

# Chapter 17 Testbank

1. The key indicator of a country's living standard and economic well being is:
  - A. the interest rate.
  - B. nominal GDP per person.
  - C. real GDP.
  - D. real GDP per person.
  
2. Compound interest is:
  - A. the payment of interest on the original deposit.
  - B. the interest rate adjusted for the rate of inflation.
  - C. the real rate of interest compounded by the rate of inflation.
  - D. the payment of interest on the original deposit and all accumulated interest.
  
3. Bank C promises to pay a compound annual interest rate of 6 percent, while Bank S pays a 10 percent simple annual interest rate on deposits. If you deposit \$1,000 in each bank, after 10 years your deposit in Bank C equals \_\_\_\_\_, while your deposit in Bank S equals \_\_\_\_\_.
  - A. \$1,060; \$1,100
  - B. \$1,600; \$2,000
  - C. \$1,600; \$2,594
  - D. \$1,791; \$2,000

4. Bank C promises to pay a compound annual interest rate of 6 percent, while Bank S pays an 8 percent simple annual interest rate on deposits. If you deposit \$1,000 in each bank, after 10 years your deposit in Bank C equals \_\_\_\_\_, while your deposit in Bank S equals \_\_\_\_\_.
- A. \$1,060; \$1,800  
B. \$1,600; \$1,800  
C. \$1,600; \$2,159  
D. \$1,791; \$1,800
5. If you left \$2,500 on deposit with a bank promising to pay you a 6 percent compound annual rate of interest, then after 50 years your deposit would total:
- A. 2,650  
B. 18,420  
C. 46,050  
D. 250,750
6. If when you are 21 you put \$1,000 in a bank deposit promising to pay 6 percent annual compound interest, how much will be in the account 45 years later when you retire at age 66?
- A. \$3,752  
B. \$13,765  
C. \$24,871  
D. \$46,794

7. If when you are 21 you put \$1,000 in a bank deposit promising to pay 7 percent annual compound interest, how much will be in the account 45 years later when you retire at age 66?
- A. \$3,752
  - B. \$13,765
  - C. \$21,002
  - D. \$46,794
8. Small differences in annual growth rates of real GDP generate large differences in real GDP over time because of the:
- A. importance of average labor productivity.
  - B. power of compound interest.
  - C. diminishing returns to capital.
  - D. limits of economic growth.
9. If an economy maintains a small rate of growth for a long period of time, then the size of the economy:
- A. can only increase by a small amount.
  - B. can increase by a large amount.
  - C. can never double.
  - D. will stay nearly constant.

10. If real GDP per person equaled \$2,000 in 1900 and grew at a 1 percent annual rate, what would real GDP per person equal 100 years later?
- A. \$2,020
  - B. \$2,200
  - C. \$5,410
  - D. \$22,000
11. Real GDP per person in both Alpha and Omega equals \$2,000. Over the next 100 years real GDP per person grows at 1.5 percent annual rate in Alpha and at a 2.5 percent annual rate in Omega. After 100 years real GDP person in Alpha is \_\_\_\_\_ smaller than real GDP per person in Omega.
- A. \$2,000
  - B. \$7,382
  - C. \$14,763
  - D. \$24,954
12. Real GDP per person in both Alpha and Omega equals \$2,000. Over the next 100 years real GDP per person grows at 1 percent annual rate in Alpha and at a 2 percent annual rate in Omega. After 100 years real GDP person in Alpha is \_\_\_\_\_ smaller than real GDP per person in Omega.
- A. \$2,000
  - B. \$4,540
  - C. \$9,080
  - D. \$12,495

13. Government policies that increase the long-term economic growth rate by a small amount result in \_\_\_\_\_ in average living standards.
- A. large increases
  - B. small increases
  - C. small decreases
  - D. no change
14. Real GDP per person in Richland is \$20,000, while real GDP per person in Poorland is \$10,000. However, Richland's real GDP per person is growing at 1% per year and Poorland's is growing at 3% per year. After 50 years, real GDP per person in Richland minus real GDP in Poorland is
- A. greater than \$10,000
  - B. positive, but less than \$10,000
  - C. zero
  - D. negative
15. Real GDP per person in Richland is \$20,000, while real GDP per person in Poorland is \$10,000. However, Richland's real GDP per person is growing at 1% per year and Poorland's is growing at 2% per year. After 50 years, real GDP per person in Richland minus real GDP in Poorland is
- A. greater than \$10,000
  - B. positive, but less than \$10,000
  - C. zero
  - D. negative

16. Real GDP per person in Northland is \$30,000, while real GDP in Southland is \$10,000, However, Northland's real GDP per person is growing at 1% per year and Southland's is growing at 3% per year. If these growth rates persist indefinitely, then:

- A. Northland's real GDP per person will decline until it equals Southland's.
- B. Northland's real GDP per person will always be greater than Southland's.
- C. Southland's real GDP per person will always be less than Northland's.
- D. Southland's real GDP per person will eventually be greater than Northland's.

17. Real GDP per person in Westland is \$30,000, while real GDP in Eastland is \$10,000, However, Westland's real GDP per person is growing at 1.5% per year and Eastland's is growing at 3% per year. If these growth rates persist indefinitely, then:

- A. Westland's real GDP per person will decline until it equals Eastland's.
- B. Westland's real GDP per person will always be greater than Eastland's.
- C. Eastland's real GDP per person will always be less than Westland's.
- D. Eastland's real GDP per person will eventually be greater than Westland's.

18. Real GDP per person in Southland was \$9,864 in 1950. Over the next 48 years it grew at a compound annual rate of 2.0%. If instead real GDP per person had grown at an average compound annual rate 2.5%, then real GDP per capita in Southland in 1998 would have been approximately \_\_\_\_\_ larger.

- A. \$3,420
- B. \$6,750
- C. \$9,900
- D. \$25,500

19. Real GDP per person in Southland was \$7,377 in 1950. Over the next 48 years it grew at a compound annual rate of 2.0%. If instead real GDP per person had grown at an average compound annual rate 2.5%, then real GDP per capita in Southland in 1998 would have been approximately \_\_\_\_\_ larger.

- A. \$3,000
- B. \$5,050
- C. \$7,400
- D. \$19,100

20. The key variable in determining changes in a country's standard of living is the:

- A. interest rate
- B. inflation rate
- C. unemployment rate
- D. long-run rate of economic growth

21. Real GDP per person equals average labor productivity:

- A. times one minus the unemployment rate.
- B. minus the share of population employed.
- C. times the labor force participation rate.
- D. times the share of population employed.

22. Average labor productivity times the proportion of the population employed equals:

- A. real GDP.
- B. real GDP per person.
- C. real GDP per worker.
- D. output per worker.

23. Growth of real GDP per person is totally determined by the growth of average:

- A. labor productivity and the proportion of the population employed.
- B. labor productivity and the proportion of the population in the labor force.
- C. labor force participation and the share of income going to capital.
- D. labor force participation and the share of the population employed.

24. In symbolic terms where Y equals real GDP, POP equals total population, and N equals the number of employed workers,  $Y/POP$  must equal:

- A.  $Y/N \times N/POP$ .
- B.  $N/Y \times POP/N$ .
- C.  $Y/POP \times N/POP$ .
- D.  $N/Y \times N/POP$ .

25. Real GDP per person can increase:

- A. only if the share of the population employed increases.
- B. only if the share of the population employed decreases.
- C. only if average labor productivity increases.
- D. if the share of population employed and/or average labor productivity increases.

26. A nation's standard of living, as measured by real GDP per person, increases:

- A. only if average labor productivity increases.
- B. only if the share of population employed increases.
- C. only if both average labor productivity and the share of population employed increase.
- D. if either average labor productivity and/or the share of population employed increase.

27. If the share of population employed in two countries is the same, average living standards will be higher in the country with:

- A. the smaller population.
- B. the larger population.
- C. higher average labor productivity.
- D. lower average labor productivity.

28. If average labor productivity in two countries is the same, average living standards will be lower in the country with:

- A. the smaller population.
- B. the larger population.
- C. the higher share of population employed.
- D. the lower share of population employed.

29. If average labor productivity in two countries is the same, average living standards will be higher in the country with:

- A. the smaller population.
- B. the larger population.
- C. the higher share of population employed.
- D. the lower share of population employed.

30. If 50 percent of the population in a country is employed and average labor productivity equals \$30,000, then real GDP per person equals:

- A. \$15,000
- B. \$30,000
- C. \$30,050
- D. \$50,000

31. If real GDP per person in a country equals \$40,000 and 60 percent of the population is employed, then average labor productivity equals:

- A. \$24,000
- B. \$40,000
- C. \$40,060
- D. \$66,667

32. If real GDP per person in a country equals \$20,000 and 40 percent of the population is employed, then average labor productivity equals:
- A. \$8,000
  - B. \$20,000
  - C. \$20,040
  - D. \$50,000
33. The population of Alpha totals one million people of whom 40 percent are employed. Average output per worker in Alpha is \$20,000. Real GDP per person in Alpha totals:
- A. \$8,000
  - B. \$12,000
  - C. \$20,000
  - D. \$28,000
34. The population of Omega totals one million people of whom 30 percent are employed. Average output per worker in Alpha is \$30,000. Real GDP per person in Alpha totals:
- A. \$9,000
  - B. \$21,000
  - C. \$30,000
  - D. \$39,000

35. In Econland 500,000 of the 2 million people in the country are employed. Average labor productivity in Econland is \$15,000 per worker. Real GDP per person in Econland totals:
- A. \$1,250
  - B. \$3,750
  - C. \$11,250
  - D. \$15,000
36. In Macroland 500,000 of the 1 million people in the country are employed. Average labor productivity in Macroland is \$20,000 per worker. Real GDP per person in Macroland totals:
- A. \$1,000
  - B. \$10,000
  - C. \$15,000
  - D. \$20,000
37. Assume that the share of population employed in all countries is 50 percent. Based on the information below, which country has the highest real GDP per capita?

| Country | Population (millions) | Average Labor Productivity (\$) |
|---------|-----------------------|---------------------------------|
| A       | 100                   | 2,000                           |
| B       | 150                   | 10,000                          |
| C       | 75                    | 25,000                          |
| D       | 250                   | 50,000                          |
| E       | 95                    | 60,000                          |

- A. Country A
- B. Country B
- C. Country D
- D. Country E

38. Assume that the share of population employed in all countries is 50 percent. Based on the information below, which country has the smallest real GDP per capita?

| Country | Population<br>(millions) | Average Labor<br>Productivity (\$) |
|---------|--------------------------|------------------------------------|
| A       | 100                      | 2,000                              |
| B       | 150                      | 10,000                             |
| C       | 75                       | 25,000                             |
| D       | 250                      | 50,000                             |
| E       | 95                       | 60,000                             |

- A. Country A
- B. Country B
- C. Country D
- D. Country E

39. In 1998 average labor productivity in Jobland was \$66,381 per worker and 48.9% of the population was employed. If over the next forty years average labor productivity increases by 85 percent, but the share of population employed falls to 36.4%, then compared to real GDP per person in 1998, real GDP per person in 2038 will be approximately:

- A. 85% larger.
- B. 38% larger.
- C. the same as in 1998.
- D. 4% smaller.

40. In 1999 average labor productivity in Jobland was \$68,000 per worker and 49% of the population was employed. If over the next forty years average labor productivity increases by 85 percent, but the share of population employed falls to 36%, then compared to real GDP per person in 1999, real GDP per person in 2039 will be approximately:

- A. 85% larger.
- B. 36% larger.
- C. the same as in 1998.
- D. 4% smaller.

41. If average labor productivity increases, real GDP per person:

- A. increases.
- B. decreases.
- C. remains constant.
- D. may increase or decrease depending on the change in the share of population employed.

42. Assume that average labor productivity is the same in each country. Based on the information below, which country has the highest real GDP per capita?

| Country | Population<br>(millions) | Share of Population<br>Employed (%) |
|---------|--------------------------|-------------------------------------|
| A       | 100                      | 60                                  |
| B       | 150                      | 55                                  |
| C       | 75                       | 50                                  |
| D       | 250                      | 45                                  |
| E       | 95                       | 40                                  |

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

43. Assume that average labor productivity is the same in each country. Based on the information below, which country has the smallest real GDP per capita?

| Country | Population<br>(millions) | Share of Population<br>Employed (%) |
|---------|--------------------------|-------------------------------------|
| A       | 100                      | 60                                  |
| B       | 150                      | 55                                  |
| C       | 75                       | 50                                  |
| D       | 250                      | 45                                  |
| E       | 95                       | 40                                  |

- A. Country A
- B. Country B
- C. Country D
- D. Country E
44. In the long run, increases in output per person arise primarily from:
- A. increases in female labor force participation.
- B. increases in male labor force participation.
- C. an increasing proportion of the population retiring.
- D. increases in average labor productivity.
45. Which of the following factors taken alone is most likely to increase average living standards in an economy?
- A. more people
- B. more managers
- C. more natural resources
- D. more applied technology

46. Increases in living standards, as measured by real GDP per person, are primarily the result of increases in:

- A. population.
- B. the money supply.
- C. government budget surpluses.
- D. average labor productivity.

47. Malek and Tariq debone chicken breasts for Mohsen's Chicken Co. Malek is new and can only debone 60 chicken breasts per hour, while Tariq's experience allows him to debone 120 chicken breasts per hour. Both Malek and Tariq work 40 hours per week. Their average hourly productivity as a team is \_\_\_\_\_ chicken breasts.

- A. 60
- B. 75
- C. 90
- D. 100

48. Malek and Tariq debone chicken breasts for Mohsen's Chicken Co. Malek is new and can only debone 30 chicken breasts per hour, while Tariq's experience allows him to debone 60 chicken breasts per hour. Both Malek and Tariq work 40 hours per week. Their average hourly productivity as a team is \_\_\_\_\_ chicken breasts.

- A. 30
- B. 45
- C. 60
- D. 90

49. Fawzi and Bassam fill egg cartons with eggs. Fawzi just started the job and can only fill 25 cartons an hour. Bassam has significant on-the-job experience that allows him to fill 50 cartons an hour. Both Fawzi and Bassam work 50 hours a week. Fawzi's average weekly productivity is \_\_\_\_ cartons; Bassam's average weekly productivity is \_\_\_\_ cartons; and as a team their average weekly productivity is \_\_\_\_ cartons.

- A. 25; 50; 75
- B. 25; 50; 37.5
- C. 25; 50; 7,500
- D. 1,250; 2,500; 1,875

50. Fawzi and Bassam fill egg cartons with eggs. Fawzi just started the job and can only fill 20 cartons an hour. Bassam has significant on-the-job experience that allows him to fill 40 cartons an hour. Both Fawzi and Bassam work 40 hours a week. Fawzi's average weekly productivity is \_\_\_\_ cartons; Bassam's average weekly productivity is \_\_\_\_ cartons; and as a team their average weekly productivity is \_\_\_\_ cartons.

- A. 20; 40; 60
- B. 20; 40; 30
- C. 20; 40; 4,800
- D. 800; 1,600; 1,200

51. Human capital is:

- A. factories and machinery used by humans in the production process.
- B. the talents, training, and education of workers.
- C. financial resources available to humans for investment.
- D. factories and machinery made by workers.

52. The talents, training, and education of workers is called:

- A. human capital.
- B. physical capital.
- C. average labor productivity.
- D. labor supply.

53. Workers should invest in additional human capital as long as the:

- A. marginal benefit exceeds the marginal cost.
- B. marginal cost exceeds the marginal benefit.
- C. opportunity cost exceeds the marginal benefit.
- D. opportunity cost is zero.

54. Which of the following is an example of investing in human capital?

- A. A firm replaces manually controlled production with a computer controlled procedure.
- B. A firm pays for workers to take college classes.
- C. A chemical firm supports research to develop new chemicals.
- D. A firm purchases new equipment for a manufacturing process.

55. The prediction that workers obtain additional training only when the rewards from the training are expected to exceed the costs of the training (including the opportunity costs) is based on the:

- A. principle of comparative advantage.
- B. principle of diminishing returns to capital.
- C. scarcity principle.
- D. cost-benefit principle.

56. Getting a college degree is an example of investing in:

- A. human capital
- B. physical capital
- C. technology
- D. research and development

57. Providing workers with on-the-job training will increase:

- A. average labor productivity.
- B. the share of the population employed.
- C. the unemployment rate.
- D. the labor force participation rate.

58. When a firm builds a new factory, this is an example of investing in:

- A. human capital.
- B. physical capital.
- C. the market.
- D. research and development.

59. Which of the following is an example of investing in physical capital?

- A. A firm trains workers to operate new machinery.
- B. A firm pays for workers to take college classes.
- C. A chemical firm employs chemists to develop new chemicals.
- D. A firm purchases new equipment for a manufacturing process.

60. Malek and Tariq debone chicken breasts for Mohsen's Chicken Co. Malek is new and can only debone 60 chicken breasts per hour by hand, while Tariq's experience allows him to debone 120 chicken breasts per hour by hand. Mohsen buys one new machine that can debone 100 chicken breasts per hour. Both Malek and Tariq work the same 40 hours per week, but one of them is assigned to operate the machine instead of deboning the chicken breasts by hand. To obtain maximum average hourly productivity \_\_\_\_\_ is assigned to use the machine and their combined average hourly productivity as a team is \_\_\_\_\_ chicken breasts.

- A. Malek; 80
- B. Malek; 110
- C. Tariq; 80
- D. Tariq; 100

61. Malek and Tariq debone chicken breasts for Mohsen's Chicken Co. Malek is new and can only debone 30 chicken breasts per hour by hand, while Tariq's experience allows him to debone 60 chicken breasts per hour by hand. Mohsen buys one new machine that can debone 100 chicken breasts per hour. Both Malek and Tariq work the same 40 hours per week, but one of them is assigned to operate the machine instead of deboning the chicken breasts by hand. To obtain maximum average hourly productivity \_\_\_\_\_ is assigned to use the machine and their combined average hourly productivity as a team is \_\_\_\_\_ chicken breasts

- A. Malek; 65
- B. Malek; 80
- C. Tariq; 65
- D. Tariq; 100

62. Physical capital is the:

- A. factories and machinery used to produce other goods and service.
- B. talents, training, and education of workers.
- C. financial resources available for investment.
- D. physical labor of workers.

63. Jaafar and Fawzi are the only two cashiers employed at a retail store. Each of them works the same 40 hours per week and each can check out 30 customers per hour by manually entering the price of each product purchased into the cash register. The store owner replaces the old cash registers with new ones that automatically scan product prices into the register. With the new register Jaafar and Fawzi can each check out 60 customers per hour. Their average labor productivity as a team before the new cash registers were introduced was \_\_\_\_ customers per hour and \_\_\_\_ customers per hour after the new machines were installed.

- A. 30; 60
- B. 30; 120
- C. 60; 120
- D. 1200; 2,400

64. Badriya and Widad are the only two cashiers employed at a retail store. Each of them works the same 40 hours per week and each can check out 20 customers per hour by manually entering the price of each product purchased into the cash register. The store owner replaces the old cash registers with new ones that automatically scan product prices into the register. With the new register Badriya and Widad can each check out 60 customers per hour. Their average labor productivity as a team before the new cash registers were introduced was \_\_\_\_ customers per hour and \_\_\_\_ customers per hour after the new machines were installed.

- A. 20; 60
- B. 40; 120
- C. 40; 60
- D. 800; 2,400

65. Countries with small amounts of capital per worker tend to have \_\_\_\_\_ levels of real GDP per person and \_\_\_\_ levels of average labor productivity.

- A. high; high
- B. high; low
- C. low; low
- D. low; average

66. The principle of diminishing returns to capital states that if the amount of labor and other inputs employed is held constant, then the greater the amount of capital in use the:

- A. less is produced.
- B. less production is wasted.
- C. the more an additional unit of capital adds to production.
- D. the less an additional unit of capital adds to production.

67. The principle that if the amount of labor and other inputs is held constant, then the greater the amount of capital in use, the less an additional unit of capital adds to production is called the principle of:
- A. increasing average capital productivity.
  - B. diminishing returns to capital.
  - C. increasing returns to capital.
  - D. decreasing output per unit of capital.
68. Increasing the capital available to the workforce, holding other factors constant, tends to \_\_\_\_\_ total output and to \_\_\_\_\_ average labor productivity.
- A. increase; decrease
  - B. increase; increase
  - C. increase; keep unchanged
  - D. decrease; increase
69. Alpha has \$40,000 of capital per worker, while Beta has \$5,000 of capital per worker. According to the principle of diminishing returns to capital, an additional unit of capital will increase output \_\_\_\_\_ in Alpha compared to Beta, holding other factors constant.
- A. more
  - B. less
  - C. not at all
  - D. by the same amount

70. Gamma has \$30,000 of capital per worker, while Omega has \$7,500 of capital per worker. According to the principle of diminishing returns to capital, an additional unit of capital will increase output \_\_\_\_ in Gamma compared to Omega, holding other factors constant.

- A. more
- B. less
- C. not at all
- D. by the same amount

71. Based on the table below, if the production process described below is subject to diminishing returns to capital, then total packages wrapped when a fourth machine is installed must be less than \_\_\_\_ packages.

| Number of<br>(Identical) Machines | Total Packages<br>Wrapped |
|-----------------------------------|---------------------------|
| 1                                 | 10,000                    |
| 2                                 | 13,000                    |
| 3                                 | 15,000                    |

- A. 2,000
- B. 15,000
- C. 16,000
- D. 17,000

72. Based on the table below, if the production process described below is subject to diminishing returns to capital, then total packages wrapped when a fourth machine is installed must be less than \_\_\_\_\_ packages.

| Number of<br>(Identical) Machines | Total Packages<br>Wrapped |
|-----------------------------------|---------------------------|
| 1                                 | 5,000                     |
| 2                                 | 9,000                     |
| 3                                 | 12,000                    |

- A. 3,000
  - B. 4,000
  - C. 12,000
  - D. 15,000
73. Providing a constant number of workers with additional capital with which to work will \_\_\_\_\_ average labor productivity at a \_\_\_\_\_ rate.
- A. increase; increasing
  - B. increase; constant
  - C. increase; decreasing
  - D. decrease; decreasing
74. Diminishing returns to capital is a consequence of firms' incentives to use each piece of capital as productively as possible and illustrates the:
- A. principle of comparative advantage.
  - B. principle of increasing opportunity costs.
  - C. scarcity principle.
  - D. cost-benefit principle.

75. Because of diminishing returns to capital, additions to/improvement in \_\_\_\_\_ are not the most effective way to increase average labor productivity.

- A. the availability of land and natural resources
- B. physical capital
- C. technology
- D. entrepreneurship

76. Usually an abundance of natural resources \_\_\_\_\_ average labor productivity.

- A. doubles
- B. increases
- C. decreases
- D. has no effect on

77. The discovery and utilization of vast, previously unknown oil and mineral deposits in a country will increase:

- A. average labor productivity.
- B. the share of the population employed.
- C. the unemployment rate.
- D. the quantity of human capital.

78. Most economists agree that \_\_\_\_\_ is/are the single most important source of productivity improvements.

- A. increases in human capital
- B. increases in physical capital
- C. technological advances
- D. discoveries of natural resources

79. Three workers run a house painting business and always work the same number of hours together. The paint they use requires applying two coats. Each worker paints 200 square feet per hour using a roller or 80 square feet per hour using a brush. If a technological advance provides a paint that only requires one coat, their average labor productivity per hour as a team:

- A. increases.
- B. decreases.
- C. remains the same.
- D. may either increase or decrease.

80. The application of new technologies to the production process will increase:

- A. average labor productivity.
- B. the share of the population employed.
- C. the unemployment rate.
- D. the quantity of human capital.

81. When new technologies are applied to the production and distribution of goods and services:

- A. scarcity is eliminated.
- B. diminishing returns to capital no longer hold.
- C. diminishing returns to capital still hold.
- D. average labor productivity decreases.

82. The introduction of new technologies to production is \_\_\_\_\_ source of productivity improvement.

- A. the most important
- B. the only
- C. the least important
- D. no longer a

83. Entrepreneurs are people who:

- A. engage exclusively in business travel.
- B. entertain the workers.
- C. run businesses on a day-to-day basis.
- D. create new economic enterprises.

84. Business managers are people who:

- A. engage exclusively in business travel.
- B. entertain the workers.
- C. run businesses on a day-to-day basis.
- D. own the physical capital used in production.

85. \_\_\_\_\_ start new economic enterprises, while \_\_\_\_\_ run the enterprises on a day-to-day basis.
- A. Entrepreneurs; managers
  - B. Managers; entrepreneurs
  - C. Managers; laborers
  - D. Entrepreneurs; laborers
86. Entrepreneurs contribute to increased average labor productivity in each of the following ways EXCEPT by:
- A. introducing new production methods.
  - B. implementing new technological processes.
  - C. developing new products.
  - D. assigning workers to jobs.
87. Managers contribute to increased average labor productivity in each of the following ways EXCEPT by:
- A. developing new products.
  - B. obtaining financing.
  - C. assigning workers to jobs.
  - D. dealing with suppliers.

88. The implementation of new production methods by managers, such as the "just-in-time" inventory system, increases:

- A. average labor productivity.
- B. the share of the population employed.
- C. the unemployment rate.
- D. the quantity of human capital.

89. Organizing production, obtaining financing, assigning workers to jobs, and dealing with suppliers are among the ways that \_\_\_\_\_ increase average labor productivity.

- A. human capital
- B. physical capital
- C. entrepreneurs
- D. managers

90. Developing new products and services as well as introducing new production methods are among the ways that \_\_\_\_\_ increase average labor productivity.

- A. human capital
- B. physical capital
- C. entrepreneurs
- D. managers

91. The introduction of an overnight delivery service that guarantees the delivery of packages anywhere in the world overnight will increase:

- A. average labor productivity.
- B. the share of population employed.
- C. the labor force participation rate.
- D. the unemployment rate.

92. Most political scientists and economists agree that \_\_\_\_\_ is/are detrimental to economic growth.

- A. well-defined property rights
- B. the free and open exchange of ideas
- C. political instability
- D. a just-in-time inventory system

93. Well-defined property rights:

- A. are clearly written in English.
- B. restrict the use of land and natural resources to productive uses.
- C. allow the government to confiscate property.
- D. clearly state who owns resources and how the resources can be used.

94. A political system that promotes the free and open exchange of ideas:

- A. will not have well-defined property rights.
- B. slows the development of new technologies and products.
- C. increases average labor productivity.
- D. is detrimental to economic growth.

95. At the time it collapsed in 1991, the Soviet Union possessed all of the factors that promote increases in economic growth EXCEPT:

- A. a highly educated worker force.
- B. a large stock of capital.
- C. abundant natural resources.
- D. a political and legal environment that promoted economic productivity.

96. Governments contribute to increased average labor productivity in each of the following ways EXCEPT by:

- A. establishing well-defined property rights.
- B. maintaining political stability.
- C. imposing taxes on wages.
- D. allowing the free and open exchange of ideas.

97. Each of the following statements describes how the political and legal environment encourages productivity EXCEPT:

- A. Well-defined property rights encourage production and saving.
- B. Political stability promotes economic growth.
- C. Price changes in markets provide suppliers incentives to supply goods to markets.
- D. Pay rates determined by a governmental planning agency provide workers with the incentive to work hard.

98. The establishment of well-defined property rights increases:

- A. average labor productivity.
- B. the amount of pollution.
- C. the unemployment rate.
- D. the labor force participation rate.

99. Average labor productivity is determined by:

- A. consumption, investment, government spending, and net exports.
- B. the number employed, unemployed, and the labor force participation rate.
- C. the quantity and quality of human capital, physical capital, technology, natural resources, entrepreneurship, and the legal and political environment.
- D. the real interest rate, the nominal interest rate, and the rate of inflation.

100. The quantity and quality of human capital, physical capital, technology, natural resources, entrepreneurship, and the legal and political environment determine the:

- A. unemployment rate.
- B. labor force participation rate.
- C. average labor productivity.
- D. real interest rate.

101. Each of the following increases average labor productivity EXCEPT:

- A. more human capital.
- B. more physical capital.
- C. more central planning.
- D. more natural resources.

102. A production function shows the relationship between:

- A. real and nominal variables.
- B. average labor productivity and the share of population employed.
- C. inputs and outputs.
- D. inflation and unemployment.

103. The relationship between inputs and outputs is called:

- A. a price index.
- B. the standard of living.
- C. the average labor productivity.
- D. a production function.

104. The costs of economic growth include all of the following EXCEPT consumption sacrificed for:

- A. physical capital formation
- B. acquiring new human capital
- C. research and development into new technologies
- D. additional hours of leisure

105. Additional economic growth should be pursued when:

- A. new technologies are discovered.
- B. scarcity exists.
- C. the marginal costs of growth exceed the marginal benefits.
- D. the marginal costs of growth are less than the marginal benefits.

106. The benefits of economic growth are \_\_\_\_\_, while the costs of economic growth are \_\_\_\_\_.

- A. increased output per person; too small for concern
- B. increased output per person; the consumption sacrificed to capital formation
- C. increased output per person; less future consumption
- D. more current consumption; less future consumption

107. The cost of a higher living standard in the future is giving up:

- A. current consumption.
- B. current investment.
- C. future consumption.
- D. future investment.

108. More economic growth is not necessarily better unless the benefits of growth:

- A. exceed the costs of growth.
- B. increase average labor productivity.
- C. increase real GDP per capita.
- D. increase human capital.

109.Higher future living standards require:

- A. reduced rates of current consumption.
- B. increased rates of population growth.
- C. increased rates of current consumption.
- D. reduced rates of current investment.

110.To increase future living standards by pursuing higher current rates of investment spending, an economy must:

- A. allow higher rates of current consumption.
- B. reduce current rates of consumption spending.
- C. reduce the current capital stock.
- D. decrease the amount of future research and development spending.

111.The principle economic cost of growth is:

- A. higher interest rates.
- B. consumption sacrificed for capital formation.
- C. higher inflation rates.
- D. investment in stocks and bonds.

112.An example of a government policy to increase human capital formation is:

- A. the construction of interstate highway system.
- B. the provision of publicly-funded education.
- C. government support for basic research.
- D. maintaining a well-functioning legal system.

113. An example of a government policy to increase physical capital formation is:

- A. the construction of interstate highway system.
- B. government support for basic research.
- C. maintaining a well-functioning legal system.
- D. the provision of publicly-funded education.

114. An example of a government policy to enhance technological progress is:

- A. the construction of interstate highway system.
- B. government support for basic research.
- C. maintaining a well-functioning legal system.
- D. the provision of publicly-funded education.

115. An example of a government policy to provide a framework within which the private sector can operate productively is:

- A. the taxation of savings.
- B. the suppression of political dissent.
- C. maintaining a well-functioning legal system.
- D. government ownership of capital.

116. An example of a government policy to provide a framework within which the private sector can operate productively is:

- A. the taxation of savings.
- B. the suppression of political dissent.
- C. establishing well defined property rights.
- D. government ownership of capital.

117. In order to promote growth, the poorest countries – in contrast to the richer countries - need most to:

- A. invest in human capital.
- B. improve their infrastructure.
- C. improve their legal and political environments.
- D. increase their capital stock.

118. The biggest problem thwarting economic growth in the poorest countries, compared to the richest countries, is:

- A. insufficient human capital.
- B. outdated physical capital.
- C. no access to technology.
- D. a legal and/or political environment unfavorable to economic growth.

119.The biggest barrier to growth for many of the poorest countries in the world is the need for:

- A. larger populations.
- B. more human capital.
- C. more physical capital.
- D. improved legal and political frameworks.

120.A government policy of providing free public education is an example of a policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. increasing the availability of natural resources.

121.A government policy of providing job training for unskilled youths is an example of a policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. increasing the availability of natural resources.

122. A government policy that allows retirement savings to accumulate tax free is an example of a policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. increasing the availability of natural resources.

123. A government policy to build bridges and dams is an example of a policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. improving the social and legal environment.

124. The construction of a highway system is an example of a government policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. improving the social and legal environment.

125. Government support of basic research by funding scientists through the Qatar Foundation is an example of a government policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. increasing the availability of natural resources.

126. In order to promote growth through increased quantities of physical capital, governments must promote:

- A. a better educational system.
- B. job training programs.
- C. high rates of saving and investing.
- D. funding for basic science.

127. Research confirms that government provision of infrastructure:

- A. hinders economic growth.
- B. promotes economic growth.
- C. increases human capital.
- D. leads to reduced spending on research and development.

128. Policies that affect the legal and political framework of an economy are examples of:

- A. normative economic policies.
- B. monetary policy.
- C. fiscal policy.
- D. structural macroeconomic policies.

129. High rates of saving and investing in the private sector promote economic growth by

- A. increasing human capital.
- B. improving the social and legal environment.
- C. increasing physical capital.
- D. improving technology.

130. Arguments that economic growth is limited by environmental problems and limited natural resources ignore all of the following EXCEPT that:

- A. economic growth can take the form of new, different, and "cleaner" goods and services.
- B. economic growth may lead to less, not more, pollution.
- C. the market mechanism mobilizes resources to deal with shortages.
- D. global environmental problems are not handled by markets or national governments.

131.Arguments that economic growth must be constrained by environmental problems and limits of natural resources ignore the fact that economic growth can:

- A. be measured in both nominal and real terms.
- B. involve both average labor productivity and the share of population employed.
- C. take the form of increases in quality as well as increases in quantity.
- D. occur with only benefits and no economic costs.

132.Empirical studies suggest that as real GDP per person increases the level of pollution:

- A. increases.
- B. decreases.
- C. remains constant.
- D. first increases then decreases.

133.Arguing that economic growth will eventually stop because we will run out of natural resources:

- A. must be correct because scarcity exists.
- B. will only be correct if growth takes the form of newer, more efficient goods and services.
- C. ignores the power of markets to recognize shortages and induce changes in behavior.
- D. is supported today by the fact that richer countries have fewer natural resources.

134. Empirical studies indicate that the maximum amount of air pollution occurs \_\_\_\_\_ levels of real GDP per person.

- A. at the highest
- B. at the lowest
- C. at intermediate
- D. equally at all

135. Defenders of limits on economic growth are concerned that continued economic growth will eventually:

- A. raise interest rates.
- B. reduce the rate of technological progress.
- C. exhaust natural resources.
- D. make plant and equipment obsolete.

# Chapter 17 Testbank Key

1. The key indicator of a country's living standard and economic well being is:

- A. the interest rate.
- B. nominal GDP per person.
- C. real GDP.
- D. real GDP per person.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #1*

*Learning Objective: 17-01 Show how small differences in growth rates can lead to large differences in living standards.*

*Section: The Remarkable Rise in Living Standards: The Record*

2. Compound interest is:

- A. the payment of interest on the original deposit.
- B. the interest rate adjusted for the rate of inflation.
- C. the real rate of interest compounded by the rate of inflation.
- D. the payment of interest on the original deposit and all accumulated interest.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #2*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

3. Bank C promises to pay a compound annual interest rate of 6 percent, while Bank S pays a 10 percent simple annual interest rate on deposits. If you deposit \$1,000 in each bank, after 10 years your deposit in Bank C equals \_\_\_\_\_, while your deposit in Bank S equals \_\_\_\_\_.

A. \$1,060; \$1,100  
B. \$1,600; \$2,000  
C. \$1,600; \$2,594  
D. \$1,791; \$2,000

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 17 #3*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

4. Bank C promises to pay a compound annual interest rate of 6 percent, while Bank S pays an 8 percent simple annual interest rate on deposits. If you deposit \$1,000 in each bank, after 10 years your deposit in Bank C equals \_\_\_\_\_, while your deposit in Bank S equals \_\_\_\_\_.

A. \$1,060; \$1,800  
B. \$1,600; \$1,800  
C. \$1,600; \$2,159  
D. \$1,791; \$1,800

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 17 #4*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

5. If you left \$2,500 on deposit with a bank promising to pay you a 6 percent compound annual rate of interest, then after 50 years your deposit would total:
- A. 2,650
  - B. 18,420
  - C. 46,050
  - D. 250,750

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 17 #5*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

6. If when you are 21 you put \$1,000 in a bank deposit promising to pay 6 percent annual compound interest, how much will be in the account 45 years later when you retire at age 66?
- A. \$3,752
  - B. \$13,765
  - C. \$24,871
  - D. \$46,794

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 17 #6*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

7. If when you are 21 you put \$1,000 in a bank deposit promising to pay 7 percent annual compound interest, how much will be in the account 45 years later when you retire at age 66?
- A. \$3,752
  - B. \$13,765
  - C. \$21,002
  - D. \$46,794

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 17 #7*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

8. Small differences in annual growth rates of real GDP generate large differences in real GDP over time because of the:
- A. importance of average labor productivity.
  - B. power of compound interest.
  - C. diminishing returns to capital.
  - D. limits of economic growth.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #8*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

9. If an economy maintains a small rate of growth for a long period of time, then the size of the economy:
- A. can only increase by a small amount.
  - B. can increase by a large amount.
  - C. can never double.
  - D. will stay nearly constant.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #9*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

10. If real GDP per person equaled \$2,000 in 1900 and grew at a 1 percent annual rate, what would real GDP per person equal 100 years later?
- A. \$2,020
  - B. \$2,200
  - C. \$5,410
  - D. \$22,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #10*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

11. Real GDP per person in both Alpha and Omega equals \$2,000. Over the next 100 years real GDP per person grows at 1.5 percent annual rate in Alpha and at a 2.5 percent annual rate in Omega. After 100 years real GDP person in Alpha is \_\_\_\_\_ smaller than real GDP per person in Omega.

A. \$2,000  
B. \$7,382  
C. \$14,763  
D. \$24,954

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #11*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

12. Real GDP per person in both Alpha and Omega equals \$2,000. Over the next 100 years real GDP per person grows at 1 percent annual rate in Alpha and at a 2 percent annual rate in Omega. After 100 years real GDP person in Alpha is \_\_\_\_\_ smaller than real GDP per person in Omega.

A. \$2,000  
B. \$4,540  
C. \$9,080  
D. \$12,495

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #12*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

13. Government policies that increase the long-term economic growth rate by a small amount result in \_\_\_\_\_ in average living standards.

- A. large increases
- B. small increases
- C. small decreases
- D. no change

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #13*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

14. Real GDP per person in Richland is \$20,000, while real GDP per person in Poorland is \$10,000. However, Richland's real GDP per person is growing at 1% per year and Poorland's is growing at 3% per year. After 50 years, real GDP per person in Richland minus real GDP in Poorland is

- A. greater than \$10,000
- B. positive, but less than \$10,000
- C. zero
- D. negative

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #14*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

15. Real GDP per person in Richland is \$20,000, while real GDP per person in Poorland is \$10,000. However, Richland's real GDP per person is growing at 1% per year and Poorland's is growing at 2% per year. After 50 years, real GDP per person in Richland minus real GDP in Poorland is
- A. greater than \$10,000
  - B. positive, but less than \$10,000
  - C. zero
  - D. negative

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #15*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

16. Real GDP per person in Northland is \$30,000, while real GDP in Southland is \$10,000, However, Northland's real GDP per person is growing at 1% per year and Southland's is growing at 3% per year. If these growth rates persist indefinitely, then:
- A. Northland's real GDP per person will decline until it equals Southland's.
  - B. Northland's real GDP per person will always be greater than Southland's.
  - C. Southland's real GDP per person will always be less than Northland's.
  - D. Southland's real GDP per person will eventually be greater than Northland's.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #16*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

17. Real GDP per person in Westland is \$30,000, while real GDP in Eastland is \$10,000, However, Westland's real GDP per person is growing at 1.5% per year and Eastland's is growing at 3% per year. If these growth rates persist indefinitely, then:

- A. Westland's real GDP per person will decline until it equals Eastland's.
- B. Westland's real GDP per person will always be greater than Eastland's.
- C. Eastland's real GDP per person will always be less than Westland's.
- D. Eastland's real GDP per person will eventually be greater than Westland's.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #17*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

18. Real GDP per person in Southland was \$9,864 in 1950. Over the next 48 years it grew at a compound annual rate of 2.0%. If instead real GDP per person had grown at an average compound annual rate 2.5%, then real GDP per capita in Southland in 1998 would have been approximately \_\_\_\_\_ larger.

- A. \$3,420
- B. \$6,750
- C. \$9,900
- D. \$25,500

*AACSB: Analytical Skills*

*Blooms: Analysis*

*Frank - Chapter 17 #16*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

19. Real GDP per person in Southland was \$7,377 in 1950. Over the next 48 years it grew at a compound annual rate of 2.0%. If instead real GDP per person had grown at an average compound annual rate 2.5%, then real GDP per capita in Southland in 1998 would have been approximately \_\_\_\_\_ larger.

- A. \$3,000
- B. \$5,050
- C. \$7,400
- D. \$19,100

*AACSB: Analytical Skills*

*Blooms: Analysis*

*Frank - Chapter 17 #19*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

20. The key variable in determining changes in a country's standard of living is the:

- A. interest rate
- B. inflation rate
- C. unemployment rate
- D. long-run rate of economic growth

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #20*

*Learning Objective: 17-02 Explain why GDP per capita is the product of average labor productivity and the proportion of the population that is employed and use this decomposition to discuss the sources of economic growth.*

*Section: Why "Small" Differences in Growth Rates Matter*

21. Real GDP per person equals average labor productivity:

- A. times one minus the unemployment rate.
- B. minus the share of population employed.
- C. times the labor force participation rate.
- D. times the share of population employed.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #21*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

22. Average labor productivity times the proportion of the population employed equals:

- A. real GDP.
- B. real GDP per person.
- C. real GDP per worker.
- D. output per worker.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #22*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

23. Growth of real GDP per person is totally determined by the growth of average:

- A. labor productivity and the proportion of the population employed.
- B. labor productivity and the proportion of the population in the labor force.
- C. labor force participation and the share of income going to capital.
- D. labor force participation and the share of the population employed.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #23*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

24. In symbolic terms where Y equals real GDP, POP equals total population, and N equals the number of employed workers, Y/POP must equal:

- A.  $Y/N \times N/POP$ .
- B.  $N/Y \times POP/N$ .
- C.  $Y/POP \times N/POP$ .
- D.  $N/Y \times N/POP$ .

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #24*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

25. Real GDP per person can increase:

- A. only if the share of the population employed increases.
- B. only if the share of the population employed decreases.
- C. only if average labor productivity increases.
- D. if the share of population employed and/or average labor productivity increases.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #25*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

26. A nation's standard of living, as measured by real GDP per person, increases:

- A. only if average labor productivity increases.
- B. only if the share of population employed increases.
- C. only if both average labor productivity and the share of population employed increase.
- D. if either average labor productivity and/or the share of population employed increase.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #26*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

27. If the share of population employed in two countries is the same, average living standards will be higher in the country with:
- A. the smaller population.
  - B. the larger population.
  - C. higher average labor productivity.
  - D. lower average labor productivity.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #27*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

28. If average labor productivity in two countries is the same, average living standards will be lower in the country with:
- A. the smaller population.
  - B. the larger population.
  - C. the higher share of population employed.
  - D. the lower share of population employed.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #28*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

29. If average labor productivity in two countries is the same, average living standards will be higher in the country with:
- A. the smaller population.
  - B. the larger population.
  - C. the higher share of population employed.
  - D. the lower share of population employed.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #29*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

30. If 50 percent of the population in a country is employed and average labor productivity equals \$30,000, then real GDP per person equals:
- A. \$15,000
  - B. \$30,000
  - C. \$30,050
  - D. \$50,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #30*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

31. If real GDP per person in a country equals \$40,000 and 60 percent of the population is employed, then average labor productivity equals:

- A. \$24,000
- B. \$40,000
- C. \$40,060
- D. \$66,667

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #31*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

32. If real GDP per person in a country equals \$20,000 and 40 percent of the population is employed, then average labor productivity equals:

- A. \$8,000
- B. \$20,000
- C. \$20,040
- D. \$50,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #32*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

33. The population of Alpha totals one million people of whom 40 percent are employed. Average output per worker in Alpha is \$20,000. Real GDP per person in Alpha totals:

A. \$8,000  
B. \$12,000  
C. \$20,000  
D. \$28,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #33*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

34. The population of Omega totals one million people of whom 30 percent are employed. Average output per worker in Alpha is \$30,000. Real GDP per person in Alpha totals:

A. \$9,000  
B. \$21,000  
C. \$30,000  
D. \$39,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #34*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

35. In Econland 500,000 of the 2 million people in the country are employed. Average labor productivity in Econland is \$15,000 per worker. Real GDP per person in Econland totals:
- A. \$1,250
  - B. \$3,750**
  - C. \$11,250
  - D. \$15,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #35*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

36. In Macroland 500,000 of the 1 million people in the country are employed. Average labor productivity in Macroland is \$20,000 per worker. Real GDP per person in Macroland totals:
- A. \$1,000
  - B. \$10,000**
  - C. \$15,000
  - D. \$20,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #36*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

37. Assume that the share of population employed in all countries is 50 percent. Based on the information below, which country has the highest real GDP per capita?

| Country | Population (millions) | Average Labor Productivity (\$) |
|---------|-----------------------|---------------------------------|
| A       | 100                   | 2,000                           |
| B       | 150                   | 10,000                          |
| C       | 75                    | 25,000                          |
| D       | 250                   | 50,000                          |
| E       | 95                    | 60,000                          |

- A. Country A
- B. Country B
- C. Country D
- D. Country E

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 17 #37

Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.

Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity

38. Assume that the share of population employed in all countries is 50 percent. Based on the information below, which country has the smallest real GDP per capita?

| Country | Population (millions) | Average Labor Productivity (\$) |
|---------|-----------------------|---------------------------------|
| A       | 100                   | 2,000                           |
| B       | 150                   | 10,000                          |
| C       | 75                    | 25,000                          |
| D       | 250                   | 50,000                          |
| E       | 95                    | 60,000                          |

- A. Country A
- B. Country B
- C. Country D
- D. Country E

AACSB: Analytical Skills

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

39. In 1998 average labor productivity in Jobland was \$66,381 per worker and 48.9% of the population was employed. If over the next forty years average labor productivity increases by 85 percent, but the share of population employed falls to 36.4%, then compared to real GDP per person in 1998, real GDP per person in 2038 will be approximately:
- A. 85% larger.
  - B. 38% larger.
  - C. the same as in 1998.
  - D. 4% smaller.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #39*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

40. In 1999 average labor productivity in Jobland was \$68,000 per worker and 49% of the population was employed. If over the next forty years average labor productivity increases by 85 percent, but the share of population employed falls to 36%, then compared to real GDP per person in 1999, real GDP per person in 2039 will be approximately:
- A. 85% larger.
  - B. 36% larger.
  - C. the same as in 1998.
  - D. 4% smaller.

*AACSB: Analytical Skills*

*Blooms: Application*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

41. If average labor productivity increases, real GDP per person:
- A. increases.
  - B. decreases.
  - C. remains constant.
  - D. may increase or decrease depending on the change in the share of population employed.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #41*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

42. Assume that average labor productivity is the same in each country. Based on the information below, which country has the highest real GDP per capita?

| Country | Population (millions) | Share of Population Employed (%) |
|---------|-----------------------|----------------------------------|
| A       | 100                   | 60                               |
| B       | 150                   | 55                               |
| C       | 75                    | 50                               |
| D       | 250                   | 45                               |
| E       | 95                    | 40                               |

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

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #42*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per*

43. Assume that average labor productivity is the same in each country. Based on the information below, which country has the smallest real GDP per capita?

| Country | Population (millions) | Share of Population Employed (%) |
|---------|-----------------------|----------------------------------|
| A       | 100                   | 60                               |
| B       | 150                   | 55                               |
| C       | 75                    | 50                               |
| D       | 250                   | 45                               |
| E       | 95                    | 40                               |

- A. Country A  
 B. Country B  
 C. Country D  
D. Country E

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 17 #43

Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.

Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity

44. In the long run, increases in output per person arise primarily from:

- A. increases in female labor force participation.  
 B. increases in male labor force participation.  
 C. an increasing proportion of the population retiring.  
D. increases in average labor productivity.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 17 #44

Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.

Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity

45. Which of the following factors taken alone is most likely to increase average living standards in an economy?

- A. more people
- B. more managers
- C. more natural resources
- D. more applied technology

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #45*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

46. Increases in living standards, as measured by real GDP per person, are primarily the result of increases in:

- A. population.
- B. the money supply.
- C. government budget surpluses.
- D. average labor productivity.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #46*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: Why Nations Become Rich: The Crucial Role of Average Labor Productivity*

47. Malek and Tariq debone chicken breasts for Mohsen's Chicken Co. Malek is new and can only debone 60 chicken breasts per hour, while Tariq's experience allows him to debone 120 chicken breasts per hour. Both Malek and Tariq work 40 hours per week. Their average hourly productivity as a team is \_\_\_\_\_ chicken breasts.

A. 60  
B. 75  
C. 90  
D. 100

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*Blooms: Application*

*Frank - Chapter 17 #47*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

48. Malek and Tariq debone chicken breasts for Mohsen's Chicken Co. Malek is new and can only debone 30 chicken breasts per hour, while Tariq's experience allows him to debone 60 chicken breasts per hour. Both Malek and Tariq work 40 hours per week. Their average hourly productivity as a team is \_\_\_\_\_ chicken breasts.

A. 30  
B. 45  
C. 60  
D. 90

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #48*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

49. Fawzi and Bassam fill egg cartons with eggs. Fawzi just started the job and can only fill 25 cartons an hour. Bassam has significant on-the-job experience that allows him to fill 50 cartons an hour. Both Fawzi and Bassam work 50 hours a week. Fawzi's average weekly productivity is \_\_\_\_\_ cartons; Bassam's average weekly productivity is \_\_\_\_\_ cartons; and as a team their average weekly productivity is \_\_\_\_\_ cartons.

A. 25; 50; 75  
B. 25; 50; 37.5  
C. 25; 50; 7,500  
D. 1,250; 2,500; 1,875

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #49*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

50. Fawzi and Bassam fill egg cartons with eggs. Fawzi just started the job and can only fill 20 cartons an hour. Bassam has significant on-the-job experience that allows him to fill 40 cartons an hour. Both Fawzi and Bassam work 40 hours a week. Fawzi's average weekly productivity is \_\_\_\_\_ cartons; Bassam's average weekly productivity is \_\_\_\_\_ cartons; and as a team their average weekly productivity is \_\_\_\_\_ cartons.

A. 20; 40; 60  
B. 20; 40; 30  
C. 20; 40; 4,800  
D. 800; 1,600; 1,200

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #50*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

51. Human capital is:

- A. factories and machinery used by humans in the production process.
- B. the talents, training, and education of workers.
- C. financial resources available to humans for investment.
- D. factories and machinery made by workers.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 17 #51

Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.

Section: The Determinants of Average Labor Productivity

52. The talents, training, and education of workers is called:

- A. human capital.
- B. physical capital.
- C. average labor productivity.
- D. labor supply.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 17 #52

Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.

Section: The Determinants of Average Labor Productivity

53. Workers should invest in additional human capital as long as the:

- A. marginal benefit exceeds the marginal cost.
- B. marginal cost exceeds the marginal benefit.
- C. opportunity cost exceeds the marginal benefit.
- D. opportunity cost is zero.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #53*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

54. Which of the following is an example of investing in human capital?

- A. A firm replaces manually controlled production with a computer controlled procedure.
- B. A firm pays for workers to take college classes.
- C. A chemical firm supports research to develop new chemicals.
- D. A firm purchases new equipment for a manufacturing process.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #54*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

55. The prediction that workers obtain additional training only when the rewards from the training are expected to exceed the costs of the training (including the opportunity costs) is based on the:

- A. principle of comparative advantage.
- B. principle of diminishing returns to capital.
- C. scarcity principle.
- D. cost-benefit principle.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #55*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

56. Getting a college degree is an example of investing in:

- A. human capital
- B. physical capital
- C. technology
- D. research and development

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #56*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

57. Providing workers with on-the-job training will increase:

- A. average labor productivity.
- B. the share of the population employed.
- C. the unemployment rate.
- D. the labor force participation rate.

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*Blooms: Understanding*

*Frank - Chapter 17 #57*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

58. When a firm builds a new factory, this is an example of investing in:

- A. human capital.
- B. physical capital.
- C. the market.
- D. research and development.

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*Blooms: Understanding*

*Frank - Chapter 17 #58*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

59. Which of the following is an example of investing in physical capital?

- A. A firm trains workers to operate new machinery.
- B. A firm pays for workers to take college classes.
- C. A chemical firm employs chemists to develop new chemicals.
- D. A firm purchases new equipment for a manufacturing process.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #59*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

60. Malek and Tariq debone chicken breasts for Mohsen's Chicken Co. Malek is new and can only debone 60 chicken breasts per hour by hand, while Tariq's experience allows him to debone 120 chicken breasts per hour by hand. Mohsen buys one new machine that can debone 100 chicken breasts per hour. Both Malek and Tariq work the same 40 hours per week, but one of them is assigned to operate the machine instead of deboning the chicken breasts by hand. To obtain maximum average hourly productivity \_\_\_\_\_ is assigned to use the machine and their combined average hourly productivity as a team is \_\_\_\_\_ chicken breasts.

- A. Malek; 80
- B. Malek; 110
- C. Tariq; 80
- D. Tariq; 100

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #60*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

61. Malek and Tariq debone chicken breasts for Mohsen's Chicken Co. Malek is new and can only debone 30 chicken breasts per hour by hand, while Tariq's experience allows him to debone 60 chicken breasts per hour by hand. Mohsen buys one new machine that can debone 100 chicken breasts per hour. Both Malek and Tariq work the same 40 hours per week, but one of them is assigned to operate the machine instead of deboning the chicken breasts by hand. To obtain maximum average hourly productivity \_\_\_\_\_ is assigned to use the machine and their combined average hourly productivity as a team is \_\_\_\_\_ chicken breasts

A. Malek; 65

B. Malek; 80

C. Tariq; 65

D. Tariq; 100

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #61*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

62. Physical capital is the:

A. factories and machinery used to produce other goods and service.

B. talents, training, and education of workers.

C. financial resources available for investment.

D. physical labor of workers.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #62*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

63. Jaafar and Fawzi are the only two cashiers employed at a retail store. Each of them works the same 40 hours per week and each can check out 30 customers per hour by manually entering the price of each product purchased into the cash register. The store owner replaces the old cash registers with new ones that automatically scan product prices into the register. With the new register Jaafar and Fawzi can each check out 60 customers per hour. Their average labor productivity as a team before the new cash registers were introduced was \_\_\_\_ customers per hour and \_\_\_\_ customers per hour after the new machines were installed.

- A. 30; 60
- B. 30; 120
- C. 60; 120
- D. 1200; 2,400

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #63*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

64. Badriya and Widad are the only two cashiers employed at a retail store. Each of them works the same 40 hours per week and each can check out 20 customers per hour by manually entering the price of each product purchased into the cash register. The store owner replaces the old cash registers with new ones that automatically scan product prices into the register. With the new register Badriya and Widad can each check out 60 customers per hour. Their average labor productivity as a team before the new cash registers were introduced was \_\_\_\_ customers per hour and \_\_\_\_ customers per hour after the new machines were installed.

- A. 20; 60
- B. 40; 120
- C. 40; 60
- D. 800; 2,400

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 17 #64*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

65. Countries with small amounts of capital per worker tend to have \_\_\_\_\_ levels of real GDP per person and \_\_\_\_ levels of average labor productivity.

- A. high; high
- B. high; low
- C. low; low
- D. low; average

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #65*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

66. The principle of diminishing returns to capital states that if the amount of labor and other inputs employed is held constant, then the greater the amount of capital in use the:
- A. less is produced.
  - B. less production is wasted.
  - C. the more an additional unit of capital adds to production.
  - D. the less an additional unit of capital adds to production.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #66*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

67. The principle that if the amount of labor and other inputs is held constant, then the greater the amount of capital in use, the less an additional unit of capital adds to production is called the principle of:
- A. increasing average capital productivity.
  - B. diminishing returns to capital.
  - C. increasing returns to capital.
  - D. decreasing output per unit of capital.

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*Blooms: Knowledge*

*Frank - Chapter 17 #67*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

68. Increasing the capital available to the workforce, holding other factors constant, tends to \_\_\_\_\_ total output and to \_\_\_\_\_ average labor productivity.

- A. increase; decrease
- B. increase; increase**
- C. increase; keep unchanged
- D. decrease; increase

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #68*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

69. Alpha has \$40,000 of capital per worker, while Beta has \$5,000 of capital per worker. According to the principle of diminishing returns to capital, an additional unit of capital will increase output \_\_\_\_\_ in Alpha compared to Beta, holding other factors constant.

- A. more
- B. less**
- C. not at all
- D. by the same amount

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #69*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

70. Gamma has \$30,000 of capital per worker, while Omega has \$7,500 of capital per worker. According to the principle of diminishing returns to capital, an additional unit of capital will increase output \_\_\_\_ in Gamma compared to Omega, holding other factors constant.

A. more  
**B. less**  
C. not at all  
D. by the same amount

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #70*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

71. Based on the table below, if the production process described below is subject to diminishing returns to capital, then total packages wrapped when a fourth machine is installed must be less than \_\_\_\_ packages.

| Number of<br>(Identical) Machines | Total Packages<br>Wrapped |
|-----------------------------------|---------------------------|
| 1                                 | 10,000                    |
| 2                                 | 13,000                    |
| 3                                 | 15,000                    |

A. 2,000  
B. 15,000  
C. 16,000  
**D. 17,000**

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*Blooms: Application*

*Frank - Chapter 17 #71*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

72. Based on the table below, if the production process described below is subject to diminishing returns to capital, then total packages wrapped when a fourth machine is installed must be less than \_\_\_\_ packages.

| Number of<br>(Identical) Machines | Total Packages<br>Wrapped |
|-----------------------------------|---------------------------|
| 1                                 | 5,000                     |
| 2                                 | 9,000                     |
| 3                                 | 12,000                    |

- A. 3,000
- B. 4,000
- C. 12,000
- D. 15,000

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Blooms: Application

Frank - Chapter 17 #72

Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.

Section: The Determinants of Average Labor Productivity

73. Providing a constant number of workers with additional capital with which to work will \_\_\_\_\_ average labor productivity at a \_\_\_\_\_ rate.

- A. increase; increasing
- B. increase; constant
- C. increase; decreasing
- D. decrease; decreasing

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Blooms: Knowledge

Frank - Chapter 17 #73

Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.

Section: The Determinants of Average Labor Productivity

74. Diminishing returns to capital is a consequence of firms' incentives to use each piece of capital as productively as possible and illustrates the:

- A. principle of comparative advantage.
- B. principle of increasing opportunity costs.
- C. scarcity principle.
- D. cost-benefit principle.

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*Blooms: Understanding*

*Frank - Chapter 17 #74*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

75. Because of diminishing returns to capital, additions to/improvement in \_\_\_\_\_ are not the most effective way to increase average labor productivity.

- A. the availability of land and natural resources
- B. physical capital
- C. technology
- D. entrepreneurship

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*Blooms: Understanding*

*Frank - Chapter 17 #75*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

76. Usually an abundance of natural resources \_\_\_\_\_ average labor productivity.

- A. doubles
- B. increases
- C. decreases
- D. has no effect on

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*Blooms: Knowledge*

*Frank - Chapter 17 #76*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

77. The discovery and utilization of vast, previously unknown oil and mineral deposits in a country will increase:

- A. average labor productivity.
- B. the share of the population employed.
- C. the unemployment rate.
- D. the quantity of human capital.

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*Blooms: Understanding*

*Frank - Chapter 17 #77*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

78. Most economists agree that \_\_\_\_\_ is/are the single most important source of productivity improvements.

- A. increases in human capital
- B. increases in physical capital
- C. technological advances
- D. discoveries of natural resources

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #78*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

79. Three workers run a house painting business and always work the same number of hours together. The paint they use requires applying two coats. Each worker paints 200 square feet per hour using a roller or 80 square feet per hour using a brush. If a technological advance provides a paint that only requires one coat, their average labor productivity per hour as a team:

- A. increases.
- B. decreases.
- C. remains the same.
- D. may either increase or decrease.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #79*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

80. The application of new technologies to the production process will increase:

- A. average labor productivity.
- B. the share of the population employed.
- C. the unemployment rate.
- D. the quantity of human capital.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #80*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

81. When new technologies are applied to the production and distribution of goods and services:

- A. scarcity is eliminated.
- B. diminishing returns to capital no longer hold.
- C. diminishing returns to capital still hold.
- D. average labor productivity decreases.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #81*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

82. The introduction of new technologies to production is \_\_\_\_\_ source of productivity improvement.

- A. the most important
- B. the only
- C. the least important
- D. no longer a

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #82*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

83. Entrepreneurs are people who:

- A. engage exclusively in business travel.
- B. entertain the workers.
- C. run businesses on a day-to-day basis.
- D. create new economic enterprises.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #83*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

84. Business managers are people who:

- A. engage exclusively in business travel.
- B. entertain the workers.
- C. run businesses on a day-to-day basis.
- D. own the physical capital used in production.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #84*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

85. \_\_\_\_\_ start new economic enterprises, while \_\_\_\_\_ run the enterprises on a day-to-day basis.

- A. Entrepreneurs; managers
- B. Managers; entrepreneurs
- C. Managers; laborers
- D. Entrepreneurs; laborers

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #85*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

86. Entrepreneurs contribute to increased average labor productivity in each of the following ways EXCEPT by:

- A. introducing new production methods.
- B. implementing new technological processes.
- C. developing new products.
- D. assigning workers to jobs.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #86*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

87. Managers contribute to increased average labor productivity in each of the following ways EXCEPT by:

- A. developing new products.
- B. obtaining financing.
- C. assigning workers to jobs.
- D. dealing with suppliers.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #87*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

88. The implementation of new production methods by managers, such as the "just-in-time" inventory system, increases:

- A. average labor productivity.
- B. the share of the population employed.
- C. the unemployment rate.
- D. the quantity of human capital.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #86*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

89. Organizing production, obtaining financing, assigning workers to jobs, and dealing with suppliers are among the ways that \_\_\_\_\_ increase average labor productivity.

- A. human capital
- B. physical capital
- C. entrepreneurs
- D. managers

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #89*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

90. Developing new products and services as well as introducing new production methods are among the ways that \_\_\_\_\_ increase average labor productivity.

- A. human capital
- B. physical capital
- C. entrepreneurs
- D. managers

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #90*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

91. The introduction of an overnight delivery service that guarantees the delivery of packages anywhere in the world overnight will increase:

- A. average labor productivity.
- B. the share of population employed.
- C. the labor force participation rate.
- D. the unemployment rate.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #91*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

92. Most political scientists and economists agree that \_\_\_\_\_ is/are detrimental to economic growth.

- A. well-defined property rights
- B. the free and open exchange of ideas
- C. political instability
- D. a just-in-time inventory system

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #92*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

93. Well-defined property rights:

- A. are clearly written in English.
- B. restrict the use of land and natural resources to productive uses.
- C. allow the government to confiscate property.
- D. clearly state who owns resources and how the resources can be used.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #93*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

94. A political system that promotes the free and open exchange of ideas:

- A. will not have well-defined property rights.
- B. slows the development of new technologies and products.
- C. increases average labor productivity.
- D. is detrimental to economic growth.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #94*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

95. At the time it collapsed in 1991, the Soviet Union possessed all of the factors that promote increases in economic growth EXCEPT:

- A. a highly educated worker force.
- B. a large stock of capital.
- C. abundant natural resources.
- D. a political and legal environment that promoted economic productivity.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #95*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

96. Governments contribute to increased average labor productivity in each of the following ways EXCEPT by:

- A. establishing well-defined property rights.
- B. maintaining political stability.
- C. imposing taxes on wages.
- D. allowing the free and open exchange of ideas.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #96*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

97. Each of the following statements describes how the political and legal environment encourages productivity EXCEPT:

- A. Well-defined property rights encourage production and saving.
- B. Political stability promotes economic growth.
- C. Price changes in markets provide suppliers incentives to supply goods to markets.
- D. Pay rates determined by a governmental planning agency provide workers with the incentive to work hard.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #97*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

98. The establishment of well-defined property rights increases:

- A. average labor productivity.
- B. the amount of pollution.
- C. the unemployment rate.
- D. the labor force participation rate.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #96*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

99. Average labor productivity is determined by:

- A. consumption, investment, government spending, and net exports.
- B. the number employed, unemployed, and the labor force participation rate.
- C. the quantity and quality of human capital, physical capital, technology, natural resources, entrepreneurship, and the legal and political environment.
- D. the real interest rate, the nominal interest rate, and the rate of inflation.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #99*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

100. The quantity and quality of human capital, physical capital, technology, natural resources, entrepreneurship, and the legal and political environment determine the:

- A. unemployment rate.
- B. labor force participation rate.
- C. average labor productivity.
- D. real interest rate.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #100*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

101. Each of the following increases average labor productivity EXCEPT:

- A. more human capital.
- B. more physical capital.
- C. more central planning.
- D. more natural resources.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #101*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

102. A production function shows the relationship between:

- A. real and nominal variables.
- B. average labor productivity and the share of population employed.
- C. inputs and outputs.
- D. inflation and unemployment.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #102*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

103. The relationship between inputs and outputs is called:

- A. a price index.
- B. the standard of living.
- C. the average labor productivity.
- D. a production function.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #103*

*Learning Objective: 17-03 Discuss the determinants of average labor productivity within a particular country and use these concepts to analyze per capita GDP differences across countries.*

*Section: The Determinants of Average Labor Productivity*

104. The costs of economic growth include all of the following EXCEPT consumption sacrificed for:

- A. physical capital formation
- B. acquiring new human capital
- C. research and development into new technologies
- D. additional hours of leisure

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #104*

*Learning Objective: 17-04 Compare and contrast the benefits of economic growth with its costs.*

*Section: The Costs of Economic Growth*

105. Additional economic growth should be pursued when:

- A. new technologies are discovered.
- B. scarcity exists.
- C. the marginal costs of growth exceed the marginal benefits.
- D. the marginal costs of growth are less than the marginal benefits.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #105*

*Learning Objective: 17-04 Compare and contrast the benefits of economic growth with its costs.*

*Section: The Costs of Economic Growth*

106. The benefits of economic growth are \_\_\_\_\_, while the costs of economic growth are \_\_\_\_\_.

- A. increased output per person; too small for concern
- B. increased output per person; the consumption sacrificed to capital formation
- C. increased output per person; less future consumption
- D. more current consumption; less future consumption

*AACSB: Analytical Skills*

107. The cost of a higher living standard in the future is giving up:

- A. current consumption.
- B. current investment.
- C. future consumption.
- D. future investment.

108. More economic growth is not necessarily better unless the benefits of growth:

- A. exceed the costs of growth.
- B. increase average labor productivity.
- C. increase real GDP per capita.
- D. increase human capital.

109. Higher future living standards require:

- A. reduced rates of current consumption.
- B. increased rates of population growth.
- C. increased rates of current consumption.
- D. reduced rates of current investment.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #109*

*Learning Objective: 17-04 Compare and contrast the benefits of economic growth with its costs.*

*Section: The Costs of Economic Growth*

110. To increase future living standards by pursuing higher current rates of investment spending, an economy must:

- A. allow higher rates of current consumption.
- B. reduce current rates of consumption spending.
- C. reduce the current capital stock.
- D. decrease the amount of future research and development spending.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #110*

*Learning Objective: 17-04 Compare and contrast the benefits of economic growth with its costs.*

*Section: The Costs of Economic Growth*

111. The principle economic cost of growth is:

- A. higher interest rates.
- B. consumption sacrificed for capital formation.
- C. higher inflation rates.
- D. investment in stocks and bonds.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #111*

*Learning Objective: 17-04 Compare and contrast the benefits of economic growth with its costs.*

*Section: The Costs of Economic Growth*

112. An example of a government policy to increase human capital formation is:

- A. the construction of interstate highway system.
- B. the provision of publicly-funded education.
- C. government support for basic research.
- D. maintaining a well-functioning legal system.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #112*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

113. An example of a government policy to increase physical capital formation is:

- A. the construction of interstate highway system.
- B. government support for basic research.
- C. maintaining a well-functioning legal system.
- D. the provision of publicly-funded education.

*AACSB: Reflective Thinking Skills*

114. An example of a government policy to enhance technological progress is:

- A. the construction of interstate highway system.
- B. government support for basic research.
- C. maintaining a well-functioning legal system.
- D. the provision of publicly-funded education.

115. An example of a government policy to provide a framework within which the private sector can operate productively is:

- A. the taxation of savings.
- B. the suppression of political dissent.
- C. maintaining a well-functioning legal system.
- D. government ownership of capital.

116. An example of a government policy to provide a framework within which the private sector can operate productively is:

- A. the taxation of savings.
- B. the suppression of political dissent.
- C. establishing well defined property rights.
- D. government ownership of capital.

*AACSB: Reflective Thinking Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #116*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

117. In order to promote growth, the poorest countries – in contrast to the richer countries - need most to:

- A. invest in human capital.
- B. improve their infrastructure.
- C. improve their legal and political environments.
- D. increase their capital stock.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #117*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

118. The biggest problem thwarting economic growth in the poorest countries, compared to the richest countries, is:

- A. insufficient human capital.
- B. outdated physical capital.
- C. no access to technology.
- D. a legal and/or political environment unfavorable to economic growth.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #118*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

119. The biggest barrier to growth for many of the poorest countries in the world is the need for:

- A. larger populations.
- B. more human capital.
- C. more physical capital.
- D. improved legal and political frameworks.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #119*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

120. A government policy of providing free public education is an example of a policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. increasing the availability of natural resources.

*AACSB: Reflective Thinking Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #120*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

121. A government policy of providing job training for unskilled youths is an example of a policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. increasing the availability of natural resources.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #121*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

122. A government policy that allows retirement savings to accumulate tax free is an example of a policy to promote economic growth by:
- A. increasing human capital.
  - B. increasing physical capital.
  - C. improving technology.
  - D. increasing the availability of natural resources.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #122*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

123. A government policy to build bridges and dams is an example of a policy to promote economic growth by:
- A. increasing human capital.
  - B. increasing physical capital.
  - C. improving technology.
  - D. improving the social and legal environment.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #123*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

124. The construction of a highway system is an example of a government policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. improving the social and legal environment.

*AACSB: Reflective Thinking Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #124*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

125. Government support of basic research by funding scientists through the Qatar Foundation is an example of a government policy to promote economic growth by:

- A. increasing human capital.
- B. increasing physical capital.
- C. improving technology.
- D. increasing the availability of natural resources.

*AACSB: Reflective Thinking Skills*

*Blooms: Understanding*

*Frank - Chapter 17 #125*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

126. In order to promote growth through increased quantities of physical capital, governments must promote:

- A. a better educational system.
- B. job training programs.
- C. high rates of saving and investing.
- D. funding for basic science.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #126*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

127. Research confirms that government provision of infrastructure:

- A. hinders economic growth.
- B. promotes economic growth.
- C. increases human capital.
- D. leads to reduced spending on research and development.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #127*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

128. Policies that affect the legal and political framework of an economy are examples of:

- A. normative economic policies.
- B. monetary policy.
- C. fiscal policy.
- D. structural macroeconomic policies.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #128*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

129. High rates of saving and investing in the private sector promote economic growth by

- A. increasing human capital.
- B. improving the social and legal environment.
- C. increasing physical capital.
- D. improving technology.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #129*

*Learning Objective: 17-05 Discuss and evaluate government policies that promote economic growth.*

*Section: Promoting Economic Growth*

130. Arguments that economic growth is limited by environmental problems and limited natural resources ignore all of the following EXCEPT that:

- A. economic growth can take the form of new, different, and "cleaner" goods and services.
- B. economic growth may lead to less, not more, pollution.
- C. the market mechanism mobilizes resources to deal with shortages.
- D. global environmental problems are not handled by markets or national governments.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #130*

*Learning Objective: 17-06 Understand the trade-offs between economic growth and environmental quality.*

*Section: Are There Limits to Growth?*

131. Arguments that economic growth must be constrained by environmental problems and limits of natural resources ignore the fact that economic growth can:

- A. be measured in both nominal and real terms.
- B. involve both average labor productivity and the share of population employed.
- C. take the form of increases in quality as well as increases in quantity.
- D. occur with only benefits and no economic costs.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #131*

*Learning Objective: 17-06 Understand the trade-offs between economic growth and environmental quality.*

*Section: Are There Limits to Growth?*

132. Empirical studies suggest that as real GDP per person increases the level of pollution:

- A. increases.
- B. decreases.
- C. remains constant.
- D. first increases then decreases.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #132*

*Learning Objective: 17-06 Understand the trade-offs between economic growth and environmental quality.*

*Section: Are There Limits to Growth?*

133. Arguing that economic growth will eventually stop because we will run out of natural resources:

- A. must be correct because scarcity exists.
- B. will only be correct if growth takes the form of newer, more efficient goods and services.
- C. ignores the power of markets to recognize shortages and induce changes in behavior.
- D. is supported today by the fact that richer countries have fewer natural resources.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #133*

*Learning Objective: 17-06 Understand the trade-offs between economic growth and environmental quality.*

*Section: Are There Limits to Growth?*

134. Empirical studies indicate that the maximum amount of air pollution occurs \_\_\_\_\_ levels of real GDP per person.
- A. at the highest
  - B. at the lowest
  - C. at intermediate
  - D. equally at all

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #134*

*Learning Objective: 17-06 Understand the trade-offs between economic growth and environmental quality.*

*Section: Are There Limits to Growth?*

135. Defenders of limits on economic growth are concerned that continued economic growth will eventually:
- A. raise interest rates.
  - B. reduce the rate of technological progress.
  - C. exhaust natural resources.
  - D. make plant and equipment obsolete.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 17 #135*

*Learning Objective: 17-06 Understand the trade-offs between economic growth and environmental quality.*

*Section: Promoting Economic Growth*

# Chapter 17 Testbank Summary

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