

Chapter 01

The Dynamics of Business and Economics

True / False Questions

1. Businesses have the right to keep and use their profits as they choose, without limitations.

True False

2. Finance refers to all activities concerned with obtaining money and using it effectively.

True False

3. Owners have little responsibility to provide funds for the operation of the business.

True False

4. All economic systems must address three important issues, one of which is how the goods and services will be produced.

True False

5. The equilibrium price is represented by the point where a product's supply and demand curves intersect.

True False

6. While ethical behavior can enhance a company's reputation, it often has a negative effect on the company's financial performance.

True False

Multiple Choice Questions

7. _____ is the primary goal of business.

- A. Charity
- B. Profit
- C. Bureaucracy
- D. Quality
- E. Strategy

8. The outcomes of a business's efforts are

- A. benefits.
- B. profits.
- C. products.
- D. services.
- E. tangible goods.

9. Businesses differ from nonprofit organizations in that a business's focus is on

- A. profit.
- B. goods.
- C. price.
- D. charity.
- E. fund raising.

10. Which of the following is an example of an intangible product?

- A. a movie DVD
- B. a sandwich
- C. a sports car
- D. a music concert
- E. jewelry

11. Sue hired an attorney to help her draft a purchase and sale agreement for her new home. The home is an example of a product that is a(n)
- A. idea.
 - B. service.
 - C. tangible item.
 - D. process.
 - E. free service.
12. Which of the following is an example of a tangible product?
- A. an automobile
 - B. a movie
 - C. a theater play
 - D. a music concert
 - E. a business conference
13. Which of the following statements is true about businesses and profits?
- A. Profit making is a business activity that seldom requires risk taking.
 - B. Businesses do not have the right to use their profits the way they choose.
 - C. Profit-making businesses often weaken the economy of a country.
 - D. Earning profits contributes to society by creating resources that support social institutions and government.
 - E. Ignoring the interests of stakeholders is the best way for a business to be profitable.
14. All of the following are true of nonprofit organizations EXCEPT they
- A. may provide goods and services.
 - B. may engage in fund raising.
 - C. support businesses through donations from employees.
 - D. utilize skills related to management, marketing, and finance.
 - E. include charities and social causes.

15. All the groups that have an interest in an organization's success and outcomes are known as the organization's
- A. agencies.
 - B. stakeholders.
 - C. owners.
 - D. investors.
 - E. shareholders.
16. Auto Depot is working to find a way to produce the SUVs and trucks its customers want while meeting environmental requirements. This is an effort to please multiple
- A. shareholders.
 - B. clients.
 - C. stakeholders.
 - D. businesses.
 - E. priorities.
17. All of the following are people and forces beyond an organization's control that have an impact on the business's daily operations EXCEPT
- A. employees.
 - B. regulatory forces.
 - C. competition.
 - D. the political environment.
 - E. technology.
18. Among the major activities of business, which of the following is an element of management?
- A. marketing activities
 - B. product research
 - C. personal selling
 - D. promoting sales
 - E. acquiring resources

19. Mary is the owner of a small business. She has an HR person, an operations manager, a marketing manager, and a sales manager on staff. Who is responsible for the financial decisions that arise in the course of business?
- A. the HR person
 - B. the operations manager
 - C. the sales manager
 - D. the marketing manager
 - E. Mary
20. Which of the following is true of the responsibilities of the people involved in a business?
- A. The finance department is concerned with acquiring, developing, and using human resources effectively and efficiently.
 - B. The marketing team handles all activities concerned with obtaining money for the firm and using it effectively.
 - C. The managers of nonprofit organizations conduct all kinds of business operations except collecting funds.
 - D. The senior management is not involved in the day-to-day functions of production and manufacturing.
 - E. The primary responsibility of providing financial resources for the operation of the business lies with the business owners.
21. _____ is an element of the management activity in a business.
- A. Operations
 - B. Advertising
 - C. Sales promotion
 - D. Personal selling
 - E. Publicity
22. Paral has responsibility for the functions of organizing, staffing, planning, and controlling activities in a large company. These functions are most closely associated with
- A. managers.
 - B. assembly line workers.
 - C. investment advisors.
 - D. stockbrokers.
 - E. direct sales executives.

23. Karen, the manager of a new pet grooming company, makes sure her grooming salon always has plentiful treats and toys for the animals as well as beverages and snacks for their owners to ensure a quality customer service experience. This is an example of the _____ element of management.

- A. service
- B. leadership
- C. decision making
- D. motivational
- E. operations

24. _____ gather information and conduct research to determine what customers want. They also plan and develop products and make decisions about how much to charge for their products and when and where to make them available.

- A. Accountants
- B. Engineers
- C. Marketers
- D. Supervisors
- E. Stockbrokers

25. Which of the following can be grouped under a single segment among the various elements of business activity?

- A. marketing and finance
- B. management and end-users
- C. organization and customers
- D. marketing and consumers
- E. management and regulatory forces

26. Advertising, personal selling, coupons, and sweepstakes are forms of the _____ aspect of marketing activities.
- A. product
 - B. promotion
 - C. distribution
 - D. price
 - E. place
27. Games Galore has a new video game that it hopes will increase its sales. It is offering coupons and a sweepstake to get people to buy the game. These are all examples of
- A. sales promotion.
 - B. publicity.
 - C. advertising.
 - D. personal selling.
 - E. direct retail.
28. Which of the following is NOT true of the marketing mix?
- A. Product management involves product adoption or deletion, branding, and product positioning.
 - B. Product management involves making sure products are available in the right place at the right time.
 - C. It is essential to select the right price for the product.
 - D. Distribution involves making sure products are available in the right place at the right time.
 - E. Marketers use promotion to increase sales.
29. When a business fails or does not make a profit, _____ have the most to lose in terms of finances.
- A. consumers
 - B. media agencies
 - C. government bodies
 - D. owners
 - E. market experts

30. David is an accountant for a small company. As such, he participates primarily in _____ activities.
- A. management
 - B. financial
 - C. operations
 - D. marketing
 - E. advertising
31. _____ is the study of how resources are distributed for the production of goods and services within a social system.
- A. Public relations
 - B. Sociology
 - C. Demographics
 - D. Psychographics
 - E. Economics
32. A firm's _____ resources are also known as labor.
- A. economic
 - B. human
 - C. intangible
 - D. financial
 - E. natural
33. _____ are the funds used to acquire the natural and human resources needed to provide products.
- A. Skills
 - B. Exchanges
 - C. Capital resources
 - D. Labor charges
 - E. Barter charges

34. Which of the following is a factor of production for a firm?

- A. advertising media
- B. legal consultants
- C. customers
- D. natural resources
- E. company reputation

35. Which of the following is a natural resource?

- A. minerals
- B. people
- C. capital
- D. money
- E. labor

36. Which of the following is an intangible resource?

- A. physical and mental abilities of people
- B. forests and minerals
- C. economic capital
- D. financial assets
- E. company reputation

37. A(n) _____ describes how a particular society distributes its resources to produce goods and services.

- A. labor system
- B. economic system
- C. political ideology
- D. legal framework
- E. judicial scheme

38. Joachim lives and works in a communist country. Which of the following statements is true about a communist economy?
- A. It is characterized by the people (through the government) owning and operating all businesses.
 - B. It relies on supply and demand to make decisions about pricing and production of goods.
 - C. It encourages private ownership of the means of production.
 - D. It encourages free market and competition.
 - E. It provides scope for the production of a large variety of goods and services.
39. Which of the following is considered a command economy?
- A. capitalism
 - B. libertinism
 - C. private enterprise
 - D. communism
 - E. laissez-faire market
40. Which of the following is a characteristic of communist economies in reality?
- A. critical shortages of consumer goods
 - B. high standards of living
 - C. low prices
 - D. excessive freedom
 - E. absence of corruption
41. Which of the following has become the first communist country to make strong economic gains by adopting capitalist approaches to business?
- A. Singapore
 - B. India
 - C. Thailand
 - D. China
 - E. Japan

42. How are profits handled in communist systems?

- A. Profits earned by small businesses may be reinvested in the business.
- B. Individuals are free to keep profits after paying taxes.
- C. Businesses are free to keep profits after paying taxes.
- D. Excess income goes to the government.
- E. Only profits from government-owned industries go to the government.

43. Which of the following is true of product availability in a communist system?

- A. Consumers have a wide choice of goods but not services.
- B. Consumers have a wide choice of services but not goods.
- C. Consumers have a limited choice of goods and services.
- D. Consumers have a limited choice of services but not goods.
- E. Consumers have a wide choice of services and goods.

44. In which of the following economic systems do most people work for government-owned industries or farms?

- A. capitalist
- B. communist
- C. socialist
- D. libertarian
- E. neo-realist

45. In a socialist economy,

- A. the government owns all businesses, large and small.
- B. everyone works for government organizations.
- C. competition is restricted in major industries.
- D. consumers have a wide choice of goods and services.
- E. demand and supply have no role to play in the pricing of products and services.

46. _____ is an economic system in which the government owns and operates basic industries.

- A. Collectivism
- B. Capitalism
- C. Socialism
- D. Egalitarianism
- E. Utilitarianism

47. Which of the following is a true statement about a socialist system of economy?

- A. Individuals own and operate the majority of businesses that provide goods and services.
- B. Central planning determines what basic goods and services are produced.
- C. Competition, supply, and demand determine which goods and services are produced and how they are produced.
- D. All economic decisions are made without government intervention.
- E. Consumers have a wide choice of goods and services.

48. In the country of Thelisia, income and social services are distributed equally among its citizens, however, they must pay high taxes and they experience high levels of unemployment. Thelisia is an example of a(n) _____ nation.

- A. communist
- B. socialist
- C. capitalist
- D. supply and demand
- E. entrepreneurial

49. In a free-market system,

- A. laissez-faire capitalism is absent.
- B. government regulates business.
- C. modified capitalism is the norm.
- D. all economic decisions are made without government intervention.
- E. central government planning determines what goods and services satisfy citizens' needs.

50. In a capitalist economic system

- A. the government owns and operates all businesses.
- B. there is little scope for competition.
- C. consumers have a limited choice of goods and services.
- D. the majority of people possess government jobs.
- E. prices of goods and services are determined by demand and supply.

51. _____ is often called the father of capitalism.

- A. Karl Marx
- B. George Washington
- C. Benjamin Franklin
- D. Alan Greenspan
- E. Adam Smith

52. How does modified capitalism differ from pure capitalism?

- A. The government intervenes and regulates all business.
- B. The government doesn't intervene or regulate business at all.
- C. The government intervenes and regulates business to some extent.
- D. The government intervenes and regulates basic industries only.
- E. The government relies on individuals to regulate all aspects of business, including passing laws.

53. During a recent recession, the government of Ingrid provided loans and took ownership positions in its main bank, Savings Co. What economic system does this exemplify?

- A. modified capitalism
- B. pure capitalism
- C. laissez-faire capitalism
- D. communism
- E. socialism

54. Egalitarianism refers to the

- A. exemption of taxes for successful businesses.
- B. restrictions on taking up non-government jobs.
- C. equal distribution of income and social services.
- D. concept of the rich getting richer and the poor getting poorer.
- E. restriction of competition in small businesses by government regulations.

55. Which of the following countries is an example of an economic system based on capitalism?

- A. Russia
- B. Sweden
- C. Japan
- D. India
- E. Israel

56. All of the following are examples of mixed economies EXCEPT

- A. in socialist France, the French government owns the postal service industry.
- B. in socialist Sweden, most businesses are owned and operated by private individuals.
- C. in capitalist United States, an independent federal agency operates the postal service.
- D. in once-communist Russia, private ownership of businesses has been implemented.
- E. in communist China, state capitalism is used to advance the economy.

57. Gary is a real estate entrepreneur in a country that promotes the individual right to own property, earn profits, make decisions about business operations, and choose productivity systems. Which of the following systems best describes Gary's business environment?

- A. mixed economy
- B. free market
- C. capitalist
- D. free enterprise
- E. socialist

58. _____ relates to the number of goods and services that consumers are willing to buy at different prices at a specific time.

- A. Demand
- B. Supply
- C. Elasticity
- D. Balance of payments
- E. Deficit

59. _____ is the price at which the number of products that businesses are willing to supply equals the number of products consumers are willing to purchase at a point in time.

- A. Bundled price
- B. Equilibrium price
- C. Discount price
- D. Competitive price
- E. Maximum retail price

60. _____ is the number of products that businesses are willing to sell at different prices at a specific time.

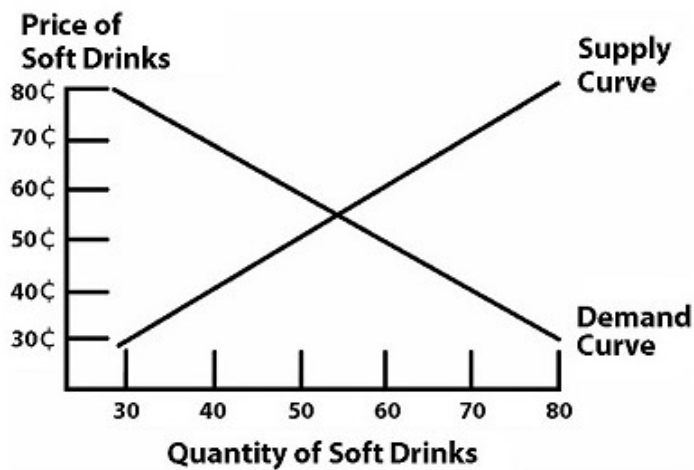
- A. Equilibrium
- B. Distribution
- C. Cost pricing
- D. Demand
- E. Supply

61. Generally, when a retailer announces a discount sale on all its products

- A. consumers will not demand more than usual.
- B. the store will not supply more products than it normally does.
- C. consumers will demand more products.
- D. the manufacturer will halt production.
- E. consumers will demand fewer products than usual.

62. If you are a member of a wholesale club, like BJ's or Sam's Club, you tend to buy items like toilet paper and groceries in bulk to save money. This is an element of
- A. demand.
 - B. supply.
 - C. equilibrium.
 - D. pricing.
 - E. free enterprise.
63. Which of the following statements describes the force that drives the distribution of resources (goods and services, labor, and money) in a free-enterprise economy?
- A. Prices for goods and services vary according to the changes in supply and demand.
 - B. Supply and demand curves intersect at the point where supply and demand are not equal.
 - C. Changing the price of a product does not alter the supply curve.
 - D. The price at which the number of products that businesses are willing to supply is inversely proportional to the amount of products that consumers are willing to buy at a specific point in time.
 - E. Businesses are willing to supply more of a good or service at higher prices because the potential for profits is higher.
64. Which of the following markets is most likely to be a monopoly?
- A. agricultural commodities
 - B. lifestyle gadgets
 - C. airlines
 - D. electricity supply
 - E. sports utility vehicles

65. Using the supply and demand curves shown in the graph that follows, what is the equilibrium price for soft drinks?



- A. 35 cents
B. 45 cents
C. 50 cents
D. 55 cents
E. 75 cents
66. According to Adam Smith, competition
- A. mitigates growth.
B. fosters efficiency.
C. prevents low prices.
D. increases demand.
E. increases prices.
67. Steve is an entrepreneur who decided to start an online bakery. Since all his business will be done online and he can bake in his home kitchen, he is saving building and other brick-and-mortar costs, which allows him to pass that savings on to his customers. Reducing prices to customers is an element of
- A. supply.
B. demand.
C. competition.
D. equilibrium pricing.
E. resource distribution.

68. When different businesses promote similar products that differ in some characteristics but satisfy the same consumer need, the competitive environment is most likely to be

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

69. _____ is an example of a product of monopolistic competition.

- A. Cotton
- B. Wheat
- C. Aspirin
- D. Electricity
- E. Airline fares

70. Kevin owns a local farm stand. Although he sells fruit and vegetables, like the grocery store chains in the area, he has some power over the price he charges because he can offer consumers features they want. For instance, his fruit and vegetables are organic and locally grown. This is an example of

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

71. Which of the following exists when there are many small businesses selling one standardized product, such as agricultural commodities like wheat, corn, and cotton?

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

72. The market for corn in Brazil has a large number of sellers and buyers, and there is no difference in the products sold by each seller. As a result, prices are determined by the
- A. businesses that sell the corn.
 - B. consumers that buy the corn.
 - C. forces of supply and demand.
 - D. government.
 - E. agricultural industry.
73. When there is only one business providing a product in a given market, there exists
- A. an oligopoly.
 - B. modified competition.
 - C. pure competition.
 - D. monopolistic competition.
 - E. a monopoly.
74. In which of the following market structures do individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace?
- A. monopsony
 - B. monopoly
 - C. oligopoly
 - D. government-granted monopoly
 - E. coercive gambling
75. Which of the following is true regarding an oligopoly?
- A. Prices charged by different firms stay fairly close because a price cut or increase by one company will trigger a similar response from another company.
 - B. The prices charged by different firms vary widely, since each firm can charge whatever it wants.
 - C. In oligopolies, it is inexpensive for new firms to enter the marketplace.
 - D. Prices never change because the government has set the products' price.
 - E. Since there are very few businesses selling the product, there is no need to ever change the price.

76. Following a bad harvest, the prices of agricultural commodities in Urbania have increased dramatically, as have the prices of products manufactured from agricultural commodities. Government intervention has failed to arrest the rising prices. Based on this information, Urbania is undergoing
- A. deflation.
 - B. stagflation.
 - C. contraction.
 - D. depression.
 - E. inflation.
77. Economic expansion occurs when
- A. fewer goods and services are produced than consumer demand.
 - B. an economy is growing and people are spending more money.
 - C. a nation's standard of living drops dramatically.
 - D. employment levels decline over time.
 - E. prices begin to rise and incomes begin to fall.
78. Rachel is living on a fixed income since her retirement. She is worried that the economy is expanding too rapidly, which could result in
- A. inflation.
 - B. depression.
 - C. a recession.
 - D. economic contraction.
 - E. deflation.
79. Which of the following is true of economic expansion?
- A. There is a decline in production, employment, and income.
 - B. The standard of living rises because more people are employed and have money to spend.
 - C. There is a decline in spending.
 - D. Consumer spending is low and business output is sharply reduced.
 - E. The prices stagnate during this period.

80. Which of the following is a characteristic of economic depression?

- A. Unemployment levels are low or almost absent.
- B. Consumer spending is high.
- C. Individuals' incomes increase at the same pace as rising prices.
- D. Buying power of consumers is quadrupled.
- E. Business output is sharply reduced.

81. Which of the following is associated with a decline in spending?

- A. inflation
- B. economic contraction
- C. economic expansion
- D. employment boom
- E. job expansion

82. Contractions of the economy lead to

- A. inflation.
- B. recession.
- C. rising levels of employment.
- D. an increase in production.
- E. an increase in income.

83. Increased unemployment can reduce consumer demand for goods and services, leading to

- A. economic expansion.
- B. inflation.
- C. deflation.
- D. budget surplus.
- E. recovery.

84. The country of Maryland experienced a rapid expansion of its economy, which resulted in prices doubling every 12 hours. This is an example of
- A. recession.
 - B. hyperinflation.
 - C. deflation.
 - D. depression.
 - E. stimulus.
85. Which of the following statements is true about GDP as a measure of a country's economic health?
- A. It does not include the services produced in a country.
 - B. It measures only those goods and services made within a country.
 - C. It includes profits from companies' overseas operations.
 - D. It does not include profits earned by foreign companies within the country being measured.
 - E. It essentially takes into account the concept of GDP in relation to population.
86. The United States has a budget deficit of over \$18 trillion dollars. A budget deficit occurs when a nation
- A. reduces its expenditures.
 - B. receives excess taxes.
 - C. has no national debts.
 - D. spends more than it takes in from taxes.
 - E. balances taxes and expenditures.
87. If a country balances the money it spends for social, defense, and other programs with the amount of money it takes in from taxes, this country is eliminating a
- A. budget deficit.
 - B. national debt.
 - C. budget surplus.
 - D. trade imbalance.
 - E. recession.

88. _____ measures changes in the prices of goods and services purchased for consumption by typical urban households.
- A. GDP
 - B. Per capita income
 - C. Worker productivity
 - D. Trade balance
 - E. Consumer price index
89. _____ indicates the income level of "average" Americans. It is useful in determining how much "average" consumers spend and how much money Americans are earning.
- A. Per capita income
 - B. GDP
 - C. Budget deficit
 - D. Consumer price index
 - E. Worker productivity
90. All of the following statements are true of the U.S. national debt EXCEPT
- A. massive government stimulus spending during the most recent recession increased the national debt.
 - B. it is difficult to increase taxes and reduce the deficit because Americans don't want their taxes increased and Congress has difficulty agreeing on appropriate tax rates.
 - C. in 2015, the national debt exceeded \$19 trillion.
 - D. in 2015, the national debt reached a new low.
 - E. to reduce the debt, the government has to increase its revenues or reduce spending on social, defense, and legal programs.
91. In Norway, most citizens are able to afford basic necessities and some degree of comfort. This means Norway has a(n)
- A. high standard of living.
 - B. low standard of living.
 - C. high cost of living.
 - D. low GDP per capita.
 - E. average standard of living.

92. Which of the following is true of an open economy, like that of the United States?
- A. Open economies tend to grow very slowly.
 - B. Open economies do not engage in international trade.
 - C. Open economies tend to lack efficiency and productivity.
 - D. Open economies are major players in international trade and tend to grow fast.
 - E. Open economies lack access to technology.
93. Joe is a consumer who earns less than \$50,000 per year. Joe exemplifies the
- A. group that pays an average tax rate of 25.6 percent.
 - B. group that pays 48.9 percent of individual income taxes.
 - C. minority of individual tax returns filed.
 - D. group that pays 5 percent of total taxes.
 - E. majority of individual tax returns filed.
94. To reduce its tax rates, Mootown Burgers moved its headquarters to a country with a lower tax rate. This is an example of tax
- A. inversion.
 - B. evasion.
 - C. revision.
 - D. avoidance.
 - E. alteration.
95. Before the Industrial Revolution, the economy of North America under the colonists was characterized by
- A. hunting and gathering instead of agriculture.
 - B. the export of manufactured goods to England.
 - C. a scarcity of natural resources.
 - D. dependence on England for everyday goods.
 - E. the domestic system of manufacturing goods.

96. Which of the following is a change that occurred in the United States during the Industrial Revolution?

- A. Farm production decreased as industrial production increased.
- B. As work became more localized, productivity decreased.
- C. Trade within the country decreased as regions became self-sufficient.
- D. Farmers began to move to cities to find jobs in factories.
- E. Fewer goods were available, and prices of goods increased.

97. Who set up the first American textile factory after he memorized the plans for an English factory and emigrated to the United States?

- A. Eli Whitney
- B. Francis Cabot Lowell
- C. Henry Ford
- D. Nick Woodman
- E. Samuel Slater

98. In the history of the American economy, the period following the Industrial Revolution was known for an increasing emphasis on

- A. services.
- B. artisanship.
- C. manufacturing.
- D. agriculture.
- E. information.

99. When the assembly line was applied to more industries, America entered the

- A. marketing economy.
- B. agrarian economy.
- C. indigenous manufacturing economy.
- D. production economy.
- E. service economy.

100 Which of the following is a characteristic of the marketing economy phase of the American economy?

- A. People were self-sufficient and produced everything they needed at home, including food, clothing, and furniture.
- B. People found natural resources such as coal and iron ore and used them to produce goods such as horseshoes.
- C. Farm families who produced surplus goods sold or traded them for things they could not produce themselves.
- D. Expensive goods such as cars and appliances could be purchased on a time-payment plan.
- E. Factories began to spring up along the railways to manufacture farm equipment and a variety of other goods to be shipped by rail.

101 Which of the following is a characteristic of a service economy?

- A. It is concerned with the indigenous production of food, clothing, and furniture.
- B. It is devoted to producing services that make life easier for busy consumers.
- C. It is devoted to producing goods and services rather than producing agricultural products.
- D. It is significant for the development of factories along the railways to manufacture farm equipment.
- E. It is particularly important for enabling farmers to send their surplus crops and goods all over the nation for barter or for sale.

102 An entrepreneur has been primarily associated with the willingness to

- A. change employers frequently.
- B. work under authority.
- C. be conservative.
- D. possess a government job.
- E. take risks.

103 The American economic system is best described as _____ because the government regulates business to preserve competition and protect consumers and employees.

- A. socialism
- B. laissez-faire capitalism
- C. modified capitalism
- D. communism
- E. Marxism

. All of the following are true of entrepreneurs EXCEPT

- A. in the past, entrepreneurs were inventors who brought all the factors of production together to produce a new product.
- B. many of the companies started by early entrepreneurs have failed to stay in operation.
- C. some entrepreneurs invested in the country's growth.
- D. many of the companies started by early entrepreneurs still operate today.
- E. entrepreneurs constantly change American business practices with new technology and innovative management techniques.

105 Which of the following emerged in the United States as a result of industrialization?

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- A. government ownership of business
- B. price regulation by planning commissions
- C. low standard of living
- D. increase in the number of farmers
- E. increase in the variety of goods available

106 Which of the following is true of ethics and social responsibility in business?

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- A. Ethical conduct and corporate social responsibility are linked to increased profits.
- B. Businesses do not need to consider social values in the contemporary scenario.
- C. Investors and retired employees remain unaffected in case of scandals.
- D. Businesses' reputations depend solely on their profits.
- E. Business misconduct is likely to be widely excused if it enhances firms' profits.

107 Several employees in a well-known corporation, CarCorp, were arrested for intentionally selling defective car parts to their customers. Scandals like this

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- A. do not affect public confidence in corporations.
- B. undermine public confidence in corporations.
- C. cause society to boycott corporations.
- D. have a positive effect on retired employees.
- E. resolve the debate about ethics in business.

108 All of the following are true of workplace diversity EXCEPT it

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- A. increases employee satisfaction.
- B. decreases the financial performance of companies.
- C. improves decision making.
- D. is highly beneficial to the financial performance of companies.
- E. must be balanced to support and protect various stakeholders.

109 Which of the following is done by the American government to counteract economic contraction?

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- A. It may reduce interest rates.
- B. It decreases its own spending for goods and services.
- C. It raises the reserve rate of banks.
- D. It decreases the money supply.
- E. It sells securities through the Federal Reserve Board.

110 Which of the following is useful in fighting inflation?

.

- A. raising interest rates
- B. lowering the reserve rate of funds banks must hold in reserve
- C. increasing the money supply
- D. decreasing the interest rate on loans to member banks
- E. buying security

Essay Questions

111

- . What are nonprofit organizations? Differentiate between nonprofit organizations and businesses.

112

- . Name at least 3 benefits of studying business.

113

- . Differentiate between communist, socialist, and capitalist economic systems.

114

- . How is gross domestic product (GDP) used as a measure of a nation's economic health?

115

- . Describe the pre-industrial economic phase of the United States.

116 Describe the role of ethics and social responsibility in business.

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Chapter 01 The Dynamics of Business and Economics **Answer Key**

True / False Questions

1. Businesses have the right to keep and use their profits as they choose, without limitations.

FALSE

Within legal limitations, businesses have the right to keep and use their profits as they choose.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy*

*Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business*

2. Finance refers to all activities concerned with obtaining money and using it effectively.

TRUE

Finance refers to all activities concerned with obtaining money and using it effectively.
Financial resources must be managed effectively if the business aims to succeed.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy*

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

Topic: Definition of Business

3. Owners have little responsibility to provide funds for the operation of the business.

FALSE

The primary responsibility of the owners is to provide financial resources for the operation of the business.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember*

Difficulty: 1 Easy

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

Topic: Definition of Business

4. All economic systems must address three important issues, one of which is how the goods and services will be produced.

TRUE

All economic systems must address what goods and services will satisfy consumers' needs, how the goods and services will be produced, and how the goods and services will be distributed to consumers.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.

Topic: Economics and the Types of Economic Systems

5. The equilibrium price is represented by the point where a product's supply and demand curves intersect.

TRUE

The price at which the number of products that businesses are willing to supply is equal to the amount of products that consumers are willing to buy at a specific point in time is the equilibrium price.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.

Topic: Key Economic Indicators and How they Affect Business

6. While ethical behavior can enhance a company's reputation, it often has a negative effect on the company's financial performance.

FALSE

Research has shown that ethical behavior can not only enhance a company's reputation but can also drive profits.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Remember

Difficulty: 1 Easy

Multiple Choice Questions

7. _____ is the primary goal of business.

- A. Charity
- B. Profit**
- C. Bureaucracy
- D. Quality
- E. Strategy

The primary goal of all businesses is to earn a profit, the difference between what it costs to make and sell a product and what a customer pays for it.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy*

*Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business*

8. The outcomes of a business's efforts are

- A. benefits.
- B. profits.
- C. products.**
- D. services.
- E. tangible goods.

The outcomes of a business's efforts are products that have both tangible and intangible characteristics that provide satisfaction and benefits.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy*

*Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business*

9. Businesses differ from nonprofit organizations in that a business's focus is on

- A.** profit.
- B. goods.
- C. price.
- D. charity.
- E. fund raising.

Businesses strive to earn profits; nonprofit organizations do not. Nonprofit organizations do not have the fundamental purpose of earning profits, although they may provide goods or services and engage in fundraising.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business

10. Which of the following is an example of an intangible product?

- A. a movie DVD
- B. a sandwich
- C. a sports car
- D.** a music concert
- E. jewelry

Most people associate the word *product* with tangible goods. However, a product can also be a service, which occurs when people or machines provide or process something of value to customers. Some examples of services include dry cleaning, a checkup by a doctor, and a movie or sports event.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 1 Easy

Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business

11. Sue hired an attorney to help her draft a purchase and sale agreement for her new home. The home is an example of a product that is a(n)

A. idea.
B. service.
C. tangible item.
D. process.
E. free service.
A home is a tangible product.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business

12. Which of the following is an example of a tangible product?

A. an automobile
B. a movie
C. a theater play
D. a music concert
E. a business conference

A product can be a tangible good, a service of value to a customer, or even an idea. Most people associate the word product with tangible goods—an automobile, computer, phone, coat, or some other tangible item.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 1 Easy
Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business

13. Which of the following statements is true about businesses and profits?

- A. Profit making is a business activity that seldom requires risk taking.
 - B. Businesses do not have the right to use their profits the way they choose.
 - C. Profit-making businesses often weaken the economy of a country.
 - D. Earning profits contributes to society by creating resources that support social institutions and government.**
 - E. Ignoring the interests of stakeholders is the best way for a business to be profitable.
- Earning profits contributes to society by creating resources that support our social institutions and government. Businesses that create profits, pay taxes, and create jobs are the foundation of our economy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business

14. All of the following are true of nonprofit organizations EXCEPT they

- A. may provide goods and services.
- B. may engage in fund raising.
- C. support businesses through donations from employees.**
- D. utilize skills related to management, marketing, and finance.
- E. include charities and social causes.

Nonprofit organizations may provide goods or services and engage in fund raising. They also utilize skills related to management, marketing, and finance. Some examples of nonprofit organizations are National Public Radio, Habitat for Humanity, and other charities and social causes. Profits earned by businesses support nonprofit organizations through donations from employees.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business

15. All the groups that have an interest in an organization's success and outcomes are known as the organization's

- A. agencies.
- B. stakeholders.**
- C. owners.
- D. investors.
- E. shareholders.

Groups that have a stake in the success and outcomes of a business are called stakeholders.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business

16. Auto Depot is working to find a way to produce the SUVs and trucks its customers want while meeting environmental requirements. This is an effort to please multiple

- A. shareholders.
- B. clients.
- C. stakeholders.**
- D. businesses.
- E. priorities.

This is an example of a company that is trying to please multiple stakeholders. New fuel requirements are forcing automakers to invest in smaller, lightweight cars. During times of low fuel prices, consumers tend to prefer bigger SUVs and trucks, putting more of a strain on automakers to meet environmental requirements as well as consumer demands.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 01-01 Define basic concepts such as business, product, and profit.
Topic: Definition of Business

17. All of the following are people and forces beyond an organization's control that have an impact on the business's daily operations EXCEPT

- A. employees.
- B. regulatory forces.
- C. competition.
- D. the political environment.
- E. technology.

People and forces beyond an organization's control—such as legal and regulatory forces, the economy, competition, technology, the political environment, and ethical and social concerns—all have an impact on the daily operations of businesses.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.
Topic: Definition of Business

18. Among the major activities of business, which of the following is an element of management?

- A. marketing activities
- B. product research
- C. personal selling
- D. promoting sales
- E. acquiring resources

Management is concerned with acquiring, developing, and using resources (including people) effectively and efficiently. It also involves coordinating employees' actions to achieve the firm's goals, organizing people to work efficiently, and motivating them to achieve the business's goals.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.
Topic: Definition of Business

19. Mary is the owner of a small business. She has an HR person, an operations manager, a marketing manager, and a sales manager on staff. Who is responsible for the financial decisions that arise in the course of business?

- A. the HR person
- B. the operations manager
- C. the sales manager
- D. the marketing manager

E. Mary

The owner of a company has the ultimate responsibility for all financial issues.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Apply

Difficulty: 2 Medium

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

Topic: Definition of Business

Topic: The Advantages and Disadvantages of Small Business Ownership

20. Which of the following is true of the responsibilities of the people involved in a business?

- A. The finance department is concerned with acquiring, developing, and using human resources effectively and efficiently.
- B. The marketing team handles all activities concerned with obtaining money for the firm and using it effectively.
- C. The managers of nonprofit organizations conduct all kinds of business operations except collecting funds.
- D. The senior management is not involved in the day-to-day functions of production and manufacturing.
- E. The primary responsibility of providing financial resources for the operation of the business lies with the business owners.**

Although management and marketing have to deal with financial considerations, it is the primary responsibility of the owners to provide financial resources for the operation of the business.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

Topic: Definition of Business

21. _____ is an element of the management activity in a business.

- A.** Operations
- B. Advertising
- C. Sales promotion
- D. Personal selling
- E. Publicity

Operations is another element of management. Managers must oversee the firm's operations to ensure that resources are successfully transformed into goods and services.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.
Topic: Definition of Business

22. Paral has responsibility for the functions of organizing, staffing, planning, and controlling activities in a large company. These functions are most closely associated with

- A.** managers.
- B. assembly line workers.
- C. investment advisors.
- D. stockbrokers.
- E. direct sales executives.

Managers plan, organize, staff, and control the tasks required to carry out the work of the company or nonprofit organization.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.
Topic: Functions of Management

23. Karen, the manager of a new pet grooming company, makes sure her grooming salon always has plentiful treats and toys for the animals as well as beverages and snacks for their owners to ensure a quality customer service experience. This is an example of the _____ element of management.

- A. service
- B. leadership
- C. decision making
- D. motivational
- E. operations**

This is an example of the operations element of management. Managers are concerned with transforming resources such as employee actions and amenities into a quality customer service experience.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.
Topic: Functions of Management

24. _____ gather information and conduct research to determine what customers want. They also plan and develop products and make decisions about how much to charge for their products and when and where to make them available.

- A. Accountants
- B. Engineers
- C. Marketers**
- D. Supervisors
- E. Stockbrokers

Marketing includes all the activities designed to provide goods and services that satisfy customers' needs and wants. Marketers gather information and conduct research to determine what customers want. They also plan and develop products and make decisions about how much to charge for their products and when and where to make them available.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

25. Which of the following can be grouped under a single segment among the various elements of business activity?

- A. marketing and finance
- B. management and end-users
- C. organization and customers
- D. marketing and consumers**
- E. management and regulatory forces

Marketing and consumers are in the same segment because the focus of all marketing activities is to satisfy customers. Marketing includes all the activities designed to provide goods and services that satisfy consumers' needs and wants.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.
Topic: Definition of Business

26. Advertising, personal selling, coupons, and sweepstakes are forms of the _____ aspect of marketing activities.

- A. product
- B. promotion**
- C. distribution
- D. price

- E. place

Marketing focuses on the four P's, which include product, price, place, and promotion.

Advertising, personal selling, sales promotion, and publicity are part of the promotion aspect of marketing.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.
Topic: Definition of Business

27. Games Galore has a new video game that it hopes will increase its sales. It is offering coupons and a sweepstake to get people to buy the game. These are all examples of

- A.** sales promotion.
- B. publicity.
- C. advertising.
- D. personal selling.
- E. direct retail.

Marketers use promotion—advertising, personal selling, sales promotion (coupons, games, sweepstakes, movie tie-ins), and publicity—to communicate the benefits and advantages of their products to consumers and increase sales. Nonprofit organizations also use promotion.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 1 Easy
Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.
Topic: The Marketing Mix

28. Which of the following is NOT true of the marketing mix?

- A. Product management involves product adoption or deletion, branding, and product positioning.
- B.** Product management involves making sure products are available in the right place at the right time.
- C. It is essential to select the right price for the product.
- D. Distribution involves making sure products are available in the right place at the right time.
- E. Marketers use promotion to increase sales.

Marketing focuses on the four P's, also known as the marketing mix. Product management involves product adoption or deletion, branding, and product positioning. Selecting the right price for the product is essential because it relates to profitability. Distribution involves making sure products are available to consumers in the right place at the right time. Marketers use promotion to communicate the benefits and advantages of their products to consumers and increase sales.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

29. When a business fails or does not make a profit, _____ have the most to lose in terms of finances.

- A. consumers
- B. media agencies
- C. government bodies
- D. owners**
- E. market experts

It is the primary responsibility of the owners to provide financial resources for the operation of the business. Moreover, the owners have the most to lose if the business fails to make a profit.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

Topic: Definition of Business

30. David is an accountant for a small company. As such, he participates primarily in _____ activities.

- A. management
- B. financial**
- C. operations
- D. marketing
- E. advertising

Finance refers to all activities concerned with obtaining money and using it effectively. People who work as accountants, stockbrokers, investment advisors, or bankers are all part of the financial world.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Apply

Difficulty: 1 Easy

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

Topic: Definition of Business

31. _____ is the study of how resources are distributed for the production of goods and services within a social system.

- A. Public relations
- B. Sociology
- C. Demographics
- D. Psychographics
- E. Economics**

Economics is the study of how resources are distributed for the production of goods and services within a social system.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Key Economic Indicators and How they Affect Business

32. A firm's _____ resources are also known as labor.

- A. economic
- B. human**
- C. intangible
- D. financial
- E. natural

Human resources, or labor, refer to the physical and mental abilities that people use to produce goods and services.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Key Economic Indicators and How they Affect Business

33. _____ are the funds used to acquire the natural and human resources needed to provide products.

- A. Skills
- B. Exchanges
- C. Capital resources**
- D. Labor charges
- E. Barter charges

Financial resources, or capital, are the funds used to acquire the natural and human resources needed to provide products.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 1 Easy*

*Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Key Economic Indicators and How they Affect Business*

34. Which of the following is a factor of production for a firm?

- A. advertising media
- B. legal consultants
- C. customers
- D. natural resources**
- E. company reputation

Factors of production are natural, human, and financial resources.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 1 Easy*

*Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Production Management
Topic: The Factors of Production*

35. Which of the following is a natural resource?

- A.** minerals
- B. people
- C. capital
- D. money
- E. labor

Land, forests, minerals, water, and other things that are not made by people are natural resources.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy*

*Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Key Economic Indicators and How they Affect Business*

36. Which of the following is an intangible resource?

- A. physical and mental abilities of people
- B. forests and minerals
- C. economic capital
- D. financial assets
- E.** company reputation

A firm can have intangible resources such as a good reputation for quality products or being socially responsible.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 1 Easy*

*Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Key Economic Indicators and How they Affect Business*

37. A(n) _____ describes how a particular society distributes its resources to produce goods and services.

A. labor system
B. economic system
C. political ideology
D. legal framework
E. judicial scheme

An economic system describes how a particular society distributes its resources to produce goods and services. A central issue of economics is how to fulfill an unlimited demand for goods and services in a world with a limited supply of resources.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

38. Joachim lives and works in a communist country. Which of the following statements is true about a communist economy?

A. It is characterized by the people (through the government) owning and operating all businesses.
B. It relies on supply and demand to make decisions about pricing and production of goods.
C. It encourages private ownership of the means of production.
D. It encourages free market and competition.
E. It provides scope for the production of a large variety of goods and services.

In a communist economy, the people (through the government) own and operate all businesses and factors of production.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

39. Which of the following is considered a command economy?

- A. capitalism
- B. libertinism
- C. private enterprise
- D. communism**
- E. laissez-faire market

In many cases, the government owns or controls the production of goods and services. Communism and socialism are, therefore, considered command economies.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

40. Which of the following is a characteristic of communist economies in reality?

- A. critical shortages of consumer goods**
- B. high standards of living
- C. low prices
- D. excessive freedom
- E. absence of corruption

On paper, communism appears to be efficient and equitable, producing less of a gap between rich and poor. In practice, however, communist economies have been marked by low standards of living, critical shortages of consumer goods, high prices, corruption, and little freedom.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

41. Which of the following has become the first communist country to make strong economic gains by adopting capitalist approaches to business?

- A. Singapore
- B. India
- C. Thailand
- D. China**
- E. Japan

China has become the first communist country to make strong economic gains by adopting capitalist approaches to business. Economic prosperity has advanced in China with the government claiming to ensure market openness, equality, and fairness through state capitalism.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

42. How are profits handled in communist systems?

- A. Profits earned by small businesses may be reinvested in the business.
- B. Individuals are free to keep profits after paying taxes.
- C. Businesses are free to keep profits after paying taxes.
- D. Excess income goes to the government.**
- E. Only profits from government-owned industries go to the government.

In communist systems, excess income goes to the government. The government supports social and economic institutions.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

43. Which of the following is true of product availability in a communist system?

- A. Consumers have a wide choice of goods but not services.
- B. Consumers have a wide choice of services but not goods.
- C. Consumers have a limited choice of goods and services.**
- D. Consumers have a limited choice of services but not goods.
- E. Consumers have a wide choice of services and goods.

In a communist system, consumers have a limited choice of goods and services; prices are usually high.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

44. In which of the following economic systems do most people work for government-owned industries or farms?

- A. capitalist
- B. communist**
- C. socialist
- D. libertarian
- E. neo-realist

In a communist system, people have little choice in choosing a career and most work for government-owned industries or farms.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

45. In a socialist economy,

- A. the government owns all businesses, large and small.
 - B. everyone works for government organizations.
 - C. competition is restricted in major industries.**
 - D. consumers have a wide choice of goods and services.
 - E. demand and supply have no role to play in the pricing of products and services.
- In socialist systems, competition is restricted in major industries; encouraged in small business.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

46. _____ is an economic system in which the government owns and operates basic industries.

- A. Collectivism
- B. Capitalism
- C. Socialism**
- D. Egalitarianism
- E. Utilitarianism

Socialism is an economic system in which the government owns and operates basic industries, including postal service, telephone, utilities, transportation, health care, banking, and some manufacturing. However, individuals own most businesses.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

47. Which of the following is a true statement about a socialist system of economy?

- A. Individuals own and operate the majority of businesses that provide goods and services.
- B. Central planning determines what basic goods and services are produced.**
- C. Competition, supply, and demand determine which goods and services are produced and how they are produced.
- D. All economic decisions are made without government intervention.
- E. Consumers have a wide choice of goods and services.

In socialist systems, competition is restricted in major industries; encouraged in small business. Central planning determines what basic goods and services are produced, how they are produced, and how they are distributed. Individuals and small businesses provide other goods and services based on consumer demand and the availability of resources.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

48. In the country of Thelisia, income and social services are distributed equally among its citizens, however, they must pay high taxes and they experience high levels of unemployment. Thelisia is an example of a(n) _____ nation.

- A. communist
- B. socialist**
- C. capitalist
- D. supply and demand
- E. entrepreneurial

This is an example of a socialist nation. Socialist economies profess egalitarianism, or equal distribution of income and social services, claiming this creates a more stable economy. However, taxes and unemployment are generally higher in socialist countries.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

49. In a free-market system,

- A. laissez-faire capitalism is absent.
 - B. government regulates business.
 - C. modified capitalism is the norm.
 - D.** all economic decisions are made without government intervention.
 - E. central government planning determines what goods and services satisfy citizens' needs.
- In pure capitalism, also called a free-market system, all economic decisions are made without government intervention.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

50. In a capitalist economic system

- A. the government owns and operates all businesses.
 - B. there is little scope for competition.
 - C. consumers have a limited choice of goods and services.
 - D. the majority of people possess government jobs.
 - E.** prices of goods and services are determined by demand and supply.
- In a capitalist economic system, consumers have a wide choice of goods and services; prices are determined by supply and demand.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

51. ____ is often called the father of capitalism.

- A. Karl Marx
- B. George Washington
- C. Benjamin Franklin
- D. Alan Greenspan
- E. Adam Smith**

The modern free-market system was first described by Adam Smith in *The Wealth of Nations* in 1776. Smith, often called the father of capitalism, believed that the "invisible hand of competition" best regulates the economy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

52. How does modified capitalism differ from pure capitalism?

- A. The government intervenes and regulates all business.
- B. The government doesn't intervene or regulate business at all.
- C. The government intervenes and regulates business to some extent.**
- D. The government intervenes and regulates basic industries only.
- E. The government relies on individuals to regulate all aspects of business, including passing laws.

Modified capitalism differs from pure capitalism in that the government intervenes and regulates business to some extent. One way the United States and Canadian governments regulate business is through laws.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

53. During a recent recession, the government of Ingrid provided loans and took ownership positions in its main bank, Savings Co. What economic system does this exemplify?

- A. modified capitalism
- B. pure capitalism
- C. laissez-faire capitalism
- D. communism
- E. socialism

This is an example of modified capitalism. In this system, the government intervenes and regulates business to some extent. One way a government can regulate business is through laws. During recessions, a government may provide loans and take ownership positions in banks or companies to keep them from going out of business and creating a financial disaster for the economy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

54. Egalitarianism refers to the

- A. exemption of taxes for successful businesses.
- B. restrictions on taking up non-government jobs.
- C. equal distribution of income and social services.
- D. concept of the rich getting richer and the poor getting poorer.
- E. restriction of competition in small businesses by government regulations.

Socialist economies profess egalitarianism—equal distribution of income and social services.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

55. Which of the following countries is an example of an economic system based on capitalism?

- A. Russia
- B. Sweden
- C. Japan**
- D. India
- E. Israel

The United States, Canada, Japan, and Australia are examples of economic systems based on capitalism.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

56. All of the following are examples of mixed economies EXCEPT

- A. in socialist France, the French government owns the postal service industry.**
- B. in socialist Sweden, most businesses are owned and operated by private individuals.
- C. in capitalist United States, an independent federal agency operates the postal service.
- D. in once-communist Russia, private ownership of businesses has been implemented.
- E. in communist China, state capitalism is used to advance the economy.

In socialism, the government owns and operates basic industries. For example, the French government owns the postal service industry. Mixed economies have elements from more than one economic system. For instance, in socialist Sweden, most businesses are owned and operated by private individuals; in capitalist United States, an independent federal agency operates the postal service; in once-communist Russia, private ownership of businesses has been implemented; and in communist China, state capitalism has been used to advance the economy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

57. Gary is a real estate entrepreneur in a country that promotes the individual right to own property, earn profits, make decisions about business operations, and choose productivity systems. Which of the following systems best describes Gary's business environment?

A. mixed economy
B. free market
C. capitalist
D. free enterprise
E. socialist

This scenario exemplifies free enterprise. For free enterprise to work, individuals and businesses must have the right to own property and pass it on to heirs; earn profits and use those profits as they wish; make decisions that determine the way the business operates; and choose their location, what goods and services to purchase or produce, what resources to use in the production process, and so on.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-03 Define economics and compare the four types of economic systems.
Topic: Economics and the Types of Economic Systems

58. _____ relates to the number of goods and services that consumers are willing to buy at different prices at a specific time.

A. Demand
B. Supply
C. Elasticity
D. Balance of payments
E. Deficit

Demand is defined as the number of goods and services that consumers are willing to buy at different prices at a specific time.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

59. _____ is the price at which the number of products that businesses are willing to supply equals the number of products consumers are willing to purchase at a point in time.

- A. Bundled price
- B. Equilibrium price**
- C. Discount price
- D. Competitive price
- E. Maximum retail price

Equilibrium price is defined as the price at which the number of products that businesses are willing to supply equals the number of products consumers are willing to purchase at a point in time.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

60. _____ is the number of products that businesses are willing to sell at different prices at a specific time.

- A. Equilibrium
- B. Distribution
- C. Cost pricing
- D. Demand
- E. Supply**

Supply is the number of products that businesses are willing to sell at different prices at a specific time. In general, because the potential for profits is higher, businesses are willing to supply more of a good or service at higher prices.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

61. Generally, when a retailer announces a discount sale on all its products

- A. consumers will not demand more than usual.
 - B. the store will not supply more products than it normally does.
 - C.** consumers will demand more products.
 - D. the manufacturer will halt production.
 - E. consumers will demand fewer products than usual.
- Generally, when prices decrease, consumers will increase demand.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.

Topic: Key Economic Indicators and How they Affect Business

62. If you are a member of a wholesale club, like BJ's or Sam's Club, you tend to buy items like toilet paper and groceries in bulk to save money. This is an element of

- A.** demand.
- B. supply.
- C. equilibrium.
- D. pricing.
- E. free enterprise.

Shopping at wholesale clubs is an element of demand. Consumers are usually willing to buy more of an item as its price falls because they want to save money.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Bloom's: Apply

Difficulty: 3 Hard

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.

Topic: Key Economic Indicators and How they Affect Business

63. Which of the following statements describes the force that drives the distribution of resources (goods and services, labor, and money) in a free-enterprise economy?

- A.** Prices for goods and services vary according to the changes in supply and demand.
- B. Supply and demand curves intersect at the point where supply and demand are not equal.
- C. Changing the price of a product does not alter the supply curve.
- D. The price at which the number of products that businesses are willing to supply is inversely proportional to the amount of products that consumers are willing to buy at a specific point in time.
- E. Businesses are willing to supply more of a good or service at higher prices because the potential for profits is higher.

Prices for goods and services vary according to changes in supply and demand. This concept is the force that drives the distribution of resources (goods and services, labor, and money) in a free-enterprise economy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

64. Which of the following markets is most likely to be a monopoly?

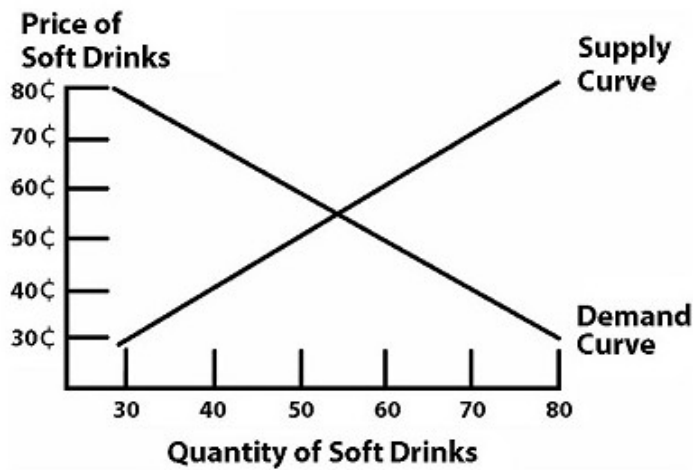
- A. agricultural commodities
- B. lifestyle gadgets
- C. airlines
- D.** electricity supply
- E. sports utility vehicles

When there is one business providing a product in a given market, a monopoly exists. Utility companies that supply electricity, natural gas, and water are monopolies.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

65. Using the supply and demand curves shown in the graph that follows, what is the equilibrium price for soft drinks?



- A. 35 cents
- B. 45 cents
- C. 50 cents
- D.** 55 cents
- E. 75 cents

The equilibrium price is where the supply and demand curves intersect.

AACSB: Analytical Thinking

Bloom's: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.

Topic: Key Economic Indicators and How they Affect Business

66. According to Adam Smith, competition

- A. mitigates growth.
- B. fosters efficiency.**
- C. prevents low prices.
- D. increases demand.
- E. increases prices.

According to Adam Smith, competition fosters efficiency and low prices by forcing producers to offer the best products at the most reasonable price; those who fail to do so are not able to stay in business. Thus, competition should improve the quality of the goods and services available or reduce prices.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

67. Steve is an entrepreneur who decided to start an online bakery. Since all his business will be done online and he can bake in his home kitchen, he is saving building and other brick-and-mortar costs, which allows him to pass that savings on to his customers. Reducing prices to customers is an element of

- A. supply.
- B. demand.
- C. competition.**
- D. equilibrium pricing.
- E. resource distribution.

This scenario focuses on an element of competition: reducing prices. Competition allows entrepreneurs to discover new technology, ways to lower prices, and methods for providing better distribution of services. Steve's online bakery can offer products at competitive prices by avoiding building and other brick-and-mortar costs.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

68. When different businesses promote similar products that differ in some characteristics but satisfy the same consumer need, the competitive environment is most likely to be

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

Monopolistic competition exists when there are fewer businesses than in a pure-competition environment and the differences among the goods they sell are small. These products differ slightly in packaging, warranty, name, and other characteristics, but all satisfy the same consumer need.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

69. _____ is an example of a product of monopolistic competition.

- A. Cotton
- B. Wheat
- C. Aspirin
- D. Electricity
- E. Airline fares

Aspirin, soft drinks, and vacuum cleaners are examples of products of monopolistic competition. These products differ slightly in packaging, warranty, name, and other characteristics, but all satisfy the same consumer need.

AACSB: Analytical Thinking
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Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

70. Kevin owns a local farm stand. Although he sells fruit and vegetables, like the grocery store chains in the area, he has some power over the price he charges because he can offer consumers features they want. For instance, his fruit and vegetables are organic and locally grown. This is an example of

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

In monopolistic competition, businesses have some power over the price they charge because they can make consumers aware of product differences through advertising. Consumers value some features more than others and are often willing to pay higher prices for a product with the features they want. For instance, a farm stand that sells organic and locally grown fruit and vegetables may be able to charge more than a grocery chain.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

71. Which of the following exists when there are many small businesses selling one standardized product, such as agricultural commodities like wheat, corn, and cotton?

- A.** pure competition
- B. monopolistic rivalry
- C. imperfect competition
- D. oligopoly
- E. monopoly

Pure competition exists when there are many small businesses selling one standardized product, such as agricultural commodities like wheat, corn, and cotton.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

72. The market for corn in Brazil has a large number of sellers and buyers, and there is no difference in the products sold by each seller. As a result, prices are determined by the

- A. businesses that sell the corn.
- B. consumers that buy the corn.
- C.** forces of supply and demand.
- D. government.
- E. agricultural industry.

Because no one business sells enough agricultural commodities to influence the price and there are no differences among the commodities, prices are determined solely by forces of supply and demand.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

73. When there is only one business providing a product in a given market, there exists

- A. an oligopoly.
- B. modified competition.
- C. pure competition.
- D. monopolistic competition.
- E.** a monopoly.

A monopoly exists where there is just one business providing a product in a given market.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

74. In which of the following market structures do individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace?

- A. monopsony
- B. monopoly
- C. oligopoly**
- D. government-granted monopoly
- E. coercive gambling

An oligopoly exists when there are very few businesses selling a product. In an oligopoly, individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

75. Which of the following is true regarding an oligopoly?

- A. Prices charged by different firms stay fairly close because a price cut or increase by one company will trigger a similar response from another company.**
- B. The prices charged by different firms vary widely, since each firm can charge whatever it wants.
- C. In oligopolies, it is inexpensive for new firms to enter the marketplace.
- D. Prices never change because the government has set the products' price.
- E. Since there are very few businesses selling the product, there is no need to ever change the price.

An oligopoly exists when there are very few businesses selling a product. In an oligopoly, individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace. Nonetheless, the prices charged by different firms stay fairly close because a price cut or increase by one company will trigger a similar response from another company.

AACSB: Analytical Thinking
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Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

76. Following a bad harvest, the prices of agricultural commodities in Urbania have increased dramatically, as have the prices of products manufactured from agricultural commodities. Government intervention has failed to arrest the rising prices. Based on this information, Urbania is undergoing

- A. deflation.
- B. stagflation.
- C. contraction.
- D. depression.

E. inflation.

Inflation is a condition characterized by a continuing rise in prices. Inflation can be harmful if individuals' incomes do not increase at the same pace as rising prices, thus reducing their buying power.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

77. Economic expansion occurs when

- A. fewer goods and services are produced than consumer demand.
- B. an economy is growing and people are spending more money.**
- C. a nation's standard of living drops dramatically.
- D. employment levels decline over time.
- E. prices begin to rise and incomes begin to fall.

When people spend more money, it stimulates the production of goods and services, which in turn stimulates employment.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

78. Rachel is living on a fixed income since her retirement. She is worried that the economy is expanding too rapidly, which could result in

- A.** inflation.
- B. depression.
- C. a recession.
- D. economic contraction.
- E. deflation.

Rapid expansions of the economy may result in inflation, a continuing rise in prices.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

79. Which of the following is true of economic expansion?

- A. There is a decline in production, employment, and income.
- B.** The standard of living rises because more people are employed and have money to spend.
- C. There is a decline in spending.
- D. Consumer spending is low and business output is sharply reduced.
- E. The prices stagnate during this period.

Economic expansion occurs when an economy is growing and people are spending more money. Their purchases stimulate the production of goods and services, which in turn stimulates employment. The standard of living rises because more people are employed and have money to spend.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

80. Which of the following is a characteristic of economic depression?

- A. Unemployment levels are low or almost absent.
- B. Consumer spending is high.
- C. Individuals' incomes increase at the same pace as rising prices.
- D. Buying power of consumers is quadrupled.
- E. Business output is sharply reduced.**

Severe recession may turn into a depression, in which unemployment is very high, consumer spending is low, and business output is sharply reduced, such as what occurred in the United States in the early 1930s.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

81. Which of the following is associated with a decline in spending?

- A. inflation
- B. economic contraction**
- C. economic expansion
- D. employment boom
- E. job expansion

Economic contraction occurs when spending declines. Businesses cut back on production and lay off workers, and the economy as a whole slows down.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

82. Contractions of the economy lead to

- A. inflation.
- B. recession.**
- C. rising levels of employment.
- D. an increase in production.
- E. an increase in income.

Contractions of the economy lead to recession, the decline in production, employment, and income.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

83. Increased unemployment can reduce consumer demand for goods and services, leading to

- A. economic expansion.
- B. inflation.
- C. deflation.**
- D. budget surplus.
- E. recovery.

In an economic contraction, people spend less money, which can lead to deflation or decrease in market prices.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

84. The country of Maryland experienced a rapid expansion of its economy, which resulted in prices doubling every 12 hours. This is an example of

A. recession.
B. hyperinflation.
C. deflation.
D. depression.
E. stimulus.

When prices double quickly, this is an example of hyperinflation. Inflation can be harmful if individuals' incomes do not increase at the same pace as rising prices.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

85. Which of the following statements is true about GDP as a measure of a country's economic health?

A. It does not include the services produced in a country.
B. It measures only those goods and services made within a country.
C. It includes profits from companies' overseas operations.
D. It does not include profits earned by foreign companies within the country being measured.
E. It essentially takes into account the concept of GDP in relation to population.
GDP measures only those goods and services made within a country and therefore does not include profits from companies' overseas operations.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: Key Economic Indicators and How they Affect Business

86. The United States has a budget deficit of over \$18 trillion dollars. A budget deficit occurs when a nation

- A. reduces its expenditures.
- B. receives excess taxes.
- C. has no national debts.
- D. spends more than it takes in from taxes.**
- E. balances taxes and expenditures.

An important indicator of a nation's economic health is the relationship between its spending and income (from taxes). When a nation spends more than it takes in from taxes, it has a budget deficit.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium

Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: Key Economic Indicators and How they Affect Business

87. If a country balances the money it spends for social, defense, and other programs with the amount of money it takes in from taxes, this country is eliminating a

- A. budget deficit.**
- B. national debt.
- C. budget surplus.
- D. trade imbalance.
- E. recession.

If a country balances the money it spends for social, defense, and other programs with the amount of money it takes in from taxes, it is eliminating a budget deficit.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: The Economic Foundations of Business

88. _____ measures changes in the prices of goods and services purchased for consumption by typical urban households.

- A. GDP
- B. Per capita income
- C. Worker productivity
- D. Trade balance
- E. Consumer price index**

Consumer price index measures changes in prices of goods and services purchased for consumption by typical urban households.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: Key Economic Indicators and How they Affect Business

89. _____ indicates the income level of "average" Americans. It is useful in determining how much "average" consumers spend and how much money Americans are earning.

- A. Per capita income**
- B. GDP
- C. Budget deficit
- D. Consumer price index
- E. Worker productivity

Per capita income indicates the income level of "average" Americans. It is useful in determining how much "average" consumers spend and how much money Americans are earning.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy

Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: The Economic Foundations of Business

90. All of the following statements are true of the U.S. national debt EXCEPT

- A. massive government stimulus spending during the most recent recession increased the national debt.
- B. it is difficult to increase taxes and reduce the deficit because Americans don't want their taxes increased and Congress has difficulty agreeing on appropriate tax rates.
- C. in 2015, the national debt exceeded \$19 trillion.
- D.** in 2015, the national debt reached a new low.
- E. to reduce the debt, the government has to increase its revenues or reduce spending on social, defense, and legal programs.

Massive government stimulus spending during the most recent recession increased the national debt. Because many Americans don't want their taxes increased and Congress has difficulty agreeing on appropriate tax rates, it is difficult to increase taxes and reduce the deficit. In 2015, the national debt exceeded \$19 trillion, a new high. To reduce the debt to a manageable level, the government either has to increase its revenues or reduce spending on social, defense, and legal programs.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: Key Economic Indicators and How they Affect Business

91. In Norway, most citizens are able to afford basic necessities and some degree of comfort. This means Norway has a(n)

- A.** high standard of living.
- B. low standard of living.
- C. high cost of living.
- D. low GDP per capita.
- E. average standard of living.

The United States, Germany, Australia, and Norway all have a high standard of living, meaning that most of their citizens are able to afford basic necessities and some degree of comfort.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Evolution of Business

92. Which of the following is true of an open economy, like that of the United States?

- A. Open economies tend to grow very slowly.
- B. Open economies do not engage in international trade.
- C. Open economies tend to lack efficiency and productivity.
- D.** Open economies are major players in international trade and tend to grow fast.
- E. Open economies lack access to technology.

The American economy is an open economy, or an economy in which economic activities occur between the country and the international community. Open economies are major players in international trade and tend to grow faster than economies that do not engage in international trade.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Evolution of Business

93. Joe is a consumer who earns less than \$50,000 per year. Joe exemplifies the

- A. group that pays an average tax rate of 25.6 percent.
- B. group that pays 48.9 percent of individual income taxes.
- C. minority of individual tax returns filed.
- D. group that pays 5 percent of total taxes.
- E.** majority of individual tax returns filed.

Consumers like Joe who earn less than \$50,000 per year comprise the majority of individual tax returns filed but pay 6.2 percent of total taxes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Evolution of Business

94. To reduce its tax rates, Mootown Burgers moved its headquarters to a country with a lower tax rate. This is an example of tax

- A. inversion.
- B. evasion.
- C. revision.
- D. avoidance.
- E. alteration.

This is an example of tax inversion, in which companies in countries with high corporate tax rates move their headquarters to countries with lower tax rates. Doing so saves them millions in taxes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Evolution of Business

95. Before the Industrial Revolution, the economy of North America under the colonists was characterized by

- A. hunting and gathering instead of agriculture.
- B. the export of manufactured goods to England.
- C. a scarcity of natural resources.
- D. dependence on England for everyday goods.
- E. the domestic system of manufacturing goods.

The colonists operated primarily as an agricultural economy. People were self-sufficient and produced everything they needed at home. Some families spent time turning raw materials into clothes and household goods. Because these goods were produced at home, this system was called the domestic system.

AACSB: Technology
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Evolution of Business

96. Which of the following is a change that occurred in the United States during the Industrial Revolution?

- A. Farm production decreased as industrial production increased.
- B. As work became more localized, productivity decreased.
- C. Trade within the country decreased as regions became self-sufficient.
- D. Farmers began to move to cities to find jobs in factories.**
- E. Fewer goods were available, and prices of goods increased.

During the Industrial Revolution, John Deere's farm equipment increased farm production and reduced the number of farmers required to feed the young nation. Farmers began to move to cities to find jobs in factories and a higher standard of living.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Evolution of Business

97. Who set up the first American textile factory after he memorized the plans for an English factory and emigrated to the United States?

- A. Eli Whitney
- B. Francis Cabot Lowell
- C. Henry Ford
- D. Nick Woodman
- E. Samuel Slater**

Samuel Slater set up the first American textile factory after he memorized the plans for an English factory and emigrated to the United States.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Evolution of Business

98. In the history of the American economy, the period following the Industrial Revolution was known for an increasing emphasis on

- A. services.
- B. artisanship.
- C. manufacturing.**
- D. agriculture.
- E. information.

The Industrial Revolution brought factories and therefore the American economy gradually became a manufacturing economy.

AACSB: Technology

Accessibility: Keyboard Navigation

Bloom's: Remember

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Evolution of Business

99. When the assembly line was applied to more industries, America entered the

- A. marketing economy.**
- B. agrarian economy.
- C. indigenous manufacturing economy.
- D. production economy.
- E. service economy.

The assembly line was applied to more industries, increasing the variety of goods available to the consumer. Businesses became more concerned with the needs of the consumer and entered the marketing economy.

AACSB: Technology

Accessibility: Keyboard Navigation

Bloom's: Remember

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Evolution of Business

100. Which of the following is a characteristic of the marketing economy phase of the American economy?

- A. People were self-sufficient and produced everything they needed at home, including food, clothing, and furniture.
- B. People found natural resources such as coal and iron ore and used them to produce goods such as horseshoes.
- C. Farm families who produced surplus goods sold or traded them for things they could not produce themselves.
- D.** Expensive goods such as cars and appliances could be purchased on a time-payment plan.
- E. Factories began to spring up along the railways to manufacture farm equipment and a variety of other goods to be shipped by rail.

During the marketing economy phase, the assembly line was applied to more industries, increasing the variety of goods available to the consumer. Businesses became more concerned with the needs of the consumer and entered the marketing economy. Expensive goods such as cars and appliances could be purchased on a time-payment plan.

AACSB: Technology

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Evolution of Business

101. Which of the following is a characteristic of a service economy?

- A. It is concerned with the indigenous production of food, clothing, and furniture.
- B.** It is devoted to producing services that make life easier for busy consumers.
- C. It is devoted to producing goods and services rather than producing agricultural products.
- D. It is significant for the development of factories along the railways to manufacture farm equipment.
- E. It is particularly important for enabling farmers to send their surplus crops and goods all over the nation for barter or for sale.

Time-pressed Americans are increasingly paying others to do tasks they used to do at home, like cooking, laundry, landscaping, and child care. These trends have gradually changed the United States to a service economy—one devoted to the production of services that make life easier for busy consumers.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Evolution of Business

102. An entrepreneur has been primarily associated with the willingness to

- A. change employers frequently.
- B. work under authority.
- C. be conservative.
- D. possess a government job.
- E. take risks.**

An entrepreneur is an individual who risks his or her wealth, time, and effort to develop for profit an innovative product or way of doing something.

AACSB: Technology

Accessibility: Keyboard Navigation

Bloom's: Remember

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Define Entrepreneurship

103. The American economic system is best described as _____ because the government regulates business to preserve competition and protect consumers and employees.

- A. socialism
- B. laissez-faire capitalism
- C. modified capitalism**
- D. communism
- E. Marxism

Because of its use of laws to regulate business and protect consumers, the American economic system can best be described as modified capitalism.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Evolution of Business

104.

All of the following are true of entrepreneurs EXCEPT

- A. in the past, entrepreneurs were inventors who brought all the factors of production together to produce a new product.
- B. many of the companies started by early entrepreneurs have failed to stay in operation.**
- C. some entrepreneurs invested in the country's growth.
- D. many of the companies started by early entrepreneurs still operate today.
- E. entrepreneurs constantly change American business practices with new technology and innovative management techniques.

The free-enterprise system provides the conditions necessary for entrepreneurs to succeed. In the past, entrepreneurs were often inventors who brought all factors of production together to produce a new product. Other entrepreneurs invested in the country's growth. Although these entrepreneurs were born in another century, their legacy to the American economy lives on in the companies they started, many of which still operate today. Entrepreneurs are constantly changing American business practices with new technology and innovative management techniques.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Define Entrepreneurship

105. Which of the following emerged in the United States as a result of industrialization?

- A. government ownership of business
- B. price regulation by planning commissions
- C. low standard of living
- D. increase in the number of farmers
- E. increase in the variety of goods available**

Industrialization brought increased prosperity, and the United States gradually became a manufacturing economy—one devoted to manufacturing goods and providing services rather than producing agricultural products. The assembly line was applied to more industries, increasing the variety of goods available to the consumer.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Evolution of Business

106. Which of the following is true of ethics and social responsibility in business?

- A. Ethical conduct and corporate social responsibility are linked to increased profits.**
 - B. Businesses do not need to consider social values in the contemporary scenario.
 - C. Investors and retired employees remain unaffected in case of scandals.
 - D. Businesses' reputations depend solely on their profits.
 - E. Business misconduct is likely to be widely excused if it enhances firms' profits.
- Research has shown that ethical behavior can not only enhance a company's reputation but can also drive profits.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: The Ethical Concerns that Affect Business

107. Several employees in a well-known corporation, CarCorp, were arrested for intentionally selling defective car parts to their customers. Scandals like this

- A. do not affect public confidence in corporations.
- B. undermine public confidence in corporations.**
- C. cause society to boycott corporations.
- D. have a positive effect on retired employees.
- E. resolve the debate about ethics in business.

When scandals occur in well-known corporations, it undermines public confidence in corporations and sparks a new debate about ethics in business. Misconduct by individuals in a firm has an adverse effect on current and retired employees, investors, and others associated with the firm.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: The Ethical Concerns that Affect Business

108. All of the following are true of workplace diversity EXCEPT it

- A. increases employee satisfaction.
- B. decreases the financial performance of companies.**
- C. improves decision making.
- D. is highly beneficial to the financial performance of companies.
- E. must be balanced to support and protect various stakeholders.

Diversity in the workforce is highly beneficial to the financial performance of companies. It creates increased employee satisfaction and improved decision making. When actions are heavily criticized, a balance is usually required to support and protect various stakeholders.

AACSB: Technology
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: The Ethical Concerns that Affect Business

109. Which of the following is done by the American government to counteract economic contraction?

- A.** It may reduce interest rates.
- B. It decreases its own spending for goods and services.
- C. It raises the reserve rate of banks.
- D. It decreases the money supply.
- E. It sells securities through the Federal Reserve Board.

When the economy is contracting and unemployment is rising, the federal government through the Federal Reserve Board tries to spur growth so that consumers will spend more money and businesses will hire more employees. To accomplish this, it may reduce interest rates or increase its own spending for goods and services.

AACSB: Technology

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Evolution of Business

110. Which of the following is useful in fighting inflation?

- A.** raising interest rates
- B. lowering the reserve rate of funds banks must hold in reserve
- C. increasing the money supply
- D. decreasing the interest rate on loans to member banks
- E. buying security

When the economy expands so fast that inflation results, the government may intervene to reduce inflation by slowing down economic growth. This can be accomplished by raising interest rates to discourage spending by businesses and consumers.

AACSB: Technology

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Evolution of Business

Essay Questions

111.

What are nonprofit organizations? Differentiate between nonprofit organizations and businesses.

Nonprofit organizations are organizations that may provide goods or services but do not have the fundamental purpose of earning profits. Nonprofit organizations, such as the Red Cross, Special Olympics, and other charities and social causes, do not have the fundamental purpose of earning profits, although they may provide goods or services and engage in fund raising. Businesses, on the other hand, try to earn a profit by providing products that satisfy people's needs.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define basic concepts such as business, product, and profit.

Topic: Definition of Business

112.

Name at least 3 benefits of studying business.

Studying business can help you develop skills and acquire knowledge to prepare for your future career, regardless of whether you plan to work for a multinational Fortune 500 firm, start your own business, work for a government agency, or manage or volunteer at a nonprofit organization. The field of business offers a variety of interesting and challenging career opportunities throughout the world, such as marketing, human resources management, information technology, finance, production and operations, wholesaling and retailing, and many more. Studying business can also help you better understand the many business activities that are necessary to provide satisfying goods and services—and that these activities carry a price tag.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.

Topic: Definition of Business

113.

Differentiate between communist, socialist, and capitalist economic systems.

Karl Marx (1818-1883) first described communism as a society in which the people, without regard to class, own all the nation's resources. In his ideal political-economic system, everyone contributes according to ability and receives benefits according to need. In a communist economy, the people (through the government) own and operate all businesses and factors of production. Central government planning determines what goods and services satisfy citizens' needs, how the goods and services are produced, and how they are distributed. Socialism is an economic system in which the government owns and operates basic industries—postal service, utilities, health care, and banking—but individuals own most businesses. Central planning determines what basic goods and services are produced, how they are produced, and how they are distributed; while individuals and small businesses provide other goods and services based on consumer demand and the availability of resources. Citizens are dependent on the government for many goods and services. Capitalism, or free enterprise, is an economic system in which individuals own and operate the majority of businesses that provide goods and services. Competition, supply, and demand determine which goods and services are produced, how they are produced, and how they are distributed.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Define economics and compare the four types of economic systems.

Topic: Economics and the Types of Economic Systems

114.

How is gross domestic product (GDP) used as a measure of a nation's economic health?

One commonly used economic measure is gross domestic product (GDP)—the sum of all goods and services produced in a country during a year. GDP measures only those goods and services made within a country and therefore does not include profits from companies' overseas operations; it does include profits earned by foreign companies within the country being measured. However, it does not take into account the concept of GDP in relation to population (GDP per capita).

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Specify why and how the health of the economy is measured.

Topic: Key Economic Indicators and How they Affect Business

115.

Describe the pre-industrial economic phase of the United States.

Before the colonization of North America, Native Americans lived as hunter/gatherers and farmers, with some trade among tribes. The colonists who came later operated primarily as an agricultural economy. People were self-sufficient and produced everything they needed at home, including food, clothing, and furniture. Abundant natural resources and a moderate climate nourished industries such as farming, fishing, shipping, and fur trading. A few manufactured goods and money for the colonies' burgeoning industries came from England and other countries.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 1 Easy

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: Evolution of Business

116. Describe the role of ethics and social responsibility in business.

Business ethics refers to the standards and principles used by society to define appropriate and inappropriate conduct in the workplace. In many cases, these standards have been codified as laws prohibiting actions deemed unacceptable. Society is increasingly demanding that businesspeople behave socially responsibly toward their stakeholders. Research has shown that ethical behavior can not only enhance a company's reputation but can also drive profits. There is growing recognition that the long-term value of conducting business in an ethical and socially responsible manner that considers the interests of all stakeholders creates superior financial performance.

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Bloom's: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.

Topic: The Ethical Concerns that Affect Business