



Test Prep

ASSET

Short Placement Tests Developed by ACT

QUESTION & ANSWERS

Topic 1, Reading Comprehension

QUESTION 1

Most economists in the United States seem captivated by spell of the free market. Consequently, nothing seems good or normal that does not accord with the requirements of the free market.

A price that is determined by the seller or for that matter, established by anyone other than the aggregate of consumers seems pernicious, accordingly, it requires a major act of will to think of price – fixing (the determination of prices by the seller) as both “normal” and having a valuable economic function. In fact, price-fixing is normal in all industrialized societies because the industrial system itself provides, as an effortless consequence of its own development, the price-fixing that requires. Modern industrial planning requires and rewards great size. Hence a comparatively small number of large firms will be competing for the same group of consumers. That each large firm will act with consideration of its own needs and thus avoid selling its products for more than its competitors charge is commonly recognized by advocates of free-markets economic theories. But each large firms will also act with full consideration of the needs that it has in common with the other large firms competing for the same customers. Each large firm will thus avoid significant price cutting, because price cutting would be prejudicial to the common interest in a stable demand for products. Most economists do not see price-fixing when it occurs because they expect it to be brought about by a number of explicit agreements among large firms; it is not.

More over those economists who argue that allowing the free market to operate without interference is the most efficient method of establishing prices have not considered the economies of non socialist countries other than the United States. These economies employ intentional price-fixing usually in an overt fashion. Formal price fixing by cartel and informal price fixing by agreements covering the members of an industry are common place. Were there something peculiarly efficient about the free market and inefficient about price fixing, the countries that have avoided the first and used the second would have suffered drastically in their economic development. There is no indication that they have.

Socialist industry also works within a frame work of controlled prices. In early 1970's, the Soviet Union began to give firms and industries some of the flexibility in adjusting prices that a more informal evolution has accorded the capitalist system. Economists in the United States have hailed the change as a return to the free market. But Soviet firms are no more subject to prices established by free market over which they exercise little influenced than are capitalist firms.

The primary purpose of the passage is to

- A. refute the theory that the free market plays a useful role in the development of industrialized societies.
- B. suggest methods by which economist and members of the government of the United States can recognize and combat price-fixing by large firms.
- C. explain the various ways in which industrialized societies can fix in order to stabilized the free market
- D. argue that price-fixing, in one form or another, is an inevitable part of and benefit to the economy of any industrialized society.
- E. analysis of free markets in different economies

Correct Answer: E

Section: (none)

Explanation

Explanation/Reference:

Explanation:

QUESTION 2

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The passage provides information that would answer which of the following questions about price-fixing?

- I. What are some of the ways in which prices can be fixed?
- II. For what products is price-fixing likely to be more profitable than the operation of the free market?
- III. Is price-fixing more common in socialist industrialized societies or in nonsocialist industrialized societies?

- A. I only
- B. III only
- C. I and II only
- D. II and III only
- E. I, II and III

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

Explanation:

QUESTION 3

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The author's attitude toward "Most economists in the United States" can best be described as

- A. spiteful and envious
- B. scornful and denunciatory
- C. critical and condescending
- D. ambivalent but deferential
- E. uncertain but interested

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

Explanation:

QUESTION 4

Most economists in the United States seem captivated by spell of the free market. Consequently, nothing seems good or normal that does not accord with the requirements of the free market.

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