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Chapter 1 UNDERSTANDING ECONOMIC SYSTEMS AND BUSINESS

TRUE-FALSE QUESTIONS

Title: ANSWER: T REFERENCE: The Nature of Business LEARNING OUTCOME: 1

1. A business is an organization that strives for a profit by providing goods and services desired by its customers.

- a. True
- b. False

Title: ANSWER: F REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: The major difference is tangibility

2. The major difference between a good and a service is how the producer uses the factors of production to create each.

- a. True
- b. False

Title: ANSWER: F REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Not-for-profit organizations exist to achieve some goal other than profit.

3. Not-for-profit organizations have the same goals as for-profit organizations.

- a. True
- b. False

Title: ANSWER: T REFERENCE: The Nature of Business LEARNING OUTCOME: 1

4. Factors of production are common to all productive activities, regardless of the economic system.

- a. True
- b. False

Title: ANSWER: F REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Labor is the economic contribution of the people.

5. Labor, as a factor of production, relates only to the production of manufactured goods; services are not included.

- a. True
- b. False

Title: ANSWER: F REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Capital is all the inputs used to produce goods and services and get them to the customer.

6. As a factor of production, capital includes money.

- a. True
- b. False

Title: ANSWER: T REFERENCE: The Nature of Business LEARNING OUTCOME: 1

7. People who combine natural resources, labor, and capital in a profitable venture are called entrepreneurs.

- a. True
- b. False

Title: ANSWER: T REFERENCE: The Nature of Business LEARNING OUTCOME: 1

8. Many people consider knowledge to be a fifth factor of production.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Understanding the Business Environment LEARNING OUTCOME: 2

9. Business owners and managers have a great deal of control over the internal environment of business, which covers the day-to-day business decisions.

- a. True
- b. False

Title: ANSWER: F REFERENCE: Understanding the Business Environment LEARNING OUTCOME: 2

RATIONALE: No one business is large enough or powerful enough to create major changes in the external environment.

10. Some global corporations are large enough to create major changes in the external environment.

- a. True
- b. False

Title: ANSWER: F REFERENCE: Demographic Factors LEARNING OUTCOME: 2 RATIONALE: Demography is the study of people's vital statistics.

11. Demography is the study of how people use their free time, how people integrate their hobbies and their vocations, and how people make their purchase decisions.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Demographic Factors LEARNING OUTCOME: 2

12. The term Generation X refers to people born between 1965 and 1980.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Demographic Factors LEARNING OUTCOME: 2 RATIONALE: Baby boomers are Americans that are retiring or near-retirement age. Most are vital contributors to the U.S.'s economy.

13. Baby boomers are Americans that are retiring or near-retirement age.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Social Factors LEARNING OUTCOME: 2

14. Social factors influence what, how, where, and when to purchase products or services.

- a. True
- b. False

Title: ANSWER: F REFERENCE: How Business and Economies Work LEARNING OUTCOME: 3 RATIONALE: Economics is the study of how a society uses scarce resources to produce and distribute goods and services.

15. Economics is the study of a society's financial institutions.

- a. True
- b. False

Title: ANSWER: F REFERENCE: Microeconomics and Macroeconomics LEARNING OUTCOME: 3

RATIONALE: Microeconomics focuses on individual parts of the economy.

16. When Raoul Welsh is evaluating the construction industry in terms of interest rates, employment

cycles, and the rate of new home building nationwide, he is looking at microeconomics.

- a. True
- b. False

Title: ANSWER: F REFERENCE: Striving for Economic Growth LEARNING OUTCOME: 4 RATIONALE: A decline in GDP that lasts for at least two consecutive quarters is a recession.

17. It takes four consecutive quarters of decline in the GDP for economists to consider the economy to be in a recession.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Keeping People on the Job LEARNING OUTCOME: 4

18. Full employment means 94-96 percent of the working force is employed.

- a. True
- b. False

Title: ANSWER: F REFERENCE: Types of Unemployment LEARNING OUTCOME: 4 RATIONALE: Lewis is frictionally unemployed.

19. Tyron Lewis has recently quit his job in the administrative offices at the nearby hospital and is currently seeking a retail management position. He would be described as structurally unemployed.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Types of Unemployment LEARNING OUTCOME: 4

20. Freida Bida lost her job as a result of a recession and would be described as experiencing cyclical unemployment.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Types of Unemployment LEARNING OUTCOME: 4

21. Belinda Asher works in a vegetable processing plant and is out of work about six months a year due to the periodic harvest times. She can be described as seasonally unemployed.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

22. The situation in which the average of all prices of products is rising is called inflation.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Types of Inflation LEARNING OUTCOME: 4

23. An increase in the price of crude oil could trigger cost-push inflation.

- a. True
- b. False

Title: ANSWER: F REFERENCE: Monetary Policy LEARNING OUTCOME: 5 RATIONALE: Monetary policy controls the amount of money in circulation.

24. Monetary policy deals with tax revenues and expenditures at the national level.

- a. True

b. False

Title: ANSWER: F REFERENCE: Monetary Policy LEARNING OUTCOME: 5 RATIONALE: The Federal Reserve is the central banking unit of the U.S.

25. The Federal Reserve System can print money and raise taxes.

a. True

b. False

Title: ANSWER: T REFERENCE: Fiscal Policy LEARNING OUTCOME: 5

26. When Congress passes a law to raise individual tax rates, it is creating fiscal policy.

a. True

b. False

Title: ANSWER: T REFERENCE: Fiscal Policy LEARNING OUTCOME: 5

27. The national debt is the accumulation of deficits that have occurred in the past as a result of expenditures exceeding tax revenues.

a. True

b. False

Title: ANSWER: F REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6 RATIONALE: Typically, the higher the price, the lower demand is.

28. The higher the price of a good or service, the greater the quantity demanded.

a. True

b. False

Title: ANSWER: T REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

29. The higher the price of a good or service, the greater the amount a producer is willing to supply.

a. True

b. False

Title: ANSWER: T REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

30. At the equilibrium point, quantity demanded equals quantity supplied.

a. True

b. False

Title: ANSWER: F REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7 RATIONALE: This would be an example of pure competition.

31. A farmer's market where sixty farmers come weekly to sell the produce they grow in their gardens is an example of monopolistic competition.

a. True

b. False

Title: ANSWER: F REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7 RATIONALE: Public utilities are examples of pure monopolies.

32. No true examples of a pure monopoly exist today.

a. True

b. False

Title: ANSWER: T REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

33. Monopolistic competition is a market structure in which entry is easy.

- a. True
- b. False

Title: ANSWER: F REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7 RATIONALE: These challenges arise in oligopolies.

34. Legal challenges arising from laws designed to control anticompetitive behavior occur in monopolistic competition.

- a. True
- b. False

Title: ANSWER: T REFERENCE: Trends in Economics and Competition LEARNING OUTCOME: 8

35. A strategic alliance is a cooperative agreement between business firms.

- a. True
- b. False

MULTIPLE-CHOICE QUESTIONS

Title: ANSWER: E REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: A business is an organization that strives for a profit by providing goods and services desired by customers.

1. Which of the following is an example of a business?

- A. Jack & Jill, a specialty clothing store for young children
- B. Wal-Mart
- C. Ford Motor Company
- D. Lawson & Tyler law offices
- E. all of the above

Title: ANSWER: A REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: A service is an intangible offering of a business.

2. Which of the following is the best example of a service?

- A. the pleasure you derive from seeing a good play
- B. the license tags you purchased for your car
- C. the hamburger you bought for lunch
- D. the gallon of milk you purchased at the convenience store
- E. the grill on which you cook steak

Title: ANSWER: B REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Goods are tangible items manufactured by businesses.

3. Which of the following is the best example of a good?

- A. the physical examination you received from your doctor
- B. the birthday candles you purchased to go on your sister's birthday cake
- C. the airplane flight you took to attend a funeral
- D. the driving lessons you took
- E. the life guarding class you took last summer

Title: ANSWER: E REFERENCE: The Nature of Business and Global Economic System LEARNING OUTCOME: 1

RATIONALE: A service is an intangible offering of a business.

4. Which of the following businesses provides its customers with a service?

- A. a pecan grower
- B. a wheat farmer
- C. a mattress manufacturer
- D. a used book store
- E. a law office

Title: ANSWER: E REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Goods are tangible items manufactured by businesses.

5. Which of the following businesses provides its customers with a good?

- A. hotel
- B. hair salon
- C. accounting firm
- D. movie theater
- E. bicycle manufacturer

Title: ANSWER: C REFERENCE: The Nature of Business LEARNING OUTCOME: 1

6. Which of the following is NOT an example of a good that would be sold in a department store?

- A. wedding dress
- B. white linen table clothes
- C. the advice of a wedding planner
- D. silk flower bouquets
- E. book on wedding etiquette

Title: ANSWER: C REFERENCE: The Nature of Business LEARNING OUTCOME: 1

7. What is the primary difference between a good and a service?

- A. A good costs more to produce than a service.
- B. A service is tangible, and a good is intangible.
- C. A good is tangible, and a service is intangible.
- D. A good costs more to market than a service
- E. The development costs for a service is higher than for a product.

Title: ANSWER: A REFERENCE: The Nature of Business LEARNING OUTCOME: 1

8. The _____ of any country is measured by the output of goods and services people can buy with the money they have.

- A. standard of living
- B. consumer productivity
- C. input per person
- D. quality of life
- E. total consumption rate

Title: ANSWER: B REFERENCE: The Nature of Business LEARNING OUTCOME: 1

9. Which of the following countries has a high standard of living?

- A. Malaysia
- B. the United States
- C. Guatemala
- D. Nigeria
- E. Bolivia

Title: ANSWER: D REFERENCE: The Nature of Business LEARNING OUTCOME: 1

10. The standard of living in any country is:

- A. measured by subtracting the supply of goods and services from the demand for goods and services
- B. determined by the money left over after all expenses are paid
- C. the general level of human happiness based on such things as life expectancy, educational standards, health, sanitation, and leisure time
- D. measured by the output of goods and services people can buy with the money they have
- E. higher for less developed countries like Angola, Bangladesh, and Ceylon than it is for the U.S.

Title: ANSWER: C REFERENCE: The Nature of Business LEARNING OUTCOME: 1

11. The standard of living is low in Honduras. This means:

- A. it has a positive balance of trade
- B. it has higher wages than the U.S.
- C. its citizens cannot afford to buy much
- D. it has a negative balance of trade
- E. it attracts risk-averse entrepreneurs

Title: ANSWER: C REFERENCE: The Nature of Business LEARNING OUTCOME: 1

12. The quality of life is:

- A. measured by subtracting the supply of goods and services from the demand for goods and services
- B. determined by the money left over after all expenses are paid
- C. the general level of human happiness based on such things as life expectancy, educational standards, health, sanitation, and leisure time
- D. measured by the output of goods and services people can buy with the money they have
- E. higher for less developed countries like Angola, Bangladesh, and Ceylon than it is for the U.S.

Title: ANSWER: A REFERENCE: The Nature of Business LEARNING OUTCOME: 1

13. _____ is the amount of money remaining from a firm's sales revenue after it deducts production costs, interest costs, and taxes.

- A. Profit
- B. A dividend
- C. Working capital
- D. Net sales
- E. Retained earnings

Title: ANSWER: D REFERENCE: The Nature of Business LEARNING OUTCOME: 1

14. Hudson Kling mows yards during the summer. Which of the following is an example of revenue for Kling?

- A. a tire repair kit and extra air filters for the lawn mower
- B. a trip to the lawn mower repair shop to get his machine's blade sharpened
- C. the new pair of shoes he had to buy because he accidentally ran over a pair with his mower
- D. the \$10 tip Mrs. Pierre gave him for doing such a fine job of mowing her yard
- E. the gas can he had to buy so his mower wouldn't run out of gas while he mowed Mr. Johnson's five-yard pasture

Title: ANSWER: C REFERENCE: The Nature of Business LEARNING OUTCOME: 1

15. Iris Souza started the summer with \$30. She took \$10 and made signs for her dog walking service. She posted the signs all over her neighborhood. She used the other \$20 to buy a stout leash and a poop-scooper. At the end of the summer, after buying herself a new pair of shoes for \$50 (she had worn her

other shoes out walking dogs), she had \$125 left. What was Souza's profit for her summer job?

- A. \$30
- B. \$80
- C. \$125
- D. \$175
- E. \$205

Title: ANSWER: C REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Her costs equal the initial \$30 investment, plus the \$50 for the shoes.

16. Iris Souza started the summer with \$30. She took \$10 and made signs for her dog walking service. She posted the signs all over her neighborhood. She used the other \$20 to buy a stout leash and a pooper-scooper. At the end of the summer, after buying herself a new pair of shoes for \$50 (she had worn her other shoes out walking dogs), she had \$125 left. Calculate Souza's costs for her summer job?

- A. \$30
- B. \$50
- C. \$80
- D. \$125
- E. \$175

Title: ANSWER: E REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Revenues equal \$210 plus \$250.

17. Rudy and Ritchie Ling ran a camp this summer for children in their neighborhood. Rudy spent \$135 on supplies and earned \$250 before expenses. Ritchie spent \$140 on supplies and made \$210 before expenses. What is the combined revenue for the two brothers?

- A. \$75
- B. \$170
- C. \$290
- D. \$415
- E. \$460

Title: ANSWER: B REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Profit is the money he will earn after all expenses are paid.

18. Curtiss Anaya is planning to sell kites on the beach this summer to pay for next year's school expenses. _____ refers to the potential that Curtiss will lose money and waste his time and end up at the end of the summer with not enough money to cover his expenses.

- A. Profit
- B. Risk
- C. Revenue
- D. Opportunity
- E. Cost

Title: ANSWER: D REFERENCE: The Nature of Business LEARNING OUTCOME: 1

19. _____ is the money a company earns from providing services or selling goods to customers.

- A. Profit
- B. Opportunity
- C. Gross margin
- D. Revenue
- E. Amortization

Title: ANSWER: A REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: A not-for-profit business exists to achieve some goal other than profit.

20. Which of the following is the BEST example of a not-for-profit business?

- A. the American Cancer Society
- B. McDonald's
- C. Kellogg's
- D. FedEx delivery service
- E. Hightower Construction Company

Title: ANSWER: B REFERENCE: The Nature of Business LEARNING OUTCOME: 1

21. Inputs, such as natural resources, labor, capital, and entrepreneurship, are known as:

- A. elemental factors
- B. factors of production
- C. creative factors
- D. building blocks
- E. elements of construction

Title: ANSWER: E REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Natural resources are commodities that are useful inputs in their natural state.

22. As one of the factors of production, natural resources includes all of the following EXCEPT:

- A. farmland
- B. coal
- C. water
- D. oil deposits
- E. machinery

Title: ANSWER: D REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Capital is the input used to produce goods and services and get them to customers.

23. As one of the factors of production, capital includes all of the following EXCEPT:

- A. tools
- B. machinery
- C. equipment
- D. money
- E. delivery trucks

Title: ANSWER: A REFERENCE: The Nature of Business LEARNING OUTCOME: 1

24. Labor, as a factor of production, refers to:

- A. all workers in business
- B. rent and wages
- C. full employment
- D. tools and wages
- E. only hourly wage earners

Title: ANSWER: C REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Factors of production are inputs used to create goods and services.

25. Which of the following is NOT an example of a factor of production?

- A. entrepreneurship
- B. capital
- C. competition

- D. natural resources
- E. labor

Title: ANSWER: D REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Factors of production are inputs used to create goods and services.

26. Which of the following is an example of a factor of production?

- A. economy of scale
- B. competition
- C. free market
- D. labor
- E. mass production

Title: ANSWER: B REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Natural resources are commodities that are useful inputs in their natural state.

27. Thom Nielssen owns 500 acres of woodland. His forest is an example of which factor of production?

- A. capital
- B. natural resources
- C. entrepreneurship
- D. labor
- E. expense

Title: ANSWER: E REFERENCE: The Nature of Business LEARNING OUTCOME: 1

28. The new employee that Dunn Photographic Services hired is an example of which factor of production?

- A. natural resources
- B. capital
- C. wages
- D. interest
- E. labor

Title: ANSWER: E REFERENCE: The Nature of Business LEARNING OUTCOME: 1

29. _____ combine the inputs in the production of goods and services for what are intended to be profitable ventures.

- A. Privateers
- B. Marketers
- C. Economists
- D. Cooperators
- E. Entrepreneurs

Title: ANSWER: C REFERENCE: The Nature of Business LEARNING OUTCOME: 1 RATIONALE: Entrepreneurs are people who combine the inputs of natural resources, labor, and capital to produce goods or services.

30. Corrine Attlee has always enjoyed cooking more than doing anything else. Attlee has decided to quit her job as a college professor and invest her life savings in starting a restaurant. Attlee is an example of a(n):

- A. production worker
- B. sales manager
- C. entrepreneur
- D. monetary manager
- E. fiscal manager

Title: ANSWER: E REFERENCE: The Nature of Business LEARNING OUTCOME: 1

31. The fifth factor of production identified by many managers and academicians is:

- A. nanotechnology
- B. productivity
- C. quality
- D. social responsibility
- E. knowledge

Title: ANSWER: B REFERENCE: The Nature of Business LEARNING OUTCOME: 1

32. _____ are workers who create, distribute, and apply knowledge.

- A. Data managers
- B. Knowledge workers
- C. Information analysts
- D. Data prospectors
- E. Information conduits

Title: ANSWER: D REFERENCE: Demographic Factors LEARNING OUTCOME: 2

33. Which of the following is an example of a demographic factor?

- A. a person's attitude toward premarital sex
- B. a person's love of reading
- C. a person's value system
- D. a person's age
- E. all of the above

Title: ANSWER: A REFERENCE: Demographic Factors LEARNING OUTCOME: 2

34. Demography is the study of:

- A. people's vital statistics
- B. people's attitudes, interests, and values
- C. emerging technology
- D. social trends
- E. global competition

Title: ANSWER: E REFERENCE: Demographic Factors LEARNING OUTCOME: 2

35. Members of millennial generation:

- A. represent the first generation of latchkey children
- B. are more likely to be unemployed or underemployed than any other previous generation
- C. cherish savings and cling to their money
- D. were born between 1946 and 1964
- E. are not accurately described by any of the above

Title: ANSWER: D REFERENCE: Demographic Factors LEARNING OUTCOME: 2

36. Those people designated by demographics as _____ are defined as Americans born between about 1981 and 1997.

- A. baby boomers
- B. Generation X
- C. latchkey kids
- D. Millennials
- E. tweens

Title: ANSWER: B REFERENCE: Demographic Factors LEARNING OUTCOME: 2

37. Which of the following statements about those people designated by demographics as millennials is true?

- A. Millennials controls 50 percent of all consumer spending.
- B. Millennials are technologically savvy and prosperous young people.
- C. Millennials members spend less than any other demographic group.
- D. The typical millennial member is at the stage in life where he or she has made a career choice and has started his or her family.
- E. None of the above statements about millennials is true.

Title: ANSWER: A REFERENCE: Demographic Factors LEARNING OUTCOME: 2

38. Members of Generation X:

- A. were born between 1965 and 1980
- B. represent the last generation of demography
- C. have fueled the growing demand for home delivery
- D. are driving the educational software industry
- E. are over the age of 65

Title: ANSWER: D REFERENCE: Demographic Factors LEARNING OUTCOME: 2

39. How has diversity impacted the marketing and customization of products?

- A. The buying power of Asian Americans is declining.
- B. There are no significant differences in the various segments of the Hispanic population.
- C. The United States will never be a multicultural society.
- D. Along with their numbers, the buying power of minorities is growing.
- E. The size of the Hispanic market is declining.

Title: ANSWER: B REFERENCE: The Social Environment LEARNING OUTCOME: 2

40. Which of the following is probably the MOST difficult environmental factor for owners and managers to forecast, influence, or integrate into business plans?

- A. demographic change
- B. social change
- C. global competition
- D. emerging technology
- E. evolving economic systems

Title: ANSWER: B REFERENCE: Capitalism LEARNING OUTCOME: 3

41. Individual ownership of property is a key element in:

- A. socialism
- B. capitalism
- C. communism
- D. a command economy
- E. utopianism

Title: ANSWER: A REFERENCE: Capitalism LEARNING OUTCOME: 3

42. An economic system based on competition in the marketplace and private ownership of the factors of production is known as:

- A. capitalism
- B. utopianism
- C. socialism

- D. democratic economy
- E. privatization

Title: ANSWER: B REFERENCE: Capitalism LEARNING OUTCOME: 3

43. A key element in capitalism is:

- A. a low standard of living
- B. individual ownership of property
- C. government ownership of property
- D. government control of market
- E. continued growth

Title: ANSWER: A REFERENCE: Capitalism LEARNING OUTCOME: 3

44. An economic system based on complete freedom of trade and little, if any, government control is known as:

- A. capitalism
- B. utopianism
- C. socialism
- D. democratic economy
- E. privatization

Title: ANSWER: B REFERENCE: Capitalism LEARNING OUTCOME: 3

45. The main incentive in capitalism is:

- A. high wages
- B. profit
- C. low taxation
- D. reasonable interest rates
- E. a shorter work week

Title: ANSWER: C REFERENCE: Capitalism LEARNING OUTCOME: 3

46. All of the following are characteristics unique to the capitalistic or private enterprise system EXCEPT:

- A. profits
- B. free choices
- C. economies of scale
- D. ownership of property
- E. competition

Title: ANSWER: B REFERENCE: Communism LEARNING OUTCOME: 3

47. In a _____, the factors of production are owned collectively rather than individually, and no incentives to work harder or to produce quality products are provided.

- A. private enterprise
- B. communist economic system
- C. mixed economy
- D. socialistic
- E. capitalistic

Title: ANSWER: E REFERENCE: Communism LEARNING OUTCOME: 3

48. With a communist economy system:

- A. there is complete freedom of trade
- B. consumers can expect a mixed economic reaction

- C. there are strong incentives for workers
- D. basic industries such as railroads and utilities are owned by government, while other industries are owned by the private sector
- E. none of the above is true

Title: ANSWER: D REFERENCE: Communism LEARNING OUTCOME: 3

49. In terms of economic trends, the complete opposite to communism is:

- A. a command economy
- B. socialism
- C. revolutionary enterprise
- D. capitalism
- E. public enterprise

Title: ANSWER: B REFERENCE: Socialism LEARNING OUTCOME: 3

50. The economic system under which basic industries are operated by the government or owned by the private sector under strong government control is called:

- A. capitalism
- B. socialism
- C. communism
- D. public enterprise
- E. laissez faire

Title: ANSWER: B REFERENCE: Communism LEARNING OUTCOME: 3

51. The government of Cuba owns or controls all of the basic industries in their economy. Cuba operates in which type of economic system?

- A. Socialism
- B. Communism
- C. Laissez faire
- D. Capitalism
- E. Monopolism

Title: ANSWER: A REFERENCE: Socialism LEARNING OUTCOME: 3

52. Which of the following statements about a socialist economic system is true?

- A. The government owns or controls the major industries.
- B. The government owns no major industries.
- C. Private individuals own and control the major industries.
- D. Private individuals own all companies and industries.
- E. Major industries are internationally-owned.

Title: ANSWER: D REFERENCE: Socialism LEARNING OUTCOME: 3

53. The key element in socialism is:

- A. competition
- B. private property
- C. full employment
- D. governmental control
- E. freedom of choice

Title: ANSWER: D REFERENCE: Mixed Economic Systems LEARNING OUTCOME: 3

54. In Canada, the government owns the communications, transportation, and utilities industries, while most other activity is carried on by private enterprise. Canada is an example of:

- A. private enterprise
- B. communism
- C. private governmentalism
- D. a mixed economy
- E. social capitalism

Title: ANSWER: A REFERENCE: Mixed Economic Systems LEARNING OUTCOME: 3 RATIONALE: See Exhibit 1.1.

55. Because the government owns the factors of production in public lands, postal service, and some water resources, Great Britain is considered a(n):

- A. mixed economy
- B. quasi-public economy
- C. socialistic economy
- D. semi-socialistic economy
- E. unified-socialistic economy

Title: ANSWER: B REFERENCE: Mixed Economic Systems LEARNING OUTCOME: 3

56. A "mixed economy" is an economic system that:

- A. combines socialism and communism
- B. combines private and government ownership of the factors of production
- C. is owned collectively by the people
- D. emphasizes government-controlled monopolies
- E. relies on a combination of oligopoly and monopoly

Title: ANSWER: D REFERENCE: Mixed Economic Systems LEARNING OUTCOME: 3

57. In a mixed economy, the government is involved in the economic system through:

- A. the management of nonprofit organizations
- B. ownership of media
- C. its determination of standard of living scales
- D. taxing, spending, and welfare activities
- E. none of the above

Title: ANSWER: E REFERENCE: Understanding the Business Environment LEARNING OUTCOME: 2

58. Successful owners and managers must continually study which of the following elements of the environment to remain successful?

- A. Demographic change
- B. Social change
- C. Evolving economic systems
- D. Emerging technology
- E. All of the above

Title: ANSWER: D REFERENCE: Understanding the Business Environment LEARNING OUTCOME: 2

59. Understanding the external business environment requires marketers to be aware of:

- A. their customers' wants and needs
- B. how employees are interacting with customers
- C. how employees are interacting with other employees
- D. changes in the law which impact how business is conducted

E. how managers interrelate with employees

Title: ANSWER: C REFERENCE: Understanding the Business Environment LEARNING OUTCOME: 2

60. Which of the following words best describes the business environment?

- A. tangible
- B. static
- C. dynamic
- D. fixed
- E. stagnant

Title: ANSWER: B REFERENCE: Economic Influences LEARNING OUTCOME: 2

61. Inflation and interest rates are most closely associated with _____ within the external business environment.

- A. cultural factors
- B. economic forces
- C. competitive trends
- D. technological trends
- E. managerial downsizing

Title: ANSWER: E REFERENCE: Political and Legal Factors LEARNING OUTCOME: 2

62. Laws passed by the U.S. Congress concerning how U.S. businesses trade with Cuba would be an example of _____ factors that influence the business environment.

- A. social and cultural
- B. demographic
- C. economic
- D. competitive
- E. political and legal

Title: ANSWER: B REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

63. The most basic measure of economic growth is the:

- A. consumer price index
- B. gross domestic product
- C. producer price index
- D. total of all goods and services produced
- E. combined producer and consumer price indices

Title: ANSWER: B REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: Economic growth is defined as an increase in a nation's output of goods and services.

64. If you were told the output of goods and services produced in Tajikistan, a former Soviet Republic had increased by eight percent in 2006, you would correctly refer to this increase as:

- A. growth standardization
- B. economic growth
- C. nationalized growth
- D. an example of recessionary growth
- E. output maximization

Title: ANSWER: D REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: GDP stands for the gross domestic product.

65. The GDP of Poland in 2006 was approximately \$512 billion. This \$512 billion represents:

- A. how much money Polish households spent in 2006
- B. the estimated growth of discretionary profit in Poland for 2006
- C. the actual growth of discretionary profit in Poland in 2006
- D. the total value of all final goods and services produced in Poland during 2006
- E. the taxable portion of the materials produced by the production sector of the nation in 2006

Title: ANSWER: A REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: With inflation, the average of all prices of goods and services rises.

66. Imagine that you were reading an international marketing text in which you learned that the GDP for a nation that was a member of the former Soviet Union was \$1.56 billion. A few pages later in the same text, the book states that that nation's real GDP was \$800,000. From reading this information, you would know that:

- A. this former member of the Soviet Union had a high rate of inflation
- B. the various methods used to calculate GDP do not produce the same results
- C. GDP is an approximation of the actual total value and is never precise
- D. the second GDP measurement reflected only the value of the products produced in the nation and did not include the value of services
- E. the former member of the Soviet Union was experiencing a recession

Title: ANSWER: B REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: With inflation, the average of all prices of goods and services rises.

67. When determining the GDP in 2006 for Chile, the economists adjusted the current market prices by 3.1 percent to correct for inflated values. This adjusted GDP is called the nation's _____ GDP.

- A. interpreted
- B. real
- C. frictional
- D. cyclical
- E. non-inflated

Title: ANSWER: B REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

68. The _____ GDP takes inflation into account and uses adjusted market prices.

- A. frictional
- B. real
- C. adjusted
- D. cyclical
- E. re-evaluated

Title: ANSWER: B REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

69. Upward and downward changes in aggregate economic activity, as measured by GDP, are called:

- A. business standards
- B. business cycles
- C. cyclical adjustments
- D. economic yields
- E. standards of business deviation

Title: ANSWER: C REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

70. A decline in real GDP that lasts for two consecutive quarters is called a(n):

- A. economic downsizing
- B. depression
- C. recession
- D. resource divestment
- E. economic regression

Title: ANSWER: A REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

71. As soon as any nation has experienced two consecutive quarterly declines of its gross domestic product, that nation will be in a(n):

- A. recession
- B. depression
- C. regression
- D. adjustment period
- E. economic downsizing

Title: ANSWER: E REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

72. The government does not consider full employment to mean 100 percent of its citizens are employed because:

- A. some people are preparing for later employment by attending school
- B. some people choose to stay home to raise children rather than have a job outside the home
- C. some people are temporarily unemployed while they wait to start new jobs
- D. some people are not working because jobs are limited, and competition for jobs is intense.
- E. all of the above conditions can and do exist

Title: ANSWER: E REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: The unemployment rate is the percentage of the total labor force that is actually looking for work but is not actually working.

73. In 2005, more than two-thirds of population of Haiti were not working, but were actively seeking employment. This 66.67 percent represents the nation's:

- A. inflationary unemployment
- B. recessionary unemployment
- C. position on the international unemployment scale
- D. employment of scale
- E. unemployment rate

Title: ANSWER: C REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

74. The unemployment rate is the percentage of the total work force that is not working but is:

- A. drawing unemployment checks
- B. physically and mentally able to work
- C. actively looking for work
- D. on vacation
- E. laid off, terminated, or downsized due to some economic activity outside of their control

Title: ANSWER: C REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

75. Which of the following is NOT a form of unemployment?

- A. frictional unemployment
- B. seasonal unemployment

- C. fiscal unemployment
- D. cyclical unemployment
- E. structural unemployment

Title: ANSWER: C REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: Frictional unemployment is short-term employment that is not related to the business cycle.

76. Avery Lutz quit his landscaping job in Florida and has moved to British Colombia, where he is actively seeking employment in the real estate industry. This is an example of _____ unemployment.

- A. structural
- B. fiscal
- C. frictional
- D. predictable
- E. seasonal

Title: ANSWER: E REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: Frictional unemployment is short-term employment that is not related to the business cycle.

77. Jarvis Washington recently quit his job as a veterinarian's assistant and is now trying to find a job with another veterinarian. This is an example of _____ unemployment.

- A. structural
- B. regulated
- C. fiscal
- D. expected
- E. frictional

Title: ANSWER: D REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: Structural unemployment is caused by a mismatch between the available jobs and the skills of the available workers.

78. For the past ten years, Lou Lopez has been a welder for Ford Motor Company. This morning her boss informed her a robot would replace her. Lopez's unemployment is an example of _____ unemployment.

- A. frictional
- B. cyclical
- C. mechanical
- D. structural
- E. operational

Title: ANSWER: D REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: Structural unemployment is caused by a mismatch between the available jobs and the skills of the available workers.

79. Forty-five percent of the labor force in Armenia is involved in the agricultural sector, but the economic growth in the nation comes from industry and tourism. What type of unemployment would such a mismatch of ability and job requirements cause?

- A. frictional
- B. predictable
- C. mechanical
- D. structural
- E. operational

Title: ANSWER: A REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

80. Structural unemployment is unemployment that results from:

- A. the changing structure of an industry
- B. the restructuring of an organization
- C. the change in business cycles
- D. the change in seasonal needs
- E. people moving to new geographical areas

Title: ANSWER: C REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: Structural unemployment is caused by a mismatch between the available jobs and the skills of the available workers.

81. The laborers displaced due to assembly line automation at the textile plant may not have the skills needed to operate the computerized machines that replaced them. This is an example of _____ unemployment.

- A. cyclical
- B. frictional
- C. structural
- D. operational
- E. fiscal

Title: ANSWER: C REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: When the economy is in a recession, many companies must lay off workers, which causes cyclical unemployment.

82. In 1998 the tourism industry in Egypt had 43 percent unemployment due to an economic downturn that gripped the country as a result of an increase of terrorists' activities. The workers in the tourism industry were experiencing _____ unemployment.

- A. seasonal
- B. structural
- C. cyclical
- D. frictional
- E. operational

Title: ANSWER: C REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

83. When the economy is in a recession, many companies must lay off workers, which causes _____ unemployment.

- A. structural
- B. cultural
- C. cyclical
- D. frictional
- E. operational

Title: ANSWER: B REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: Seasonal unemployment occurs during specific seasons in certain industries.

84. Martha Maguire recently was laid off from her telemarketing job for a large catalog retailer. Each January, Maguire is laid off as soon as the Christmas season is over. She will be hired back sometime during the summer. In terms of unemployment, Maguire is a good example of _____ unemployment.

- A. structural
- B. seasonal
- C. tactical
- D. frictional

E. operational

Title: ANSWER: B REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

RATIONALE: Seasonal unemployment occurs during specific seasons in certain industries.

85. On the island of Martha's Vineyard, jobs are plentiful during the summer months, but difficult to find in September once the tourist season ends and many restaurants and inns close. What kind of unemployment do people who work in the island's restaurants experience annually?

- A. structural
- B. seasonal
- C. geographical
- D. operational
- E. tactical

Title: ANSWER: B REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

86. The situation in which the average of all prices of products is rising is called:

- A. deflation
- B. inflation
- C. upsizing
- D. purchase power acceleration
- E. rejuvenation

Title: ANSWER: D REFERENCE: Types of Inflation LEARNING OUTCOME: 4

87. The two types of inflation are:

- A. demand-pull and supply-push
- B. recessionary and recovery
- C. cost-pull and supply-push
- D. demand-pull and cost-push
- E. demand push and supply-pull

Title: ANSWER: E REFERENCE: Types of Inflation LEARNING OUTCOME: 4

88. _____ inflation is inflation that occurs when the demand for goods and services is greater than the supply.

- A. Supply-side
- B. Demand-push
- C. Demand-side
- D. Cost-push
- E. Demand-pull

Title: ANSWER: D REFERENCE: Types of Inflation LEARNING OUTCOME: 4

89. _____ inflation is triggered by increases in production costs which increase the costs of final goods and services.

- A. Supply-side
- B. Demand-push
- C. Demand-side
- D. Cost-push
- E. Demand-pull

Title: ANSWER: C REFERENCE: Types of Inflation LEARNING OUTCOME: 4

90. The inflation rate in Algeria in 2005 was 1.9 percent. This means that Algerians in 2005:

- A. saw their purchasing power increase slightly from what it was in 2004
- B. saw a decline in gross domestic profit (GDP)
- C. saw their purchasing power decrease slightly from what it was in 2004
- D. experienced demand-push inflation
- E. saw an economy recovery

Title: ANSWER: A REFERENCE: Types of Inflation LEARNING OUTCOME: 4

91. One of the reasons for the growing inflation rate in Argentina is due to increases in production costs of goods and services which occurred as a result of a decline in a suitable labor force. This would be an example of a _____ inflation.

- A. cost-push
- B. demand-push
- C. supply-side
- D. cost-pull
- E. demand-pull

Title: ANSWER: D REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

RATIONALE: Inflation is the situation in which the average of all prices of goods and services rises.

92. The average price of construction materials increased by 8.1 percent in 2005. The head of the Home Builders Association said it was due totally to increases in lumber, metal, and labor costs. The 8.1 percent increase is probably an example of:

- A. deflation
- B. price gouging
- C. poor resource utility
- D. inflation
- E. resource munificence

Title: ANSWER: A REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

93. Last year, a mother in a small African nation could buy a pound of flour for the U.S. equivalent of \$1.30. Six months ago, an identical pound of flour costs \$3.40. Today she would need \$5.60 to buy that pound of flour. This example of the general upward movement of prices is called:

- A. inflation
- B. deflation
- C. discretionary pricing
- D. supply-side pricing
- E. profit maximization pricing

Title: ANSWER: B REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

RATIONALE: Purchasing power is the value of what money can buy.

94. When the price of gasoline rises by 40 percent, but your salary remains the same, it is an example of a decline in your:

- A. standard of living
- B. purchasing power
- C. GDP index
- D. cost of living index
- E. gross economic income

Title: ANSWER: D REFERENCE: Types of Inflation LEARNING OUTCOME: 4

95. The _____ represents the prices of a market basket of goods and services as measured monthly by the Department of Labor.

- A. inflation rate
- B. producer price index (PPI)
- C. wholesale cost index (WCI)
- D. consumer price index (CPI)
- E. GDP index

Title: ANSWER: E REFERENCE: How Inflation Is Measured LEARNING OUTCOME: 4

RATIONALE: The CPI measures the price of a market basket of goods and services purchased by typical urban consumers.

96. Which of the following is NOT a component of the consumer price index?

- A. gas purchased by commuters
- B. pizzas ordered delivered to a birthday party
- C. entry fees to state and national parks
- D. tickets to baseball and football games
- E. lumber used in the construction industry

Title: ANSWER: E REFERENCE: How Inflation is Measured LEARNING OUTCOME: 4

97. The _____ measures prices paid by producers and wholesalers for commodities, including raw materials and finished products.

- A. wholesale cost index
- B. GDP index
- C. purchasing power index
- D. raw material price index
- E. producer price index

Title: ANSWER: B REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

98. _____ refers to a government's programs for controlling the amount of money in circulation.

- A. Macroeconomics
- B. Monetary policy
- C. Microeconomics
- D. Fiscal policy
- E. Economic control

Title: ANSWER: A REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

99. The _____ prints money and controls its circulation.

- A. Federal Reserve System
- B. Savings and Loan Association
- C. U.S. Congress
- D. U.S. Treasury Department
- E. FDIC

Title: ANSWER: D REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

100. The Federal Reserve System can do all of the following EXCEPT:

- A. sell government securities
- B. raise interest rates
- C. tighten money supply
- D. lower taxes

E. print money

Title: ANSWER: E REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

101. The implementation of a contractionary policy by the Federal Reserve would result in:

- A. lower interest rates
- B. increased economic growth
- C. lower unemployment
- D. increased spending
- E. lower inflation

Title: ANSWER: B REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

102. When the Federal Reserve implements a _____, it tightens the money supply by selling government securities or raising interest rates.

- A. shrinkage policy
- B. contractionary policy
- C. fiscal reduction strategy
- D. retrenchment strategy
- E. policy of downsizing

Title: ANSWER: C REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

103. When the Federal Reserve implements a(n) _____, it increases the growth of the money supply.

- A. retrenchment strategy
- B. fiscal reengineering
- C. expansionary policy
- D. policy of fiscal augmentation
- E. market growth strategy

Title: ANSWER: A REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

104. The implementation of an expansionary policy by the Federal Reserve would result in:

- A. lower interest rates
- B. decreased economic growth
- C. higher unemployment
- D. lower inflation
- E. decreased spending

105. When the government raises taxes on consumers and businesses, it is dealing with _____ policy.

- A. fiscal
- B. monetary
- C. inflationary
- D. recessionary
- E. expansionary

Title: ANSWER: A

REFERENCE: Achieving Macroeconomic Goals

LEARNING OUTCOME: 5

Title: ANSWER: B REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

106. Fiscal policy is concerned with:

- A. credit and spending
- B. taxation and spending

- C. investments and insurance
- D. credit and banking
- E. banking and insurance

Title: ANSWER: D REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

107. When the government decides to cut military spending, it is implementing a(n) _____ policy.

- A. microeconomic
- B. operational
- C. monetary
- D. fiscal
- E. expansionary

Title: ANSWER: B REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

108. A(n) _____ occurs if a country's total expenditures are higher than the revenues received from the taxes it gathers.

- A. national surplus
- B. federal budget deficit
- C. annual expenditure surplus
- D. national priority deficit
- E. expenditure-tax gap

Title: ANSWER: E REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

109. In 2005, the government of Bangladesh spent \$8.59 billion on government programs, and had revenues of \$5.993 billion. This indicates that Bangladesh like the United States can have a(n):

- A. expansionary policy
- B. low GDP
- C. high CPI
- D. low PPI
- E. budget deficit

Title: ANSWER: D REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

110. _____ is the situation that occurs when government spending replaces spending by the private sector.

- A. Deficit spending
- B. Demarketing
- C. Public-sector inflation
- D. Crowding out
- E. Fiscal flushing

Title: ANSWER: D REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

RATIONALE: Crowding out is the situation that occurs when government spending replaces spending by the private sector.

111. The Department of Natural Resources spent money to promote the use of national parks as perfect sites for a summer vacation causing motels, campgrounds and other tourist attractions in the private sector to become less attractive to consumers. Consequently consumers spent more money on trips to the national parks and less money in the private sector for their vacations resulting in _____.

- A. deficit spending
- B. demarketing
- C. public-sector inflation
- D. crowding out

E. fiscal flushing

Title: ANSWER: B REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

112. The national debt is the:

- A. amount of money owed each year by the taxpayers
- B. cumulative total of past national deficits
- C. cumulative total owed to U.S. by foreign countries
- D. total amount owed by corporations
- E. deficit a country creates by importing more than it exports

Title: ANSWER: A REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

113. The purchase of savings bonds by individuals allows the U.S. government to:

- A. make sure that the burden of the national debt is spread more equitably
- B. concentrate on microeconomics strategy
- C. eliminate crowding out
- D. balance supply and demand
- E. create a perfect competition

Title: ANSWER: C REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

114. Which of the following statements about the interaction of demand and supply is true?

- A. At prices above equilibrium, suppliers produce less than consumers are willing to buy.
- B. A surplus of product pushes prices upward.
- C. At prices below equilibrium, demand exceeds supply.
- D. Government intervention is usually needed to achieve market equilibrium.
- E. A shortage pushes prices downward.

Title: ANSWER: A REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

115. _____ is the quantity of a good or service that people are willing to buy at various prices.

- A. Demand
- B. Supply
- C. Market potential
- D. Market share
- E. Capacity

Title: ANSWER: A REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

116. The slope of the demand curve is:

- A. downward and to the right
- B. upward and to the right
- C. downward and to the left
- D. downward and to the right
- E. horizontal

Title: ANSWER: C REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

117. The quantity of a product or service that businesses will make available at various prices is called:

- A. market potential

- B. demand
- C. supply
- D. capacity
- E. market share

Title: ANSWER: B REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

118. The slope of the supply curve is:

- A. downward and to the right
- B. upward and to the right
- C. downward and to the left
- D. downward and to the right
- E. horizontal

Title: ANSWER: D REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

119. When demand and supply meet, the price of the product or service is established. This is the point of:

- A. price intersection
- B. monetary value
- C. interaction
- D. equilibrium
- E. price stabilization

Title: ANSWER: C REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

120. Market equilibrium is:

- A. the point at which a nation reaches full employment
- B. the time period used to determine the Consumer Price Index (CPI)
- C. the point at which quantity supplied equals quantity demanded
- D. defined as the moment when profit is created
- E. the point at which revenues equal expenses

Title: ANSWER: E REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

121. Which of the following statements about demand and supply curves is true?

- A. The demand curve will shift to the right if buyers' incomes increase.
- B. The demand curve will shift to the left if the number of buyers decreases.
- C. The supply curve will shift to the right if the number of suppliers increases.
- D. The supply curve will shift to the left if taxes are decreased.
- E. All of the above statements about supply and demand curves are true.

Title: ANSWER: B REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

122. Which of the following factors would most likely result in a dramatic change in demand?

- A. Cheaper production technology
- B. An expectations about future prices
- C. The multiplier effect
- D. The 80/20 principle
- E. A change in the price of raw materials used in the production process

Title: ANSWER: C REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

123. Which of the following factors would most likely result in a shift in the demand curve?

- A. an increase in the number of suppliers to manufacturers
- B. the principle of reciprocity
- C. prices of substitute products
- D. automation of manufacturing processes
- E. the multiplier effect

Title: ANSWER: E REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

124. Which of the following factors would most likely result in a dramatic change in supply?

- A. the iceberg effect
- B. the laddering of resources
- C. a change in consumer fashion
- D. expectations about prices of consumer products
- E. a change in the price of raw materials used in the production process

Title: ANSWER: D REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

125. Which of the following factors would most likely result in a shift in the supply curve?

- A. countertrading
- B. the principle of cause/effect
- C. the multiplier effect
- D. an increase in the price of raw materials used in the production process
- E. a change in what consumers consider to be fashionable

Title: ANSWER: E REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

126. Which one characteristic most clearly defines a market structure?

- A. the type of product sold
- B. the market share
- C. how the company is organized
- D. the emphasis the company places on quality
- E. the number of suppliers in a market

Title: ANSWER: E REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

127. Which of the following is a characteristic of pure competition?

- A. a large number of small firms
- B. all the firms in the market sell similar products
- C. entry into and exit from the market is easy
- D. buyers and sellers in the market are well-informed about the product
- E. all of the above

Title: ANSWER: D REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

128. In perfect competition, there is:

- A. only one producer
- B. a large number of buyers and few sellers
- C. no relationship between supply and demand

- D. a large number of sellers producing nearly identical products
- E. a large number of buyers who demand low prices

Title: ANSWER: A REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

129. There are a large number of small firms that provide entertainment for children's birthday parties. There is little difference between one company's inflatable slide and another company's. Clowns and magicians do similar tricks. Both the sellers and the parents buying the entertainment are well informed as to price and sources although sometimes it is difficult to hire the same entertainer two years in a row because the business is so easy to open and close. What type of market structure do local party entertainers depict?

- A. perfect competition
- B. monopolistic competition
- C. imperfect competition
- D. a pure monopoly
- E. an oligopoly

Title: ANSWER: A REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

130. For most agricultural products, farmers produce homogeneous products, sell them to a common market, and generally cannot affect prices greatly. This is an example of which kind of market structure?

- A. perfect competition
- B. monopolistic competition
- C. imperfect competition
- D. a pure monopoly
- E. an oligopoly

Title: ANSWER: B REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

131. When a single firm accounts for 100 percent of industry sales, it is an example of:

- A. an oligopoly
- B. a pure monopoly
- C. monopolistic competition
- D. imperfect competition
- E. monopolistic socialism

Title: ANSWER: E REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

132. In 1993, Purdue Pharmaceuticals of Stamford, Conn. applied for the first in a series of patents on Oxycontin, a painkiller. The U.S. Patent and Trademark Office (PTO) granted those patents based on the manufacturer's contention that the drug contained a novel innovation: It had been engineered so that only a very small dose was required for the drug to be effective for 90 percent of patients. Seven years later, a generic drug maker, Endo Pharmaceuticals, applied to the FDA for permission to sell its own, lower-priced version of Oxycontin. Purdue's patents acted as a(n) _____ and prevented Endo from entering the market.

- A. inflationary tool
- B. purchasing power equalizer
- C. oligopolistic tool
- D. market contractionary tool
- E. barrier to entry

Title: ANSWER: D REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

133. In 1993, Purdue Pharmaceuticals of Stamford, Conn. applied for the first in a series of patents on Oxycontin, a painkiller. The U.S. Patent and Trademark Office (PTO) granted those patents based on the

manufacturer's contention that the drug contained a novel innovation: It had been engineered so that only a very small dose was required for the drug to be effective for 90 percent of patients. As a result of the patent Purdue was the only company that could sell Oxycontin. Thus, Purdue became an example of which of the following market structures?

- A. an oligopoly
- B. utilitarianism
- C. an oligopolistic monopoly
- D. a pure monopoly
- E. monopolistic competition

Title: ANSWER: D REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

134. PGE supplies all of the electricity to Portland, Oregon. PGE is an example of:

- A. an oligopoly
- B. utilitarianism
- C. an oligopolistic monopoly
- D. a pure monopoly
- E. monopolistic competition

Title: ANSWER: C REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

135. A market in which there are a large number of firms that differentiate their products is called:

- A. perfect competition
- B. oligopolistic competition
- C. monopolistic competition
- D. an oligopoly
- E. an imperfect monopoly

Title: ANSWER: C REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

136. In a large metropolitan market, it is relatively easy to set up a law office. The ease of entry explains why you will find hundreds of lawyers listed in the New York City phone book. Each lawyer is a close substitute for another but with slight differences. Which of the following market structures best describes the one in which lawyers operate?

- A. pure competition
- B. perfect monopoly
- C. monopolistic competition
- D. oligopoly
- E. none of the above

Title: ANSWER: C REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

137. Think about all the restaurants that are located near your campus. You have probably noted some new ones appearing, and others closing because of lack of business. What type of competition exists in the restaurant business?

- A. perfect competition
- B. oligopolistic competition
- C. monopolistic competition
- D. an oligopoly
- E. an imperfect monopoly

Title: ANSWER: E REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

138. An industry in which a few firms produce most or all of the output of a product and in which large

amounts of capital are needed is called a(n):

- A. perfect competition
- B. imperfect competition
- C. monopoly
- D. monopolistic competition
- E. oligopoly

Title: ANSWER: C REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

139. In 1947, the largest brewer in the U.S., Schlitz, had a 4.57 percent share of the domestic market. (Anheuser-Busch was number four in those days). The top ten brewers, including the number one brewer, had 29.29 percent of the domestic market. Over 70 percent of the domestic market was controlled by "all other" brewers. By the year 2001 the largest brewer was Anheuser-Busch, with a 54.76 share of the domestic market. The top ten brewers held 97.04 percent share of the domestic market in 2001. Thus, the brewing industry in the U.S. became a(n) _____ market structure.

- A. perfect competition
- B. imperfect competition
- C. oligopoly
- D. monopoly
- E. monopolistic competition

Title: ANSWER: C REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

140. In the middle of the desert in Arizona, there are five service stations competing for all the business that exists in this isolated location. When one service station lowers its price on gas, all must follow suit. These service stations are operating in a(n) _____ market structure.

- A. perfect competition
- B. imperfect competition
- C. oligopoly
- D. monopoly
- E. monopolistic competition

Title: ANSWER: E REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

141. Within the music industry, four companies (UMG, Sony-BMG, EMI, and Warner) control 90 percent of the music you hear. The music industry operates in a(n) _____ market structure.

- A. perfect competition
- B. imperfect competition
- C. monopoly
- D. monopolistic competition
- E. oligopoly

Title: ANSWER: D REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

142. Which of the following statement about oligopolies is true?

- A. Market entry into an oligopoly is easy.
- B. In an oligopoly, there are many firms selling identical products.
- C. Capital requirements are minimal for entering an oligopolistic market.
- D. In an oligopoly, three or four firms usually dominate the marketplace.
- E. Antitrust cases are rare in oligopolies.

Title: ANSWER: A REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

143. In a(n) _____, a few sellers can exert substantial control over prices.

- A. oligopoly
- B. perfect monopoly
- C. pure monopoly
- D. monopolistic competition
- E. competitive monopoly

Title: ANSWER: C REFERENCE: Trends in Economics and Competition LEARNING OUTCOME: 8

144. Today companies are focusing on _____, which involves building, maintaining, and enhancing interactions with customers and other parties so as to develop long-term satisfaction through mutually beneficial partnerships.

- A. customer maximization
- B. profit maximization
- C. relationship management
- D. a developing strategic alliance
- E. product satisfaction

Title: ANSWER: C REFERENCE: Trends in Economics and Competition LEARNING OUTCOME: 8

145. Office Depot has instituted the Office Depot Advantage, a program in which a customer who spends a minimum of \$200 up to \$299 in a three-month period can receive a \$20 reward good for the purchase of additional Office Depot merchandise. Customers who spend between \$300 and \$499 receive a \$30 reward and those who spend more than \$500 quarterly receive a \$50 reward. The goal of this _____ program is to encourage customers to consolidate their office product purchases at Office Depot.

- A. customer maximization
- B. profit maximization
- C. relationship management
- D. a developing strategic alliance
- E. product satisfaction

Title: ANSWER: E REFERENCE: Trends in Economics and Competition LEARNING OUTCOME: 8

146. Which of the following statements about strategic alliances is true?

- A. Strategic alliances are commonly found in markets where there is a pure competition market structure.
- B. Strategic alliances are not associated with any form of relationship management.
- C. Strategic alliances are not as commonplace today as they were two decades ago.
- D. A company that is interested in maintaining, but not improving, its product and service quality is most likely to enter a strategic alliance.
- E. A strategic alliance is sometimes called a strategic partnership.

Title: ANSWER: A REFERENCE: Trends in Economics and Competition LEARNING OUTCOME: 8

147. Archer Daniels Midland Co. (ADM) has joined with Baron Spices and Seasonings to market spices, seasonings and herbs to the foodservice industry. ADM will provide the raw materials, and Baron will act as the distributor and use its already existing relationships with participants in the food service industry to make a success of this:

- A. strategic alliance
- B. transactional partnership
- C. economic merger
- D. economic partnership
- E. exchange relationship

Title: ANSWER: A REFERENCE: Trends in Economics and Competition LEARNING OUTCOME: 8

148. A strategic alliance is sometimes called a(n):

- A. strategic partnership
- B. transactional partnership
- C. economic merger
- D. economic partnership
- E. exchange relationship

FILL-IN-THE-BLANK QUESTIONS

Title: ANSWER: Services REFERENCE: The Nature of Business LEARNING OUTCOME: 1

1. _____ are intangible offerings of business like hair cuts, medical examinations, tutoring, and legal advice.

Title: ANSWER: Risk REFERENCE: The Nature of Business LEARNING OUTCOME: 1

2. _____ is the potential to lose time and money or otherwise not be able to accomplish an organization's goals.

Title: ANSWER: Factors of production REFERENCE: The Nature of Business LEARNING OUTCOME: 1

3. _____ are the inputs (resources) that are common to productive activity in all economic systems.

Title: ANSWER: Natural resources REFERENCE: The Nature of Business LEARNING OUTCOME: 1

4. _____ include everything that is useful as a productive input in its natural state, such as land, forests, mineral and oil deposits, and water.

Title: ANSWER: Entrepreneurs REFERENCE: The Nature of Business LEARNING OUTCOME: 1

5. _____ are people who combines the inputs of natural resources, labor, and capital to produce goods and services with the intention of making a profit

Title: ANSWER: Demography REFERENCE: Understanding the Business Environment LEARNING OUTCOME: 2

6. _____ is the study of people's vital statistics, such as their age, race and ethnicity, and their location.

Title: ANSWER: Millennials REFERENCE: Understanding the Business Environment LEARNING OUTCOME: 2

7. The term _____ is used to describe all Americans who were born between 1981 and 1997.

Title: ANSWER: Capitalism (or The private enterprise system) REFERENCE: How Business and Economics Work LEARNING OUTCOME: 3

8. _____ is the economic system in which all factors of production are privately owned and the market operates on supply and demand.

Title: ANSWER: Communism REFERENCE: How Business and Economics Work LEARNING OUTCOME: 3

9. _____ is the complete opposite of capitalism.

Title: ANSWER: mixed REFERENCE: How Business and Economics Work LEARNING OUTCOME: 3

10. Canada's government owns the communications, transportation, and utilities industries; most other activities are carried on by private enterprises. Canada is considered a _____ economy.

Title: ANSWER: Gross domestic product (GDP) REFERENCE: Macroeconomics: The Big Picture LEARNING

OUTCOME: 4

11. _____ is the total market value of all goods and services produced within a country on an annual basis

Title: ANSWER: recession REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

12. A(n) _____ is defined as a decline in GDP that lasts for six months.

Title: ANSWER: frictional REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

13. When you graduate from college and start looking for a job, you will experience _____ unemployment.

Title: ANSWER: purchasing power REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

14. George LaDuc is the manager of a nonprofit agency that provides transportation for parents of children with life-threatening diseases. Each year the prices of necessities such as groceries, housing, and electricity continue to rise, but LaDuc's salary stays the same. LaDuc's _____ is being eroded by his stagnant salary and increasing prices.

Title: ANSWER: Inflation REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

15. _____ is the general upward movement of prices from year to year.

Title: ANSWER: gross domestic product (GDP) REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

16. The _____ is the total monetary value of all goods and services produced within a nation annually.

Title: ANSWER: Monetary REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

17. _____ policy refers to a government's program for controlling the amount of money in circulation.

Title: ANSWER: Federal Reserve System (the Fed) REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

18. The _____ is the central banking system in the United States that controls our monetary policy.

Title: ANSWER: Fiscal REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5

19. _____ policy refers to a government's program of taxation and spending.

Title: ANSWER: demand REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

20. The _____ curve slopes downward and to the right.

Title: ANSWER: equilibrium REFERENCE: Microeconomics: Zeroing on Business and Consumers LEARNING OUTCOME: 6

21. The point at which quantity demanded equals quantity supplied is called the point of _____.

Title: ANSWER: pure monopoly REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

22. A(n) _____ is a market structure in which a single firm accounts for all industry sales and in which there are barriers to entry.

Title: ANSWER: monopolistic competition REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7

23. In a _____ market structure, many firms are in the market, the firms in the market sell similar but not identical products, and the market is relatively easy to enter.

Title: ANSWER: strategic alliance (strategic partnership) REFERENCE: Trends in Economics and Competition LEARNING OUTCOME: 8

24. A(n) _____ is a cooperative agreement between business firms.

SHORT ANSWER QUESTIONS

Title: ANSWER: Goods are tangible. Services are intangible. REFERENCE: The Nature of Business LEARNING OUTCOME: 1

1. What is the primary difference between goods and services?

Title: ANSWER: The same method is used for measuring the standard of living in all countries. It is measured by the output of goods and services that people can buy with the money they have. REFERENCE: The Nature of Business LEARNING OUTCOME: 1

2. How is the standard of living for a country like Panama measured?

Title: ANSWER: quality of life REFERENCE: The Nature of Business LEARNING OUTCOME: 1

3. What exactly is a researcher studying who looks at people's general level of human happiness based on such things as life expectancies, educational standards, health, sanitation, and leisure time?

Title: ANSWER: \$35 REFERENCE: The Nature of Business LEARNING OUTCOME: 1

4. The craftsperson was paid \$135 for the ornate birdhouse she made. Her costs for producing the birdhouse were \$100. What is her profit?

Title: ANSWER: natural resources, labor, capital, and entrepreneurship REFERENCE: The Nature of Business LEARNING OUTCOME: 1

5. List the four traditional factors of production.

Title: ANSWER: the private enterprise system REFERENCE: How Businesses and Economic Systems Work LEARNING OUTCOME: 3

6. What is another name for capitalism?

Title: ANSWER: communism REFERENCE: How Businesses and Economic Systems Work LEARNING OUTCOME: 3

7. What kind of an economic system is characterized by government ownership of virtually all resources and economic decision making by central-government planning?

Title: ANSWER: mixed economy REFERENCE: How Businesses and Economic Systems Work LEARNING OUTCOME: 3

8. What kind of economic system exists in the United States?

Title: ANSWER: frictional, structural, cyclical, and seasonal REFERENCE: Macroeconomics: The Big Picture LEARNING OUTCOME: 4

9. List the four types of unemployment.

Title: ANSWER: demand-pull and cost-push REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

10. List the two types of inflation.

Title: ANSWER: the Department of Labor REFERENCE: Keeping Prices Steady LEARNING OUTCOME: 4

11. Which federal government department is responsible for publishing the consumer price index (CPI)?

Title: ANSWER: the Federal Reserve System (the Fed) REFERENCE: Achieving Macroeconomic Goals
LEARNING OUTCOME: 5

12. Which government agency controls how much money is in circulation at any given time?

Title: ANSWER: taxes REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5
13. What is the major source of revenue for the United States?

Title: ANSWER: crowding out REFERENCE: Achieving Macroeconomic Goals LEARNING OUTCOME: 5
14. What is the term used to describe what is happening when the government spends more on public transportation, and as a result, individuals spend less on private transportation?

Title: ANSWER: the equilibrium point REFERENCE: Microeconomics: Zeroing in on Business and Consumers
LEARNING OUTCOME: 6
15. What is the term used to describe the point at which customers' demands for a product equals the amount made available by the producer?

Title: ANSWER: pure monopoly, perfect/pure competition, monopolistic competition, and oligopoly
REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7
16. List the four types of market structures.

Title: ANSWER: perfect or pure competition REFERENCE: Competing in a Free Market LEARNING
OUTCOME: 7
17. Which market structure is an ideal and does not really exist?

Title: ANSWER: oligopoly REFERENCE: Competing in a Free Market LEARNING OUTCOME: 7
18. There are only very few national cereal manufacturers. The equipment to manufacture cereal is expensive and available shelf space in supermarkets limits the number of producers. In which market structure do cereal manufacturers operate?

Title: ANSWER: relationship management REFERENCE: Trends in Economics and Competition LEARNING
OUTCOME: 8
19. What kind of interaction is a pet groomer using when it sends birthday cards to the pets she cares for?

Title: ANSWER: strategic partnership REFERENCE: Trends in Economics and Competition LEARNING
OUTCOME: 8
20. What is another name for a strategic alliance?