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| **Multiple Choice** |

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| 1. The Affordable Care Act passed in 2010 made it so that:   |  |  |  | | --- | --- | --- | |  | a. | insurance companies were allowed to discriminate against those with medical conditions that are too expensive to treat. | |  | b. | individuals who could not afford health insurance were all enrolled in Medicaid. | |  | c. | individuals who could not afford health insurance had to purchase it or pay a penalty. | |  | d. | the government was no longer attempting to control the costs of providing medical care. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 2. The goal of public finance is to:   |  |  |  | | --- | --- | --- | |  | a. | understand the proper role of corporations in the economy. | |  | b. | understand the proper role of the government in the economy. | |  | c. | determine the best way to increase government's role in the economy. | |  | d. | determine the best way to decrease government's role in the economy. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 3. The goal of public economics, or public finance, is to answer which question?   |  |  |  | | --- | --- | --- | |  | a. | How might the government intervene in the economy, and what are the likely effects? | |  | b. | Why do profit-maximizing firms attempt to set marginal revenue equal to marginal cost? | |  | c. | How are the terms of trade determined when countries choose to engage in international trade? | |  | d. | What are the goals and tools of macroeconomic policy? |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 4. Government intervenes in a market economy to:   |  |  |  | | --- | --- | --- | |  | a. | create externalities. | |  | b. | prevent competition. | |  | c. | enhance economic efficiency. | |  | d. | achieve perfect income equality. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 5. Suppose Juan values a slice of pizza at $1.50, but the pizza shop is unwilling to sell a slice of pizza for less than $2.00. These values imply that:   |  |  |  | | --- | --- | --- | |  | a. | it is efficient for the shop to sell a slice of pizza to Juan for $1.50. | |  | b. | it is efficient for the shop to sell a slice of pizza Juan for $2.00. | |  | c. | the shop needs to produce more efficiently in order to lower the price. | |  | d. | it is not efficient for the shop to sell a slice of pizza to Juan. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 6. Suppose Ali values a slice of pizza at $1.50, but the pizza shop is unwilling to sell a slice of pizza for less than $1.00. These values imply that it is efficient for the shop to sell a slice of pizza to Ali for any price:   |  |  |  | | --- | --- | --- | |  | a. | greater than or equal to $1.50. | |  | b. | greater than or equal to $1.00 and less than or equal to $1.50. | |  | c. | less than or equal to $1.00. | |  | d. | less than or equal to $1.00 and greater than or equal to $1.50. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 7. Suppose a student values a textbook at $50, and the publisher is unwilling to sell the textbook at a price lower than $30. What price will lead to an efficient transaction between the student and publisher?   |  |  |  | | --- | --- | --- | |  | a. | a price of $0 | |  | b. | any price greater than $0 and less than $30 | |  | c. | any price greater than or equal to $30 and less than or equal to $50 | |  | d. | any price greater than $50 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 8. Suppose a consumer values a certain 19-inch television set at $150, and the seller is unwilling to sell the set for less than $200. These values imply that:   |  |  |  | | --- | --- | --- | |  | a. | it is efficient for the seller to charge a price of $0. | |  | b. | it is efficient for the seller to charge any price greater than $0 and less than $150. | |  | c. | it is efficient for the seller to charge any price greater than or equal to $150 and less than or equal to $200. | |  | d. | it is not efficient for a transaction to take place. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 9. Suppose you hear someone argue that the proper role of government is to increase the size of the pie. Which justification for government intervention in the economy is this person referring to?   |  |  |  | | --- | --- | --- | |  | a. | increasing equality in the economy | |  | b. | promoting social justice | |  | c. | improving efficiency | |  | d. | preventing competition |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 10. Suppose the government proposes a program that will transfer income from one group to another. The goal of this government intervention in the marketplace is best characterized as:   |  |  |  | | --- | --- | --- | |  | a. | redistribution. | |  | b. | increasing market efficiency. | |  | c. | correcting a market failure. | |  | d. | achieving competitive equilibrium. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 11. If the competitive equilibrium does not lead to the efficiency-maximizing outcome, then government intervention:   |  |  |  | | --- | --- | --- | |  | a. | will increase efficiency. | |  | b. | will reduce efficiency. | |  | c. | may increase or decrease efficiency. | |  | d. | will not affect efficiency. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 12. Suppose government proposes taxing Peter to pay Paul. The goal of this intervention could be best characterized as an attempt to achieve:   |  |  |  | | --- | --- | --- | |  | a. | redistribution. | |  | b. | efficiency. | |  | c. | market failure. | |  | d. | competitive equilibrium. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 13. The equity–efficiency trade-off means that obtaining \_\_\_\_\_ in equality may also lead to \_\_\_\_\_ in the so-called size of the pie.   |  |  |  | | --- | --- | --- | |  | a. | no change; a decrease | |  | b. | no change; an increase | |  | c. | a decrease; a decrease | |  | d. | an increase; a decrease |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 14. Suppose the government taxes the rich to distribute money to the poor. Which of the following is an example of an efficiency loss?   |  |  |  | | --- | --- | --- | |  | a. | Rich people take home less of the money from their jobs because of the tax. | |  | b. | Rich people don't work as hard because of the tax. | |  | c. | Poor people are better off because of the redistribution. | |  | d. | Poor people work just as hard because they still need to make ends meet. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 15. An intervention in which government establishes a federally funded health care service for everyone and pays doctors and medical practitioners directly is called:   |  |  |  | | --- | --- | --- | |  | a. | private provision with public financing. | |  | b. | restriction or mandate of private sale or purchase. | |  | c. | subsidy. | |  | d. | public provision. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 16. Both the federal and state governments collect fees for each gallon of gasoline sold. This is an example of which type of government intervention?   |  |  |  | | --- | --- | --- | |  | a. | restriction of private sale or purchase | |  | b. | taxation | |  | c. | a subsidy | |  | d. | public provision |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 17. Which type of government intervention can be used to lower the price for private sales or purchases of underproduced goods?   |  |  |  | | --- | --- | --- | |  | a. | public financing of private provision | |  | b. | restrictions or mandates of private sale or purchase | |  | c. | taxes | |  | d. | subsidies |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 18. Veterans receive health benefits directly through hospitals owned and operated by the Veterans Health Administration. This is an example of:   |  |  |  | | --- | --- | --- | |  | a. | public financing of private provision. | |  | b. | restriction or mandate of private sale or purchase. | |  | c. | a subsidy. | |  | d. | public provision. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 19. The Medicare insurance program in the United States reimburses hospitals and doctors for providing health care services to the elderly. This is an example of:   |  |  |  | | --- | --- | --- | |  | a. | public financing of private provision. | |  | b. | restriction or mandate of private sale or purchase. | |  | c. | a tax. | |  | d. | a subsidy. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 20. Public schools in the United States are operated by the government. This is an example of:   |  |  |  | | --- | --- | --- | |  | a. | public financing of private provision. | |  | b. | restriction or mandate of private sale or purchase. | |  | c. | a subsidy. | |  | d. | public provision. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 21. The government has passed many school accountability measures that reward schools if their students score highly on standardized tests. Suppose schools respond by manipulating the set of test takers to increase average scores. This outcome is an example of a(n):   |  |  |  | | --- | --- | --- | |  | a. | intended effect. | |  | b. | direct effect. | |  | c. | indirect effect. | |  | d. | desired outcome. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 22. The government has passed many school accountability measures that reward schools if their students score highly on standardized tests. Suppose schools respond by more efficiently teaching their students. This outcome is an example of an:   |  |  |  | | --- | --- | --- | |  | a. | intended, direct effect. | |  | b. | intended, indirect effect. | |  | c. | unintended, direct effect. | |  | d. | unintended, indirect effect. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 23. Suppose that because the government increases the minimum wage, employees who were earning the minimum wage get a pay increase. This is an example of an:   |  |  |  | | --- | --- | --- | |  | a. | intended, direct effect. | |  | b. | intended, indirect effect. | |  | c. | unintended, direct effect. | |  | d. | unintended, indirect effect. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 24. Which of the following might be a direct effect of providing free health care for those without insurance?   |  |  |  | | --- | --- | --- | |  | a. | Those who were without private health insurance are now better off. | |  | b. | Those with private health insurance may drop their coverage. | |  | c. | Those without health insurance may purchase private health insurance. | |  | d. | Those eligible for free health insurance are not aware of the benefit. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 25. Which of the following is the government agency that uses empirical economics to achieve its mission of providing Congress with objective, nonpartisan analyses necessary for economic and budget decisions?   |  |  |  | | --- | --- | --- | |  | a. | National Bureau of Economic Research | |  | b. | Office of Management and Budget | |  | c. | Antitrust Division of the Department of Justice | |  | d. | Congressional Budget Office |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 26. Suppose that because the government increases the minimum wage, employers choose to hire fewer workers. This is an example of a(n):   |  |  |  | | --- | --- | --- | |  | a. | intended effect. | |  | b. | direct effect. | |  | c. | indirect effect. | |  | d. | desired outcome. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 27. The government offers unemployment benefits to workers who have lost their jobs and not yet found new ones. Which of the following is an example of an indirect, unintended effect of the government intervention?   |  |  |  | | --- | --- | --- | |  | a. | Recipients reduce their job search activities. | |  | b. | Recipients can still afford to pay health insurance premiums. | |  | c. | Recipients are at less risk for falling into poverty. | |  | d. | Potential recipients choose not to file for benefits. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 28. Suppose the government wishes to provide college tuition aid to one of the following groups of high school students. In which target group would the possible extent of indirect effects be most limited?   |  |  |  | | --- | --- | --- | |  | a. | students with relatively low Scholastic Aptitude Test scores | |  | b. | students whose fathers have died recently | |  | c. | students who earn less than $2,000 per year | |  | d. | students who live in low-income neighborhoods |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 29. Which of the following might be an indirect, unintended effect of providing income support to those without jobs?   |  |  |  | | --- | --- | --- | |  | a. | Those without jobs are made better off. | |  | b. | Those without jobs are made worse off. | |  | c. | People without jobs now search for and acquire jobs. | |  | d. | People without jobs no longer search for and acquire jobs. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 30. How governments should intervene is a \_\_\_\_\_ question, and why governments intervene in the way they do is a \_\_\_\_\_ question.   |  |  |  | | --- | --- | --- | |  | a. | normative; normative | |  | b. | positive; negative | |  | c. | normative; positive | |  | d. | positive; normative |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 31. If government revenues exceed government spending, the difference is called the:   |  |  |  | | --- | --- | --- | |  | a. | cash flow deficit. | |  | b. | cash flow surplus. | |  | c. | debt. | |  | d. | budget. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 32. The accumulation of past deficits over time is measured by the:   |  |  |  | | --- | --- | --- | |  | a. | cash flow deficit. | |  | b. | cash flow surplus. | |  | c. | debt. | |  | d. | budget. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 33. The current federal debt of the United States is \_\_\_\_\_ of the gross domestic product.   |  |  |  | | --- | --- | --- | |  | a. | less than 15% | |  | b. | approximately 30% | |  | c. | approximately 60% | |  | d. | over 100% |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 34. National defense is a classic example of what economists call:   |  |  |  | | --- | --- | --- | |  | a. | a public good. | |  | b. | entitlement spending. | |  | c. | social insurance. | |  | d. | a private service. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 35. Which of the following correctly depicts the changes in the sources of federal, state, and local receipts in the past 50 years?   |  |  |  | | --- | --- | --- | |  | a. | Income taxes are now a larger share of federal receipts. | |  | b. | Property taxes are now a larger share of state and local receipts. | |  | c. | Corporate and excise taxes are now a smaller share of federal receipts. | |  | d. | Sales taxes constitute the exact same share of state and local receipts. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 36. By 2010, approximately \_\_\_\_\_ of the non-elderly United States population did not have health insurance.   |  |  |  | | --- | --- | --- | |  | a. | 5% | |  | b. | 15.5% | |  | c. | 18.5% | |  | d. | 25% |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 37. The state government collects $400 billion in tax revenue during the current fiscal year and spends all of it. The government is running a:   |  |  |  | | --- | --- | --- | |  | a. | cash flow deficit. | |  | b. | cash flow surplus. | |  | c. | debt. | |  | d. | balanced budget. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 38. The state government collects $400 billion in tax revenue during the current fiscal year and spends nearly $390 billion. The government is running a:   |  |  |  | | --- | --- | --- | |  | a. | cash flow deficit. | |  | b. | cash flow surplus. | |  | c. | debt. | |  | d. | balanced budget. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 39. Which of the following changes were introduced with the passage of the Affordable Care Act?   |  |  |  | | --- | --- | --- | |  | a. | increased government regulation of insurance markets and reduced reliance on private health insurance providers | |  | b. | introduction of new subsidies for the purchase of health insurance and expanded private health insurance through state exchanges | |  | c. | elimination of subsidies for the purchase of health insurance and new requirements that low-income individuals bear the full burden of insurance costs | |  | d. | expanded coverage by government and reduced reliance on private health insurance providers |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 40. The state government collects $400 billion in tax revenue during the current fiscal year and spends $415 billion. The government is running a:   |  |  |  | | --- | --- | --- | |  | a. | cash flow deficit. | |  | b. | cash flow surplus. | |  | c. | debt. | |  | d. | balanced budget. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 41. The state government collects $400 billion in tax revenue during the current fiscal year and spends $415 billion. Which of the following is true?   |  |  |  | | --- | --- | --- | |  | a. | The government is running a cash flow surplus. | |  | b. | The national debt will decrease by about $15 billion. | |  | c. | The government will cut taxes to cover this shortfall. | |  | d. | The national debt will increase. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 42. The state government collects $405 billion in tax revenue during the current fiscal year and is running a cash flow surplus. Which of the following is true?   |  |  |  | | --- | --- | --- | |  | a. | Government spending is greater than or equal to $405 billion. | |  | b. | The national debt is less than $405 billion. | |  | c. | The government will cut taxes because it is running a surplus. | |  | d. | Government spending is less than $405 billion. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 43. The debates over the Affordable Care Act revolved primarily around which Congressional Budget Office projections?   |  |  |  | | --- | --- | --- | |  | a. | The effect on health care costs and coverage. | |  | b. | The effect on other public programs. | |  | c. | The implementation costs of the program. | |  | d. | The effect on employee benefits. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 44. Opponents of the Affordable Care Act argue that:   |  |  |  | | --- | --- | --- | |  | a. | insurance companies no longer can make profits. | |  | b. | it reduces innovation. | |  | c. | it drives up insurance premiums. | |  | d. | coverage is unnecessary. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 45. How many states chose to initially expand their Medicaid programs under the Affordable Care Act?   |  |  |  | | --- | --- | --- | |  | a. | nearly all | |  | b. | about 17 | |  | c. | none | |  | d. | about half |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 46. Why did state governments decline to expand their Medicaid programs under the Affordable Care Act?   |  |  |  | | --- | --- | --- | |  | a. | The costs to the states were too high. | |  | b. | Few residents qualify for Medicaid. | |  | c. | There was no need as state programs already cover all residents. | |  | d. | The reasons are likely political. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 47. Proponents of the Affordable Care Act argue that:   |  |  |  | | --- | --- | --- | |  | a. | insurance industry profits are too high. | |  | b. | it will drive competition and innovation. | |  | c. | it will drastically reduce insurance premiums. | |  | d. | the sickest individuals are not able to afford insurance. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| **Essay** |

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| 48. Does taxing the wealthy to give benefits to the poor increase social welfare? Explain.   |  |  | | --- | --- | | *ANSWER:* | It depends. Taxing the rich to give benefits to the poor may decrease efficiency. For example, it may reduce rich people's incentive to work, which would reduce the total size of the economic pie. In addition, raising money through taxes is not free. There is typically an administrative cost of doing so, which reduces the size of the economic pie. However, taxing the wealthy to give benefits to the poor would increase equity, which may be valued by society in and of itself. Consequently, to answer the question about social welfare, you need to know how society values the efficiency–equity trade-off. | |

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| 49. Suppose the White House could appoint the lead officials at the Congressional Budget Office (CBO). Do you think this change could affect the level of budget deficits? Explain.   |  |  | | --- | --- | | *ANSWER:* | It is possible that the analysts at the CBO would be pressured to make particularly rosy budget predictions of the cost of legislation supported by the administration. Those predictions could help pass that legislation either because politicians believed the estimates or because they were unsure about the true costs. The result could easily be an increase in budget deficits. | |

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| 50. Are all of the indirect effects of government intervention in the economy unintended effects? Explain.   |  |  | | --- | --- | | *ANSWER:* | In many cases, indirect effects of government intervention are unintended. For example, if the government offers a plan to the uninsured in order to make sure that everyone can afford health insurance, an indirect result of that policy might be that the insured drop their insurance. Such an effect is indirect because it resulted from a change in behavior induced by the policy, and in this case, the effect is also unintended. In contrast, however, many government interventions are intended to change people's behavior. For example, government may institute fines for traffic infractions like speeding. To the extent that these fines reduce speeding, that policy has an indirect effect that is also an intended effect. | |

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| 51. Suppose someone says that a relatively small percentage of Americans own a large percentage of total assets and therefore that the government should redistribute wealth to those less fortunate. Which part of that statement is normative, and which part is positive, if any? Explain.   |  |  | | --- | --- | | *ANSWER:* | Pointing out the facts about the income or wealth distribution is a purely positive statement since it is describing how things are. Stating that the government *should* do something in response is a normative statement, however, since it is saying how things should be as opposed to how they are. Consequently, the first part of the statement is positive, and the second part is normative. | |

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| 52. What are the fundamental issues that the supporters and opponents of Affordable Care Act (ACA) cannot agree on? Explain.   |  |  | | --- | --- | | *ANSWER:* | The proper role of the government in dealing with health care coverage and costs is the fundamental controversy among the supporters and opponents of the ACA. Supporters argue that the bill corrects failed insurance markets, reduces the economic burden on the uninsured, and moves to control health care costs in the long run. On the other hand, opponents of the legislation view the ACA as an unwarranted expansion of government power into the health care sector—and an enormous expansion of government spending at a time of high deficits. | |