Chapter 20
Income Inequality and Poverty
Test B

1. Three-fourths of total income in the U.S. economy comes from
    a. rental income.
    b. labor earnings.
    c. returns to capital.
    d. corporate profit.
    ANSWER: b.   labor earnings.
    TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2. One way to describe the distribution of income in the economy is to
    a. calculate the bell curve that exists in any economy.
    b. use the International Income Distribution Standards that were established in 1992.
    c. divide the population into two categories—the rich and the poor.
    d. calculate the percentage of families that fall into each of seven income categories.
    ANSWER: d.   calculate the percentage of families that fall into each of seven income categories.
    TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3. U.S. income data from 1998 show that the bottom one-fifth of all families received
    a. 4 percent of all income.
    b. 10 percent of all income.
    c. 22 percent of all income.
    d. 36 percent of all income.
    ANSWER: a.   4 percent of all income.
    TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4. Over the past several decades, the women's movement may be responsible for
    a. less inequality in family incomes.
    b. high-income men marrying low-income women.
    c. rich households becoming poorer.
    d. more inequality in family incomes.
    ANSWER: d.   more inequality in family incomes.
    TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5. When the income distribution of the U.S. is compared to that of other countries, it shows that the U.S. has a
    a. distribution that is one of the most equal income distributions.
    b. distribution that is one of the most unequal income distributions.
    c. distribution that is somewhere in the middle of the pack.
    d. higher percentage of poor families, and a higher percentage of rich families than most countries.
    ANSWER: c.   distribution that is somewhere in the middle of the pack.
    TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY HAVE ALREADY THIS QUESTION AND ITS ANSWER.

6. The poverty line is equal to the
   a. average income of the bottom one-fifth of all income recipients.
   b. average income of the bottom one-tenth of all income recipients.
   c. cost of an adequate diet for a family multiplied by six.
   d. cost of an adequate diet for a family multiplied by three.
ANSWER: d.   cost of an adequate diet for a family multiplied by three.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

7. The annual adjustment to the poverty line reflects
   a. family size.
   b. price changes.
   c. changes in what foods are included in an adequate diet.
   d. the number of people currently on public assistance.
ANSWER: b.   price changes.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

8. The number of families living in poverty in the U.S. tends to be overstated by about
   a. 2 percent.
   b. 5 percent.
   c. 10 percent.
   d. 15 percent.
ANSWER: c.   10 percent.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

9. In-kind transfers
   a. can only be provided by the Federal government.
   b. are goods and services given to the poor rather than cash.
   c. increase the number of families below the poverty line since no money is given.
   d. are taken into account when determining the degree of income inequality in the economy.
ANSWER: b.   are goods and services given to the poor rather than cash.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

10. Transitory income refers to
    a. the regular pattern of income variation over a person's life.
    b. a person's normal income.
    c. the regular pattern of income variation that peaks around age 50.
    d. temporary increases and decreases in income.
ANSWER: d.   temporary increases and decreases in income.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

11. Income and saving rates are highest for people who are
     a.   retired.
     b.   middle-aged.
     c.   young and single.
     d.   married with young children.
ANSWER: b.   middle-aged.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

12. The life-cycle theory would suggest that because people can borrow and save to smooth out
     changes in income, their standard of living depends more on
     a.   lifetime income rather than annual income.
     b.   annual income rather than lifetime income.
     c.   annual family income rather than annual personal income.
     d.   average monthly income rather than annual income.
ANSWER: a.   lifetime income rather than annual income.
TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

13. The new formula being considered by the U.S. Census Bureau to compute the income threshold for
     the poverty line would
     a.   not change the poverty line, but the formula would be easier to compute.
     b.   decrease the poverty line and decrease the number of families below the poverty line.
     c.   increase the poverty line and increase the number of families below the poverty line.
     d.   increase the poverty line, but the number of families considered poor would not change since
          the cost of living is continuously rising.
ANSWER: c.   increase the poverty line and increase the number of families below the poverty line.
TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

14. A family's ability to buy goods and services depends largely on its normal or average income which is
     its
     a.   transitory income.
     b.   in-kind transfers.
     c.   permanent income.
     d.   lifetime income.
ANSWER: c.   permanent income.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 2 RANDOM: Y

15. Studies have shown that if a father earns 20 percent above his generation's average income, his son
     will most likely earn
     a.   relatively the same income as his father.
     b.   less than his father since the son has less incentive to work with a wealthy father.
     c.   22 percent below his generation's average income.
     d.   8 percent above his generation's average income.
ANSWER: d.   8 percent above his generation's average income.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

**NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY
HAVE ALREADY THIS QUESTION AND ITS ANSWER.**

16. Evidence indicates that
    a.   most of the poor are poor for short periods of time.
    b.   education is unrelated to poverty.
    c.   most of the poor are elderly.
    d.   working does not reduce one's chance of being poor.
ANSWER: a.   most of the poor are poor for short periods of time.
TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY HAVE ALREADY THIS QUESTION AND ITS ANSWER.

17. The political philosophy according to which the government should punish crimes and enforce voluntary agreements but not redistribute income is
    a.   liberalism.
    b.   utilitarianism.
    c.   communism.
    d.   libertarianism.
ANSWER: d.   libertarianism.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 3 RANDOM: Y

18. Because of diminishing marginal utility,
    a.   the rich receive more satisfaction than the poor from the last dollar they spend since the rich have more to spend.
    b.   more of something is always preferred to less of something, especially money.
    c.   the poor are less efficient at spending money than the rich.
    d.   the poor receive more satisfaction than the rich from the last dollar they spend.
ANSWER: d.   the poor receive more satisfaction than the rich from the last dollar they spend.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 3 RANDOM: Y

19. Because of distorted incentives, when the government tries to maximize total utility in the economy by redistributing income, the policy will
    a.   always achieve a full egalitarian society in a market economy.
    b.   always fall short of a full egalitarian society.
    c.   can only be achieved with a progressive income tax system.
    d.   achieve a full egalitarian society only if sufficient funds are transferred from the rich to the poor.
ANSWER: b.   always fall short of a full egalitarian society.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 4 RANDOM: Y

20. Rawl's maximin criterion suggests that income transferred from the rich to the poor should aim to
    a.   promote an egalitarian distribution of income.
    b.   maximize the well-being of the worst off person in society.
    c.   maximize the well-being of each person in society.
    d.   reduce the disincentives to work and save that redistribution policy creates.
ANSWER: b.   maximize the well-being of the worst off person in society.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 3 RANDOM: Y

21. Libertarians would condone government involvement in an economy to ensure
    a. a distribution of income as equal as possible.
    b. equal opportunity, but not an equal distribution of income.
    c. the well-being of the least fortunate in society.
    d. an objectively-determined just society.
ANSWER: b.   equal opportunity, but not an equal distribution of income.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 3 RANDOM: Y

22. Government welfare programs are often criticized because
    a. studies have shown that these programs encourage single-parent households.
    b. the government spends more each year on welfare programs than it does on national defense.
    c. most people on the welfare roles today are actually ineligible to receive the benefits.
    d. they create incentives for people to become needy.
ANSWER: d.   they create incentives for people to become needy.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

23. Opponents of the 1996 law that limits the time a family can receive welfare benefits believe that
    a. children will become innocent victims of this law.
    b. any money saved by lowering welfare roles will be diverted to defense spending.
    c. welfare is the best system the government has to distribute income to the really poor.
    d. little evidence exists that staying on welfare for long periods of time is detrimental to a family.
ANSWER: a.   children will become innocent victims of this law.
TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

24. Assume that the government proposes a negative income tax that calculates taxes owed by the formula, TAXES OWED = $(1/2 \times \text{INCOME}) - 15,000$. For a family earning $20,000 of income, how would this negative income tax affect them?
    a. They will receive an income subsidy of $10,000.
    b. They will receive an income subsidy of $5,000.
    c. They will pay a tax of $5,000.
    d. They will not be required to pay any tax.
ANSWER: b.   They will receive an income subsidy of $5,000.
TYPE: M KEY1: E SECTION: 3 OBJECTIVE: 4 INSTRUCTION: 2 RANDOM: N

25. Almost everyone agrees that the more equally policymakers attempt to divide the "pie" the
    a. more likely the middle class will be to "starve."
    b. larger the "pie" becomes.
    c. smaller the "pie" becomes.
    d. "fatter" the rich become.
ANSWER: c.   smaller the "pie" becomes.
TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

1   ANSWER: b.   labor earnings.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2   ANSWER: d.   calculate the percentage of families that fall into each of seven income categories.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3   ANSWER: a.   4 percent of all income.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4   ANSWER: d.   more inequality in family incomes.
TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5   ANSWER: c.   distribution that is somewhere in the middle of the pack.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6   ANSWER: d.   cost of an adequate diet for a family multiplied by three.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

7   ANSWER: b.   price changes.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

8   ANSWER: c.   10 percent.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

9   ANSWER: b.   are goods and services given to the poor rather than cash.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

10   ANSWER: d.   temporary increases and decreases in income.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

11   ANSWER: b.   middle-aged.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

12   ANSWER: a.   lifetime income rather than annual income.
TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

13   ANSWER: c.   increase the poverty line and increase the number of families below the poverty line.
TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

14   ANSWER: c.   permanent income.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 2 RANDOM: Y

15   ANSWER: d.   8 percent above his generation's average income.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

16   ANSWER: a.   most of the poor are poor for short periods of time.
TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

17   ANSWER: d.   libertarianism.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 3 RANDOM: Y

18   ANSWER: d.   the poor receive more satisfaction than the rich from the last dollar they each spend.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 3 RANDOM: Y

19   ANSWER: b.   always fall short of a full egalitarian society.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 4 RANDOM: Y

20   ANSWER: b.   maximize the well-being of the worst off person in society.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 3 RANDOM: Y

21   ANSWER: b.   equal opportunity, but not an equal distribution of income.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 3 RANDOM: Y

22   ANSWER: d.   they create incentives for people to become needy.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

23   ANSWER: a.   children will become innocent victims of this law.
TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

24   ANSWER: b.   They will receive an income subsidy of $5,000.
TYPE: M KEY1: E SECTION: 3 OBJECTIVE: 4 INSTRUCTION: 2 RANDOM: N

25   ANSWER: c.   smaller the "pie" becomes.
TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y