

Chapter 2 Review

Chapter 2: True or False?

Indicate whether the statement is true or false.

T 1. Consumer sovereignty means that consumers vote with their dollars in a market economy, which helps determine what is produced.

- a. True
- b. False

F 2. Capital-intensive production techniques tend to be utilized most commonly in countries where labour is relatively cheap.

- a. True
- b. False

T 3. There are four factors of production: land, labour, capital, and entrepreneurship.

- a. True
- b. False

T 4. When you buy groceries at your local supermarket, you are making a transaction in the product market.

- a. True
- b. False

T 5. The production possibilities curve marks the boundary between attainable and unattainable combinations of output.

- a. True
- b. False

T 6. The opportunity cost of a particular good tends to increase with its rate of output because some resources cannot be easily adapted from the production of one good or service to another.

- a. True
- b. False

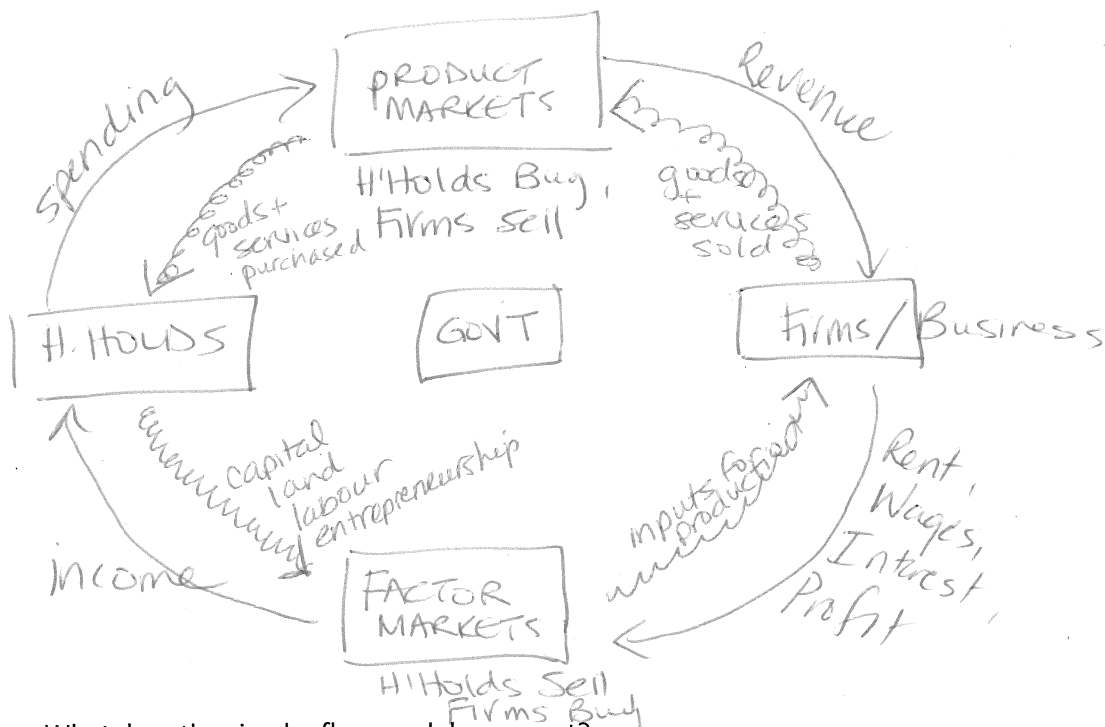
F 7. Movement from one point on the production possibilities curve to another leads to more of both goods being produced.

- a. True
- b. False

T 8. Other things being constant, an economy must give up some consumer goods and services today to produce more capital goods in order to grow.

- a. True
- b. False

Draw the Circular Flow Diagram.



What does the circular flow model represent?

- HOW GOODS / SERVICES / PAYMENTS MOVE BETWEEN FIRMS - H. HOLDS

What are product markets?

- BUSINESS SELLS TO H. HOLD
- H. HOLDS PAY \$ TO BUSINESS

What are factor markets?

- H. HOLDS SELL TO BUSINESS
 - Labor, Land, Capital, Entrepreneurship

How do households earn income?

- WAGES
- RENT
- INTEREST
- PROFIT

How does government earn income?

- TAXES

How do businesses earn income?

- SELL GOODS + SERVICES