TT TEXTBOOK TESTBANKS

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Chapter 1: The Foundations of Business

Section 1.3: Getting Down to Business

True/False

1. Museums and most colleges and universities are not-for-profit organizations.

   (True; Easy)

2. A business is any activity that provides goods or services to consumers for the purpose of making a profit.

   (True; Easy)

3. While financial accountants prepare financial statements to help users both inside and outside of the organization, managerial accountants prepare reports for internal users only.

   (True; Moderate)

4. One of the primary roles of management is investing money back into the business.

   (False; Easy)

5. Fast-food chains that have eliminated Styrofoam containers reflect the desire of owners to be good corporate citizens.

   (True; Easy)

6. External forces play a role in determining whether more people or fewer people eat at fast-food restaurants.

   (True; Moderate)

7. All the activities needed to operate a business can be divided into the three functional areas of accounting, operations, and marketing.

   (False; Hard)

8. Ultimately, the goal of any business is to satisfy the needs of its owner(s).

   (False; Easy)

9. A good way to accumulate profits is to supply something that can be sold for much more than it costs to produce.

   (True; Moderate)

10. Managerial accountants prepare financial statements to help users, both inside and outside of the organization, assess its financial strengths.

(False; Hard)

Multiple Choice

11. The difference between the revenue that a company brings in from selling goods and services and the cost of generating this revenue is called _____.
    a. profit
    b. gross margin
    c. accounts receivable
    d. cost of goods sold

    (a; Easy)

12. A _____ is any activity that provides goods or services to consumers for the purpose of making a profit.
    a. value exchange
    b. business
    c. service
    d. transaction

    (b; Easy)

13. This week, Billy Bob's Barbeque had sales of $4,000. Employees were paid $1,000; food costs were $1,500; and rent was $500. Profit for the week was (select one)
    a. $4,000
    b. $3,000
    c. $2,000
    d. $1,000

    (d; Moderate)

14. As a producer and seller of athletic shoes, apparel, and equipment, Nike sells _____.
    a. supplies
    b. goods
    c. services
    d. gross domestic products

    (b; Easy)

15. Because Jenny Craig's bank provides payment services, loan and insurance products, investments, credit cards, and online banking, it is a _____ company.
    a. management
    b. service
    c. goods
    d. not-for-profit

    (b; Easy)

16. Ultimately, the goal of any business is to satisfy the needs of its _____.
    a. employee

b. customers
c. owners
d. creditors

(b; Easy)

17. Which of the following is an example of a service company?
    a. lumber mill
    b. insurance company
    c. Nike
    d. mobile home manufacturer

    (b; Moderate)

18. Which of the following is *not* a characteristic of a business?
    a. provides goods and/or services to customers
    b. establishes goals and meets them in an efficient manner
    c. provides society with social or educational services without concern for profits
    d. helps the economy by employing people

    (c; Moderate)

19. _____ involve(s) planning, organizing, directing, and controlling a company's resources so that it can achieve its goals.
    a. Human resources
    b. Management
    c. Economics
    d. Consumerism

    (b; Easy)

20. As a functional area of business, _____ measures, summarizes, and communicates financial and managerial information and advises other managers on financial matters.
    a. accounting
    b. finance
    c. operations
    d. marketing

    (a; Easy)

21. Every business must have one ____, whose primary role is to infuse money into the business.
    a. owner
    b. employee
    c. supplier
    d. customer

    (a; Moderate)

22. The activities needed to operate a business can be divided into a number of _____.
    a. fiscal policies
    b. economic indicators

c. functional areas
d. business cycles

(c; Moderate)

23. Businesses such as hospitals, insurance companies, financial institutions, and attorneys convert resources into _____ products.
   a. tangible
   b. secondary
   c. intangible
   d. operational

   (c; Moderate)

24. Good _____ management is particularly important when a company is first formed because new businesses usually need to borrow start-up money.
   a. financial
   b. accounting
   c. operations
   d. marketing

   (a; Moderate)

25. When people have more discretionary money to eat out at restaurants and cafeterias, it's a sign that the _____ is strong.
   a. gross domestic product
   b. supply chain
   c. economy
   d. government

   (c; Moderate)

26. When a fast-food chain responds to environmental concerns by eliminating Styrofoam containers, it shows a desire to be a ______.
   a. resource manager
   b. free enterprise producer
   c. good corporate citizen
   d. consumer advocate

   (c; Moderate)

27. All of the following are *best* categorized as _____: Harvard University, the American Red Cross and American Institute of Certified Public Accountants.
   a. natural monopolies
   b. nonprofits
   c. intermediaries
   d. cultural institutions

   (b; Hard)

28. When they assess the success of plans and decisions and take corrective action when it's needed, managers are _______.
    a. managing a business cycle
    b. directing a function
    c. distributing services
    d. designing controls

    (d; Hard)

29. _____ involve(s) the design and management of the processes that transform resources into goods or services.
    a. Marketing
    b. Operations
    c. Finance
    d. Ownership

    (b; Hard)

30. A _____ accountant prepares information, such as reports on the cost of materials used in the production process, for internal use only.
    a. financial
    b. marketing
    c. managerial
    d. staff

    (c; Hard)

31. Weight Off, a local weight-loss clinic, maintains a clientele of more than 200 busy executives who travel frequently and need specialized diet and exercise regimes. The activities needed to operate this business include all of the following *except* _____.
    a. research and development
    b. management
    c. marketing
    d. finance

    (a; Hard)

Scenario-Based

Questions 32–37
Soup, Salad, & Sandwich is a regional chain of restaurants in the northeast that provides dine-in, carry-out, and catering services. Owners Jesse and Mataya Peña currently operate six locations and are in the process of opening a new restaurant in another state. Their operation is quite successful and appeals to health-conscious consumers, busy moms, and executives in a hurry. Staying open longer hours, enlarging the menu, and expanding the scope of the business are among the many goals set by the Peñas. They want to follow a traditional business model in reaching their goals.

32. Soup, Salad, & Sandwich features all of the traditional business participants *except* _____.
    a. owners
    b. employees
    c. shareholders

d. customers

(c; Easy)

33. Because the Peñas are following a traditional business model, they will engage which of the following functional areas?
    a. investment counseling
    b. marketing
    c. research and development
    d. focus groups

    (b; Moderate)

34. The Peñas hire a manager for each restaurant and assign specific goals and responsibilities. Each manager will perform each of the traditional management functions *except* _____.
    a. staffing
    b. organizing
    c. directing
    d. auditing

    (d; Moderate)

35. As part of their business plan, the Peñas identify their customers' needs, design products and services to meet those needs, and manage customer relationships. In this respect, they're engaged in _____.
    a. marketing
    b. finance
    c. operations
    d. all of these

    (a; Moderate)

36. Mataya is good at summarizing and communicating financial and other information to Jesse and the other restaurant managers. Which functional area is her specialty?
    a. accounting
    b. finance
    c. marketing
    d. operations

    (a; Hard)

37. Which of the following describes the function of information technology?
    a. It is focused on automation of business processes through the collection of information.
    b. It is the technology of the organization used to support business processes.
    c. It is the combination of technologies, procedures and people that collect and distribute information.
    d. It is the technology used by organizations to distribute information.

    (c; Medium)

Short Discussion

38. What are the external forces that influence business activities?

The external forces that influence business activities are the economy, government, consumer trends, and public pressure to act as a good corporate citizen. One industry that's clearly affected by all of these factors is the fast-food industry.

(Easy)

39. Not all businesses were impacted equally by COVID-19. What is a reason that some businesses survived, while others did not?

    One factor you might consider when separating survivors from those that failed is the type of product offered or services provided.

    (Moderate)

Medium-Length Discussion

40. As a functional area of business, what value does the accounting group provide?

    Managers need accurate, relevant, timely financial information, and accountants provide it. There are two fields of accounting. Financial accountants prepare financial statements to help users, both inside and outside the organization, assess its financial strength. Managerial accountants prepare information, such as reports on the cost of materials used in the production process, for internal use only.

    (Moderate)

Section 1.4: What Is Economics?

True/False

41. Generally speaking, economic systems can be divided into pure socialist and capitalist systems.

    (True; Easy)

42. Resources are the outputs used to produce inputs in a business.

    (False; Easy)

43. Economists study the interactions between households and businesses and look at the ways in which the factors of production are combined to produce the goods and services that people need.

    (True; Moderate)

44. The economic system with the highest level of government control is communism.

    (True; Moderate)

45. Previously communist economies, such as those of Eastern Europe, are becoming more mixed as they adopt capitalist characteristics and convert previously government-owned businesses to private ownership.

(True; Easy)

46. The principle of *laissez-faire* calls for government intervention to equalize the distribution of resources.

    (False; Easy)

47. The economic system of a country is the means by which a society makes decisions about allocating resources to produce and distribute products.

    (True; Moderate)

48. A mixed market economy is one that relies on both goods and service producing businesses and is largely controlled by the government.

    (False; Moderate)

49. Under a socialist economic system, the government owns all or most businesses.

    (True; Hard)

Multiple Choice

50. In theory, in a ______ society the government owns all or most enterprises.
    a. capitalist
    b. communist
    c. financial
    d. socialist

    (b; Easy)

51. ______ is the study of the production, distribution and consumption of goods and services.
    a. Marketing
    b. Economics
    c. Inflation
    d. Consumerism

    (b; Moderate)

52. ______ not only provide factors of production (or resources) but also consume goods and services.
    a. Households
    b. Suppliers
    c. Nonprofits
    d. Entrepreneurs

    (a; Moderate)

53. ______ study the interactions between households and businesses and the ways in which the factors of production are combined to produce goods and services.
    a. Marketers
    b. Economists

c. Accountants
d. Entrepreneurs

(b; Moderate)

54. _____ allocates the goods and services produced by government-run industries and tries to ensure that the resulting wealth is distributed equally.
   a. Fiscal policy
   b. Monetary policy
   c. Free enterprise
   d. Central planning

   (d; Moderate)

55. In a(n) _____ economy, the government controls selected major industries, such as transportation and health care, while allowing individual ownership of other industries.
   a. open
   b. centrally planned
   c. fiscally sound
   d. mixed market

   (d; Moderate)

56. Factors of production—equipment, buildings, vehicles, and cash—are considered _____.
   a. output
   b. capital
   c. consumer goods
   d. operations

   (b; Hard)

57. The principle of *laissez-faire* means _____.
   a. leaving things alone
   b. equalizing resources
   c. forming natural monopolies
   d. lengthening supply chains

   (a; Moderate)

58. When government-owned businesses convert to private ownership, they go through a process called _____.
   a. privatization
   b. consumerization
   c. socialization
   d. domestication

   (a; Moderate)

59. Which of the following question(s) does an economist attempt to answer?
   a. How should goods and services be produced?
   b. How much money will it take to produce these products?

c. How many products can we produce in one week?
d. All of these.

(a; Hard)

60. A system in which prices are determined based on supply and demand with little or no government interference between privately owned businesses was espoused by _____ in his book The *Wealth of Nations.*
    a. Joseph Smith
    b. Eli Whitney
    c. Benjamin Franklin
    d. Adam Smith

    (d; Hard)

61. Generally speaking, economic systems can be divided into _____ and ______systems.
    a. socialist / democratic
    b. manufacturing / service
    c. nonprofit / for-profit social enterprise
    d. socialist / capitalist

    (d; Hard)

62. The term *laissez-faire* means that:
    a. the government should regulate industries.
    b. key industries should be owned by the government.
    c. there should be limited intervention by the government in business activity.
    d. the government should leave business activities to function according to the laws of economics.

    (d; Moderate)

63. Which of the following statements describes an advantage of capitalism?
    a. The desire to make a profit can encourage companies to keep labor costs low.
    b. The profit motive can encourage owners to achieve monopolistic power for their companies.
    c. Companies are likely to invest in equipment that reduces their negative impact on the environment.
    d. The profit motive encourages owners to run their companies efficiently.

    (d; Moderate)

64. Which of the following statements is *not* a disadvantage of socialism?
    a. Government decides what goods and services are available to you and how much you must pay for the goods.
    b. Government dictates where you work and how much you are paid.
    c. Everyone is provided with free basic services, including health care and education.
    d. A worker can be unmotivated and still keep his or her job.

    (c; Easy)

65. Which of the following is not a question that is asked when comparing and contrasting pure socialist and capitalist systems?
    a. Who owns the property?

b. Who is in authority?
c. How are prices set?
d. How much economic planning is done by the government?

(b; Moderate)

Short Discussion

66. What is a capitalist system?

Capitalism is the economic system in which most businesses are privately owned and operated. Business is conducted with only limited government involvement.

(Easy)

Medium-Length Discussion

67. How do economists study the interactions between households and businesses?

Economists look at the ways in which the factors of production are combined to produce the goods and services that people need. Basically, they try to answer three sets of questions: (1) What goods and services should be produced to meet consumers' needs? (2) How should goods and services be produced? (3) Who should receive the goods and services produced?

(Moderate)

Section 1.5: Perfect Competition and Supply and Demand

True/False

68. Demand is the quantity of product that buyers are willing to purchase at various prices.

(True; Easy)

69. Supply is the quantity of a product that sellers are willing to sell at various prices.

(True; Easy)

70. When sellers supply more of the product than buyers are willing to purchase, a shortage is created.

(False; Moderate)

71. The equilibrium price is a point at which buyers' demand for a product and sellers' supply of it are in balance.

(True; Moderate)

72. Generally speaking, we find products more attractive at higher prices because we believe that other people find value in them.

(False; Hard)

73. A supply curve shows the relationship between the price of a product and the quantity that consumers are willing to buy.

(False; Hard)

Multiple Choice

74. When we plot a supply curve and a demand curve for apples on one graph, the point at which the two points intersect is the _____.
    a. stable price
    b. consumer price index
    c. equilibrium price
    d. gross product

(c; Easy)

75. A demand curve shows the _____ of a product that will be demanded at different prices.
    a. quality
    b. output
    c. quantity
    d. scarcity

(c; Easy)

76. _____ refers to the quantity of a product that buyers are willing to purchase at various prices.
    a. equilibrium
    b. supply
    c. competition
    d. demand

(d; Moderate)

77. When sellers supply more of the product than buyers are willing to purchase, a ______ is created.
    a. shortage
    b. surplus
    c. supply and demand schedule
    d. demand

(b; Easy)

78. _____ refers to the quantity of a product that sellers are willing to sell at various prices
    a. supply
    b. demand
    c. equilibrium
    d. competition

(a; Moderate)

79. Businesses are more willing to sell a product when the price _____ and less willing to sell it when prices _____.
    a. rises / fall
    b. rises / rise
    c. falls / rise
    d. falls / fall

    (a; Moderate)

80. In marketing, supply and demand interact to create a(n) _____price—the price at which buyers are willing to purchase the amount that sellers are willing to sell.
    a. gross domestic
    b. optimal
    c. equilibrium
    d. consumer

    (c; Moderate)

81. A demand curve shows the relationship between the:
    a. price of a product and the quantity that producers are willing to sell.
    b. price of a product and the quantity that consumers are willing to buy.
    c. income of consumers and the quantity of a product that consumers are willing to buy.
    d. income of consumers and the quantity of a product that producers are willing to sell.

    (b; Moderate)

82. If the quantity demanded for cars is lower than the quantity supplied, we can expect that:
    a. the price of cars will increase.
    b. the price of cars will not change.
    c. car manufacturers will increase their production of cars.
    d. the price of cars will decrease.

    (d; Moderate)

83. Scalpers sell tickets for such events as the World Series and the Super Bowl for prices many times the amount printed on the tickets. This situation is an example of which of the following conditions?
    a. Market in equilibrium
    b. Surplus causing an increase in market price
    c. Shortage causing an increase in market price
    d. Market in which the quantity demanded is less than the quantity supplied

    (c; Moderate)

84. The equilibrium price for a crop that a farmer is selling is $1.50. The farmer decides to price it at $1.25. What is the impact on sales and profits?
    a. sales will decrease, profits will increase
    b. sales will increase, profits will decrease
    c. sales will decrease, profits will decrease
    d. sales will increase, profits will increase

    (d; Moderate)

Scenario-Based

Questions 85–91
New Age Pharmaceuticals Inc. produces two limited lines of drugs—one for common maladies and one for rarer conditions and diseases. The majority of its business comes from the tried-and-true drugs that most Americans have been using for many years, but the new growth area in the pharmaceutical industry is in high-priced new drugs. New Age management believes that the company's research-and-development operations are sufficiently effective and efficient enough to develop six new prescription drugs that will start showing a profit within 12 months of their roll-outs. Currently more than 4 million people use New Age products.

85. New Age will be more willing to develop new products when prices are on the rise and less willing when they're coming down.

    (True; Easy)

86. In researching the quantity of medicines that customers are willing to purchase at various prices, New Age management will actually be researching demand.

    (True; Easy)

87. New Age's customers will typically be willing to buy more of a product when prices are coming down and less when they're on the rise.

    (True; Easy)

88. In determining the quantity of drugs that it will be willing to sell at different prices, New Age management will actually be developing a demand curve.

    (False; Moderate)

89. Because it's set up to make profits while meeting people's needs, New Age stands to make larger profits when prices fluctuate.

    (False; Moderate)

90. An exception to the New Age demand curve may occur if diabetes patients are willing to pay the price for an effective new drug regardless of the supply that New Age makes available.

    (True; Hard)

91. Having plotted both the supply curve and the demand curve for a drug on one graph, New Age executives can determine its equilibrium price. At this point, all patients will be equally able to pay for the drug regardless of the quantity supplied by the company.

    (False; Hard)

Short Discussion

92. Explain how demand functions in a capitalist system.

Demand is the quantity of the product that buyers are willing to purchase at various prices. The quantity of a product that people are willing to buy depends on its price, and they're typically willing to buy less of a product when prices rise and more of it when prices fall.

(Easy)

93. What do we mean by the equilibrium price?

    To begin with, we must construct a supply curve and a demand curve. When we plot both curves on one graph, we see a point at which they intersect. This is the equilibrium price—the price at which buyers' demand for a product and sellers' supply of that product is in equilibrium.

    (Easy)

Section 1.6: Monopolistic Competition, Oligopoly, and Monopoly

True/False

94. In an oligopoly, each seller supplies a large portion of all the products sold in the marketplace.

    (True; Easy)

95. A monopoly exists when there is only one seller in the market.

    (True; Easy)

96. Differentiated products are those that serve several different purposes for different consumers.

    (False; Moderate)

97. Under monopolistic (differentiated) competition, large companies exercise control over prices.

    (False; Moderate)

98. A classic example of a company that held a patent-based legal monopoly is Polaroid, which for years held exclusive ownership of instant-film technology.

    (True; Moderate)

99. Perfect competition exists when many consumers are buying standardized products from a few small businesses.

    (False; Hard)

100. In an environment of perfect competition, external influences ensure that the market will arrive at an equilibrium point at which both buyers and sellers are satisfied.

    (False; Hard)

101. Legal monopolies exist in industries requiring huge investments and in which it would be inefficient to duplicate the products that they provide.

(False; Hard)

Multiple Choice

102. The sole supplier of satellite radio, Sirius, operates in a(n) _____ market.
   a. oligopolistic
   b. privatized
   c. socialistic
   d. monopoly

(d; Easy)

103. Product differentiation can be achieved by _____.
   a. geographical location
   b. advertising
   c. brand preference
   d. all of these

(d; Easy)

104. Under a system characterized by _____ competition, there are many consumers buying a standardized product from numerous small businesses.
   a. perfect
   b. monopolistic
   c. oligopolistic
   d. entrepreneurial

(a; Easy)

105. Because they operate in a(n) _____ industry, a fare decrease at American Airlines will likely result in decreases at other carriers.
   a. socialistic
   b. monopolistic
   c. oligopolistic
   d. noncompetitive

(c; Hard)

106. Because the government limits them by law, there are few _____ in the United States.
   a. oligopolies
   b. natural enterprises
   c. monopolies
   d. perfect competitors

(c; Moderate)

107. Polaroid (maker of instant film) is a classic example of a firm that enjoyed a patent-based _____ for years in instant-film technology.

a. technological monopoly
b. natural monopoly
c. monetary monopoly
d. legal monopoly

(d; Moderate)

108. Because the cost of starting a business in an oligopoly is usually _____, the number of firms entering it is _____.
a. low / high
b. high / low
c. low / low
d. high/high

(b; Hard)

109. Because they operate in a(n) _____ industry, a fare decrease at American Airlines will likely result in decreases at other carriers.
a. socialistic
b. monopolistic
c. oligopolistic
d. noncompetitive

(c; Hard)

Scenario-Based

Questions 110–112
In the past, General Motors operated several divisions in supplying cars, trucks, vans, and SUVs to its customers. Each division engaged the usual business participants, overlapped management functions with other divisions, and worked in basically the same functional areas as all of the others. Chevrolet, Cadillac, and GMC trucks were among the company's product lines. Its few major competitors include Ford, Nissan, Honda, and Toyota. Each automaker sells a large portion of all the products sold in the marketplace, and each differentiates its product lines.

110. If the automobile industry included many rather than few manufacturers of differentiated products, we might conclude that it was characterized by _____ conditions.
a. perfect competition
b. oligopoly
c. monopolistic competition
d. monopoly

(c; Easy)

111. The industry conditions illustrated in this scenario are best characterized as _____.
a. perfect competition
b. oligopoly
c. monopolistic competition
d. monopoly

(b; Moderate)

112. The industry conditions under which American Airlines competes could be characterized as _____.
   a. perfect competition
   b. oligopoly
   c. monopolistic competition
   d. monopoly

   (b; Hard)

Short Discussion

113. What does perfect competition mean?

   Perfect competition exists when there are many consumers buying standardized products from numerous small businesses. Because no seller is big enough or influential enough to affect price, both sellers and buyers accept the going price.

   (Easy)

Essay Discussion

114. Explain monopolistic competition.

   In monopolistic competition, there are many sellers. They don't sell identical products but rather offer differentiated products—products that differ somewhat, or are perceived to differ, even though they serve similar purposes. Products can be differentiated in a number of ways, including quality, style, convenience, location, and brand name. Some people, for example, prefer Coke over Pepsi even though the two products are quite similar. If, however, Pepsi has a big promotional sale at a supermarket chain, it will get some Coke drinkers to switch (at least temporarily).

   (Moderate)

115. What is an oligopoly?

   Oligopoly means few sellers. The number of firms existing and entering firms is low because the cost of starting a business in an industry is usually high. Each seller supplies a large portion of all the products sold in the marketplace. Companies in oligopolistic industries include such large-scale enterprises as automobile companies and airlines. Because products are fairly similar, a change in one company's prices usually results in price changes by its competitors.

   (Moderate)

Section 1.7: Measuring the Health of the Economy

True/False

116. A typical business cycle can last much longer than three to five years.

   (True; Easy)

117. An economic indicator is a statistic that provides valuable information about the economy.

     (True; Easy)

118. If average weekly manufacturing hours by production workers is on the rise, the economy will probably decline.

     (False; Moderate)

119. During a recession, the economy expands, unemployment is low, incomes rise, and consumers buy more products.

     (False; Easy)

120. The U.S. leading index combines all economic indicators.

     (True; Easy)

121. Price stability occurs when the average of the prices for goods and services does not change much; when they go up, we experience inflation.

     (True; Easy)

122. The three goals shared by all of the world's economies are growth, high employment, and high wages.

     (False; Moderate)

123. In practice, we have "full employment" when about 95 percent of those desiring to work are employed.

     (True; Moderate)

124. One way that economists measure the performance of an economy is by looking at a widely-used measure of total output called gross price stability.

     (False; Moderate)

125. The unemployment rate is the percentage of the labor force that is underemployed and no longer looking for work.

     (False; Moderate)

126. The inflation rate is the percentage change in a price index.

     (True; Moderate)

127. Indicators that predict economic decline over periods of three to twelve months are called lagging economic indicators.

     (False; Moderate)

128. The most widely publicized measure of inflation is the consumer price index, which is reported every five years by the Bureau of Labor Statistics.

     (False; Hard)

129. According to economists, we're entering a period of prosperity when GDP goes down for two consecutive quarters.

     (False; Hard)

Multiple Choice

130. A recession is generally followed by a _____ in which the economy starts growing again.
     a. revival
     b. recovery
     c. renewal
     d. rebirth

     (b; Easy)

131. _____ occurs when the average of the prices for goods and services either does not change or changes very little.
     a. inflation
     b. deflation
     c. price stability
     d. economic downturn

     (c; Easy)

132. The ups and downs due to the expansion and contraction of the economy constitute the _____.
     a. business cycle
     b. product life cycle
     c. monetary cycle
     d. fiscal cycle

     (a; Easy)

133. One way that economists measure the performance of an economy is by looking at a widely-used measure of total output known as the _____.
     a. consumer confidence index
     b. leading economic indicator
     c. gross domestic product
     d. consumer price index

     (c; Moderate)

134. When the United States experiences a slowdown in economic activity and GDP goes down for two consecutive quarters, it is called a(n) _______.
     a. economic indicator
     b. deflation
     c. inflation

d. recession

(d; Moderate)

135. Reported monthly by the Bureau of Labor Statistics, the _____ is the most widely publicized measure of inflation.
a. price stability index
b. inflation index
c. unemployment index
d. consumer price index

(d; Moderate)

136. For assessing the strength of the housing market, _____ is often a good indicator.
a. inflation
b. building permits
c. CPI
d. monetary policy

(b; Easy)

137. The percentage change in a price index is also known as the _____ rate.
a. prime
b. deflation
c. inflation
d. price stability

(c; Moderate)

138. The unemployment rate measures the number of unemployed people who _____ seeking work.
a. are not
b. are actively
c. are occasionally
d. all of these

(b; Moderate)

139. One useful indicator of the outlook for future jobs is the number of new _____.
a. retail openings
b. school enrollments
c. housing permits
d. unemployment claims

(d; Moderate)

140. When the overall price level of consumer goods goes up, we have _____; when they go down, we have _____.
a. deflation / inflation
b. price stability / inflation
c. price stability / depression
d. inflation / deflation

(d; Hard)

141. Lagging economic indicators report the status of the economy for periods of a _____ in the past.
   a. few days
   b. few weeks
   c. few months
   d. few years

   (c; Hard)

142. Connor Industries Inc. constantly scans the environment to keep ahead of competition and to survive as a business. The owners seek statistics that provide valuable information about the future of the economy for periods ranging from three to twelve months. Knowing the level of the _______ is of great benefit to Connor.
   a. recession index
   b. leading economic indicators
   c. consumer price index
   d. inflation rate

   (b; Hard)

143. We call it "full employment" when _____ percent of those who want to work are employed.
   a. 90 percent
   b. 95 percent
   c. 97 percent
   d. 100 percent

   (b; Hard)

144. Leading economic indicators predict the status of the economy over the course of _____.
   a. one to two months
   b. three to twelve months
   c. two years
   d. five years

   (b; Hard)

145. Published by a private research firm called the Conference Board, the _____ is a measure that combines all useful economic indicators.
   a. leading economic report
   b. fiscal policy formula
   c. CNNMoney report
   d. U.S. leading index

   (d; Hard)

146. In calculating gross domestic product (GDP), the U.S. government does not include the following: (select one)
   a. goods and services produced in the United States
   b. goods and services produced by U.S. companies in facilities outside the United States

c. goods that are produced to be sold to final users rather than to become components of other products
d. goods and services produced in the United States by non-U.S. companies

(b; Moderate)

147. To assess whether inflation is going up or going down, economists look at changes in (select one):
a. GDP
b. CPI
c. level of unemployment
d. building permits

(b; Moderate)

Short Discussion

148. What is the consumer confidence index?

The Conference Board publishes the consumer confidence index based on results of a monthly survey of 5,000 U.S. households. Determining price changes in a hypothetical basket of goods, bought by a typical household, it's often a good indicator of future buying intent on the part of consumers and thus of inflation.

(Easy)

149. Why do economists and businesspeople track only a few economic indicators?

There's no shortage of economic indicators, and trying to follow them all would be an overwhelming task. Using a combination of select lagging and leading indicators, economists and businesspeople are able to regularly and realistically monitor the economy.

(Easy)

Section 1.8: Government's Role in Managing the Economy

True/False

150. When the Fed believes that deflation is a problem, it will use contractionary policy to decrease the money supply and raise interest rates.

(False; Hard)

151. A budget deficit occurs when the government spends more than it takes in.

(True; Moderate)

152. Macroeconomics is the study of the economic choices made by individual consumers or businesses.

(False; Easy)

Multiple Choice

153. If, in any given year, the government takes in more money than it spends on goods and services, the result is a budget _____.
  a. surplus
  b. overload
  c. overflow
  d. excess

(a; Easy)

154. The study of the economy as a whole is called _____.
  a. microeconomics
  b. macroeconomics
  c. federal economics
  d. system economics

(b; Easy)

155. During periods of _____ money, interest rates are down, it's cheaper to borrow money, and banks are more willing to make loans.
  a. funny
  b. expensive
  c. inexpensive
  d. tangible

(c; Easy)

156. The study of the economic choices made by individual consumers or businesses is called _____.
  a. macroeconomics
  b. microeconomics
  c. federal economics
  d. system economics

(b; Easy)

157. The United States federal government influences economic activity by two means, including _____.
  a. economic policy
  b. consumer policy
  c. price stability policy
  d. fiscal policy

(d; Moderate)

158. When the Fed believes that inflation is a problem, it will use _____ policy to decrease the money supply and raise interest rates.
  a. inflation policy
  b. deflation policy
  c. contractionary policy
  d. recession policy

(c; Moderate)

159. If the government spends more than it takes in, we have a budget _____.
    a. scarcity
    b. insufficiency
    c. shortage
    d. deficit

    (d; Easy)

160. Fiscal policy relies on the government's powers of _____.
    a. taxation
    b. investment
    c. regulation
    d. all of these

    (a; Moderate)

161. To counter a recession, the Fed will take _____ measures to increase the money supply and reduce interest rates.
    a. contractionary
    b. deflationary
    c. inflationary
    d. expansionary

    (d; Hard)

162. Currently, the U.S. national debt is greater than _____.
    a. $20 trillion
    b. $50 trillion
    c. $100 trillion
    d. $200 trillion

    (a; Hard)

163. The U.S. government uses _____ policy regulate the money supply and interest rates.
    a. price stability
    b. economic
    c. monetary
    d. fiscal

    (c; Hard)

164. If the Fed believes that inflation is a problem, it will (select one):
    a. take actions to reduce interest rates
    b. bring about an increase in interest rates
    c. do nothing because it believes the government should try to regulate the economy
    d. increase its level of spending

    (b; Moderate)

165. All of the following are macroeconomic concerns *except* (select one):

a. a decrease in the rate of inflation
b. trends in imports and exports
c. an increase in unemployment
d. the price of flying between Boston and California

(d; Moderate)

166. Swarez Construction Corp. is a nationwide builder of small business buildings. To understand the nature of supply and demand for its products, management would conduct a ______ study.
a. macroeconomic
b. business-to-business
c. microeconomic
d. geographical

(c; Hard)

Medium-Length Discussion

167. Discuss the government's role in dealing with inflation.

When the Federal Reserve System believes that inflation is a problem, it will use contractionary policy to decrease the money supply and raise interest rates. The theory is that when rates are higher, borrowers have to pay more for the money they borrow and banks are more selective in making loans. Because money is "tighter"—more expensive—demand for goods and services will go down, and so will prices.

(Moderate)

Essay Discussion

168. How does the government use its powers of spending and taxation to implement fiscal policy?

Both taxation and government spending can be used to reduce or increase the total supply of money in the economy—the total amount, in other words, that businesses and consumers have to spend. When the country is in a recession, the appropriate policy is to increase spending, reduce taxes, or both. Such expansionary actions will put more money in the hands of businesses and consumers, encourage businesses to expand and consumers to buy more goods and services. When the economy is experiencing inflation, the opposite policy is adopted: The government will decrease spending and/or increase taxes.

(Hard)