

Principles of Macroeconomics
Homework Assignment 4
Answer Sheet

Name _____ Class Day/Time _____

Questions of this homework are in the next few pages. Please find the answer of the questions and fill in the blanks below. Turn in this answer sheet on the due date in class. Keep the remaining pages to study.

1. _____

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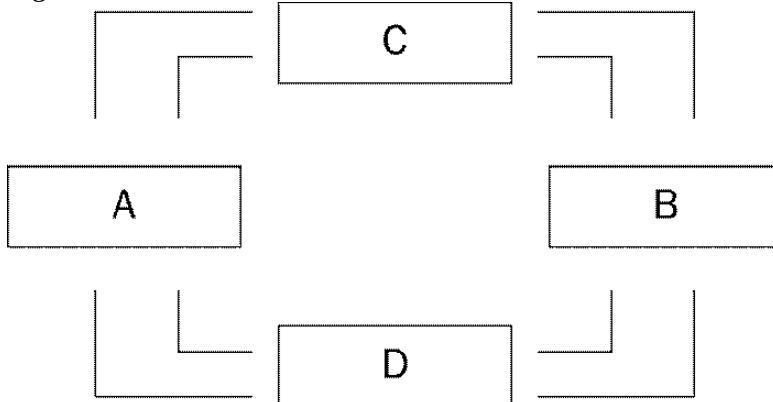
Principles of Macroeconomics

Homework Assignment 4

Name _____
Multiple Choice

- ____ 1. In a circular-flow diagram for a closed market economy,
 - a. taxes flow from households to firms, and transfer payments flow from firms to households.
 - b. resources flow from firms to households, and goods and services flow from households to firms.
 - c. income payments flow from firms to households, and sales revenue flows from households to firms.
 - d. inputs and outputs flow in the same direction as the flow of dollars, from firms to households.
- ____ 2. Which of the following items is *not* a factor of production?
 - a. labor
 - b. land
 - c. capital
 - d. money
- ____ 3. The single biggest expenditure of state and local government in the U.S. has been
 - a. Education.
 - b. Highways.
 - c. Public welfare.
 - d. Defense.
- ____ 4. In any one of the circular-flow diagrams,
 - a. households own the factors of production.
 - b. households buy all the goods and services that firms produce.
 - c. land, labor, and capital flow from households to firms.
 - d. All of the above are correct.
- ____ 5. The three biggest expenditures of the U.S. federal government have been
 - a. Foreign aid; Unemployment pension; Medicare.
 - b. Defense; International affairs; Health.
 - c. Health and Medicare; Defense; Social security.
 - d. Net interest; International affairs; Health and Medicare.
- ____ 6. The American economy is
 - a. an open economy with components of households, business firms, governments, and the rest of the world.
 - b. a closed economy with components of households, business firms, governments and the rest of the world.
 - c. an open economy with components of households, business firms, and governments.
 - d. a closed economy with components of households, business firms, and governments.
- ____ 7. In a circular flow diagram for a closed mixed economy, students at South Georgia State College are
 - a. considered as households and are participating in the product markets.
 - b. considered as firms and are participating in the product markets.
 - c. considered as households and are participating in the factor markets.
 - d. considered as government and are participating in the factor markets.

Figure HW 4-1



- ____ 8. **Refer to Figure HW 4-1.** The figure represents a circular-flow diagram. If Box A represents firms, then which box represents households?
- Any one of the other boxes (B, C, or D) could represent households.
 - Box B
 - Box C
 - Box D
- ____ 9. **Refer to Figure HW 4-1.** The figure represents a circular-flow diagram. If households are sellers in the markets represented by Box D, then
- Box D must represent the markets for factors of production.
 - Box C must represent the markets for products.
 - firms are buyers in the markets represented by Box D.
 - All of the above are correct.
- ____ 10. **Refer to Figure HW 4-1.** The figure represents a circular-flow diagram. If households are buyers in the markets represented by Box C, then
- firms are sellers in the markets represented by Box C.
 - Box D must represent the markets for products.
 - Box C must represent the markets for the factors of production.
 - All of the above are correct.
- ____ 11. **Refer to Figure HW 4-1.** The figure represents a circular-flow diagram. If the outer loop represents flows of dollars, then the inner loop includes
- flows of dollars, of which households pay to firms.
 - flows of rent payments paid to owners of land.
 - flows of factors and products.
 - flows of wages and salaries paid to workers.
- ____ 12. **Refer to Figure HW 4-1.** The figure represents a circular-flow diagram. Marsha works as an attorney for a corporation and is paid a salary in exchange for the legal services she performs. James owns office buildings and rents his buildings to companies in exchange for rent payments. If Marsha's income is represented by a flow of dollars from Box D to Box B, then James's income is represented by a flow of dollars
- from Box D to Box B.
 - from Box C to Box A.
 - from Box C to Box B.
 - from Box A to Box C.
- ____ 13. A Lorenz Curve measures
- the percentage of income growth.
 - the relationship between demand and supply.
 - the percentage of population growth.
 - the degree of income inequality.

- ____ 14. If a Lorenz Curve were the same as the 45-degree line, it would indicate that
- Forty-five percent of the people own 55% of the income while the rest 55% of the people own 45% of the income.
 - Everyone in that society receive exactly the same amount of income.
 - One percent of the people own 1% of the income; the rest 99% of the people own 1% of the income.
 - One person owns all of the income while the rest of the people have no income in that country.
- ____ 15. Which one of the following is a disadvantage of partnerships?
- Limited life which fosters instability.
 - Unlimited liability.
 - Limited access to capital
 - All of the above.
- ____ 16. Which of the following has limited liability?
- Corporations' owners have limited liability.
 - Sole proprietorship has limited liability.
 - The owners of partnership and corporations have limited liability.
 - Both sole proprietorship and partnership have limited liability.
- ____ 17. Which one of the following statements best characterizes double taxation?
- The sole proprietor has to pay sales taxes and income taxes.
 - The government taxes the corporations' gross earnings first; it then taxes the dividends as they become personal income.
 - The profit of corporation is taxed by both state and federal government.
 - Double taxation does not apply in the United States because of its fair system of taxation.
- ____ 18. A good example of regressive tax is
- | | |
|--------------------|------------------------------|
| a. Income taxes. | c. Sales taxes. |
| b. Property taxes. | d. Corporation profit taxes. |
- ____ 19. A good example of a tax based on the ability-to-pay principle is
- | | |
|----------------------------|------------------------------|
| a. the sales tax. | c. the corporate income tax. |
| b. the Federal Income Tax. | d. the gasoline tax. |
- ____ 20. A consumer in China purchases a television produced by General Electric Company in the USA.
- the television is considered as exports by China and imports by the U.S.
 - the television is considered as exports by China and by the U.S.
 - the television is considered as imports by China and exports by the U.S.
 - the television is considered as imports by China and by the U.S.