Economics

Chapter 4

Study Guide

**Terms to know**

Functional Distribution of Income

Personal Distribution of Income

Duarable goods

Nondurable goods

Services

Plant

Firm

Industry

Sole proprietorship

Partnership

Corporation

Stock

Bond

Limited liability

Principal-agent problem

Monopoly

Externality

Negative externalities

Positive externalities

Public goods

Free-rider problem

Quasi-public goods

Government purchases

Transfer payments

Personal income tax

Marginal tax rate

Average tax rate

Payroll taxes

Corporate income tax

Sales and excise taxes

Property taxes

**To know and understand**

* Define and distinguish between a functional and a personal distribution of income
* State the five sources of personal income in the functional distribution
* List the three uses for which households dispose of their personal incomes and state the relative size of each
* Distinguish among durable goods, nondurable goods, and services in personal consumption expenditures
* Give definitions for a plant, firm, and an industry
* List the three legal forms of business enterprise
* Describe the advantages of corporations in finance, risk and liability, and longevity
* Explain the principal-agent problem as it applies to corporations
* List the five economic functions of the government of the United States
* Give examples of how government provides the legal framework for the economy
* Define monopoly and explain why government wishes to prevent monopoly and to maintain competition in the economy
* Explain why government redistributes income and list the three principal policies it uses for this purpose
* Define negative externality and positive externality
* Explain why a competitive market fails to allocate resources efficiently when there are external costs and benefits
* List two actions government can take to reduce external costs
* List three actions government can take to encourage external benefits
* Give definitions of a public good and a quasi public good
* Explain how the government reallocates resources from the production of private goods to the production of public of quasi public goods
* Describe the two macroeconomic stabilization policies of government and two main economic problems they designed to address
* Explain the qualifications to government’s role in the economy