured in the form of bonds.
- D) a stock or flow variable depending upon whether the wealth is in the form of bonds or other financial assets.

Answer: B

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

50) Which of the following statements is true about income and wealth?

- A) Income is a flow measure and wealth is a stock measure.
- B) Income is a stock measure and wealth is a flow measure.
- C) Both income and wealth are flow measures.
- D) Both income and wealth are stock measures.

Answer: A

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

51) Wealth is measured as

- A) only tangible objects.
- B) only buildings, machinery, land, cars, stocks and bonds.
- C) only nonhuman wealth.
- D) nonhuman and human wealth.

Answer: D

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

52) When comparing the distribution of wealth to the distribution of income, it can be noted that

- A) the distributions are about the same.
- B) the measurement of income is much less accurate than the measurement of wealth.
- C) the measurement of wealth is much less accurate than the measurement of income.
- D) wealth does not generate income.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

53) All of the following would show a more equal distribution than the distribution of money income EXCEPT

- A) total income.
- B) after-tax income.
- C) wealth.
- D) lifetime earnings.

Answer: C

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

54) The common measure of wealth used in calculating the distribution of wealth includes

- A) workers' claims on the Social Security system.
- B) workers' claims on private pension funds.
- C) financial assets.
- D) human capital.

Answer: C

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

55) The richest 10 percent of U.S. houses hold more than two-thirds of all wealth. The problem with this statement is that

- A) it does not consider an individual's current income.
- B) it does not consider private and public pension plans.
- C) it is based entirely on nonhuman wealth.
- D) it is based entirely on human wealth.

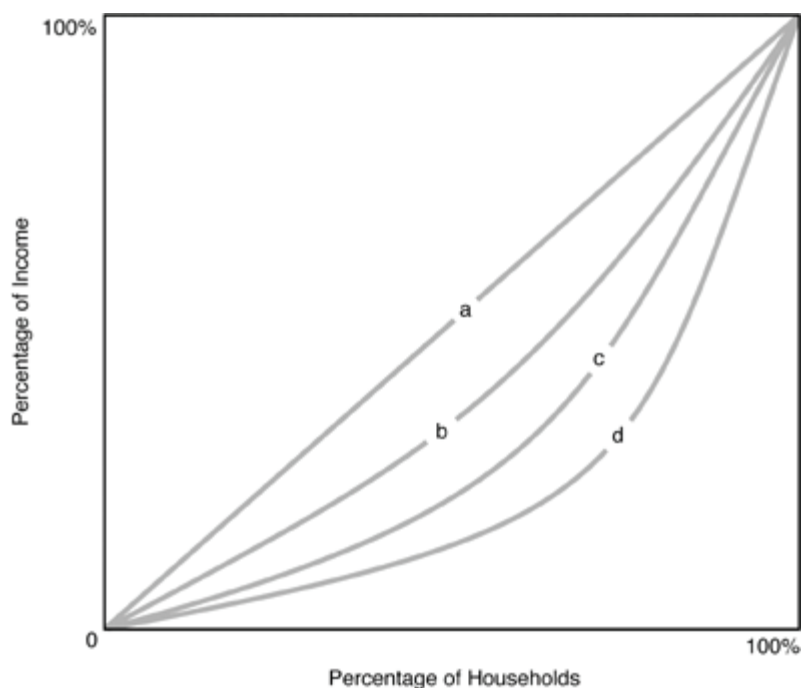
Answer: B

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition



56) Each of the curves plotted in the graph shown in the above figure is known as a

- A) Laffer curve.
- B) Phillips curve.
- C) Keynesian curve.
- D) Lorenz curve.

Answer: D

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

57) In the above figure, the curve that represents the most income inequality is

- A) a.
- B) b.
- C) c.
- D) d.

Answer: D

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

58) In the above figure, the curve that represents the most income equality is

- A) a. B) b. C) c. D) d.

Answer: A

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

59) In the above figure, the curve that represents the **second** most income equality is

- A) a. B) b. C) c. D) d.

Answer: B

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: New

60) All of the following are criticisms of the Lorenz curve analysis EXCEPT

- A) income-in-kind is not figured in.
B) the inequality gap is not an issue that economists study.
C) different sizes of households are ignored.
D) it does not take into consideration lifetime earnings.

Answer: B

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

61) Which of the following statements regarding the Lorenz curve is FALSE?

- A) A Lorenz curve is a geometric representation of the distribution of income.
B) A Lorenz curve that is perfectly straight represents complete income equality.
C) The less bowed is a Lorenz curve, the less equally income is distributed.
D) The more bowed is a Lorenz curve, the more unequally income is distributed.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

62) If a nation's Lorenz curve lies on the 45 degree line of income equality, then

- A) more of the nation's income is received by the lowest 20 percent of families than by the highest 20 percent.
B) income is unequally distributed.
C) more of the nation's income is received by the highest 20 percent of families than by the lowest percent.
D) the income received by each 20 percent of families is 20 percent of the total income.

Answer: D

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 63) Income-in-kind is
- A) money income.
 - B) received in the form of goods and services.
 - C) income in dollars.
 - D) used to buy goods and services.

Answer: B

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 64) Income is considered to be a
- A) nontaxable stream of funds.
 - B) flow.
 - C) stock.
 - D) resource.

Answer: B

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 65) Wealth is considered to be a
- A) nontaxable stream of funds.
 - B) flow.
 - C) stock.
 - D) resource.

Answer: C

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 66) The Lorenz curve shows
- A) how poverty rates change over time.
 - B) the percentage of population below the poverty line.
 - C) the degree of inequality in the income distribution.
 - D) the ratio of cash income to payments-in-kind.

Answer: C

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 67) The most widely used measure of income inequality is
- A) the Bureau of Labor Statistics' cost-of-living index.
 - B) the Laffer curve.
 - C) the Lorenz curve.
 - D) the Gemini coefficient.

Answer: C

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

68) A Lorenz curve measures the _____ on the horizontal axis.

- A) cumulative percentage of family income B) cumulative percentage of family wealth
C) cumulative percentage of families D) demand of families on welfare

Answer: C

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

69) A Lorenz curve measures the _____ on the vertical axis.

- A) cumulative percentage of money income
B) cumulative percentage of family wealth
C) cumulative percentage of families
D) demand of families on welfare

Answer: A

Diff: 1

Topic: 30.1 Income

Question Status: New

70) The Lorenz curve is criticized for all of the following EXCEPT

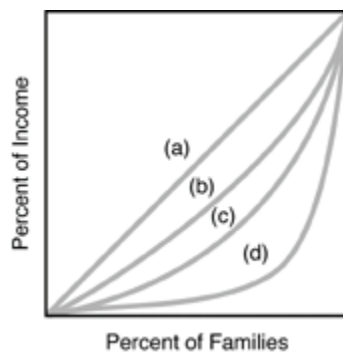
- A) that it excludes transfers-in-kind income.
B) that it does not account for the size differences of households.
C) that it does not account for age differences of households.
D) that it does not account for the impact of trade on the standard of living.

Answer: D

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition



71) Use the above figure. Refer to the above diagram where curves (a) through (d) are for four different countries. Income is equally distributed in

- A) Country A. B) Country B. C) Country C. D) Country D.

Answer: A

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

72) Use the above figure. Refer to the above diagram where curves (a) through (d) are for four different countries. Income is most unequally distributed in

- A) Country A. B) Country B. C) Country C. D) Country D.

Answer: D

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

73) Use the above figure. Refer to the above diagram where curves (a) through (d) are for four different countries. Income is **third** most unequally distributed in

- A) Country A. B) Country B. C) Country C. D) Country D.

Answer: B

Diff: 2

Topic: 30.1 Income

Question Status: New

Name(s)	Income/Person
Al, Bert	\$3,000
David, Jamal	\$2,000
Eve, Eric, Lucy, Cecil	\$1,500
Fran, George	\$1,000

74) Use the above table. What percentage of income is received by the richest 20% of the population?

- A) 33.33 percent B) 16.67 percent C) 11.11 percent D) 40.00 percent

Answer: A

Diff: 2

Topic: 30.1 Income

Question Status: Revised

75) Use the above table. What percentage of income is received by the poorest 60% of the population?

- A) 27.78 percent B) 33.33 percent C) 44.44 percent D) 55.56 percent

Answer: C

Diff: 2

Topic: 30.1 Income

Question Status: New

76) Use the above table. What percentage of income is received by the poorest 20% of the population?

- A) 20 percent B) 13.3 percent C) 11.1 percent D) 7.0 percent

Answer: C

Diff: 2

Topic: 30.1 Income

Question Status: Revised

- 77) Use the information in the above table. The top 40 percent of the population earn
- A) 66.7 percent of the income.
 - B) 55.5 percent of the income.
 - C) 50.0 percent of the income.
 - D) 44.4 percent of the income.

Answer: B

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

- 78) Use the information in the above table. If Income was evenly distributed, each person would receive
- A) \$9,000.
 - B) \$2,500.
 - C) \$1,800.
 - D) \$1,000.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 79) The distribution of money income can be represented graphically using
- A) supply and demand diagrams.
 - B) a Lorenz curve.
 - C) a Keynesian curve.
 - D) a Distribution curve.

Answer: B

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 80) A diagonal straight line on a Lorenz curve represents
- A) a perfectly unequal distribution of income (one person has everything).
 - B) a perfectly equal distribution of income.
 - C) a high level of inequality in the distribution of income.
 - D) an oblique distribution of income.

Answer: B

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

- 81) Since 1929, the distribution of money income in the United States has
- A) become slightly more unequal.
 - B) not dramatically changed.
 - C) become more equal.
 - D) shifted toward the poorer 20 percent away from the richer 20 percent.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 82) In the United States, the distribution of wealth
- A) is the same as the distribution of income.
 - B) is more unequal than the distribution of income.
 - C) is more equal than the distribution of income.
 - D) is equal for all families.

Answer: B

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 83) The wealthiest 10 percent of the population owns about
- A) 30 percent of all the wealth in the United States.
 - B) 50 percent of all the wealth in the United States.
 - C) 70 percent of all the wealth in the United States.
 - D) 90 percent of all the wealth in the United States.

Answer: C

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 84) A geometric representation of the distribution of income is referred to as
- A) the labor supply curve.
 - B) the Lorenz curve.
 - C) the Phillips curve.
 - D) the Keynesian cross.

Answer: B

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

- 85) The 45° line on a Lorenz curve represents
- A) complete income equality.
 - B) complete income inequality.
 - C) complete wealth equality.
 - D) complete wealth inequality.

Answer: A

Diff: 2

Topic: 30.1 Income

Question Status: Previous Edition

- 86) Recent income distribution figures in the United States show
- A) slightly more inequality.
 - B) less inequality.
 - C) greater equity.
 - D) less equity.

Answer: A

Diff: 1

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 87) Regarding income distribution and the distribution of wealth,
- A) wealth is a stock concept and income a flow concept.
 - B) a stock is evaluated at a given moment in time; a flow is evaluated during a period of time.
 - C) income, a flow, can be viewed as a return on wealth.
 - D) All of the above are correct.

Answer: D

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 88) Wealth

- A) is the same as income.
- B) includes assets such as houses, stocks, and bonds.
- C) does not include tangible objects.
- D) is a flow and not a stock.

Answer: B

Diff: 1

Topic: 30.1 Income

Question Status: Previous Edition

- 89) With respect to wealth in the United States, we presently find that the richest one percent of Americans own approximately how much of the nation's wealth?

- A) 10 percent
- B) 40 percent
- C) 70 percent
- D) 85 percent

Answer: B

Diff: 2

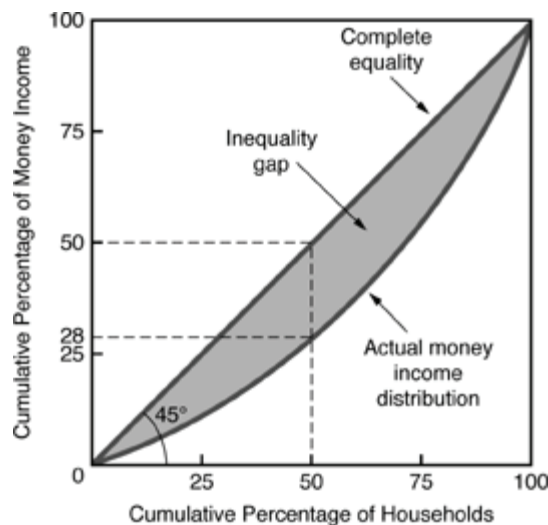
Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Revised

90) Draw and explain a Lorenz curve.

Answer:



In the above figure, the curve displaying the actual money income distribution is the Lorenz curve. The farther the Lorenz curve is from the 45-degree line that shows what the curve would be if money income were equally distributed, the more unequal is the actual distribution of income.

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

91) How does the distribution of wealth differ from the distribution of income in the United States?

Answer: As conventionally measured, the distribution of wealth is more unequally distributed than the distribution of income. However, the wealth figures usually do not include workers' claims on pension plans or human capital. If these were included, the distribution of wealth would be less unequal than reported.

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

92) What are the major criticisms of the Lorenz curve?

Answer: The Lorenz curve typically is presented in terms of the distribution of money income and ignores income in kind. It also does not account for differences in family sizes, the number of income earners in the family, or the ages of the families. The Lorenz curve also reflects income before taxes rather than disposable income, and fails to measure income from the underground economy.

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

- 93) Suppose there is a high inequality in household income between the highest and the lowest income groups in one country. In response, the government raises the income tax for the highest income group and provides subsidies to the lowest-income group. What would happen to the Lorenz curve as a result of the government programs? Explain.

Answer: The government tax and subsidy policies would not change the Lorenz curve because it does not account for the income tax and income in kind provided by the government.

Diff: 2

Topic: 30.1 Income

AACSB: Analytic skills

Question Status: Previous Edition

30.2 Determinants of Income Differences

- 1) Age is a determinant of income because
- A) with age typically come experience, education, and training that can increase income.
 - B) age contributes to costs as medical expenses increase.
 - C) older workers have accumulated more wealth.
 - D) older workers have accumulated less wealth.

Answer: A

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 2) Which of the following are determinants of differences in income?
- A) age
 - B) marginal productivity
 - C) discrimination
 - D) all of the above

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 3) Which factor listed below does NOT help account for the age-earning cycle?
- A) productivity
 - B) number of hours worked each week
 - C) effects of aging
 - D) racial discrimination

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 4) The age-earning cycle shows an individual typically earning
- A) a constant income (adjusted for inflation) over the entire working life of the worker.
 - B) an income that cycles upward and downward as an individual ages.
 - C) an income that increases with age, peaks, and then falls as retirement approaches.
 - D) an income that declines until age 30–35 and then increases rapidly.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 5) The age-earnings profile predicts that earnings will peak at
- A) the 35–40 age level.
 - B) the 45–50 age level.
 - C) the 60–65 age level.
 - D) retirement.

Answer: B

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 6) The age-earning cycle
- A) is an earnings profile of an individual throughout his or her lifetime.
 - B) shows the earnings differences by age and by gender.
 - C) depicts differences in the relationship between age and earnings across countries.
 - D) shows the average incomes of people broken down by age categories.

Answer: A

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 7) The age-earning cycle usually begins
- A) at relatively high income levels.
 - B) at relatively low income levels.
 - C) once a worker reaches 25 years of age.
 - D) only when a worker is employed full time.

Answer: B

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The age-earning cycle shows declining income as a person approaches retirement age because
- A) worker productivity is increasing rapidly.
 - B) worker and hours worked diminish.
 - C) companies choose to promote these workers faster.
 - D) companies add-in Social Security payments as a supplement.

Answer: B

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The age-earning cycle predicts that a typical person will
- A) be earning \$50,000 in the year 2010.
 - B) be earning the lowest income right before retirement.
 - C) be earning the highest income right before retirement.
 - D) be earning the highest income at about the age 45–50.

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 10) The learning curve suggests that an individual will
- A) receive the same income throughout a career.
 - B) gain experience and increase productivity over time.
 - C) be subject to frequent spells of unemployment.
 - D) have an income that falls over time.

Answer: B

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Which of the following does NOT affect a worker's marginal productivity?
- A) Education
 - B) Training
 - C) Talent
 - D) Inheritance of money

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 12) Which of the following is NOT considered to be a factor in the determination of a person's marginal productivity?
- A) Innate abilities such as high intelligence
 - B) Investment in human capital such as education
 - C) On-the-job training
 - D) The elasticity of supply of labor

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 13) Much of a person's increased productivity can be linked to
- A) on-the-job training.
 - B) the prevalent marginal tax rate.
 - C) the price elasticity of demand for the product.
 - D) the income elasticity of demand for the product.

Answer: A

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Marginal productivity theory would suggest that
- A) all workers should be paid the same wage.
 - B) higher productivity will increase the market wage of an individual.
 - C) labor demand will have no impact on the wage paid.
 - D) workers cannot do anything to improve their wage prospects for the future.

Answer: B

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 15) Which of the following determinants of marginal productivity cannot be acquired by someone who wants to increase future productivity?

A) Education B) Training C) Talent D) Experience

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 16) With a human capital investment (such as the investment in going to college), the most important cost tends to be

A) foregone leisure. B) books and equipment.
C) the opportunity cost of not working. D) taxes.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 17) In general, as individuals undertake additional years of schooling,

A) their stock of human capital increases.
B) the marginal productivity of individuals as workers declines.
C) the marginal benefit to society of the extra years of education increases.
D) the marginal productivity of individuals as workers becomes negative.

Answer: A

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 18) The most common type of investment in human capital is

A) having more children per family.
B) the migration of labor in search of better jobs.
C) expanded years of schooling.
D) improved health care and maintenance.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 19) What is typically the main cost of pursuing a college education?

A) Tuition B) Room and board
C) Books and supplies D) Income forgone by not working

Answer: D

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 20) In the absence of discrimination, as human capital investments increase, wages will generally
- A) decrease.
 - B) increase.
 - C) not change.
 - D) increase or decrease.

Answer: B

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Investment in human capital
- A) is quite different from and has a much lower return than investment in physical capital.
 - B) is just like investment in physical capital and has a return similar to that earned from other investments.
 - C) is just like investment in physical capital but has a much greater return than do other investments.
 - D) is not comparable to other investments in any way since human capital is embodied in the person.

Answer: B

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 22) In the United States, inheritance accounts for roughly _____ of income inequality.
- A) 50 percent
 - B) 30 percent
 - C) 20 percent
 - D) 10 percent

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 23) The following are all determinants of income differences examined in the text EXCEPT
- A) age.
 - B) marginal productivity.
 - C) inheritance.
 - D) height.

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 24) Most individual's income peaks when they are about
- A) 30.
 - B) 40.
 - C) 50.
 - D) 60.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 25) The age-earnings cycle is
- A) the distribution of money income by age.
 - B) the distribution of wealth by age.
 - C) the relationship between earnings while working and retirement benefits for an individual.
 - D) the regular earnings profile of an individual throughout his or her lifetime.

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 26) The regular earnings profile of an individual throughout his or her lifetime is
- A) the Lorenz curve.
 - B) the age-earnings cycle.
 - C) wealth.
 - D) income-in-kind.

Answer: B

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 27) Which of the following statements are correct about the age-earnings cycle?
- A) Earnings generally increase up till age 30 and then steadily decrease.
 - B) Earnings increase throughout a person's lifetime until they reach retirement.
 - C) Earnings increase with age because workers become more productive as they age until around 50 years. Around 50 the effects of aging outweighs the further increases in productivity.
 - D) Since every person is different we can reach no general conclusions about the age-earnings cycle.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 28) The earnings of most people
- A) increase steadily until retirement.
 - B) increase with age until around age 50 due to increased experience, training, and hours worked.
 - C) increase with age until around age 40 due to increased experience and hours worked.
 - D) increase with age until around age 60 due to increased experience, training, and hours worked, then level off as hours worked levels off.

Answer: B

Diff: 2

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 29) Suppose all people have the same age-earnings profile and the percent of the population in each age category is the same. The distribution of income at any point in time will be
- A) equal because all have the same profile.
 - B) equal because incomes and wealth levels must then be the same.
 - C) unequal because other sources of income will differ.
 - D) unequal because incomes differ by age.

Answer: D

Diff: 3

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 30) One reason earnings tend to fall before retirement age is that
- A) the experience of people is no longer valuable after they are 50 or 55.
 - B) people tend to reduce the number of hours they work after age 50.
 - C) people are retiring earlier.
 - D) firms discriminate against older workers.

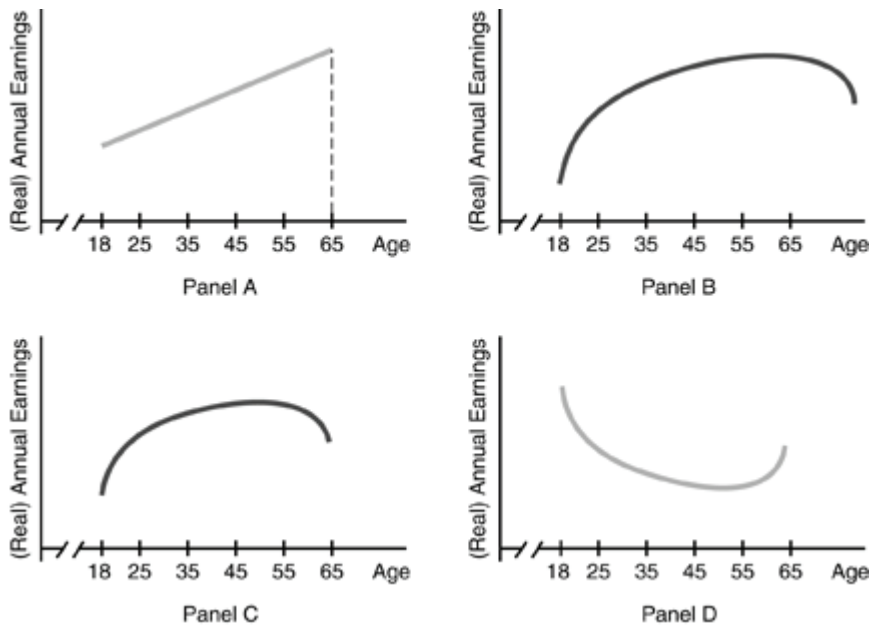
Answer: B

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition



- 31) Refer to the above figure. Which of the graphs are consistent with the age-earnings profile?
- A) Panel A
 - B) Panel B
 - C) Panel C
 - D) Panel D

Answer: C

Diff: 3

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

32) In a competitive economy, workers will be paid according to their

- A) status.
- B) age.
- C) marginal productivity.
- D) need.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

33) Which of the following is not a determinant of an individual's marginal product?

- A) talent
- B) money income
- C) experience
- D) educational level

Answer: B

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

34) Which of the following sources of productivity is the most difficult to acquire?

- A) education
- B) experience
- C) talent
- D) training

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

35) The return on human capital

- A) tends to be much greater than the return on physical capital.
- B) tends to be much lower than the return on physical capital.
- C) is similar to the return on physical capital.
- D) cannot be related to the return on physical capital since human capital and physical capital are so different.

Answer: C

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

36) The main cost of a college education is

- A) tuition if one goes to a private college and room and board if one goes to a public college.
- B) dependent upon whether one's parents pay for the college or not.
- C) the lack of practical experience from spending time in college.
- D) the opportunity cost of not working.

Answer: D

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 37) When measuring the benefits from investing in human capital
- A) the only benefits come from the increase in salary because of going to school.
 - B) in addition to the monetary benefits, the benefit from expanding horizons should be included.
 - C) we must include the costs of tuition and books but not the money made from part-time jobs.
 - D) we must include the foregone earnings in the benefit calculation.

Answer: B

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Inheritance is responsible for about _____ percent of the income inequality in the United States.

A) 10 B) 25 C) 40 D) 60

Answer: A

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Economic discrimination exists when

- A) there is an unequal distribution of income in a country.
- B) both income and wealth are unequally distributed in a country.
- C) there is unequal access to education.
- D) workers with the same marginal revenue products are paid different wages.

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Economic discrimination against minorities exists when

- A) minorities have less education and training than whites.
- B) minorities are paid less than whites on average.
- C) minorities are paid less than whites with the same education, experience, and training.
- D) minorities are in different occupations than whites.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 41) Unequal pay that is caused by economic discrimination will be due to
- A) a noneconomic factor.
 - B) differences in the marginal revenue product.
 - C) a monopolistic labor market.
 - D) difference in human capital.

Answer: A

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 42) Which of the following is a reason for economic discrimination to occur?
- A) differences in access to education
 - B) differences in gender
 - C) differences in the quality of education
 - D) barriers to entry in higher-paying occupations

Answer: B

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 43) The age-earnings profile for most people indicates
- A) earnings rise continually until a person retires.
 - B) earnings initially decline and then rise continually until retirement.
 - C) that when you adjust for inflation, earnings are constant throughout the entire workplace experience.
 - D) earnings rise until the age of about 50 and then begin to fall until retirement.

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 44) Which of the following is NOT considered a determinant of income differences?
- A) productivity
 - B) age
 - C) discrimination
 - D) equity or fairness

Answer: D

Diff: 2

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

- 45) Which of the following does NOT contribute to the marginal productivity of workers?
- A) discrimination
 - B) talent
 - C) experience
 - D) education

Answer: A

Diff: 2

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

46) Inheritance accounts for about

- A) 5 percent of income inequality.
- B) 10 percent of income inequality.
- C) 15 percent of income inequality.
- D) 30 percent of income inequality.

Answer: B

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

47) Which of the following would NOT be considered a determinant of marginal productivity?

- A) talent
- B) gender
- C) experience
- D) training

Answer: B

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

48) Determinants of income differences include all of the following EXCEPT

- A) age.
- B) marginal productivity.
- C) moral hazard.
- D) discrimination.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

49) Typically, the major cost of a college education is

- A) tuition.
- B) books.
- C) foregone income.
- D) housing.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

50) Determinants of the marginal productivity of labor include all of the following EXCEPT

- A) talent.
- B) education.
- C) experience.
- D) location.

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

51) Going to college to get more knowledge and skills is considered to be an increase in

- A) physical capital.
- B) consumption.
- C) human capital.
- D) net exports.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Reflective thinking skills

Question Status: Previous Edition

52) All of the following lead to a difference in income EXCEPT

- A) sales tax.
- B) discrimination.
- C) the age-earnings cycle.
- D) marginal productivity.

Answer: A

Diff: 2

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

53) On average the productivity of an individual usually peaks when the individual is about

- A) 20.
- B) 30.
- C) 50.
- D) 60.

Answer: C

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

54) If a goal of a nation's residents is to increase marginal productivity, they should increase

- A) expenditures on education.
- B) the inheritance tax.
- C) exports.
- D) the marginal propensity to consume.

Answer: A

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

55) All of the following contribute to income inequality EXCEPT

- A) differences in education and training.
- B) differences in job tastes.
- C) differences in talent.
- D) government transfer programs.

Answer: D

Diff: 1

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

56) The typical age-earnings cycle shows that

- A) there is a positive relationship between age and earnings that eventually turns into a negative relationship.
- B) there is a constant positive relationship between age and earnings.
- C) there is a constant negative relationship between age and earnings.
- D) there is no relationship between age and earnings.

Answer: A

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

57) The age-earnings cycle is an earnings profile of an individual throughout the person's lifetime.

The profile shows that

- A) earnings usually peak at age 25 and then decline.
- B) earnings gradually rise until they peak around age 50.
- C) earnings and age have no particular correlation.
- D) younger workers have the most productivity.

Answer: B

Diff: 2

Topic: 30.2 Determinants of Income Differences

Question Status: Previous Edition

58) The opportunity cost of going to college for a student receiving a scholarship

- A) is the income that she would have earned if she did not go to college.
- B) is the risk of dropping out.
- C) is the food and living expenses that she has to purchase while in college.
- D) is zero because she does not have to pay tuition.

Answer: A

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: New

59) Why doesn't the age-earning cycle continuously increase until retirement age?

Answer: The typical worker sees a decline in earnings as he or she approaches retirement because people tend to reduce their hours worked, and have lower stamina and strength. The detrimental effects of aging tend to overcome the increases in productivity due to experience and training.

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

60) What is the age-earnings cycle? What is the typical age-earnings profile for a U.S. resident?

Answer: The age-earnings cycle is the regular earnings profile of an individual throughout his or her lifetime. It usually starts with a low income, builds gradually to a peak at around age 50, and then gradually curves down until retirement age, at which time it approaches zero.

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 61) Earnings usually reflect a person's productivity. What are factors that cause differences in productivity across people so that earnings differ too?

Answer: Productivity differences reflect differences in talent, training, experience, and human capital. People with more training or experience earn more, as do people with more human capital. Finally, some people just have a greater ability for certain things and this makes them more productive.

Diff: 1

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

- 62) "The typical age-earning cycle provides evidence of economic discrimination by age." Do you agree or disagree? Why?

Answer: Disagree. The typical age-earning cycle starts with a low income, builds gradually to a peak at around age 50, and then gradually drops until it approaches zero at retirement. The variations of earning by age, however, reflect many economic factors other than age, including work experience and productivity, and the number of hours per week that are worked. Therefore, the age-earning cycle alone is not evidence of age discrimination.

Diff: 2

Topic: 30.2 Determinants of Income Differences

AACSB: Analytic skills

Question Status: Previous Edition

30.3 Theories of Desired Income Distribution

- 1) The productivity standard for the distribution of income can be thought of as
- A) rewarding people according to their ability to produce useful goods.
 - B) benefiting only the least productive worker.
 - C) proving that egalitarians are correct.
 - D) rewarding only the wealthy.

Answer: A

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 2) One productivity standard for income distribution stated in the text is
- A) income distribution should be based on contribution to society's total output.
 - B) tax payments are higher for higher income people.
 - C) poor people pay too much in taxes.
 - D) the poor should contribute more to society.

Answer: A

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 3) The contributive standard (merit standard) for distributing income implies that
- A) income should be distributed equally.
 - B) income should be distributed according to need.
 - C) income should be distributed according to the marginal productivity of workers.
 - D) a transfer should be contributed to an individual above his or her contribution to net output.

Answer: C

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 4) The contributive standard of income distribution is met by
- A) setting wages according to marginal productivity.
 - B) having a highly progressive income tax.
 - C) having the government determine all wages.
 - D) using local committees to determine the needs of families in the area.

Answer: A

Diff: 3

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The egalitarian principle of income refers to
- A) each person being paid differently.
 - B) each person receiving the same income.
 - C) each person receiving tax breaks.
 - D) each person working the same number of hours.

Answer: B

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 6) "To each exactly the same" refers to
- A) the productivity standard.
 - B) the free market doctrine.
 - C) the egalitarian principle.
 - D) the Lorenz curve.

Answer: C

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Revised

- 7) A major problem with using the egalitarian principle to distribute income is that
- A) it would eliminate the incentives that rewards provide in an economic system.
 - B) it is difficult to know when an equal distribution of income has been achieved.
 - C) it would not be fair to the wealthy.
 - D) there exist no mechanisms to carry out such a scheme.

Answer: A

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 8) If income were distributed according to the egalitarian principle of "to each exactly the same," then one problem would be that
- A) there would be little or no incentive for individuals to take risky, hazardous, or unpleasant jobs.
 - B) individuals would have an excess desire to invest in their own human capital.
 - C) too many individuals would want to take risky jobs.
 - D) productivity levels would probably become too high.

Answer: A

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The productivity standard says
- A) that everyone should have exactly the same income.
 - B) that the age-earnings cycle should determine income.
 - C) that people should be compensated on the basis of what they produce.
 - D) that people should be compensated on the basis of their need.

Answer: C

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 10) The egalitarian principle refers to:
- A) "To each according to her need."
 - B) "To each exactly the same."
 - C) "To each according to her productivity."
 - D) "To each according to his ability."

Answer: B

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The merit standard refers to:
- A) "To each according to her need."
 - B) "To each exactly the same."
 - C) "To each according to her productivity."
 - D) "To each according to his ability."

Answer: C

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: New

- 12) The egalitarian principle says
- A) that everyone should have exactly the same income.
 - B) that the age-earnings cycle should determine income.
 - C) that people should be compensated on the basis of what they produce.
 - D) that people should be compensated on the basis of their need.

Answer: A

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 13) The belief that everyone should have exactly the same amount of income is
- A) merit standard.
 - B) comparable-worth doctrine.
 - C) egalitarian principle.
 - D) Lorenz principle.

Answer: C

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Revised

- 14) If we were to pay everyone exactly the same income
- A) there would be a large amount of economic growth.
 - B) there would be no incentive to invest in human capital.
 - C) more people would seek an education.
 - D) productivity would increase.

Answer: B

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Which of the following is considered a contributive standard for the distribution of income?
- A) rewarding workers according to their productivity
 - B) rewarding workers according to their needs
 - C) rewarding workers according to the number of their dependents
 - D) all of the above

Answer: A

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 16) If an employer pays employees according to the volume of business revenue they individually generate, then the employer is applying the
- A) productivity standard.
 - B) merit standard.
 - C) contributive standard.
 - D) all of the above

Answer: A

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Merit is judged by one's ability to produce
- A) what is considered useful by society.
 - B) what is considered valuable by society.
 - C) what is considered beneficial to society.
 - D) all of the above

Answer: D

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

Question Status: New

- 18) We measure a person's productive contribution in a market system by
- A) the marginal factor cost theory of the firm.
 - B) the profit maximization theory of the firm.
 - C) the marginal revenue product theory of wage determination.
 - D) the egalitarian theory of wage determination.

Answer: C

Diff: 1

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: New

- 19) Which of the distributive standards does NOT involve a value judgment?
- A) Productivity standard
 - B) Egalitarian standard
 - C) Merit standard
 - D) All of the standards involve value judgments.

Answer: D

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Which of the following is NOT a normative standard for income distribution?
- A) the productivity standard
 - B) the egalitarian principle
 - C) rewarding people according to merit
 - D) All of the above are normative standards.

Answer: D

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Revised

- 21) If you believe that a worker should be paid on the basis of what he or she produced, you believe in
- A) the egalitarian principle.
 - B) the productivity standard.
 - C) the benefits standard.
 - D) the comparative worth principle.

Answer: B

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 22) If you believe that all workers should be paid the same, you believe in the
- A) egalitarian principle.
 - B) productivity standard.
 - C) benefits standard.
 - D) comparative worth principle.

Answer: A

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 23) The idea that the Lorenz curve should be along the 45 degree line is consistent with
- A) the productivity standard.
 - B) the egalitarian principle.
 - C) the conservative principle.
 - D) none of the above.

Answer: B

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Which of the following is NOT correct regarding the theories of income distribution?
- A) Dealing with how income *ought* to be distributed is a normative issue.
 - B) The productivity standard for the distribution of income is stated "to each according to what they produce."
 - C) The egalitarian principle of income distribution is "to each exactly the same."
 - D) Dealing with how income *should* be distributed is a positive economic issue.

Answer: D

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 25) "To each according to what he or she produces" describes the _____ theory of income determination.

A) productivity B) egalitarian C) equity D) needs

Answer: A

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

Question Status: Previous Edition

- 26) A person's productive contribution in a capitalist society is measured by determining the
- A) market value of the individual's output.
 - B) comparable output of other workers in similar jobs.
 - C) total number of goods produced by the individual.
 - D) index of occupational values.

Answer: A

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Explain the two theories of desired income distribution: the egalitarian principle and the productivity standard.

Answer: The egalitarian principle suggests that income should be distributed equally across all individuals in society. The productivity standard suggests that people should be rewarded according to merit, with merit being judged by one's ability to produce what is considered valued by society.

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Compare and contrast the two normative standards to income distribution discussed in the text: The productivity standard and the egalitarian principle.

Answer: The productivity standard is also called the contributive standard or the merit standard. People are rewarded according to merit, where merit is determined by one's ability to produce what is considered useful by society. The egalitarian principle would distribute income equally. The two principles are very different since the former will generate an unequal distribution of income and the latter an equal distribution of income. They also differ greatly in incentive structure. The egalitarian principle provides no incentives for doing work that is unpleasant or for bearing risk.

Diff: 2

Topic: 30.3 Theories of Desired Income Distribution

AACSB: Analytic skills

Question Status: Previous Edition

30.4 Poverty and Attempts to Eliminate It

- 1) The lowest percentage of the U.S. population in poverty is found when using which measurement of household resources?
- A) Private income only
 - B) Private income plus cash benefits
 - C) Private income with cash and in-kind benefits
 - D) Private income with Social Security payments subtracted

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 2) The Social Security system is financed by
- A) a tax on individual retirement accounts.
 - B) a payroll tax paid only by employers.
 - C) a payroll tax paid by both employers and employees.
 - D) a tax on luxury goods.

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Revised

- 3) The Social Security system is a(n)
- A) *ad valorem* system.
 - B) ability to pay system.
 - C) progressive tax system.
 - D) pay-as-you-go system.

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 4) The government finances Social Security through
- A) excise taxes.
 - B) payroll taxes.
 - C) the sale of goods and services.
 - D) state taxes.

Answer: B

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Revised

- 5) Which of the following statements is correct?
- A) The Social Security program funnels transfers from retired individuals to the youngest children of low-income families.
 - B) Social Security is an entitlement which is available to everyone, including those who have not contributed to the fund during their active work years.
 - C) Social Security benefits are received by people who had contributed to the fund during their active work years.
 - D) As a public transfer payment, Social Security benefit is available only to the poor.

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 6) The Social Security Fund is designed as
- A) a pay-as-you-go system.
 - B) an investment portfolio that individual contributors can make periodic payments into.
 - C) an account that allows periodic withdrawals by contributors.
 - D) an individual account with a federal reserve bank.

Answer: A

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Revised

- 7) Social Security is a pure transfer program because
- A) it transfers funds from current workers to the poor.
 - B) the government transfers funds from middle-income workers to welfare recipients.
 - C) current payroll taxes are used to pay the eligible retirees.
 - D) the government subsidizes the medical bill of the poor.

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 8) Since Social Security is a pay-as-you-go program, the funds for the people retiring today
- A) come from those of us working today and in the future.
 - B) come from the Federal Reserve.
 - C) come from import taxes.
 - D) come from foreign sales of gold.

Answer: A

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 9) The original impetus for Social Security was
- A) to provide retirement fund for all persons.
 - B) to prevent future depressions.
 - C) the result of social engineering by politicians.
 - D) a proper response to the stock market crash of 1929.

Answer: A

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Revised

- 10) The official poverty level is based on
- A) total net worth.
 - B) pretax income, and includes cash subsidies but does not include in-kind subsidies such as food stamps.
 - C) after-tax income, and includes both cash and in-kind government subsidies.
 - D) wages and salaries, plus any unreported amounts of income from the underground economy.

Answer: B

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The threshold income level originally used to determine official poverty statistics was based on
- A) an income three times the amount of money needed to purchase a nutritionally adequate diet.
 - B) standards provided by the United Nations based on studies done in poor countries around the world.
 - C) the highest income of the lowest one-fifth of families in the country.
 - D) a per capita income of \$1,000 in 1958 prices.

Answer: A

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

12) Which of the following CANNOT be eliminated in a growing economy such as the U.S. economy?

- A) absolute poverty
- B) relative poverty
- C) both absolute and relative poverty
- D) Neither absolute nor relative poverty can be eliminated.

Answer: B

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

13) When poverty is defined by an absolute real income level, what will happen to the poverty rate if income per capita in a country continues to grow?

- A) The poverty rate will increase forever.
- B) The poverty rate will eventually be zero.
- C) The poverty rate will increase and then decrease.
- D) The poverty rate will never change.

Answer: B

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

14) When poverty is defined by an relative real income level, what will happen to the poverty rate if the distribution of income is not perfectly equal?

- A) The poverty rate will increase forever.
- B) The poverty rate will eventually be zero.
- C) The poverty rate will always remain constant.
- D) The poverty rate will change, but always exist.

Answer: D

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: New

15) Relative poverty

- A) has been eliminated in the United States.
- B) will always be with us.
- C) has never existed in the United States.
- D) can be eliminated in the next 20 years.

Answer: B

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

16) Relative poverty refers to

- A) how a family's income compares to the incomes of those around them.
- B) poverty levels at a stated income cutoff.
- C) the number of poor in one state relative to another.
- D) None of the above.

Answer: A

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Previous Edition

17) If we include cash benefits and in-kind benefits available to low-income people, the share of the U.S. population in poverty

- A) drops dramatically.
- B) increases somewhat.
- C) increases dramatically.
- D) does not change.

Answer: A

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

18) If an individual receives in-kind transfers from the government in the form of food stamps, public housing, and so on, his money income is

- A) less than his total income.
- B) greater than his total income.
- C) the same as his total income.
- D) equal to his in-kind income plus his wages.

Answer: A

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

19) Which of the following statements about the Social Security (OASDI) program is FALSE?

- A) Benefits are paid to individuals who would be financially secure in their absence.
- B) Benefits are based on need.
- C) Benefits are an intergenerational transfer program from those who work to those who don't work.
- D) When an insured worker dies, benefits continue for widows or other dependents.

Answer: B

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

20) Which of the following statements is an accurate statement about the Social Security (OASDI) program?

- A) The program is financed by voluntary contributions.
- B) Only 50 percent of workers are covered by OASDI.
- C) Benefits are based on financial need.
- D) The program transfers income from those who work to those who do not work.

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

21) Which of the following statements about Social Security is FALSE?

- A) Social Security is an intergenerational transfer where the benefits paid are only roughly related to past earnings.
- B) Over 90 percent of all employed workers in the United States are covered by Social Security.
- C) Benefit payments under Social Security are based on the recipient's need.
- D) Benefit payments under Social Security redistribute income from young to old.

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

22) Which of the following statements about the Supplemental Security Income (SSI) program is FALSE?

- A) It is designed to establish nationwide minimum incomes for the aged, the blind, and the disabled
- B) Benefits are based on need.
- C) Recipients who receive benefit payments under Social Security are also eligible for SSI.
- D) It covers children and individuals with mental disabilities, including drug addicts and alcoholics.

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: New

23) Which of the following statements about the Earned Income Tax Credit Program (EITC) program is FALSE?

- A) On net the EITC discourages work by low- or moderate- income earners more than it rewards work.
- B) It provides rebates of Social Security taxes to low-income workers.
- C) Recipients who receive benefit payments under Social Security are also eligible for SSI.
- D) It is the largest poverty reduction program in the U.S..

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: New

- 24) All of the following are social insurance programs designed to attack poverty EXCEPT
- A) Social Security.
 - B) temporary assistance to needy families.
 - C) food stamps.
 - D) tuition assistance.

Answer: D

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Which of the following income maintenance programs is designed to establish nationwide minimum incomes for the aged, the blind, and the disabled?
- A) The Old-Age Survivors' and Disability Insurance (OASDI) program
 - B) The Supplemental Security Income (SSI) program
 - C) The Temporary Assistance to Needy Families (TANF) program
 - D) The food stamps program

Answer: B

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 26) Under the Social Security program currently in existence,
- A) benefits are based on need.
 - B) benefits are determined by whether or not one contributed to the system.
 - C) benefits are provided to everyone who contributed to the system EXCEPT those under private retirement programs that provide an annual income in excess of \$13,500.
 - D) benefits are guaranteed to be no lower for future retirees than for current retirees.

Answer: B

Diff: 3

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 27) The funds paid to the government today for Social Security taxes are
- A) invested to provide for the future benefits of the taxpayers.
 - B) saved to ensure sufficient resources in the future to pay the benefits of workers today when they reach retirement age.
 - C) used by the government to purchase goods and services that will enhance the future productivity of business in the country.
 - D) used to pay the benefits of those who are currently retired.

Answer: D

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 28) The purpose of the Supplemental Security Income program is
- A) to provide a minimum income for all households with children.
 - B) to provide a guaranteed minimum income for all Americans.
 - C) to provide a minimum income for the aged, blind, and the disabled.
 - D) to supplement Social Security for the elderly with medical problems.

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Previous Edition

- 29) The purpose of the Temporary Assistance to Needy Families program is
- A) to provide rebates of Social Security taxes to low-income workers.
 - B) to provide cash assistance and supportive services to assist the family, helping them achieve economic self-sufficiency.
 - C) to provide a minimum income for the aged, blind, and the disabled.
 - D) to supplement Social Security for the elderly with medical problems.

Answer: B

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: New

- 30) Current income maintenance programs
- A) often provide benefits to people who are working and earning substantially more than the poverty level.
 - B) reduce the incentive of recipients to work.
 - C) have safeguards to ensure that recipients work whenever physically able.
 - D) fail to make the income distribution more equal.

Answer: B

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 31) The purpose of the Earned Income Tax Credit Program (EITC) is to
- A) provide rebates of Social Security taxes to low-income workers.
 - B) encourage low- and moderate-income workers to take second jobs to increase their income.
 - C) provide in-kind services such as food stamps and public housing to those individuals who have poor credit.
 - D) give tax credits to low-income individuals who do volunteer work in their communities.

Answer: A

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Previous Edition

- 32) The official number of poor in the United States
- A) is higher today than at any other time in our history.
 - B) has risen steadily since 1981.
 - C) was lowest in the late 1960s.
 - D) is lowest today.

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Originally, the threshold income level used to determine official poverty statistics was based on
- A) a per capita income of \$3000 in 1955 prices.
 - B) the lowest income of the second quartile of families in the country.
 - C) an income three times greater than necessary to purchase a nutritionally adequate diet.
 - D) figures developed by a committee in the American Economic Association.

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Which of the following statements is TRUE?
- A) A growing economy should see a decline in relative poverty but not in absolute poverty.
 - B) A growing economy should see a decline in absolute poverty but not in relative poverty.
 - C) A growing economy should see a decline in both absolute and relative poverty.
 - D) A growing economy is usually unrelated to changes in either absolute or relative poverty.

Answer: B

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Which of the following statements is FALSE?
- A) The official absolute poverty level in the United States is far above the average income of many countries in the world.
 - B) In a relative sense, the problem of poverty will always exist.
 - C) An equal distribution of income would eliminate relative poverty.
 - D) An equal distribution of income would eliminate absolute poverty.

Answer: D

Diff: 3

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Many argue the poor are getting poorer, at least in a relative sense. Evidence that contradicts this is that
- A) household income of the lowest twenty percent of households relative to the highest twenty percent of households has fallen over the last thirty years.
 - B) the official poverty level of income has increased over the years.
 - C) household spending of the lowest twenty percent of households relative to the highest twenty percent of households has held constant over the last thirty years.
 - D) the pretax distribution of income is more equal than the after-tax distribution of income.

Answer: C

Diff: 3

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 37) The official poverty level is based on pretax income including cash. Which of the following statements is correct regarding this official specification of poverty?
- A) This is a good definition of poverty since it is made up of the income from productive resources.
 - B) This is not a good definition of poverty because our tax structure consists of different tax brackets based on income.
 - C) This is not a good definition of poverty because it does not include in-kind subsidies.
 - D) This is a good definition of poverty because it is easy to measure.

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Social Security is
- A) an insurance program operated by the federal government.
 - B) a retirement program that invests the person's contributions into interest-earning financial assets so the proceeds can fund the person's retirement.
 - C) a social insurance program that guarantees that an elderly person will never fall below the poverty level.
 - D) an intergenerational transfer program that only vaguely relates to past earnings.

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Previous Edition

- 39) The income transfers that a person receives from Social Security
- A) is not related to the amount that they have contributed.
 - B) is a yearly proportion of the amount contributed.
 - C) is the same for everyone whether they contributed to the system or not.
 - D) depends entirely on the amount received from private pensions.

Answer: A

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Which program provides assistance to the aged, blind and disabled?
- A) Social Security Program
 - B) Supplemental Security Income program
 - C) TANF
 - D) Earned Income Tax Credit

Answer: B

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 41) The government program that provides aid to families in need is
- A) TANF.
 - B) Social Security program.
 - C) Supplemental Security Income program.
 - D) Earned Income Tax Credit.

Answer: A

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 42) Which income maintenance program was started to support the nation's farmers?
- A) Supplemental Security Income
 - B) Food Stamps
 - C) Earned Income Tax Credit Program
 - D) AFDC

Answer: B

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The program that was created to provide rebates of Social Security taxes to low-income workers is
- A) Supplemental Security Income.
 - B) Food Stamps.
 - C) Earned Income Tax Credit Program.
 - D) TANF.

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 44) Since the War on Poverty was started in 1965, the United States has spent more than \$12 trillion on income maintenance programs. The effect has been to
- A) reduce poverty levels substantially.
 - B) reduce poverty levels moderately.
 - C) have virtually no effect on poverty levels.
 - D) increase poverty substantially.

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 45) In an attempt to reduce the poverty rate, there has recently been a movement away from income maintenance programs to
- A) Supplemental Security Income programs.
 - B) reducing the age a person can retire at.
 - C) encouraging people to get jobs.
 - D) incorporating the Lorenz policy in decisions.

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 46) The USDA threshold income level was originally based on the cost of
- A) housing.
 - B) transportation.
 - C) basic clothing.
 - D) a nutritionally adequate food plan.

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Which of the following groups of U.S. residents would likely qualify for SSI benefits?
- A) college students
 - B) incarcerated murderers
 - C) the disabled
 - D) new federal retirees

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 48) The _____ program was created in 1975 to provide rebates of Social Security taxes to low-income workers.
- A) food stamp
 - B) SSI
 - C) TANF
 - D) EITC

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Revised

- 49) Which of the following statements is FALSE regarding the definition of poverty?
- A) A threshold income level is used to define poverty.
 - B) Adjustments to the poverty level are made on the basis of changes in the Consumer Price Index.
 - C) Real incomes in the United States have been growing at a compounded annual rate of almost 2 percent per capita.
 - D) Poverty cannot be defined in relative terms.

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

50) In a growing economy, it is possible to eliminate

- A) absolute poverty.
- B) relative poverty.
- C) both absolute and relative poverty.
- D) either absolute nor relative poverty.

Answer: A

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

51) All of the following are governmental efforts to decrease poverty EXCEPT

- A) Supplemental Security Income
- B) the earned income program.
- C) transfer payments.
- D) tariffs.

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Previous Edition

52) The official poverty rate in the United States includes

- A) less than 5 percent of the population.
- B) between 10 and 15 percent of the population.
- C) between 20 to 25 percent of the population.
- D) over 35 percent of the population.

Answer: B

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

53) The poverty income threshold in the United States was originally calculated by

- A) multiplying a nutritionally adequate food plan for emergency use by 4.
- B) multiplying a nutritionally adequate food plan for emergency use by 2.
- C) multiplying a nutritionally adequate food plan for emergency use by 3.
- D) multiplying a nutritionally adequate food plan for emergency use by 5.

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

54) Which of the following is NOT a program designed to attack poverty?

- A) Supplementary Security Income
- B) food stamps
- C) Social Security
- D) federal corporate income tax

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Previous Edition

55) Official poverty rates in the last 40 years have

- A) fallen dramatically.
- B) risen dramatically.
- C) stayed roughly the same.
- D) been eliminated.

Answer: C

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

56) The official definition of poverty is

- A) exactly the 12 percent of U.S. residents with the lowest incomes.
- B) exactly the 20 percent of U.S. residents with the lowest incomes.
- C) an absolute measure.
- D) a relative measure.

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

57) The federal government began officially measuring poverty in the

- A) 1860s.
- B) 1900s.
- C) 1930s.
- D) 1960s.

Answer: D

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

58) The incidence of absolute poverty is reduced by

- A) annual recalculations of the poverty line.
- B) government welfare programs.
- C) economic growth.
- D) the size of the budget deficit.

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

59) All of the following aim to reduce income inequality EXCEPT

- A) Social Security payments.
- B) earned income tax credits.
- C) regressive taxes.
- D) food stamp programs.

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Previous Edition

- 60) Attempts to alleviate poverty have included all of the following income-maintenance programs EXCEPT
- | | |
|---------------------|--|
| A) Social Security. | B) temporary assistance to needy families. |
| C) 401(k) plans. | D) food stamps. |

Answer: C

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Previous Edition

- 61) Some economists argue that the official poverty figures overstate poverty in this country. Why?

Answer: Official poverty figures do not include in-kind subsidies, which would lift some people above the official poverty cutoff. They also do not include income from the underground economy. Someone who works for cash and does not report it to the government has a higher income than official statistics indicate.

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 62) How can absolute poverty be eliminated? How can relative poverty be eliminated? Does the elimination of one lead to the elimination of the other? Explain.

Answer: Absolute poverty can be eliminated by economic growth that lifts all families above the poverty level. Relative poverty can be eliminated by a perfectly equal distribution of income. Eliminating one does not eliminate the other. If incomes rise so that no one is below the poverty level, but higher incomes rise faster, relative poverty may increase. If everyone earns a subsistence income, there is no relative poverty but everyone experiences absolute poverty.

Diff: 2

Topic: 30.4 Poverty and Attempts to Eliminate It

AACSB: Analytic skills

Question Status: Previous Edition

- 63) Describe four of the five major income maintenance programs in the United States that were discussed in the text.

Answer: The Social Security program has helped maintain income for the elderly, while the Supplemental Security Income and Temporary Assistance to Needy Families have provided benefits for those who do not qualify for Social Security. Food stamps subsidize food consumption for many people, and the Earned Income Tax Credit Program provides rebates of Social Security taxes to low-income workers.

Diff: 1

Topic: 30.4 Poverty and Attempts to Eliminate It

Question Status: Revised

30.5 Health Care

- 1) Which of the following is considered a "third party" within the medical services industry?
- A) The patient
 - B) The private insurance company
 - C) The for-profit hospital
 - D) The medical provider, i.e. physician

Answer: B

Diff: 1

Topic: 30.5 Health Care

Question Status: Previous Edition

- 2) According to the text, government spending accounts for about _____ percent of all U.S. health care expenditures.
- A) 70
 - B) 10
 - C) 30
 - D) 40

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Revised

- 3) An important contributor to rising U.S. health care costs in recent years is
- A) less interest on the part of Americans to stay physically fit.
 - B) the increasing proportion of the population that smokes.
 - C) an easing of standards at medical schools that has permitted unqualified people to become physicians.
 - D) the aging of the population.

Answer: D

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 4) The percentage of national income spent on health care
- A) has steadily decreased since 1965.
 - B) has steadily increased since 1965.
 - C) increased until the end of the 1970s and then decreased in the 1980s and 1990s.
 - D) decreased until the end of the 1970s and then increased in the 1980s and 1990s.

Answer: B

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The impact of technological change in the health care area has been to
- A) reduce the quality of health care while raising the costs.
 - B) reduce the cost of health care.
 - C) increase the quality of health care while decreasing the costs.
 - D) increase both the quality of health care and the costs of health care.

Answer: D

Diff: 2

Topic: 30.5 Health Care

Question Status: Previous Edition

- 6) A problem with third-party financing of so much of health care is that
- A) it reduces the quality of health care received by most people.
 - B) it discourages physicians from getting second opinions and running enough tests to be sure the right procedure is followed.
 - C) it causes the demand for medical services to increase, which causes health care costs to increase.
 - D) it discourages people from relying on the judgments of physicians in making decisions about health care.

Answer: C

Diff: 3

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Among the reasons that health care expenditures have grown so rapidly in the United States over the last two decades are all of the following EXCEPT
- A) an emphasis on wellness programs and preventive medicine.
 - B) the aging of the U.S. population.
 - C) expensive new medical technologies.
 - D) third-party financing.

Answer: A

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 8) An individual with no deductible on his or her health insurance policy will tend to engage in a lifestyle that is less healthy than a person with a \$2,000 insurance deductible. This is said to be a problem of
- A) healthy selection.
 - B) moral hazard.
 - C) wellness training.
 - D) blue-zoning.

Answer: B

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The top 5 percent of health care users in the United States account for
- A) 30 percent of all health costs.
 - B) over 50 percent of all health costs.
 - C) over 75 percent of all health costs.
 - D) almost 90 percent of all health costs.

Answer: B

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

10) Which of the following is **not** a reason for rising health care expenditures in the United States over the last 40 years?

- A) Aging of the population
- B) Technological change
- C) Third-party financing of health care expenditures
- D) Discovery of new diseases

Answer: D

Diff: 2

Topic: 30.5 Health Care

Question Status: Previous Edition

11) The impact of technological change in the health-care area has been to

- A) increase both the quality of health care and the monetary costs of health care.
- B) increase the monetary costs of health care and decrease the quality of health care.
- C) decrease the monetary costs of health care while decreasing the quality of health care.
- D) increase longevity but decrease quality of life.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

12) Rising health care spending is a problem confronting the federal government because

- A) it is the government's job to make sure everyone receives the health care they need.
- B) federal spending on health care has increased rapidly over the last thirty years.
- C) the federal-funded VA hospitals have been expanding faster than government revenues can provide for.
- D) the medical expenses of federal employees has been rising at a rate much faster than for non-federal workers.

Answer: B

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

13) An example of third-party financing of health care is

- A) patients paying for their visit to the doctor.
- B) patients not going to the doctor in order to save money.
- C) a patient going to another doctor for a second or a third opinion.
- D) Medicare.

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 14) One problem with third-party financing of health care is that
- A) people have more incentive to utilize health care.
 - B) demand falls so that suppliers cannot take advantage of economies of scale.
 - C) it reduces the quality of health care people receive.
 - D) it discourages people from relying on their physicians' advice in making health care decisions.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 15) What impact do private insurance companies and Medicare have on national medical costs?
- A) Medical costs go up because insurance leads to an increase in the quantity demanded of medical services.
 - B) Medical costs go up because insurance will lead to the reduction in the supply of medical services due to the amount of paperwork required.
 - C) Medical cost are unaffected by insurance companies.
 - D) Medical costs go down because the insurance company pays the bill.

Answer: A

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Other things being equal, a national health insurance program would
- A) generate higher life expectancies and lower infant mortality rates.
 - B) generate lower life expectancies and higher infant mortality rates.
 - C) increase total health care expenditures.
 - D) increase the quality of life.

Answer: C

Diff: 3

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Other things being equal, a national health insurance program would
- A) decrease the demand for health care.
 - B) decrease moral hazard.
 - C) decrease total health care expenditures.
 - D) reduce individuals' incentives to make decisions that promote better health.

Answer: D

Diff: 3

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 18) Rising healthcare costs are attributable to
- A) people living longer and desiring more care.
 - B) reliance on expensive technology to support and prolong life.
 - C) third-party financing of healthcare costs.
 - D) all of the above

Answer: D

Diff: 3

Topic: 30.5 Health Care

Question Status: Previous Edition

- 19) A benefit of deductibles and health savings accounts is that they
- A) reduce the moral hazard problem associated with third-party payers.
 - B) increase the quality of health care.
 - C) reduce the use of expensive techniques for hopeless cases.
 - D) reduce the incomes of physicians.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Revised

- 20) The percentage of total national income spent on health care in the United States has
- A) declined rapidly since 1965.
 - B) remained below the level of inflation.
 - C) risen steadily since 1965.
 - D) remained constant over the last few years.

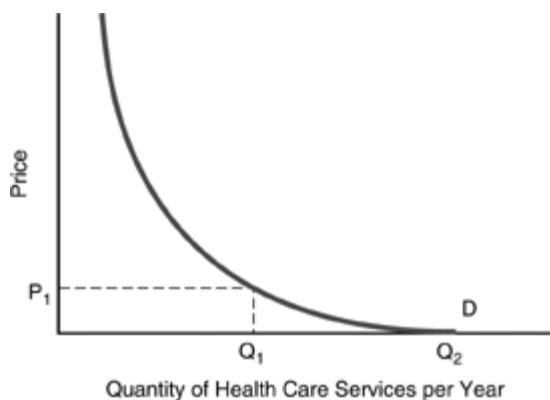
Answer: C

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition



- 21) The above figure supports all of the following statements regarding health care EXCEPT
- A) the demand for health care is insensitive to price changes; as the price goes up, so does the quantity demanded.
 - B) if all medical expenses were paid for by third parties, the quantity demanded would increase tremendously.
 - C) due to third party payments, patients demand a higher quantity of health care services per year.
 - D) the lower the deductible, the greater is the quantity demanded of health care services per year.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Health care costs have been rising due to
- A) an aging population.
 - B) new technologies.
 - C) third-party financing.
 - D) All of the above are correct.

Answer: D

Diff: 1

Topic: 30.5 Health Care

Question Status: Previous Edition

- 23) Approximately how much of aggregate national income in the United States is spent on health care every year since 2000?
- A) 5 percent
 - B) 10 percent
 - C) 15 percent
 - D) 30 percent

Answer: C

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

24) The use of hospitals today is dominated by

- A) the elderly.
- B) immigrants.
- C) obstetrical care.
- D) the wealthy.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

25) The impact of technology on health care has

- A) provided for a higher quality of life.
- B) increased health care costs.
- C) contributed to increased life expectancy.
- D) All of the above are correct.

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

26) All of the following are reasons that health care costs have risen so much in the past few decades EXCEPT

- A) the aging population.
- B) higher imports.
- C) new technologies.
- D) third party payments.

Answer: B

Diff: 1

Topic: 30.5 Health Care

Question Status: Previous Edition

27) The idea that some people engage in risky behavior due to the fact that they have good health care is known as

- A) moral hazard.
- B) risk aversion.
- C) zero-sum game.
- D) risk-taking behavior.

Answer: A

Diff: 2

Topic: 30.5 Health Care

Question Status: Previous Edition

28) The twin economic problems of the U.S. health care industry are the

- A) rising health care costs and the declining quality of health care services.
- B) rising health care costs and the rising malpractice insurance costs.
- C) rising health care costs and the moral hazard problem in health care services.
- D) declining rate of immunization rates and the rising malpractice insurance costs.

Answer: C

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

29) In the year 2010, the United States spent about

- A) 16 percent of GDP on health care.
- B) 100 percent of GDP on health care.
- C) 6 percent of GDP on health care.
- D) 2 percent of GDP on health care.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Revised

30) Currently less than _____ of all health care spending is paid by individuals.

- A) 60 percent.
- B) 35 percent.
- C) 20 percent.
- D) 5 percent.

Answer: C

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

31) Which of the following is NOT a reason for the increase in health care costs?

- A) the aging of the population
- B) the implementation of new technologies
- C) the increase in third party payments
- D) the decrease in the fertility rate

Answer: D

Diff: 1

Topic: 30.5 Health Care

Question Status: Previous Edition

32) The federal government and insurance companies are examples of third party

- A) payers for health care.
- B) users of health care.
- C) providers of health care.
- D) observers of health care.

Answer: A

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

33) Since the 1930s, out-of-pocket payments for health care have

- A) declined from about 50 to 30 percent of total payments.
- B) declined from about 95 to 20 percent of total payments.
- C) declined from about 70 to 30 percent of total payments.
- D) not changed and remain at 70 percent of total payments.

Answer: B

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Which country has the highest per capita health care expenditures in the world?
A) Canada B) France C) United States D) Japan

Answer: C

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 35) The health care market in the United States is characterized by
A) considerable government involvement.
B) third-party payment of health care costs.
C) asymmetric information between providers and consumers.
D) all of the above

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Joseph decides to join the Big State University's football team when he learns that his health insurance will pay for any subsequent injury. This illustrates
A) a moral hazard problem. B) monopolistic behavior.
C) a symmetric information problem. D) oligopolistic behavior.

Answer: A

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 37) A major benefit of a health savings account is that it
A) combats moral hazard.
B) means more health care services will be demanded.
C) eliminates rising health care costs.
D) creates the incentive to see a doctor regularly.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 38) In insurance markets, moral hazard occurs when the behavior of
- A) the insured person changes in a way that raises costs for the insurer, since the insured person no longer bears the full costs of that behavior.
 - B) the insurer changes in a way that raises costs for the insured person, since the insurer no longer bears the full costs of that behavior.
 - C) the insured person changes in a way that eliminates rising health care costs for the insurer, since the insured person no longer bears the full costs of that behavior.
 - D) the insured person has an incentive to under consume medical services, simply because the insured person no longer bears the full cost of medical services.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 39) As a result of moral hazard,
- A) both physicians and hospitals order more procedures.
 - B) physicians and hospital administrators have no incentive to raise costs.
 - C) patients increasingly have to worry about the expense of operations and other medical procedures.
 - D) both physicians and hospitals have a financial interest in trying to keep hospital costs down.

Answer: A

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 40) All of the following are key features of the new the federal government's national health care program EXCEPT
- A) people must either purchase health insurance or pay a fine to the federal government.
 - B) a young person in good health can opt not to purchase health insurance without penalty.
 - C) firms with at least 50 employees must either provide health insurance or pay fines when uninsured employees receive tax subsidies to purchase insurance.
 - D) Government-directed exchanges will assist in matching individuals and small businesses with health insurance policies that satisfy government requirements.

Answer: B

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 41) Which of the following is an *individual* mandate in the new the federal government's new national health care program?
- A) Under the new program, the federal government will coordinate the establishment of health insurance exchanges.
 - B) Firms with at least 50 employees must either provide health insurance or pay fines when uninsured employees receive tax subsidies to purchase insurance.
 - C) A tax rate of 3.8 percent will be assessed on nearly all earnings above \$200,000 per year for individuals and above \$250,000 per year for married couples.
 - D) Nearly all U.S. residents must either purchase health insurance coverage or pay a fine of up to \$750 per year for an individual (up to \$2,250 per year for a family).

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 42) Which of the following is an *employer* mandate in the new the federal government's new national health care program?
- A) Under the new program, the federal government will coordinate the establishment of health insurance exchanges.
 - B) A tax rate of 3.8 percent will be assessed on nearly all earnings above \$200,000 per year for individuals and above \$250,000 per year for married couples.
 - C) Firms with at least 50 employees must either provide health insurance or pay fines when uninsured employees receive tax subsidies to purchase insurance.
 - D) Nearly all U.S. residents must either purchase health insurance coverage or pay a fine of up to \$750 per year for an individual (up to \$2,250 per year for a family).

Answer: C

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 43) How will the new federal government's new national health care program be funded?
- A) The federal government will charge all participants of health insurance exchanges 3.8%.
 - B) Firms with at least 50 employees must pay an annual fine of up to \$750 per employee regardless of coverage.
 - C) A tax rate of 3.8 percent will be assessed on nearly all earnings above \$200,000 per year for individuals and above \$250,000 per year for married couples.
 - D) Nearly all U.S. residents will pay a fine of up to \$750 per year for an individual (up to \$2,250 per year for a family) regardless of coverage.

Answer: C

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 44) The new federal government's national health care program imposes the following regulations on health care insurers EXCEPT
- A) health insurers must cover all who apply, including people who already have health problems.
 - B) all new plans must cover certain preventive services such as mammograms and colonoscopies but must be paid 100% by patients.
 - C) a ceiling is imposed on the rate of increase in health insurance prices charged to elderly people.
 - D) insurance companies will be prohibited from imposing lifetime dollar limits on essential benefits, like hospital stays.

Answer: B

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 45) Government agencies to which the national health care program assigns the task of assisting individuals, families, and small businesses in identifying health insurance policies to purchase are known as
- A) health care exchanges.
 - B) markets for health care.
 - C) health insurance regulations.
 - D) health insurance mandates.

Answer: A

Diff: 1

Topic: 30.5 Health Care

Question Status: New

- 46) Which of the following is NOT a subsidy in the new the federal government's new national health care program?
- A) Families with incomes up to 133% of the federal poverty level are eligible for federal Medicaid coverage.
 - B) Families with incomes up to 400% of the federal poverty level are eligible for thousands of dollars in tax subsidies per year (amounts vary with family incomes).
 - C) Tax credits are available to businesses providing health insurance to 25 or fewer workers and paying annual salaries averaging no more than \$50,000.
 - D) A special subsidy rate of 3.8% is applied to nearly all income earnings above \$200,000 for individuals or \$250,000 for married couples.

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 47) Once the national health care program goes into effect and more people will pay fewer of their health care expenses out of their own pockets than they did previously, we can expect
- A) the quantity of health care services demanded will increase.
 - B) the quantity of health care services demanded will decrease.
 - C) the quantity of health care services supplied will increase.
 - D) the quantity of health care services supplied will decrease.

Answer: A

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 48) Once the national health care program goes into effect, we can expect
- A) total expenditures on health care will decrease.
 - B) more individuals will have more incentives to make decisions that promote better health.
 - C) total expenditures on health care will increase.
 - D) moral hazard will decrease.

Answer: C

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 49) Once the national health care program goes into effect, we can expect
- A) the quantity of health care services supplied will increase.
 - B) total expenditures on health care will decrease.
 - C) more individuals will pay more out of pocket expenses.
 - D) moral hazard will increase.

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

- 50) The effects of the national health care program on labor markets will
- A) lower the effective wage rate that they must pay for each unit of labor.
 - B) decrease the marginal revenue product of labor.
 - C) increase the marginal revenue product of labor.
 - D) move upward along their downward-sloping marginal-product-of-labor curve.

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

51) The effects of the national health care program on labor markets will

- A) increase the quantity supplied of labor.
- B) decrease the quantity supplied of labor.
- C) increase the quantity demanded for labor.
- D) decrease the quantity demanded for labor.

Answer: D

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

52) The effects of the national health care program on goods and services markets will

- A) increase the marginal cost of the firm.
- B) increase the quantity produced of the firm.
- C) consumers will pay lower prices for many goods and services.
- D) decrease the quantity demanded for all goods and services.

Answer: A

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

53) Based on most observations, what are the effects on government budgets from the national health care program?

- A) Tax revenues will not flow into the new program immediately.
- B) The federal government ultimately will have to search for ways to reduce its health care expenditures .
- C) Federal government expenditures on the program are being phased in immediately.
- D) the federal government ultimately will lower taxes since the program's cost will decline over time.

Answer: B

Diff: 1

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: New

54) Why have health care costs risen so much in recent years?

Answer: The elderly use a disproportionate amount of health care, and the population is getting older, so there is a rising demand for health care. Furthermore, new technologies have contributed to higher prices. Third-party financing for health care also encourages people to demand more services than they would otherwise, causing higher prices.

Diff: 2

Topic: 30.5 Health Care

AACSB: Analytic skills

Question Status: Previous Edition

- 55) "It is difficult to compare over time health care expenditures, costs, and output." Do you agree or disagree? Why?

Answer: Agree. First, expenditures and costs are not the same thing. A system like Britain's has lower expenditures but not necessarily lower costs since people spend more time waiting for services. Years ago, expenditures were much lower, partially because people suffered and died from ailments that now can be cured. Further, as improvements in health care permit longer lives, health care expenditures will increase. The interrelationships between health care, technology, costs, and expenditures are extremely complicated.

Diff: 3

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- 56) How is moral hazard related to health care?

Answer: Moral hazard is affiliated with many insurance systems. A person who is insured will use health care services more than one who is not insured and may engage in a lifestyle that is less healthful than one with less insurance. These create greater costs to the insurance companies and the health care system. Physicians also are more likely to require tests when insurance companies pick up the costs.

Diff: 2

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