**Chapter 01**

**Capitalism and the Role of Government**

**True/False Questions**

1. The American financial community’s near collapse in late 2008 had been most directly ignited by the subprime mortgage crisis.

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Capitalism Challenged: Economics

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

2. Capitalism in America was built on the strong philosophical foundation of personal freedom and private property rights.

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Purpose: What Do We Hope to Accomplish?

Feedback: Capitalism in America was built on the strong philosophical foundation of personal freedom and private property rights. Our great natural resources and personal ambition led to extraordinary prosperity.

3. Democratic capitalism and state capitalism trade with each other for mutual advantage but are economic and political rivals.

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Compare and contrast capitalism and collectivism.

Topic: Too Much Capitalism? Or Too Little?

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

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

Answer: False

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Compare and contrast capitalism and collectivism.

Topic: Communism

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

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

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Compare and contrast capitalism and collectivism.

Topic: Communism

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

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

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Compare and contrast capitalism and collectivism.

Topic: Capitalism Challenged: America in Decline?

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

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

Answer: False

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

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

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

Answer: False

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

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

9. Capitalists consider class distinctions unjust.

Answer: False

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

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

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

Answer: False

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

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

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

Answer: False

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate arguments regarding government’s proper role in the global, technology-based economy.

Topic: American Capitalism in Europe?

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

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

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the primary characteristics of a “mixed economy.”.

Topic: American Capitalism in Europe?

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

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

Answer: False

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the primary characteristics of a “mixed economy.”

Topic: Purpose: What Do We Hope to Accomplish?

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

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

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Analyze the impact of capitalism on equality, fairness, and community in American and global society

Topic: The American Dream at Risk?

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

15. It is a well-known fact that the United States ranks well on standard social measures and not so well on standard economic measures.

Answer: False

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Analyze the impact of capitalism on equality, fairness, and community in American and global society.

Topic: The American Dream at Risk?

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

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

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 Discuss the theory and practice of privatization.

Topic: Capitalism in Practice—“Privatization” in America and Abroad

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

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

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 Discuss the theory and practice of privatization.

Topic: Capitalism in Practice—“Privatization” in America and Abroad

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

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

Answer: False

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-08 Discuss the current state of capitalism in China and Russia.

Topic: Coping with Capitalism—China and Russia

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

19. Extravagant wealth, side-by-side with punishing poverty, is perhaps the greatest disappointment and injustice, from the critics’ point of view, in the global advance of capitalist principles.

Answer: True

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

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

Topic: The American Dream at Risk?

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

**Multiple Choice Questions**

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

A. Poor foundation of personal freedom

B. Lack of private property rights

C. Emergence of monopolistic abuse

D. Lack of natural resources

Answer: C

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Purpose: What Do We Hope to Accomplish?

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

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

A. Democratic capitalism

B. State capitalism

C. Religious socialism

D. Regional socialism

Answer: A

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Compare and contrast capitalism and collectivism.

Topic: Too Much Capitalism? Or Too Little?

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

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

A. Regional socialism

B. Democratic capitalism

C. State capitalism

D. Religious socialism

Answer: C

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-08 Discuss the current state of capitalism in China and Russia..

Topic: Too Much Capitalism? Or Too Little?

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

23. Which of the following countries follows a communist form of government?

A. The United States

B. Australia

C. China

D. The United Kingdom

Answer: C

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Communism

Feedback: China follows a communist form of government. Although China, Cuba, North Korea, Vietnam, and a few other nations continue to practice communism, the balance of the world has clearly rejected Marxist-Leninist totalitarianism. China is rapidly and enthusiastically embracing free market practices, with continuing state direction; a strategy that some label state capitalism.

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

A. Ayn Rand

B. Bo Xilai

C. Karl Marx

D. Anatole Kaletsky

Answer: C

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Communism

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

25. Socialism has been associated with \_\_\_\_\_.

A. self-interest and strong pursuit of individual wealth

B. democratic governments and peaceful change

C. totalitarianism and violent revolution

D. economic individualism

Answer: B

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

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

26. Identify the correct statement regarding socialists.

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

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

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

D. They embrace communist totalitarianism and reject democracy.

Answer: A

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

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

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

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

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

C. The harshness of working life is not objected by socialists.

D. Class distinctions are anathema to socialists.

Answer: D

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

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

28. Which of the following statements corresponds to Karl Marx’s beliefs?

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

B. Unrestrained capitalism would do the society good.

C. The pursuit of wealth and self-interest by individuals will continuously build the society’s moral core.

D. Competition and unrestrained pursuit of industrial growth is essential for the welfare of the capitalists.

Answer: A

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Communism

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

29. Which of the following is true of Robert Putnam’s observations on social capital?

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

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

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

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

Answer: C

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-09 Discuss the income and wealth gaps in America.Topic: The American Dream at Risk?

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

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

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

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

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

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

Answer: A

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

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

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

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

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

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

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

Answer: A

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate arguments regarding government’s proper role in the global, technology-based economy.

Topic: Purpose: What Do We Hope to Accomplish?

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

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

A. open markets and government intervention

B. personal freedom and private property rights

C. natural resources and personal ambition

D. intellectual freedom and social order

Answer: A

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate arguments regarding government’s proper role in the global, technology-based economy.

Topic: Purpose: What Do We Hope to Accomplish?

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

33. What efforts have been made by Sweden to keep its economy healthy?

A. It has taken an aggressive cowboy capitalism approach.

B. It has followed a policy of comparatively low corporate taxes.

C. It has permitted the sale or lease of public assets to private parties.

D. It has attracted billions in private sector investment to take over a few dozen state-controlled companies.

Answer: B

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate arguments regarding government’s proper role in the global, technology-based economy.

Topic: American Capitalism in Europe?

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

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

A. An economy of relatively low unemployment, low inflation, and high GDP growth

B. An economy that is impoverished and filled with inequality

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

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

Answer: A

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the primary characteristics of a “mixed economy.” (or both?).

Topic: American Capitalism in Europe?

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

35. In terms of markets and governments, the United States:

A. has more faith in government planning.

B. has placed less faith in the market.

C. chose a capitalist, democratic approach to life.

D. reflects a preference for greater central authority.

Answer: C

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the primary characteristics of a “mixed economy.”

Topic: Purpose: What Do We Hope to Accomplish?

Feedback: America’s system of laws can be understood with a firm appreciation for the principles of capitalism from which those laws spring. The United States has embraced an evolving capitalist, democratic approach to life.

36. In the context of economic systems, the “Third Way” refers to \_\_\_\_\_.

A. totalitarianism

B. market socialism

C. capitalism

D. communism

Answer: B

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the primary characteristics of a “mixed economy.”

Topic: American Capitalism in Europe?

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

37. Which of the following countries followed the “Third Way” between the harsher extremes of capitalism and communism?

A. Sweden

B. U.S.A

C. China

D. Russia

Answer: A

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the primary characteristics of a “mixed economy.”

Topic: American Capitalism in Europe?

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

38. The pure free market approach assumes that:

A. less faith should be placed in the market and more in government planning.

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

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

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

Answer: D

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Purpose: What Do We Hope to Accomplish?

Feedback: The pure free market approach assumes that we can operate our business system and our society at large free of all but foundational legal mechanisms such as contract and criminal law. The wisdom of the market—our individual judgments, in combination with our individual consciences—would “regulate” American life.

39. Which of the following is true of the criticisms of Robert Putnam’s thesis?

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

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

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

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

Answer: A

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Analyze the impact of capitalism on equality, fairness, and community in American and global society.

Topic: The American Dream at Risk?

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

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

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

B. Participation in extracurricular activities has fallen sharply for affluent children.

C. Young products of affluent America have withdrawn or never undertaken community engagement.

D. Overall community engagement gap between whites and blacks is narrow.

Answer: A

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

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

Topic: The American Dream at Risk?

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

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

A. Median pricing

B. Clearance pricing

C. Predatory pricing

D. Congestion pricing

Answer: D

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 Discuss the theory and practice of privatization.

Topic: Capitalism in Practice—“Privatization” in America and Abroad

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

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

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

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

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

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

Answer: B

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-07 Discuss the theory and practice of privatization.

Topic: Capitalism in Practice—“Privatization” in America and Abroad

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

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

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

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

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

D. Privatization often brings increased costs and higher customer dissatisfaction.

Answer: B

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-07 Discuss the theory and practice of privatization.

Topic: Capitalism in Practice—“Privatization” in America and Abroad

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

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

A. By promising economic justice for all

B. By promoting religiosity and building peace

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

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

Answer: C

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-07 Discuss the theory and practice of privatization.

Topic: Capitalism in Practice—“Privatization” in America and Abroad

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

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

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

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

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

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

Answer: C

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-08 Discuss the current state of capitalism in China and Russia.

Topic: Coping with Capitalism—China and Russia

Feedback: China’s income gap between rich and poor is estimated to be among the world’s largest, although China has reduced the disparity in recent years. Furthermore, China has instituted new environmental rules, corruption crackdowns, and social service initiatives.

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

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

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

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

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

Answer: A

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-08 Discuss the current state of capitalism in China and Russia.

Topic: Coping with Capitalism—China and Russia

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

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

A. Young products of affluent America have withdrawn or never undertaken community engagement.

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

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

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

Answer: C

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

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

Topic: The American Dream at Risk?

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

**Essay Questions**

48. Elaborate on the events that led to a grassroots global protest movement labeled Occupy Wall Street.

Answer: Many Americans are puzzled, if not angered, by the government’s inability to criminally punish the big banks and bankers who profited so handsomely in the events that led to the nation’s economic collapse and who, in several cases, had to be bailed out with public money following the collapse. Those same bankers have not only escaped jail, but they continue to earn stunning sums of money. Responding, however, to harsh publicity, among other factors, some of the big banks have either cut or curbed executive pay.

CEO salaries for the top 200 U.S. corporations (not limited to bankers) rose 16 percent in 2012.

Among those top 200 CEOs, the average income was 273 times the income of the average worker—up from a 20 to 1 ratio in 1965. Congress showed its concern about CEO pay in a Dodd-Frank provision requiring the Securities and Exchange Commission to give shareholders a “say on pay” by writing new rules requiring periodic shareholder voting on executive compensation. At this writing, “say on pay” seems to have encouraged attention to CEO pay, but a shareholder backlash has not yet materialized.

Anger with corporate greed and perceived abuse of power led to a grassroots global protest movement labeled Occupy Wall Street. Hundreds of peaceful protesters (mostly young, often college-educated and jobless) camped in New York’s financial district in late 2011 to “restore democracy” while denouncing the “greed” and “corruption” of the “upper 1 percent.” The movement then spread to many other American cities and around the globe. Occupy Wall Street gained enormous publicity as a leftist assault on corporate America and the wealthy, but the movement sputtered—perhaps for want of a clear, coherent message. Occupy Wall Street continues its efforts, but at least for the present, the attention of the broader American public has been lost.

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate arguments regarding government’s proper role in the global, technology-based economy.

Topic: Capitalism Challenged: Morality

49. Describe the chief characteristics of socialists.

Answer: The socialist agenda includes these elements:

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

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

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

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

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

f. Rationality. Socialists fear the “irrationality” of a society based on competition and

unrestrained pursuit of industrial growth.

AACSB: Analytical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate between communism and socialism as collectivist philosophies.

Topic: Socialism

50. Describe the effects of globalization.

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

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate arguments regarding government’s proper role in the global, technology-based economy.

Topic: Capitalism Challenged: Economics

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

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

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

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate arguments regarding government’s proper role in the global, technology-based economy.

Topic: American Capitalism in Europe?

52. Define privatization, providing examples.

Answer: Championed in the 1980s by President Ronald Reagan in the United States and Prime Minister Margaret Thatcher in Great Britain, nations across the globe along with many

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

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-07 Discuss the theory and practice of privatization.

Topic: Capitalism in Practice—“Privatization” in America and Abroad

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

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

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-07 Discuss the theory and practice of privatization.

Topic: Capitalism in Practice—“Privatization” in America and Abroad

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

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

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

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-08 Discuss the current state of capitalism in China and Russia.

Topic: Coping with Capitalism—China and Russia

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

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

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

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

AACSB: Analytical Thinking

Blooms: Understand

Difficulty: 2 Medium

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

Topic: The American Dream at Risk?