***Law, Business and Society, 12e* (McAdams)**

**Chapter 1 Capitalism and the Role of Government**

1) The American financial community's near collapse in late 2008 was most directly ignited by the government's flooding the market with cash.

Answer: FALSE

Explanation: The American financial community's near collapse in 2008 was most directly ignited by the subprime mortgage crisis; a situation in which the nation's housing bubble burst and millions of Americans were no longer able to pay their home mortgages. Instead of continuing their sometimes meteoric rise in value, those homes had plunged in price and much of the total real estate market had essentially imploded.

Difficulty: 1 Easy

Topic: Capitalism: Reduce Government?

Learning Objective: 01-01 Describe capitalism and its relationship to individual rights.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

2) Capitalism in America was built on the strong philosophical foundation of centralized control by the government.

Answer: FALSE

Explanation: Rather than centralized control by the government, capitalism in America was built on the strong philosophical foundation of personal freedom and private property rights. Our great natural resources and personal ambition led to extraordinary prosperity.

Difficulty: 1 Easy

Topic: Capitalism: Reduce Government?

Learning Objective: 01-01 Describe capitalism and its relationship to individual rights.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

3) Democratic capitalism and state capitalism create equal economic and political advantage making them economic and political allies.

Answer: FALSE

Explanation: Democratic capitalism and state capitalism trade with each other for mutual advantage but are economic and political rivals. Democratic capitalism in the United States, Japan, Denmark, and other nations favors business to create wealth and government to regulate as needed. State capitalism in countries such as China, Russia, and Saudi Arabia employs the market to build wealth, which, in turn, is controlled and distributed by the state for its political purposes.

Difficulty: 1 Easy

Topic: Collectivism: Increase Government?

Learning Objective: 01-03 Compare and contrast capitalism and collectivism.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

4) Capitalism features economic cooperation and varying degrees of centralized control.

Answer: FALSE

Explanation: Collectivist systems feature economic cooperation and varying degrees of centralized control as contrasted with capitalism's economic individualism and political freedom.

Difficulty: 1 Easy

Topic: Collectivism: Increase Government?

Learning Objective: 01-03 Compare and contrast capitalism and collectivism.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

5) The term collectivism embraces communism and socialism and similar philosophies on the left side of the political or economic spectrum.

Answer: TRUE

Explanation: The term collectivism embraces communism and socialism and similar philosophies on the left side of the political or economic spectrum. Collectivist systems feature economic cooperation and varying degrees of centralized control as contrasted with capitalism's economic individualism and political freedom.

Difficulty: 1 Easy

Topic: Collectivism: Increase Government?

Learning Objective: 01-03 Compare and contrast capitalism and collectivism.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

6) Political scientist Benjamin Barber believes that capitalism drags us into decadence by encouraging us to buy as many unnecessary products as we can manage.

Answer: TRUE

Explanation: Political scientist Benjamin Barber believes that capitalism drags us into decadence by encouraging us to buy as many unnecessary products as we can manage, thus replacing historical principles of hard work and deferred gratification with infantile hungers for anything that might promise comfort. In America's version of capitalism, as Barber sees it, we find liberty in commerce. We can buy whatever we want; therefore, we are free.

Difficulty: 1 Easy

Topic: Collectivism: Increase Government?

Learning Objective: 01-03 Compare and contrast capitalism and collectivism.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

7) Socialism embraces totalitarianism while calling for aggressive government intervention to correct economic and social ills.

Answer: FALSE

Explanation: Socialists provide one answer by rejecting communist totalitarianism and embracing democracy while calling for aggressive government intervention to correct economic and social ills. Historically, socialism has often been associated with democratic governments and peaceful change, whereas communism has been characterized by totalitarianism and violent revolution.

Difficulty: 1 Easy

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

8) Capitalists fear the "irrationality" of a society based on competition and unrestrained pursuit of industrial growth.

Answer: FALSE

Explanation: Socialists fear the "irrationality" of a society based on competition and unrestrained pursuit of industrial growth. One of the elements of the socialist agenda is rationality.

Difficulty: 1 Easy

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

9) Capitalists consider class distinctions a relic of the past and seek to diminish any class differences.

Answer: FALSE

Explanation: Class distinctions are anathema to the socialist. All humans are equally meritorious, and distinctions among them are inherently unjust.

Difficulty: 1 Easy

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

10) Communists are convinced that problems of market failure mean that the free market is simply incapable of meeting the needs of all segments of society.

Answer: FALSE

Explanation: A critical distinction between socialists and capitalists is that socialists believe a society's broad directions should be carefully planned rather than left to what some take to be the whimsy of the market. Furthermore, socialists are convinced that problems of market failure (inadequate information, monopoly, externalities, public goods, and so on) mean that the free market is simply incapable of meeting the needs of all segments of society.

Difficulty: 1 Easy

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

11) To pay for its comprehensive welfare benefits, the United States takes 50.1 percent of its national income in taxes, the highest rate of any industrialized nation.

Answer: FALSE

Explanation: To pay for its cradle-to-grave welfare benefits, Sweden takes about 45 percent of its national income (gross domestic product-GDP) in taxes, while the United States, in contrast, has one of the developed world's lowest total tax burdens at about 27 percent of GDP in recent decades, but down to about 24 percent during the recession.

Difficulty: 1 Easy

Topic: Purpose: What Do We Hope to Accomplish?

Learning Objective: 01-06 Evaluate arguments regarding government's proper role in the American economy.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

12) Sweden and the other Scandinavian states rely on wise government spending as their key ingredient in a successful market-based economy.

Answer: TRUE

Explanation: For Sweden and the other Scandinavian states, wise government spending is a key ingredient in a successful market-based economy. We should remember, of course, that Sweden is a small, homogeneous nation. Replicating its policies in the United States would be difficult.

Difficulty: 1 Easy

Topic: Middle Ground? A Mixed Economy

Learning Objective: 01-07 Describe the primary characteristics of a "mixed economy."

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

13) The pure free market approach adds all forms of government including regulatory agencies, consumer protection, environmental rules, and antitrust law to our business system and our society.

Answer: FALSE

Explanation: The pure free market approach assumes that we can operate our business system and our society at large free of all but foundational legal mechanisms such as contract and criminal law. Most forms of government including regulatory agencies, consumer protection, environmental rules, occupational licensure, zoning restrictions, antitrust law, and all but the most basic government services would be eliminated.

Difficulty: 2 Medium

Topic: Middle Ground? A Mixed Economy

Learning Objective: 01-07 Describe the primary characteristics of a "mixed economy."

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

14) American capitalism, despite its extraordinary success, is criticized for problems of poverty, inequality, and unfairness.

Answer: TRUE

Explanation: American capitalism, despite its extraordinary success, is criticized for problems of poverty, inequality, and unfairness, among others. The market is driven by and rewards individual achievement.

Difficulty: 1 Easy

Topic: American Capitalism in Europe?

Learning Objective: 01-08 Analyze the impact of capitalism on equality, fairness, and community in American and global society.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

15) It is a well-known fact that the United States ranks equally well on standard social measures and standard economic measures.

Answer: FALSE

Explanation: In general, the United States ranks well on standard economic measures, but not so well on standard social measures. America's 2012 estimated GDP (gross domestic product) per capita of $50,700 ranked 14th in the world behind smaller, more specialized economies such as Qatar (1st at $103,900) and Norway (9th at $55,900), but (as it is showing contrast) well ahead of our chief industrial rivals such as Germany (29th at $39,700) and Japan (38th at $36,900).

Difficulty: 1 Easy

Topic: American Capitalism in Europe?

Learning Objective: 01-08 Analyze the impact of capitalism on equality, fairness, and community in American and global society.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

16) Taking the privatization movement a step further, state and local governments are selling or leasing existing roads to private companies.

Answer: TRUE

Explanation: Private companies are building, maintaining, and operating new toll roads in places such as northern Virginia and suburban San Diego to the Mexican border. Taking the privatization movement a step further, state and local governments are selling or leasing existing roads to private companies. Indiana, for example, leased its 157-mile Indiana East–West Toll Road to an international group for $3.8 billion for 75 years.

Difficulty: 1 Easy

Topic: Capitalism in Practice—"Privatization" in America and Abroad

Learning Objective: 01-02 Discuss the theory and practice of privatization.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

17) Privatization often brings substantially reduced costs and improved expertise.

Answer: TRUE

Explanation: Privatization often brings substantially reduced costs and improved expertise, but sometimes the transition does not work well. Fury might be the best word to describe consumer reaction to the higher rates and poor service that accompanied Chicago's parking meter privatization, but Indiana has used the money from its toll road leases to fund a popular, 10-year highway improvement program.

Difficulty: 1 Easy

Topic: Capitalism in Practice—"Privatization" in America and Abroad

Learning Objective: 01-02 Discuss the theory and practice of privatization.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

18) China's reliance on cheap labor to drive its economy remains unchallenged as other nations are unable to undercut the Chinese advantage.

Answer: FALSE

Explanation: China's reliance on cheap labor to drive its economy is threatened as other nations are able to undercut the Chinese advantage. Despite China's renewed global prominence and its stunning economic advances, reportedly record numbers of professionals leave annually.

Difficulty: 1 Easy

Topic: Coping with Capitalism—China and Russia

Learning Objective: 01-05 Discuss the current state of capitalism in China and Russia.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

19) From the critics' point of view, extravagant wealth, side-by-side with punishing poverty, is perhaps the greatest disappointment and injustice in the global advance of capitalist principles.

Answer: TRUE

Explanation: From the critics' point of view, extravagant wealth, side-by-side with punishing poverty, is perhaps the greatest disappointment and injustice in the global advance of capitalist principles. The wealthiest 1 percent of Americans now have a greater collective net worth than the bottom 90 percent.

Difficulty: 1 Easy

Topic: The American Dream at Risk?

Learning Objective: 01-09 Describe the income and wealth gaps in America.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

20) In the context of capitalism in America, which of the following most likely led the government to curb the power of big business?

A) Lack of natural resources

B) Emergence of monopolistic abuse

C) Lack of private property rights

D) Poor foundation of personal freedom

Answer: B

Explanation: Capitalism in America was built on the strong philosophical foundation of personal freedom and private property rights. Our great natural resources and personal ambition led to extraordinary prosperity. Monopolistic abuse followed, however, and government grew to curb the power of big business. Thus, America's substantially free market was gradually constrained by government regulation.

Difficulty: 2 Medium

Topic: Capitalism: Reduce Government?

Learning Objective: 01-01 Describe capitalism and its relationship to individual rights.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

21) \_\_\_\_\_\_\_\_ in the United States, Japan, Denmark, and other nations favors business to create wealth and government to regulate as needed.

A) Regional socialism

B) State capitalism

C) Religious socialism

D) Democratic capitalism

Answer: D

Explanation: Democratic capitalism in the United States, Japan, Denmark, and other nations favors business to create wealth and government to regulate as needed. State capitalism in countries such as China, Russia, and Saudi Arabia employs the market to build wealth, which, in turn, is controlled and distributed by the state for its political purposes.

Difficulty: 1 Easy

Topic: Collectivism: Increase Government?

Learning Objective: 01-03 Compare and contrast capitalism and collectivism.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

22) \_\_\_\_\_\_\_\_ in countries such as Russia, China, and Saudi Arabia employs the market to build wealth, which, in turn, is controlled and distributed by the state for its political purposes.

A) State capitalism

B) Democratic capitalism

C) Regional socialism

D) Religious socialism

Answer: A

Explanation: State capitalism in countries such as China, Russia, and Saudi Arabia employs the market to build wealth, which, in turn, is controlled and distributed by the state for its political purposes.

Difficulty: 1 Easy

Topic: Coping with Capitalism—China and Russia

Learning Objective: 01-05 Discuss the current state of capitalism in China and Russia.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

23) All the following countries have a communist form of government except

A) Cuba.

B) North Korea.

C) China.

D) South Korea.

Answer: D

Explanation: South Korea does not follow a communist form of government. Although China, Cuba, North Korea, Vietnam, and a few other nations continue to practice communism, the balance of the world has clearly rejected Marxist-Leninist totalitarianism. China is, however, rapidly and enthusiastically embracing free market practices, with continuing state direction; a strategy that some label state capitalism.

Difficulty: 1 Easy

Topic: Communism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

24) \_\_\_\_\_\_\_\_ was particularly concerned about the growing imbalance between rich and poor and felt that the pursuit of wealth and self-interest would erode society's moral core.

A) Ayn Rand

B) Bo Xilai

C) Anatole Kaletsky

D) Karl Marx

Answer: D

Explanation: Karl Marx's central message concerns the severe abuses that can accompany unrestrained capitalism. Marx was particularly concerned about the growing imbalance between rich and poor. Moreover, he felt that the pursuit of wealth and self-interest would erode society's moral core.

Difficulty: 1 Easy

Topic: Communism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

25) Democratic governments and peaceful change are often associated with \_\_\_\_\_\_\_\_.

A) strong centralized governments

B) communism

C) economic individualism

D) socialism

Answer: D

Explanation: Socialists provide one answer by rejecting communist totalitarianism and embracing democracy while calling for aggressive government intervention to correct economic and social ills. Historically, socialism has often been associated with democratic governments and peaceful change, whereas communism has been characterized by totalitarianism and violent revolution.

Difficulty: 1 Easy

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

26) Identify the correct statement regarding socialists.

A) They aim to retain the benefits of industrialism while abolishing the social costs that often accompany the free market.

B) They reserve much of their concern for the condition of the middle and higher classes.

C) They reject the need for aggressive government intervention to correct economic and social ills.

D) They embrace communist totalitarianism and reject democracy.

Answer: A

Explanation: Socialists aim to retain the benefits of industrialism while abolishing the social costs that often accompany the free market. The government is likely to be directly involved in regulating growth, inflation, and unemployment.

Difficulty: 2 Medium

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

27) Which of the following statements about socialists is true?

A) Socialists feel that the economy must be directed toward the welfare of the successful capitalists.

B) Socialists reserve much of their concern for the condition of the higher class.

C) Socialists do not object to the harshness of working life.

D) Socialists consider class distinctions anathema.

Answer: D

Explanation: Class distinctions are anathema to socialists. All humans are equally meritorious, and distinctions among them are inherently unjust.

Difficulty: 1 Easy

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

28) Which of the following statements corresponds to Karl Marx's beliefs?

A) Unrestrained capitalism leads to economic abuses that threaten the welfare of workers.

B) Unrestrained capitalism makes society more productive.

C) Individual pursuit of wealth and self-interest continuously builds society's moral core.

D) Competition and unrestricted pursuit of industrial growth is necessary for the welfare of workers.

Answer: A

Explanation: Karl Marx was particularly concerned about the growing imbalance between rich and poor. Moreover, he felt that the pursuit of wealth and self-interest would erode society's moral core. Marx built an economic interpretation of history, arguing that "the mode of production in material life determines the general character of the social, political, and spiritual processes of life."

Difficulty: 1 Easy

Topic: Communism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

29) Which of the following is true of Robert Putnam's observations on social capital?

A) Putnam observed that the practice of free market principles is essential for a moral life.

B) Putnam observed that a sharp rise was seen in league bowling from 1980 to 2000 although the number of bowlers decreased by about 10 percent.

C) Putnam observed that virtually every measure of social interaction fell significantly from roughly 1975 to 2000.

D) Putnam observed that only three categories of government were necessary: the police, the armed services, and the law courts.

Answer: C

Explanation: Robert Putnam's book explains that virtually every measure of social interaction, from voting to picnics to playing cards to church attendance to membership in social clubs, fell significantly from roughly 1975 to 2000. The most vivid example was a decline of 40 percent in league bowling from 1980 to 2000 although the total number of bowlers increased by about 10 percent; thus, the notion of "bowling alone."

Difficulty: 2 Medium

Topic: The American Dream at Risk?

Learning Objective: 01-09 Describe the income and wealth gaps in America.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

30) Identify the underlying reason why socialists advocate income supports, free education, free health care, generous sick pay, and family planning.

A) Socialists believe that the economy must be directed toward the general interest of society rather than left free to multiply the welfare of successful capitalists.

B) Socialists seek an excessively individualistic approach to life where the communitarian approach of capitalism is muted by a concern for the welfare of all.

C) Socialists believe that communism harshly restrains individual freedom and creates a society based on unrestrained pursuit of industrial growth.

D) Socialists seek to embrace totalitarianism while calling for aggressive government intervention.

Answer: A

Explanation: Socialists believe that the economy must be directed toward the general interest rather than left free to multiply the welfare of successful capitalists. Hence, socialists advocate income supports, free education, free health care, generous sick pay, family planning, and the like to correct the failures of capitalism.

Difficulty: 2 Medium

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

31) Which of the following views was advocated by Ayn Rand, the philosopher and novelist?

A) The necessary categories of government were only three in number: the police, the armed services, and the law courts.

B) The practice of free market principles is not needed for a rational, moral life.

C) The mode of production in material life determines the general character of the social, political, and spiritual processes of life.

D) The theory of market fundamentalism is a greater threat to open society today than communism.

Answer: A

Explanation: The controversial philosopher and novelist Ayn Rand was an uncompromising advocate of free market principles. She believed the necessary categories of government were only three in number: the police, the armed services, and the law courts.

Difficulty: 1 Easy

Topic: Purpose: What Do We Hope to Accomplish?

Learning Objective: 01-06 Evaluate arguments regarding government's proper role in the American economy.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

32) The proper balance between \_\_\_\_\_\_\_\_ remains the central public policy debate in American life.

A) open markets and government intervention

B) personal freedom and private property rights

C) natural resources and democracy

D) competition and unrestrained pursuit of industrial growth

Answer: A

Explanation: America's substantially free market was constrained by government regulation. The proper balance between open markets and government intervention remains perhaps the central public policy debate in American life.

Difficulty: 1 Easy

Topic: Purpose: What Do We Hope to Accomplish?

Learning Objective: 01-06 Evaluate arguments regarding government's proper role in the American economy.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

33) Sweden has made what attempt to keep its economy healthy?

A) It has taken an aggressive market capitalism approach.

B) It has maintained a policy of comparatively low corporate taxes.

C) It has allowed private parties to buy or lease government property.

D) It has developed a significant private sector and permitted it to take limited control of several state-run companies.

Answer: B

Explanation: To keep its economy healthy, Sweden has followed a policy of comparatively low total corporate taxes (22 percent as compared with a U.S. federal and state combined rate of 39.2 percent although with loopholes included, the U.S. effective rate is an estimated 29.2 percent).

Difficulty: 1 Easy

Topic: Purpose: What Do We Hope to Accomplish?

Learning Objective: 01-06 Evaluate arguments regarding government's proper role in the American economy.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

34) Which of the following is most likely to be a result of a country maintaining its core welfare commitment in combination with an entrepreneurial spirit?

A) An economy that has only state-dominated companies with high employment due to the encouragement of welfare over work

B) An economy that is impoverished and filled with inequality

C) An economy encompassing poverty, oppression, and the rich-poor gap

D) An economy of relatively low unemployment, low inflation, and high GDP growth

Answer: D

Explanation: The pressure of globalization has been felt in Sweden where a more moderate and somewhat right-center government has pushed aside the left-leaning Social Democrats and has significantly lowered taxes, privatized some state-dominated companies, and reduced unemployment by encouraging work over welfare. The result is an economy of relatively low unemployment, low inflation, and high GDP (gross domestic product) growth.

Difficulty: 2 Medium

Topic: Middle Ground? A Mixed Economy

Learning Objective: 01-07 Describe the primary characteristics of a "mixed economy."

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

35) In terms of markets and governments, America

A) has greater faith in a more libertarian, cowboy-capitalism.

B) has greater faith in a coordinated, stakeholder capitalism.

C) chose a quasi-socialist, democratic approach to life.

D) reflects a preference for greater central authority.

Answer: A

Explanation: America's system of laws can be understood with a firm appreciation for the principles of capitalism from which those laws spring and a greater faith in a more libertarian, cowboy-capitalism. The United States has embraced an evolving capitalist, democratic approach to life.

Difficulty: 1 Easy

Topic: Middle Ground? A Mixed Economy

Learning Objective: 01-07 Describe the primary characteristics of a "mixed economy."

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

36) In the context of economic systems, the "Third Way" refers to \_\_\_\_\_\_\_\_.

A) limited totalitarianism

B) market communism

C) unrestrained capitalism

D) market socialism

Answer: D

Explanation: For years, the Nordic states of Sweden, Norway, Denmark, and Finland practiced their market socialism or social democracy with such success that it was labeled a "Third Way" between the harsher extremes of capitalism and communism. These welfare states provided healthy economic growth with cradle-to-grave social care for all in a system emphasizing the collective welfare over individual preferences.

Difficulty: 1 Easy

Topic: Middle Ground? A Mixed Economy

Learning Objective: 01-07 Describe the primary characteristics of a "mixed economy."

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

37) Which of the following countries followed the "Third Way" and navigated a path between the harsher extremes of capitalism and communism?

A) China

B) Japan

C) Sweden

D) South Korea

Answer: C

Explanation: For years, the Nordic states of Sweden, Norway, Denmark, and Finland practiced their market socialism or social democracy with such success that it was labeled a "Third Way" between the harsher extremes of capitalism and communism. These welfare states provided healthy economic growth with cradle-to-grave social care for all in a system emphasizing the collective welfare over individual preferences.

Difficulty: 1 Easy

Topic: Middle Ground? A Mixed Economy

Learning Objective: 01-07 Describe the primary characteristics of a "mixed economy."

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

38) The pure free market approach assumes that:

A) equal faith should be placed in the market and government planning.

B) legal systems in all countries should reflect a preference for greater central authority.

C) limited centralized authority will result in a government and economy completely free of corruption.

D) business structures and societies can be operated at large free of all but foundational legal mechanisms.

Answer: D

Explanation: The pure free market approach assumes that we can operate our business system and our society at large free of all but foundational legal mechanisms such as contract and criminal law. The wisdom of the market—our individual judgments combined with our individual consciences—will "regulate" American life.

Difficulty: 1 Easy

Topic: Capitalism: Reduce Government?

Learning Objective: 01-01 Describe capitalism and its relationship to individual rights.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

39) Which of the following is true of the criticisms of Robert Putnam's thesis?

A) Robert Putnam was criticized for focusing too much on older activities such as social clubs.

B) Robert Putnam was criticized for focusing too much on emerging interests such as Internet groups.

C) Robert Putnam was criticized for his belief that the necessary categories of government were only three in number: the police, the armed services, and the law courts.

D) Robert Putnam was criticized for his belief that state capitalism as practiced in Russia can succeed in the face of political repression, routine corruption, and abuse of the rule of law.

Answer: A

Explanation: Criticism of Robert Putnam's thesis was abundant with many saying he focused too much on "older" activities such as social clubs and not enough on emerging interests such as Internet groups. Putnam's more recent research has produced no convincing evidence of rising community engagement among adults, but he acknowledges they are reaching one another in different ways from the past, principally through social media.

Difficulty: 2 Medium

Topic: American Capitalism in Europe?

Learning Objective: 01-08 Analyze the impact of capitalism on equality, fairness, and community in American and global society.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

40) Identify the result of a growing gap in opportunities among socioeconomic classes of American children.

A) Children of the well-off express increasing trust in those around them.

B) Participation in extracurricular activities has fallen sharply for all children.

C) Young products of the less well-off have increased their community engagement.

D) The overall community engagement gap between all socioeconomic classes is narrowing.

Answer: A

Explanation: Robert Putnam says that a generation ago participation in extracurricular activities varied little by social class, but today participation has risen sharply for affluent children and fallen dramatically among those less well-off. One of the results of this opportunity divide is that children of the well-off express increasing trust in those around them while that trust has "collapsed" among the less well-off children.

Difficulty: 2 Medium

Topic: The American Dream at Risk?

Learning Objective: 01-09 Describe the income and wealth gaps in America.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

41) Which of the following involves making utilization of a service more expensive at times of peak demand in order to curb that demand?

A) Congestion pricing

B) Clearance pricing

C) Predatory pricing

D) Median pricing

Answer: A

Explanation: While adding to and upgrading infrastructure through privatization, governments and their agents are also turning to pricing or market mechanisms to reduce demand for use of that infrastructure. One expanding initiative is congestion pricing that involves making utilization of a service more expensive at times of peak demand in order to curb that demand.

Difficulty: 1 Easy

Topic: Capitalism in Practice—"Privatization" in America and Abroad

Learning Objective: 01-02 Discuss the theory and practice of privatization.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

42) Identify a reason why some parents and school boards have adopted a free market "fix."

A) Parents and school boards are convinced that replacing merit-based admission with an auction allowing space to the highest bidders is the only way to raise the academic profile of an educational institution.

B) Studies reveal that achievement growth rates were twice as high in districts with a free market fix than in standard public schools.

C) Parents and school boards hope that competition will push all schools to higher achievement levels.

D) Studies carried out in other countries reveal that market-based approaches such as open enrollment and charter schools work better than direct payment to students of $100 to $500 per year for improved performance.

Answer: C

Explanation: The idea that capitalism was the answer to poor school performance was unthinkable a few decades ago, but some increasingly frustrated parents and school boards have adopted a free market "fix." Schools are experimenting with market-based approaches such as for-profit web-based classes, open enrollment, charter schools, and vouchers. The hope is that competition will push all schools to higher achievement levels.

Difficulty: 2 Medium

Topic: Capitalism in Practice—"Privatization" in America and Abroad

Learning Objective: 01-02 Discuss the theory and practice of privatization.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

43) In the context of toll roads, parking meters, and congestion pricing, which of the following is true of privatization?

A) Privatization brings secure working conditions, increased services, and increased responsiveness to customers.

B) Privatization often brings increased costs and higher customer dissatisfaction.

C) Growing government revenue problems suggest that privatization of transportation will cease to exist.

D) Some struggling governments see privatization as a solution for financial distress.

Answer: D

Explanation: Critics of privatization worry about declining service, excessive tolls, too much profit for the investors, pricing poorer drivers out of access to the roads, and trading secure government jobs with benefits for low-wage private-sector jobs without benefits. Nonetheless, increasing government revenue problems suggest that transportation privatization will continue despite these concerns.

Difficulty: 2 Medium

Topic: Capitalism in Practice—"Privatization" in America and Abroad

Learning Objective: 01-02 Discuss the theory and practice of privatization.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

44) How do privatization supporters envision major changes to daily life?

A) By promising economic justice for all

B) By promoting religiosity and building peace

C) By citing free market efficiency and personal freedom while challenging moral conventions

D) By encouraging economic cooperation and varying degrees of centralized control

Answer: C

Explanation: Citing free market efficiency and personal freedom while challenging moral conventions, privatization supporters envision major changes to daily life. For example, some doctors and others are arguing for lifting the federal ban on organ sales as a way of addressing the current donor shortage.

Difficulty: 2 Medium

Topic: Capitalism in Practice—"Privatization" in America and Abroad

Learning Objective: 01-02 Discuss the theory and practice of privatization.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

45) Which of the following statements about the economic and political issues of China is true?

A) The per capita gross domestic product of China is the highest in the world.

B) China's free market liberalization policies of recent years have paced faster, making entry to the Chinese market and competition with Chinese companies easy.

C) China's gap between rich and poor is estimated to be the world's largest.

D) Interest in Buddhism has re-emerged after being suppressed during the anti-intellectual Cultural Revolution of 1966-76.

Answer: C

Explanation: Although China has reduced its income gap between rich and poor in recent years, this gap is still estimated to be among the world's largest. Furthermore, China has instituted new environmental rules, corruption crackdowns, and social service initiatives.

Difficulty: 1 Easy

Topic: Coping with Capitalism—China and Russia

Learning Objective: 01-05 Discuss the current state of capitalism in China and Russia.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

46) In the context of state capitalism, explain why government is the dominant economic force.

A) The government intervenes in and shapes the market to further the state's political goals.

B) The intensity of income disparity between the rich and the poor is relatively low.

C) State capitalism favors business to create wealth and government to regulate as needed.

D) State capitalism fails to blend a shrinking system of state-owned enterprise with the power of the free market.

Answer: A

Explanation: China and some other nations practice what is sometimes labeled "state capitalism" in which the government is the dominant economic force as it intervenes in and shapes the market to further the state's political goals. The result has been something of an economic miracle as China has blended its large but shrinking system of state-owned enterprise with the explosive power of the free market (guided by the government) to sprint ahead of Japan and become the globe's second ranking economy as measured by gross national product as of 2010.

Difficulty: 2 Medium

Topic: Coping with Capitalism—China and Russia

Learning Objective: 01-05 Discuss the current state of capitalism in China and Russia.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

47) According to Robert Putnam, which of the following is true of the growing gap in opportunities among socioeconomic classes of American children?

A) Children of affluent Americans have withdrawn or never undertaken community engagement.

B) Today, participation in extracurricular activities has risen sharply for less well-off children while falling sharply for affluent children.

C) Today, the more comfortable class of children receive about one hour per day more time with their parents than less advantaged children.

D) Less affluent young whites have steadily deepened their community engagements.

Answer: C

Explanation: Robert Putnam has for the last few years been collecting data about the growing gap in opportunities among socioeconomic classes of American children. In decades past, parents with high school educations invested money and time in their children at much the same level as college-graduate parents, but today a large gap has grown in both resources, favoring, of course, the more affluent families. Specifically, the more comfortable class of children receive about one hour per day more time with their parents than do less advantaged children.

Difficulty: 2 Medium

Topic: The American Dream at Risk?

Learning Objective: 01-09 Describe the income and wealth gaps in America.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

48) Discuss some of the key indicators of America's economic and social health.

Answer: Some of the key indicators of America's economic and social health include:

a. Overall quality of life. According to a U.N. 2015 report on overall quality of life (based on income, life expectancy, and education), America is doing relatively well. A similar but broader study, the 2015 Social Progress Index, ranked the United States 16th in the world on general quality of life. America ranks first in freedom of speech and access to advanced education but 30th in personal safety, 30th in life expectancy, and 39th in nutrition and basic medical care.94

b. Poverty. The number of Americans in poverty declined in 2015, but 13.5 percent of the population still fell below the official government poverty line ($24,300 for a family of four in 2016). A 2016 Stanford Center on Poverty and Inequality study ranked the United States 10th of 10 developed countries on measures of poverty and inequality.

c. The Gaps. Gaps in wealth and income raise concerns about fundamental unfairness in American life that might undermine democracy and public health while reducing overall economic strength and social cohesion. The income gap in America has been growing. Fifty years ago, the ratio of CEO to average worker pay, for example, was about 20 to 1; today it is about 300 to 1.

d. Community. Mounting evidence suggests that our lives are increasingly solitary, distant, and estranged. The market is driven by and rewards individual achievement. Whether a product of capitalist impulses or not, we do have evidence of declining social connections.

Difficulty: 2 Medium

Topic: American Capitalism in Europe?

Learning Objective: 01-08 Analyze the impact of capitalism on equality, fairness, and community in American and global society.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

49) Describe the chief characteristics of socialists.

Answer: The socialist agenda includes these elements:

a. Liberty. To the capitalist, socialism appears to harshly restrain individual freedom. To the socialist, the freedoms of capitalism are largely an illusion, accessible only to the prosperous and powerful.

b. Social welfare. Socialists reserve much of their concern for the condition of the lower class—poverty, exploitation, cultural deprivation, and so on. Socialists believe that the economy must be directed toward the general interest rather than left free to multiply the welfare of successful capitalists. Hence, socialists advocate income supports, free education, free health care, generous sick pay, family planning, and the like to correct the failures of capitalism.

c. Fulfilling work. Socialists object to the harshness of working life where a large segment of society is chained to degrading labor.

d. Community. Socialists seek a communitarian approach to life where the excessive individualism of capitalism is muted by a concern for the welfare of all.

e. Equality. Class distinctions are anathema to the socialist. All humans are equally meritorious, and distinctions among them are inherently unjust.

f. Rationality. Socialists fear the "irrationality" of a society based on competition and unrestrained pursuit of industrial growth.

Difficulty: 1 Easy

Topic: Socialism

Learning Objective: 01-04 Differentiate between communism and socialism as collectivist philosophies.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

50) Describe the effects of globalization.

Answer: Globalization represents the international flowering of capitalism in the sense that the power of free markets is being embraced, enthusiastically or reluctantly, almost everywhere on Earth. That power raised new threats, of course, including the spread of America's corporate influence and values around the globe. Now, however, globalization seems to be entering a new phase. In a "hyper-connected," "flat" world, we are all linked together in an economic and cultural intimacy scarcely imaginable a few decades back, but new evidence suggests that a period of "de-globalization" may be emerging. International trade and money flows are slowing or actually declining. Globalization has succeeded in raising wages significantly in emerging powers such as China and India. As a result, manufacturing jobs are returning to America in surprising numbers. Of course, globalization is not vanishing, but its economic advantages are shifting and new nationalistic urges threaten to slow the pace of global linkages.

Difficulty: 2 Medium

Topic: Purpose: What Do We Hope to Accomplish?

Learning Objective: 01-06 Evaluate arguments regarding government's proper role in the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

51) Explain how Sweden's economic health improved due to its adoption of a policy of comparatively low total corporate tax.

Answer: To pay for its cradle-to-grave welfare benefits, Sweden takes about 45 percent of its national income (gross domestic product-GDP) in taxes, while the United States, in contrast, has one of the developed world's lowest total tax burdens at about 27 percent of GDP in recent decades, but down to about 24 percent during the recession. In order to keep its economy healthy, Sweden has followed a policy of comparatively low total corporate taxes. As a result, Sweden's economic performance over the past 20 years has been among the strongest in the world, supporting, for example, a health care system that exceeds U.S. health care on almost all performance measures but costs less than half as much per person (although waiting times for some nonemergency services might be considerably longer in Sweden).

Even so, the pressure of globalization has been felt in Sweden where a more moderate and somewhat right-center government has pushed aside the left-leaning Social Democrats and has significantly lowered taxes, privatized some state-dominated companies, and reduced unemployment by encouraging work over welfare. Business regulations have been dramatically reduced, and tens of thousands of long-term unemployed welfare recipients have been pushed back into the labor market. Sweden hopes to maintain its core welfare commitment in combination with an entrepreneurial spirit more like America's. The result is an economy of relatively low unemployment, low inflation, and high GDP growth.

Difficulty: 2 Medium

Topic: Purpose: What Do We Hope to Accomplish?

Learning Objective: 01-06 Evaluate arguments regarding government's proper role in the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

52) Define privatization, providing examples.

Answer: Many American states and cities have turned to privatization both to address financial problems and to satisfy ideological preferences for smaller governments. Most commonly, privatization follows two patterns: (1) contracting out where government, in effect, turns over a portion of its duties, such as garbage collection, to a private firm; and (2) the sale or lease of public assets, such as an airport, to a private party. Privately operated prisons, now rather common across America, are a primary example of the privatization movement.

Difficulty: 2 Medium

Topic: Capitalism in Practice—"Privatization" in America and Abroad

Learning Objective: 01-02 Discuss the theory and practice of privatization.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

53) Describe the major criticisms or concerns about the privatization of toll roads.

Answer: Private companies are building, maintaining, and operating new toll roads in places such as northern Virginia and suburban San Diego to the Mexican border. Taking the privatization movement a step further, state and local governments are selling or leasing existing roads to private companies. Indiana, for example, leased its 157-mile Indiana East–West Toll Road to an international group for $3.8 billion for 75 years. The new operators can raise tolls each year by 2 percent, the inflation rate, or the increase in GDP (gross domestic product); whichever is higher. Critics worry, however, about declining service, excessive tolls, too much profit for the investors, pricing poorer drivers out of access to the roads, and trading secure government jobs with benefits for low-wage private sector jobs without benefits. Nonetheless, increasing government revenue problems suggest that transportation privatization will continue.

Difficulty: 2 Medium

Topic: Capitalism in Practice—"Privatization" in America and Abroad

Learning Objective: 01-02 Discuss the theory and practice of privatization.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

54) Elaborate on the changing labor market trend and the problems faced by China.

Answer: China and some other nations practice what is sometimes labeled "state capitalism" in which the government is the dominant economic force as it intervenes in and shapes the market to further the state's political goals. The result has been something of an economic miracle as China has blended its large but shrinking system of state-owned enterprise with the explosive power of the free market (guided by the government) to sprint ahead of Japan and become the globe's second ranking economy as measured by gross national product as of 2010. China faces many problems, particularly as it attempts to balance its export-led economy with increased domestic consumer spending. Stunning levels of environmental pollution; stock market manipulation; dangerous foods and drugs; rampant piracy of software, movies, and music; and government corruption are among those difficulties. Basic social support structures like affordable access to health care, unemployment insurance, and pensions remain inadequate. More broadly, China's income gap between rich and poor is estimated to be among the world's largest although China has reduced the disparity in recent years. Furthermore, China has instituted new environmental rules, corruption crackdowns, and social service initiatives.

Low wages, often difficult working conditions, and a rapidly shrinking supply of young laborers (the result of strict family planning policies) have caused unrest among workers leading to occasional strikes and some increase in wages, although those wages remain low relative to the economy's overall health. China's reliance on cheap labor to drive its economy is threatened as other nations are able to undercut the Chinese advantage. Despite China's renewed global prominence and its stunning economic advances, record numbers of professionals reportedly leave annually.

Difficulty: 2 Medium

Topic: Coping with Capitalism—China and Russia

Learning Objective: 01-05 Discuss the current state of capitalism in China and Russia.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

55) Explain Robert Putnam's view on the impact of declining community and growing gap in opportunities among socioeconomic classes of American children.

Answer: Robert Putnam has for the last few years been collecting data about the growing gap in opportunities among socioeconomic classes of American children. In decades past, parents with high school educations invested money and time in their children at much the same level as college-graduate parents, but today a large gap has grown in both resources, favoring, of course, the more affluent families. Specifically, the more comfortable class of children receive about one hour per day more time with their parents than do less advantaged children.

A generation ago, Putnam says, participation in extracurricular activities varied little by social class, but today participation has risen sharply for affluent children while falling sharply among those less well-off. One of the results of this opportunity divide is that children of the well-off express increasing trust in those around them while that trust has "collapsed" among the less well-off children.

Likewise, young products of affluent America have steadily deepened their community engagement (going to church more, better connecting to their parents, volunteering) while the less affluent young whites have withdrawn or never undertaken that engagement. That disparity in involvement is not present among young blacks, but the overall engagement gap between whites and blacks is wide.

Difficulty: 2 Medium

Topic: The American Dream at Risk?

Learning Objective: 01-09 Describe the income and wealth gaps in America.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation