

Business Essentials, Canadian Edition, 9e (Ebert)

Chapter 1 Understanding the Canadian Business System

1.1 Multiple Choice Questions

1) Which of the following is the best definition of "profit?"

- A) Total money taken in by a corporation
- B) Increases in income from year to year
- C) Increases in a corporation's stock price
- D) Revenue generated by goods and services
- E) Difference between revenues and expenses

Answer: E

Diff: 1 Type: MC Page Ref: 4

Skill: Knowledge

Objective: 1.1

2) This week, Abe's Muffler Shop had sales of \$4000, employees were paid \$1000, the cost of goods was \$1500, and rent was \$500. Profit for the week was

- A) \$3000.
- B) \$1000.
- C) \$4000.
- D) \$2500.
- E) \$500.

Answer: B

Diff: 2 Type: MC Page Ref: 4

Skill: Application

Objective: 1.1

3) How are provincial universities in Canada different from business firms?

- A) They do not seek to make a profit.
- B) They deal with people, not things.
- C) Their organizational boundaries exclude business firms.
- D) They do not produce goods or services.
- E) They are more important to society than business firms.

Answer: A

Diff: 2 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.1

- 4) Examples of businesses include all of the following *except*
- A) local supermarkets.
 - B) one-person businesses, like barbershops.
 - C) non-profit organizations.
 - D) large corporations like Canadian Pacific or Alcan Aluminum.
 - E) farms.

Answer: C

Diff: 2 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.1

- 5) _____ produce most of the goods and services consumed in Canada.
- A) Businesses
 - B) Labour unions
 - C) Non-profit organizations
 - D) Canadian provincial governments
 - E) Charities

Answer: A

Diff: 1 Type: MC Page Ref: 5

Skill: Comprehension

Objective: 1.1

- 6) Not-for-profit organizations
- A) are content with small profits, whereas business firms want large profits.
 - B) are more important than business firms in the Canadian economy.
 - C) use the funds from government grants or from the sale of goods or services to provide service to the public.
 - D) sell only services, not goods.
 - E) are not allowed to operate in the manufacturing sector.

Answer: C

Diff: 2 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.1

- 7) If two people exchange an apple, they each still have just one apple, but if they exchange ideas, they now each have two ideas. This is an illustration of
- A) the importance of natural resources.
 - B) the principle of specialization of labour.
 - C) the difference between information and all the other factors of production.
 - D) the importance of profit in market economies.
 - E) the importance of government regulation.

Answer: C

Diff: 2 Type: MC Page Ref: 5

Skill: Comprehension

Objective: 1.2

- 8) The key difference between economic systems is the different ways in which they manage
- A) the factors of production.
 - B) the transportation of goods within their borders.
 - C) government rules and regulations.
 - D) the payment of workers.
 - E) the degree of competition that is allowed in various domestic industries.

Answer: A

Diff: 2 Type: MC Page Ref: 4-5

Skill: Knowledge

Objective: 1.2

- 9) An economic system is
- A) an agreement between countries that deals with free trade.
 - B) the way in which a nation allocates its resources among its citizens.
 - C) a government decree that requires certain goods and services to be provided.
 - D) a long-standing agreement between citizens and governments on how an economy is run.
 - E) a large government department that oversees how the economy is running.

Answer: B

Diff: 2 Type: MC Page Ref: 4-5

Skill: Knowledge

Objective: 1.2

- 10) An exchange process between buyers and sellers of a particular good or service is known as
- A) a market.
 - B) economic trade.
 - C) mercantilism.
 - D) supply utility.
 - E) bartering.

Answer: A

Diff: 2 Type: MC Page Ref: 6

Skill: Knowledge

Objective: 1.2

- 11) What does a planned economy rely on a centralized government to do?
- A) Support free enterprise in every way possible
 - B) Allocate all or most factors of production
 - C) Encourage citizens to buy shares of stock in small companies
 - D) Keep its control activities to a minimum
 - E) Direct workers to start their own small businesses

Answer: B

Diff: 2 Type: MC Page Ref: 5

Skill: Knowledge

Objective: 1.2

- 12) In a command economy, the central government
- A) supports free enterprise in every way possible.
 - B) decides on the allocation of all or most factors of production.
 - C) encourages citizens to buy shares of stock in small companies rather than large ones.
 - D) keeps its control activities to a minimum so it doesn't interfere with business efficiency.
 - E) creates shortages on purpose in order to motivate businesses to be more efficient.

Answer: B

Diff: 2 Type: MC Page Ref: 5

Skill: Knowledge

Objective: 1.2

- 13) In terms of factors of production, Imperial Oil's crude oil reserves are an example of _____, while market forecasts are an example of _____.

- A) labour; entrepreneurs
- B) information; labour
- C) capital; information
- D) natural resources; information
- E) information; natural resources

Answer: D

Diff: 2 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.2

- 14) When considering the factors of production, it is correct to say that
- A) natural resources are evenly distributed across different countries.
 - B) they are managed differently in different countries.
 - C) capital is the most "unfair" factor of production.
 - D) entrepreneurs are a factor of production only in certain countries (e.g., China).
 - E) technology is the most important factor of production.

Answer: B

Diff: 3 Type: MC Page Ref: 4

Skill: Knowledge

Objective: 1.2

- 15) Entrepreneurs are important because they
- A) make and spend lots of money.
 - B) are good at making decisions.
 - C) take risks to start new businesses.
 - D) are usually better managers than non-entrepreneurs.
 - E) sell shares of stock to investors.

Answer: C

Diff: 2 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.2

16) Elizabeth wants to set up a consulting business that specializes in advanced analytics. Which of the following factors of production would she require?

- A) Capital
- B) Labour
- C) Information resources
- D) Natural resources
- E) All of these

Answer: E

Diff: 2 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.2

17) "Embrace the opportunities and accept the risks" is a phrase that *best* characterizes the _____ attitude.

- A) entrepreneurial
- B) capitalist
- C) communist
- D) socialist
- E) managerial

Answer: A

Diff: 2 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.2

18) Something that would contribute *directly* to improving labour as a factor of production would be

- A) finding new oil reserves.
- B) better education for more of the population.
- C) increasing the purchasing power of employees.
- D) programs designed to decrease unemployment.
- E) finding more efficient ways to produce products.

Answer: B

Diff: 3 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.2

19) As a factor of production, labour includes

- A) everyone in a business.
- B) only non-unionized employees.
- C) only unionized employees.
- D) only lower-level managers, not upper-level managers.
- E) only workers who do production work.

Answer: A

Diff: 2 Type: MC Page Ref: 4

Skill: Knowledge

Objective: 1.2

20) Which of the following is correct with respect to the factors of production?

- A) The "labour" factor recognizes that it is importance to have labour unions to offset the power of management.
- B) "Capital" is a more important factor than "labour."
- C) As the Canadian economy has become larger and more complex, the importance of entrepreneurs has declined.
- D) Unlike land, labour, and capital, information can be shared without being diminished.
- E) Human resources is an example of the "natural resources" factor.

Answer: D

Diff: 2 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.2

21) Natural resources as a factor of production for mining are a practical consideration when a mining company considers

- A) the ease with which ore could be mined.
- B) the number of miners available to mine the ore.
- C) the amount of capital required to build the mine.
- D) the profit that can be made from mining the ore.
- E) the number of customers who want to buy ore.

Answer: A

Diff: 3 Type: MC Page Ref: 4

Skill: Comprehension

Objective: 1.2

22) What is the difference between a command economy and a market economy?

- A) A command economy is found only in communist countries, while a market economy is found only in capitalist countries.
- B) A command economy is more efficient than a market economy.
- C) A market economy gives greater "life satisfaction" to people.
- D) A command economy relies on centralized government control of the factors of production, while in a market economy supply and demand determine production and allocation decisions.
- E) There really are no significant differences between a command economy and a market economy.

Answer: D

Diff: 3 Type: MC Page Ref: 5

Skill: Comprehension

Objective: 1.2

23) What can we say about the dollar value of business-to-business (B2B) transactions compared to the dollar value of business-to-consumer (B2C) transactions?

- A) B2B transactions have a lower dollar value because there are fewer businesses than there are consumers.
- B) The dollar value of B2B transactions exceeds that of B2C transactions.
- C) The dollar value of B2B transactions must equal the dollar value of B2C transactions.
- D) It is not possible to determine whether the dollar value of B2B transactions is less than or more than the dollar value of B2C transactions because of industrial secrecy.
- E) It is not possible to determine whether the dollar value of B2B transactions is less than or more than the dollar value of B2C transactions because of data limitations.

Answer: B

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

24) The economic system in which producers and consumers control production and allocation decisions through supply and demand is called

- A) a centrally planned economy.
- B) privatization.
- C) a market economy.
- D) communism.
- E) socialism.

Answer: C

Diff: 2 Type: MC Page Ref: 6

Skill: Knowledge

Objective: 1.2

25) Which country has a command economy?

- A) Australia
- B) Japan
- C) Canada
- D) Germany
- E) North Korea

Answer: E

Diff: 1 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

- 26) Which of the following is correct in describing the communist economic system?
- A) The centralized planning emphasis on capital equipment and military hardware has caused declines in the prices of consumer goods.
 - B) Government ownership of the means of production is only temporary.
 - C) Most government-operated enterprises are very efficient because of central planning.
 - D) Overall production expands rapidly because of central planning.
 - E) The government owns and operates all sources of production.

Answer: E

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

- 27) Stanislav lives in a country where all the factors of production are owned by the government. The economic system in his country is *most likely*

- A) communism.
- B) capitalism.
- C) mixed market.
- D) socialism.
- E) It is not possible to tell with the information provided.

Answer: A

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

- 28) John lives in a country where producers and consumers control production, and where allocation decisions are made through the mechanism of supply and demand. John lives in a country with a _____ economy.

- A) privatized
- B) socialist
- C) communist
- D) market
- E) nationalized

Answer: D

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

- 29) A major drawback to communism as an economic system is that

- A) government control of the factors of production is only temporary.
- B) people don't like communism.
- C) individuals contribute according to their ability.
- D) individuals receive economic benefits according to their needs.
- E) production of goods and services is inefficient because of the lack of a profit incentive.

Answer: E

Diff: 3 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

30) Command economies are most likely to be found in

- A) the newly emerging economies of southeast Asia.
- B) communist and socialist nations.
- C) western European countries.
- D) Japan.
- E) Canada and the United States.

Answer: B

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

31) An economy that has a strong central government that controls labour, capital, and natural resources and has few entrepreneurs is a(n)

- A) market economy.
- B) command economy.
- C) free-enterprise economy.
- D) capitalist economy.
- E) oligopolistic economy.

Answer: B

Diff: 1 Type: MC Page Ref: 6

Skill: Knowledge

Objective: 1.2

32) Communism and socialism are

- A) basic forms of market economies.
- B) becoming more popular.
- C) extreme opposites.
- D) basic forms of command economies.
- E) identical forms.

Answer: D

Diff: 2 Type: MC Page Ref: 6

Skill: Knowledge

Objective: 1.2

33) Mexico allows producers and consumers to make production and allocation decisions through the mechanism of supply and demand. Such a system is called

- A) socialism.
- B) communism.
- C) privatization.
- D) nationalization.
- E) a market economy.

Answer: E

Diff: 1 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

- 34) Socialist economies may slow down economic growth because
- A) management positions in state-controlled industries are often filled based on political considerations.
 - B) they have too few regulations concerning product safety.
 - C) they are found in countries where people don't have many skills.
 - D) they are usually found in countries with cold climates.
 - E) they encourage excessive unionization of employees.

Answer: A

Diff: 3 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

- 35) An economic system that permits private ownership and control of small businesses but where the government controls large critical industries is known as

- A) a mixed economy.
- B) socialism.
- C) communism.
- D) capitalism.
- E) mercantilism.

Answer: B

Diff: 1 Type: MC Page Ref: 6

Skill: Knowledge

Objective: 1.2

- 36) Which of the following is correct about?

- A) There is a general consensus that command economies are more efficient than market economies because a centralized government can consider a wider range of economic factors when decisions are made.
- B) In recent years, more and more countries have rejected communism and embraced more market-based economies.
- C) Socialism is the most extensive command economic system because government owns all the major industries.
- D) Support for a free market economy is strongest in North Korea.
- E) All of these are correct.

Answer: B

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

37) Socialism is best described as

- A) a kind of command economy in which the government owns and operates all industries.
- B) a kind of command economy in which the government owns and operates large critical industries.
- C) an economy that is free from any regulation or planning.
- D) a market economy in which markets decide what, when, and how much to produce.
- E) an economic system with elements of a market economy, but not a planned economy.

Answer: B

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

38) Market economies have all of the following characteristics, *except* that they

- A) allow businesses to charge whatever they want for their products and services.
- B) encourage entrepreneurship by offering profits as an incentive.
- C) require government intervention in order to prosper.
- D) rely on markets, not governments, to decide what, when, and for whom to produce.
- E) allow customers free choice.

Answer: C

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

39) Canada is home to a(n) _____ economy.

- A) mixed market
- B) oligopolistic
- C) socialist
- D) market
- E) command

Answer: A

Diff: 2 Type: MC Page Ref: 8

Skill: Knowledge

Objective: 1.2

40) Market economies are considered beneficial for small businesses because they

- A) provide small businesses with lots of government assistance and protection.
- B) provide a central economic plan within which small businesses can easily prosper.
- C) protect small businesses from the power of large corporations.
- D) allow small businesses to fail.
- E) allow the business to do whatever it wants as long as it doesn't break the law.

Answer: E

Diff: 2 Type: MC Page Ref: 6

Skill: Comprehension

Objective: 1.2

41) In which economic system will profit motivate entrepreneurs to use resources efficiently and to produce goods that consumers want?

- A) A centrally planned economy
- B) Communism
- C) A market economy
- D) Socialism
- E) A barter economy

Answer: C

Diff: 1 Type: MC Page Ref: 6

Skill: Knowledge

Objective: 1.2

42) Jose is from Guatemala. He is unsure about the nature of business in Canada. You point out that a typical business in Canada operates in fundamentally the same way as a business in

- A) the People's Republic of China.
- B) Poland.
- C) Peru.
- D) England.
- E) Japan.

Answer: D

Diff: 3 Type: MC Page Ref: 7

Skill: Comprehension

Objective: 1.2

43) Which of the following is correct with respect to input and output markets?

- A) In the input market, firms supply goods and services in response to demand on the part of households.
- B) In the output market, firms buy resources from households, which then supply those resources.
- C) Consumer buying patterns provide information that helps companies decide which products to produce.
- D) Consumers are restricted in the companies they can work for.
- E) Input and output markets exist only in communist countries.

Answer: C

Diff: 3 Type: MC Page Ref: 7-8

Skill: Comprehension

Objective: 1.2

- 44) Which of the following is correct with respect to mixed market economies?
- A) They have features that are not found in either command or market economies.
 - B) As a result of recent financial turmoil, there is a trend toward increased government regulation of business in mixed market economies.
 - C) Very few countries have this type of system.
 - D) There is a trend toward increased government ownership of business in mixed market economies.
 - E) The mixed market economy is the best type of economic system.

Answer: B

Diff: 2 Type: MC Page Ref: 8

Skill: Comprehension

Objective: 1.2

- 45) The federal government sold the Lester B. Pearson International Airport in Toronto to a group of entrepreneurs, which then set up the Greater Toronto Airports Authority. This sale is an example of
- A) socialism.
 - B) freedom of choice.
 - C) entrepreneurship.
 - D) deregulation.
 - E) privatization.

Answer: E

Diff: 2 Type: MC Page Ref: 8

Skill: Comprehension

Objective: 1.2

- 46) The role of government in our economic system includes all of the following *except*
- A) customers.
 - B) innovators.
 - C) competitors.
 - D) regulators.
 - E) taxation agents.

Answer: B

Diff: 2 Type: MC Page Ref: 9-11

Skill: Knowledge

Objective: 1.3

47) Sandy is responsible for monitoring compliance with regulations in her company. She needs to know that the important areas of government regulation are

- A) protecting competition and upholding environmental regulations.
- B) protecting social goals, upholding environmental regulations, and protecting shareholder rights.
- C) protecting competition, protecting consumers, and upholding environmental regulations.
- D) protecting competition, protecting consumers, protecting social goals, and protecting the environment.
- E) protecting shareholder rights, and following business law.

Answer: D

Diff: 2 Type: MC Page Ref: 9-11

Skill: Comprehension

Objective: 1.3

48) Which of the following statements is correct with regard to the Competition Act?

- A) A company can cut prices in one region of Canada while selling at a higher price everywhere else even if this substantially lessens competition.
- B) Businesses are generally satisfied that the Competition Bureau moves fairly quickly in approving or denying merger plans.
- C) Pyramid selling is permitted as long as participant know they are involved in a pyramid selling scheme and they know they are not allowed to make windfall profits from the scheme.
- D) The mere existence of a conspiracy is assumed to be proof that competition has been reduced.
- E) All of these are correct.

Answer: D

Diff: 3 Type: MC Page Ref: 9

Skill: Comprehension

Objective: 1.3

49) Which of the following is correct regarding the Competition Act?

- A) The Act prohibits agreements between companies that reduce competition.
- B) The government must prove that agreements between companies actually reduce competition.
- C) Recent changes to the Act have reduced fines for misleading marketing practices because it has been shown that these fines don't have any effect.
- D) Surveys of business executives show that they think the Competition Bureau is quite quick in approving or denying merger requests.
- E) All of the above

Answer: A

Diff: 1 Type: MC Page Ref: 9

Skill: Comprehension

Objective: 1.3

50) Why are sales taxes called regressive taxes?

- A) Because food and drugs are often exempt
- B) Because the more one makes, the lower the rate of sales tax that is applied to one's purchases
- C) Because poorer people pay a higher percentage of their income than richer people
- D) Because it applies to sales taxes
- E) Because they discourage the purchase of some products

Answer: C

Diff: 3 Type: MC Page Ref: 10

Skill: Comprehension

Objective: 1.3

51) John has just received a rather large increase in salary, but he is upset because he feels that he should not be charged a higher rate of tax on this extra money. John is being taxed by a _____ tax system.

- A) provincial
- B) federal
- C) progressive
- D) restrictive
- E) regressive

Answer: C

Diff: 2 Type: MC Page Ref: 10

Skill: Knowledge

Objective: 1.3

52) Which of the following is correct with respect to the issue of government taxation?

- A) Progressive revenue taxes are harder on low-income people than on high-income people.
- B) Revenue taxes are designed primarily to encourage people to buy certain kinds of goods and avoid buying other kinds.
- C) Restrictive taxes prevent businesses from expanding.
- D) Regressive revenue taxes are levied at the same rate regardless of a person's income.
- E) All of the statements are correct.

Answer: D

Diff: 2 Type: MC Page Ref: 10

Skill: Comprehension

Objective: 1.3

53) The GST is considered a regressive tax because

- A) food and drugs are often exempt.
- B) the more a person makes, the lower the rate of sales tax applied to that person's purchase.
- C) it is unfair.
- D) poorer people pay a higher percentage of their income than richer people.
- E) it is designed to discourage the purchase of certain products.

Answer: D

Diff: 2 Type: MC Page Ref: 10

Skill: Comprehension

Objective: 1.3

- 54) Incentive programs are designed to
- A) encourage families to have more babies.
 - B) encourage businesses to locate in economically depressed parts of the country.
 - C) create "corporate welfare bums."
 - D) encourage families to move to depressed parts of the country.
 - E) reimburse businesses for making unprofitable but necessary products.

Answer: B

Diff: 2 Type: MC Page Ref: 10

Skill: Comprehension

Objective: 1.3

- 55) Which law forbids most monopolies in Canada?

- A) Consumer Protection Act
- B) Lobbying Act
- C) Fair Trade Act
- D) Competition Act
- E) Environmental Contaminants Act

Answer: D

Diff: 1 Type: MC Page Ref: 9

Skill: Knowledge

Objective: 1.3

- 56) Nutrition labelling and claims are intended to provide consumers with information to aid them in the selection of a healthy diet aimed at reducing risk of premature illness and death due to diet-related chronic diseases. Insufficient labelling is a violation of which act?

- A) Food and Drug Act
- B) Weights and Measures Act
- C) Advertising and Packaging Act
- D) Textile Labelling Act
- E) Consumer Protection Act

Answer: A

Diff: 2 Type: MC Page Ref: 9

Skill: Knowledge

Objective: 1.3

57) Which of the following statements is *most* correct with respect to government in its role as regulator?

- A) Business complains that the Competition Bureau is too slow in approving or denying merger plans.
- B) The government really has very little power in its role as regulator.
- C) Because of the move toward deregulation, federal and provincial governments have become less and less involved in regulating business activity.
- D) The main areas of government regulation of business are achieving social goals, protecting consumers, and providing assistance to small business firms.
- E) Studies have shown that government regulation reduces the effectiveness of business firms.

Answer: A

Diff: 2 Type: MC Page Ref: 9

Skill: Comprehension

Objective: 1.3

58) Which of the following is correct with regard to public-private partnerships?

- A) These partnerships have resulted in windfall profits for the businesses that have gotten involved in them.
- B) These partnerships have resulted in bad public relations for the businesses that have gotten involved in them.
- C) These partnerships have created a monopoly situation for the businesses that have gotten involved in them.
- D) These partnerships cost more money than the traditional approach (where the government puts up the money and then hires contractors to do the necessary work).
- E) These partnerships have generally been failures in terms of the quality of service provided.

Answer: D

Diff: 3 Type: MC Page Ref: 11

Skill: Comprehension

Objective: 1.3

59) When Labatt sales representatives gave money to store operators who agreed to not lower prices on some brands of beer, the company was prosecuted for engaging in

- A) bait-and-switch advertising.
- B) resale price maintenance.
- C) a pyramid scheme.
- D) selling mislabeled products.
- E) a violation of the Beer Act.

Answer: B

Diff: 2 Type: MC Page Ref: 9

Skill: Comprehension

Objective: 1.3

60) The three main ways in which business can influence government policy are

- A) advertising, lobbyists, and trade associations.
- B) political contributions, letters to the editors of newspapers, and advertising.
- C) advertising, trade associations, and political contributions.
- D) trade associations, lobbyists, and letters to the editors of newspapers.
- E) lobbyists, political contributions, and advertising.

Answer: A

Diff: 2 Type: MC Page Ref: 11

Skill: Comprehension

Objective: 1.3

61) The federal Lobbying Act requires lobbyists to

- A) register with the Department of Consumer and Commercial Relations.
- B) contribute a minimum of \$10 000 to political campaigns.
- C) attend at least two sessions in the House of Commons each year.
- D) report on their communications with designated public office holders.
- E) meet with members of Parliament on a regular basis.

Answer: D

Diff: 2 Type: MC Page Ref: 11

Skill: Knowledge

Objective: 1.3

62) Suppose that several microelectronics manufacturers want to set up a trade association. They need to know that trade associations can do all of the following *except*

- A) allocate markets for their members.
- B) influence the kind of legislation that is passed.
- C) conduct training programs relevant to the industry.
- D) arrange trade shows.
- E) publish newsletters featuring articles on new products.

Answer: A

Diff: 2 Type: MC Page Ref: 11

Skill: Comprehension

Objective: 1.3

63) The price at which the quantity of goods demanded, and the quantity of goods supplied are equal is referred to as

- A) the going rate.
- B) the point-of-no-return price.
- C) the equilibrium price.
- D) the highest price.
- E) the lowest price.

Answer: C

Diff: 2 Type: MC Page Ref: 13

Skill: Knowledge

Objective: 1.4

64) In a small town of 3,000 people, the number of car washes has grown from two to five in the last two months. Which result will likely occur?

- A) The increase in supply will have no effect on the equilibrium price.
- B) The increase in supply will lead to a decrease in demand.
- C) The increase in supply will lead to a decrease in the equilibrium price.
- D) The increase in supply will lead to an increase in demand.
- E) The increase in supply will lead to an increase in equilibrium price.

Answer: C

Diff: 2 Type: MC Page Ref: 13

Skill: Knowledge

Objective: 1.4

65) What is meant by the term "demand"?

- A) The idea that buyers will purchase more of a product as the price drops
- B) The price and quantity of a product at which the quantity demanded is equal to the quantity supplied
- C) The idea that producers will offer more of a product as the price rises
- D) The willingness and ability of buyers to purchase a product
- E) None of these

Answer: D

Diff: 2 Type: MC Page Ref: 12

Skill: Knowledge

Objective: 1.4

66) When considering demand and supply in a market economy, it is correct to say that

- A) demand refers to the price that consumers are willing to pay for a product.
- B) the demand and supply schedule indicates how many units of a given product will be sold at different prices.
- C) demand and supply curves are used to determine the demand and supply schedule.
- D) equilibrium prices are only rarely achieved.
- E) if a seller tried to increase profits by making more products to sell, the result would be a more efficient use of resources because economies of scale would be achieved.

Answer: B

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.4

67) The law of demand states that

- A) producers will offer more of a product as the price falls.
- B) demand and supply meet at an equilibrium point.
- C) buyers will purchase more of a product as the price falls.
- D) producers will offer more of a product as the price rises.
- E) buyers will purchase more of a product as the price rises.

Answer: C

Diff: 1 Type: MC Page Ref: 12

Skill: Knowledge

Objective: 1.4

- 68) The law of supply states that
- A) buyers will purchase more of a product as the price falls.
 - B) demand and supply meet at an equilibrium point.
 - C) producers will offer more of a product as the price rises.
 - D) producers will offer more of a product as the price falls.
 - E) buyers will purchase more of a product as the price rises.

Answer: C

Diff: 1 Type: MC Page Ref: 12

Skill: Knowledge

Objective: 1.4

- 69) What is "supply"?
- A) The idea that sellers will sell more of a product as the price increases
 - B) The price and quantity of a product at which the quantity demanded is equal to the quantity supplied
 - C) The idea that buyers will want less of a product as the price increases
 - D) The willingness and ability of producers to offer a good or service for sale
 - E) None of these

Answer: D

Diff: 2 Type: MC Page Ref: 12

Skill: Knowledge

Objective: 1.4

- 70) Ian, the owner of 3-for-1 Pizza, has noticed that when he increases the price of his pizzas by \$2.00, the number of pizzas that he sells drops by 30 percent. Ian has discovered

- A) the law of supply and demand.
- B) the supply curve.
- C) the demand curve.
- D) the law of supply.
- E) the law of demand.

Answer: E

Diff: 1 Type: MC Page Ref: 12

Skill: Comprehension

Objective: 1.4

- 71) Kristine discovered that when she dropped the price of her paintings, more people were asking her to create paintings for them. Kristine is experiencing

- A) the law of supply and demand.
- B) market price variations.
- C) the law of supply.
- D) economic justice.
- E) the law of demand.

Answer: E

Diff: 2 Type: MC Page Ref: 12

Skill: Comprehension

Objective: 1.4

72) A demand and supply schedule

A) allows assessment of the relationship between different levels of demand and supply at different prices.

B) describes the supply for a product.

C) describes the demand for a product.

D) is a formula by which one determines market equilibrium.

E) is the contractual agreement made between the buyer and seller.

Answer: A

Diff: 2 Type: MC Page Ref: 13

Skill: Comprehension

Objective: 1.4

73) A producer of automobile batteries notes that the price of batteries has risen over each of the past three years. The firm decides to expand its battery production. This illustrates

A) the law of supply.

B) the law of market price.

C) the law of equilibrium.

D) the law of demand.

E) the law of supply and demand.

Answer: A

Diff: 2 Type: MC Page Ref: 12

Skill: Comprehension

Objective: 1.4

74) The point at which the quantity of a product or service demanded is the same as the quantity supplied is called

A) the surplus point.

B) the equilibrium point.

C) the supply point.

D) the profit point.

E) the demand point.

Answer: B

Diff: 1 Type: MC Page Ref: 13

Skill: Knowledge

Objective: 1.4

75) At the point where the supply curve crosses the demand curve on a graph,

A) no profits will be made.

B) all products offered for sale will be sold.

C) a shortage will result if the price is too low.

D) no sales will be made.

E) a surplus will result if the price is too low.

Answer: B

Diff: 1 Type: MC Page Ref: 13

Skill: Comprehension

Objective: 1.4

76) The points on a curve showing the relationship between the price of a good or service and the quantity of that good or service willing to be produced is known as the

- A) equilibrium curve.
- B) demand curve.
- C) balance curve.
- D) variable price curve.
- E) supply curve.

Answer: E

Diff: 1 Type: MC Page Ref: 12

Skill: Knowledge

Objective: 1.4

77) The points on a curve showing the relationship between the price of a good or service and the quantity of that good or service which customers will purchase is known as the

- A) variable price curve.
- B) equilibrium curve.
- C) demand curve.
- D) supply curve.
- E) balance curve.

Answer: C

Diff: 1 Type: MC Page Ref: 12

Skill: Knowledge

Objective: 1.4

78) Equilibrium in the market is attained when

- A) the laws of supply and demand interact to set the price and quantity of a product at which buyers and sellers agree.
- B) there are no dramatic changes in the market over time.
- C) suppliers are willing to produce the quantity demanded.
- D) no single firm has more than 50 percent of the market.
- E) consumers are willing to pay the price being charged.

Answer: A

Diff: 2 Type: MC Page Ref: 12

Skill: Comprehension

Objective: 1.4

79) Ernesto's Pizza is about to offer customers a new variety of a personal pizza. Which of the following actions by Ernesto's Pizza would *most* likely prevent a surplus or a shortage of the personal pizzas in its first week?

- A) Limit the supply of the personal pizza
- B) Lower demand for the personal pizza
- C) Set the price of substitute goods
- D) Estimate the market price of the personal pizza
- E) Lower the price of the pizza throughout the week

Answer: D

Diff: 2 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.4

80) 3-for-1 Pizza is operating at the point where the supply curve intersects the demand curve. If the owner decides to increase the price and not change the production level, what will result?

- A) A shortage
- B) A surplus
- C) More profit
- D) A shift in the supply curve
- E) A shift in the demand curve

Answer: B

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.4

81) The market research department of Smart Accessories estimated that 5000 smartphone covers would be purchased at a price of \$20.00 each. As it turned out, the demand was 6000. The company is in a(n) _____ condition.

- A) shortage
- B) growth
- C) inflation
- D) surplus
- E) depression

Answer: A

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.4

82) If the market for chocolate was at the equilibrium point and suddenly half of the chocolate in the world disappeared, what would be the immediate effect?

- A) The price would increase due to a shortage.
- B) The price would decrease due to market equilibrium.
- C) The price would increase due to a surplus.
- D) The price would decrease due to a surplus.
- E) There would be no change in either price or demand.

Answer: A

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.4

83) Which of the following is correct with respect to the issue of supply and demand?

- A) A demand curve shows that consumers usually demand products of higher quality.
- B) A supply curve shows that businesses will supply more units of a product but will lower the level of product quality.
- C) It is difficult to achieve an equilibrium price.
- D) When the quantity demanded exceeds the amount supplied, businesses shut down.
- E) None of the statements are correct.

Answer: E

Diff: 2 Type: MC Page Ref: 13

Skill: Comprehension

Objective: 1.4

84) In the production of wheat, the law of demand

- A) states that buyers will purchase more wheat as the price decreases.
- B) reflects the farmer's desire to increase wheat production.
- C) comes into play when farmers produce a bumper crop of wheat.
- D) refers to the exchange process between the farmer and the buyer of wheat.
- E) states that at very high prices, there will be no supply.

Answer: A

Diff: 2 Type: MC Page Ref: 12

Skill: Comprehension

Objective: 1.4

85) In economic terms, a "market" is

- A) available in capitalist nations, but not in communist nations.
- B) located where buyers can most easily access it.
- C) the physical location (for example, a grocery store) where exchanges take place between buyers and sellers.
- D) an exchange process between sellers and buyers.
- E) all of the above.

Answer: D

Diff: 2 Type: MC Page Ref: 6

Skill: Knowledge

Objective: 1.2

86) What is likely to happen when demand for a commodity is high?

- A) Consumers will try to find substitutes for the commodity.
- B) The price of the commodity will rise.
- C) Criminal behaviour increases with regard to the commodity (e.g., stealing).
- D) The price of substitute commodities will increase.
- E) All of these statements are correct.

Answer: E

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.4

87) Tom, a real estate agent, wants to convince a potential customer where the price should be set to sell their home. Tom could use a

- A) variable cost curve.
- B) demand and supply schedule.
- C) supply curve.
- D) demand curve.
- E) property analysis.

Answer: B

Diff: 2 Type: MC Page Ref: 13

Skill: Comprehension

Objective: 1.4

88) A new sales tax has the effect of shifting the supply curve upward. This will generally move the equilibrium point

- A) down and to the left.
- B) up and to the right.
- C) down and to the right.
- D) up and to the left.
- E) It has no effect on the equilibrium point.

Answer: D

Diff: 2 Type: MC Page Ref: 13

Skill: Comprehension

Objective: 1.4

89) Private enterprise requires which four elements to function effectively?

- A) Communism, capitalism, socialism, and privatization
- B) The right to product safety, consumer choice, freedom of information, and no government intervention in business
- C) Land, labour, capital, and entrepreneurship
- D) Supply, demand, equilibrium, and monopoly
- E) Private property rights, freedom of choice, profits, and competition

Answer: E

Diff: 2 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.5

90) After checking out a new car deal at her local GM Canada dealership, Sally decided to buy one. Which of the following *best* describes what happened?

- A) Sally exercised her freedom of choice.
- B) General Motors exercised its freedom of choice.
- C) Both General Motors and Sally exercised their freedom of choice.
- D) This example doesn't relate to freedom of choice.
- E) Neither General Motors nor Sally exercised their freedom of choice because they were both forced into their respective roles.

Answer: C

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.5

91) Market economies that rely on a private enterprise system maintain that the creation of wealth should be the concern of

- A) business firms.
- B) labour unions.
- C) the government.
- D) work teams.
- E) individuals.

Answer: E

Diff: 1 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.5

92) _____ must be present if companies are going to be motivated to offer consumers lower prices.

- A) Government regulations
- B) Freedom of choice
- C) Competition
- D) Profits
- E) Freedom of choice and competition

Answer: C

Diff: 1 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.5

93) A motive to start a business is _____, while _____ creates the need to run the business efficiently.

- A) profit; government
- B) money; government
- C) profit; pride
- D) profit; competition
- E) competition; profit

Answer: D

Diff: 2 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.5

94) Individual ownership of property is a key element in

- A) the private enterprise system.
- B) a planned economy.
- C) socialism.
- D) the factors of production.
- E) communism.

Answer: A

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.5

95) One outcome of competition is that business firms

- A) usually develop a monopoly.
- B) can ignore "price wars."
- C) have unrestricted access to natural resources.
- D) must operate efficiently.
- E) reduce their need for expansion capital.

Answer: D

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.5

96) What provides the motivation for an entrepreneur to operate his or her business efficiently?

- A) The right to vote
- B) Private property rights
- C) Competition
- D) Privatization
- E) Freedom of choice

Answer: C

Diff: 1 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.5

97) Which of the following is correct?

- A) In perfect competition, most firms in an industry are large.
- B) In monopolistic competition, there are fewer sellers than in perfect competition but still many buyers.
- C) All things considered, perfect competition is the ideal situation.
- D) In order for an oligopoly to exist, there must not be more than three sellers.
- E) In a monopoly, the firm that is the only supplier does not have to worry about how much consumer demand will fall as it raises its prices.

Answer: B

Diff: 3 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

98) The four degrees of competition include all of the following *except*

- A) pure competition.
- B) monopolistic competition.
- C) monopolies.
- D) oligopolies.
- E) pure monopolistic competition.

Answer: E

Diff: 2 Type: MC Page Ref: 14-15

Skill: Knowledge

Objective: 1.5

99) Natural cork lost its _____ when a new technology allowed wine bottles to be sealed with plastic corks.

- A) perfect competition
- B) product differentiation
- C) monopoly
- D) monopolistic competition
- E) oligopoly

Answer: C

Diff: 1 Type: MC Page Ref: 14-15

Skill: Knowledge

Objective: 1.5

100) An outcome of competition is that business firms

- A) must operate efficiently.
- B) have unrestricted access to natural resources.
- C) reduce their need for expansion capital.
- D) develop a monopoly.
- E) can drop out of the pricing war unnoticed.

Answer: A

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.5

101) Brown Company wants to develop an advantage over its competitors. To gain this advantage, it must develop a product that is either _____ or of _____ than that of the competition.

- A) lower priced; equal quality
- B) lower priced; higher quality
- C) priced the same; equal quality
- D) priced the same; lower quality
- E) higher priced; equal quality

Answer: B

Diff: 2 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.5

102) When individual firms are small and the number of firms is large, this describes which degree of competition?

- A) Selective competition
- B) Monopolistic competition
- C) Monopoly
- D) Perfect competition
- E) Oligopoly

Answer: D

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

103) Bob owns the St. Paul Street one-stop convenience store, 1 of 70 convenience stores in his region. Which degree of competition is Bob facing?

- A) Monopolistic competition
- B) Oligopoly
- C) Perfect competition
- D) Oligopolistic competition
- E) Monopoly

Answer: C

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

104) In a market with perfect competition,

- A) buyers and sellers do not know the price structure of the market.
- B) price is set by supply and demand.
- C) there are very few sellers.
- D) firms are relatively large.
- E) products have very few similarities.

Answer: B

Diff: 2 Type: MC Page Ref: 14

Skill: Comprehension

Objective: 1.5

105) Which one of the following is the *best* example of perfect competition?

- A) Agricultural industry
- B) Automobile industry
- C) Utility industry
- D) Clothing industry
- E) Soft drink industry

Answer: A

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

106) Boeing, a manufacturer of large commercial aircraft, raises its prices by 9 percent. Airbus, the other primary manufacturer of large commercial aircraft, follows with an increase of 9.25 percent. These companies are practicing a type of pricing strategy characteristic of:

- A) controlled competition.
- B) monopolistic competition.
- C) an oligopoly.
- D) perfect competition.
- E) a monopoly.

Answer: C

Diff: 3 Type: MC Page Ref: 15

Skill: Comprehension

Objective: 1.5

107) In a given national market, only five firms make and distribute little red wagons. This illustrates which degree of competition?

- A) Monopoly
- B) Selective competition
- C) Oligopoly
- D) Monopolistic competition
- E) Perfect competition

Answer: C

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

108) Competition like that between Tide and Cheer, Coke and Pepsi, and Pajar and North Face is:

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

Answer: B

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

109) Which of the following businesses has a natural monopoly?

- A) A provincial electric utility
- B) Via Rail
- C) A Chapters bookstore
- D) Pepsi
- E) De Beers Diamonds

Answer: A

Diff: 2 Type: MC Page Ref: 16

Skill: Comprehension

Objective: 1.5

110) Bailey Wear manufactures children's clothing. The company is able to set its prices higher than its competitors because of the fine material it uses and the attention it pays to the quality of the sewing. Bailey Wear is operating in a competitive environment of

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

Answer: A

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

111) Competition in which there are many buyers, a lot of product differentiation, and relative ease of entry or exit of the market is known as

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

Answer: E

Diff: 2 Type: MC Page Ref: 14-15

Skill: Knowledge

Objective: 1.5

112) When there are a handful of very large sellers, market entry is difficult, and a company can have a major impact on the product price, this is a situation known as

- A) perfect competition.
- B) monopoly.
- C) oligopoly.
- D) monopolistic competition.
- E) free market enterprise.

Answer: C

Diff: 2 Type: MC Page Ref: 14-15

Skill: Knowledge

Objective: 1.5

113) In the market for breakfast cereals, a few large producers, such as General Mills, Post, Quaker, and Kellogg, dominate the market. This *best* describes which of the following?

- A) Perfect competition
- B) Monopolistic competition
- C) Limited cartel
- D) Monopoly
- E) Oligopoly

Answer: E

Diff: 2 Type: MC Page Ref: 15

Skill: Comprehension

Objective: 1.5

114) In a market with perfect competition,

- A) price is set by supply and demand.
- B) there are very few sellers.
- C) products have very few similarities.
- D) firms are relatively large.
- E) the buyers and sellers do not know the price structure of the other party.

Answer: A

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

115) Which of the following is the *most* likely pricing approach for a monopoly?

- A) Charge customers whatever you please.
- B) Give customers a real bargain on price.
- C) Charge a price that will not cause consumer demand to drop.
- D) Undercut the prices of the competition.
- E) Give customers a fair price that cannot be matched by competitors.

Answer: C

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

116) Ontario Hydro operates in a situation of

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

Answer: E

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

117) The Gap makes their products appear to be slightly different from those of their competitors by tactics such as brand names. Their degree of competition is

- A) pure competition.
- B) oligopoly.
- C) monopoly.
- D) monopolistic competition.
- E) none of these.

Answer: D

Diff: 1 Type: MC Page Ref: 15

Skill: Comprehension

Objective: 1.5

118) How does monopolistic competition differ from perfect competition?

- A) There are more sellers in a market characterized by monopolistic competition.
- B) It is easier for sellers to enter a market/industry characterized by monopolistic competition.
- C) In a perfectly competitive market, it is easier to make a profit.
- D) In a market characterized by monopolistic competition, individual firms have more control over price.
- E) In monopolistic competition, small producers have a harder time making a profit.

Answer: D

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

119) Which of the following seems the most likely pricing approach for a monopoly?

- A) Charge customers whatever you please.
- B) Give customers a real bargain by charging a low price.
- C) Charge a price that will not cause consumer demand to drop.
- D) Undercut the prices charged by competitors.
- E) Agree with competitors to fix prices so that profit margins can be maintained.

Answer: C

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

120) What is a "natural" monopoly?

- A) One that occurs without any business firm trying to achieve it—that is, it just happens because the business does things right.
- B) A situation where one company can most efficiently supply all the product or service that is needed by consumers
- C) One where government finds it "natural" to grant monopoly powers to certain business firms.
- D) One that occurs when a business firm sets out to achieve a monopoly and no other firm tries to stop it.
- E) There is no such thing as a natural monopoly.

Answer: B

Diff: 2 Type: MC Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

121) What is "supply management"?

- A) A system that ensures there are no shortages in consumer products and service
- B) A system that ensures companies producing products like automobiles do not artificially restrict supply in order to drive up the price of their products
- C) A system that establishes domestic production quotas for commodities like dairy products, maple syrup, eggs, chickens, and turkeys
- D) A system that is designed to create perfect competition in certain industries

Answer: C

Diff: 2 Type: MC Page Ref: 15

Skill: Comprehension

Objective: 1.5

122) What is an organization that produces or sells goods and services to earn a profit called?

- A) A cooperative
- B) A business
- C) A crown corporation
- D) A not-for-profit
- E) An institution

Answer: B

Diff: 1 Type: MC Page Ref: 4

Skill: Knowledge

Objective: 1.1

ESL: Alternate/ESL

123) After a business's expenses have been subtracted from its revenues what is the remainder called?

- A) Assets
- B) Profit
- C) Liabilities
- D) Sales
- E) Capital

Answer: B

Diff: 1 Type: MC Page Ref: 4

Skill: Knowledge

Objective: 1.1

ESL: Alternate/ESL

124) Charities, labour unions, hospitals, educational institutions, and government agencies are all examples of which of the following?

- A) Co-operatives
- B) Corporations
- C) Businesses
- D) Government agencies
- E) Not-for-profit organizations

Answer: E

Diff: 1 Type: MC Page Ref: 4

Skill: Knowledge

Objective: 1.1

ESL: Alternate/ESL

125) What are the resources that a country's businesses use to produce goods and services called?

- A) Information
- B) Capital
- C) Labour
- D) Factors of production
- E) Assets

Answer: D

Diff: 1 Type: MC Page Ref: 4

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

126) Which of the following is *not* a factor of production?

- A) Labour
- B) Capital
- C) Corporations
- D) Information
- E) Natural resources

Answer: C

Diff: 1 Type: MC Page Ref: 4-5

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

127) A system in which the government owns and operates all sources of production is called which of the following?

- A) Socialism
- B) Capitalism
- C) Fascism
- D) Mixed
- E) Communism

Answer: E

Diff: 1 Type: MC Page Ref: 6

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

128) An economic system in which markets decide what, when, and for whom to produce is called which of the following?

- A) Socialism
- B) Mixed market
- C) Capitalism
- D) Communism
- E) Fascism

Answer: C

Diff: 1 Type: MC Page Ref: 7

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

129) The transfer of activities from the government to the private sector is referred to as which of the following?

- A) Corporatization
- B) Capitalization
- C) Nationalization
- D) Privatization
- E) Deregulation

Answer: D

Diff: 1 Type: MC Page Ref: 8

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

130) What is a reduction in the number of laws affecting business activity called?

- A) Rule reduction
- B) Red tape elimination
- C) Privatization
- D) Nationalization
- E) Deregulation

Answer: E

Diff: 1 Type: MC Page Ref: 8

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

131) Which of the following is an economic system that has parts of a command economy and a market economy?

- A) Mixed market
- B) Capitalism
- C) Socialism
- D) Fascism
- E) Communism

Answer: A

Diff: 1 Type: MC Page Ref: 8

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

132) The government regulates business activity to ensure which of the following exists in the Canadian economy?

- A) Fair prices
- B) Healthy competition
- C) Reasonable return policies
- D) Low unemployment
- E) Moderate inflation

Answer: B

Diff: 1 Type: MC Page Ref: 8-9

Skill: Knowledge

Objective: 1.3

ESL: Alternate/ESL

133) Taxes are imposed and collected by different levels of government. Which of the following does *not* collect taxes in Canada?

- A) Federal government
- B) Local government
- C) Provincial government
- D) State government
- E) Municipal government

Answer: D

Diff: 1 Type: MC Page Ref: 10

Skill: Knowledge

Objective: 1.3

ESL: Alternate/ESL

134) Revenue taxes are collected by the government to help fund various services and programs. What is another term used to describe these?

- A) Consumption taxes
- B) Property taxes
- C) Goods and services taxes
- D) Income taxes
- E) Restrictive taxes

Answer: D

Diff: 1 Type: MC Page Ref: 10

Skill: Knowledge

Objective: 1.3

ESL: Alternate/ESL

135) Which of the following is a person hired by a company or an industry to represent its interests with government officials?

- A) Lobbyist
- B) Advocate
- C) Consultant
- D) Influencer
- E) Steward

Answer: A

Diff: 1 Type: MC Page Ref: 10

Skill: Knowledge

Objective: 1.3

ESL: Alternate/ESL

136) What is an organization dedicated to promoting the interests and assisting the members of a particular industry called?

- A) Lobby group
- B) Credit union
- C) Advocate agency
- D) Trade association
- E) Fraternity

Answer: D

Diff: 1 Type: MC Page Ref: 11

Skill: Knowledge

Objective: 1.3

ESL: Alternate/ESL

137) What is the willingness and ability of buyers to purchase a product or service called?

- A) Supply
- B) Desire
- C) Want
- D) Demand
- E) Consumption

Answer: D

Diff: 1 Type: MC Page Ref: 12

Skill: Knowledge

Objective: 1.4

ESL: Alternate/ESL

138) A graph showing how many units of a product will be offered at different prices is referred to as which of the following?

- A) Demand curve
- B) Supply curve
- C) Inventory graph
- D) Price graph
- E) Consumption graph

Answer: B

Diff: 1 Type: MC Page Ref: 13

Skill: Knowledge

Objective: 1.4

ESL: Alternate/ESL

139) When the quantity of goods demanded equals the quantity of goods supplied, this is referred to as which of the following?

- A) Buyers' price
- B) Suppliers' price
- C) Profit price
- D) Equilibrium price
- E) Demand price

Answer: D

Diff: 1 Type: MC Page Ref: 13

Skill: Knowledge

Objective: 1.4

ESL: Alternate/ESL

140) What is the situation called when quantity supplied exceeds quantity demanded?

- A) Overstock
- B) Surplus
- C) Excess inventory
- D) Shortage
- E) Overallocation

Answer: B

Diff: 1 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.4

ESL: Alternate/ESL

141) What is the situation called in which quantity demanded exceeds quantity supplied?

- A) Understock
- B) Stockout
- C) Overdemand
- D) Shortage
- E) Surplus

Answer: D

Diff: 1 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.4

ESL: Alternate/ESL

142) What is an economic system characterized by property rights, freedom of choice, profits, and competition called?

- A) Socialism
- B) Nationalism
- C) Privatization
- D) Private enterprise
- E) Public enterprise

Answer: D

Diff: 1 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.5

ESL: Alternate/ESL

143) Which degree of competition exists where the number of firms in the industry is large, all the firms are small, and the products produced are virtually identical?

- A) Monopoly
- B) Perfect competition
- C) Oligopoly
- D) Monopolistic competition
- E) Duopoly

Answer: B

Diff: 1 Type: MC Page Ref: 14

Skill: Knowledge

Objective: 1.5

ESL: Alternate/ESL

144) When an industry has only a handful of very large sellers which of the following exists?

- A) Duopoly
- B) Perfect competition
- C) Oligopoly
- D) Monopolistic competition
- E) Monopoly

Answer: C

Diff: 1 Type: MC Page Ref: 15

Skill: Knowledge

Objective: 1.5

ESL: Alternate/ESL

145) What is a market or industry with only one producer, who can set the price of its products?

- A) Monopoly
- B) Monopolistic competition
- C) Oligopoly
- D) Sole competition
- E) Perfect competition

Answer: A

Diff: 1 Type: MC Page Ref: 15

Skill: Knowledge

Objective: 1.5

ESL: Alternate/ESL

146) What is the name of a system which has some of the characteristics of a monopoly where production quotas are established for things like dairy products, maple syrup, eggs, and chicken?

- A) Natural monopoly
- B) Supply management
- C) Oligopoly
- D) Monopolistic competition
- E) Perfect competition

Answer: B

Diff: 1 Type: MC Page Ref: 15

Skill: Knowledge

Objective: 1.5

ESL: Alternate/ESL

1.2 Critical Thinking Questions

1) AB Distributors is a company that serves as a shipping intermediary for other companies. Its sales revenue has increased from the previous year. Jonathan, a sales manager at AB, says, "Since the company has increased its revenue, it is now more profitable."

Which of the following, if true, would most strongly support Jonathan's contention?

- A) AB Distributor is a relatively new company.
- B) AB Distributor is a for-profit company.
- C) AB Distributor's costs have decreased from the previous year.
- D) AB Distributor's competitors have had increased revenue.
- E) AB Distributor has hired more employees recently.

Answer: C

Diff: 3 Type: MC

Skill: Analysis

2) AB Distributors is a company that serves as a shipping intermediary for other companies. Its sales revenue has increased from the previous year. Jonathan, a sales manager at AB, says, "Since the company has increased its revenue, it is now more profitable."

Which of the following, if true, would most weaken Jonathan's contention?

- A) AB Distributor's clients are happy with the company's services.
- B) Shipping costs for the industry have significantly increased over the last year.
- C) AB Distributor's employees are dissatisfied with the company's working conditions.
- D) The shipping intermediary industry has experienced a slowdown overall.
- E) Many of AB Distributor's employees are new to the business.

Answer: B

Diff: 3 Type: MC

Skill: Analysis

3) AB Distributors is a company that serves as a shipping intermediary for other companies. Its sales revenue has increased from the previous year. Jonathan, a sales manager at AB, says, "Since the company has increased its revenue, it is now more profitable."

Which of the following points out a flaw in Jonathan's reasoning?

- A) Information about the company's expenses is necessary to tell whether it is profitable.
- B) AB Distributor may have lost money the previous year.
- C) Most of AB Distributor's employees are relatively new.
- D) Not all of the revenue may contribute toward profits.
- E) Many of AB Distributor's competitors may not be doing as well.

Answer: A

Diff: 3 Type: MC

Skill: Analysis

4) AB Distributors is a company that serves as a shipping intermediary for other companies. Its sales revenue has increased from the previous year. Jonathan, a sales manager at AB, says, "Since the company has increased its revenue, it is now more profitable."

Another manager at AB Distributor, Shawna, suggests that if the company's revenue had not increased, it would not have been able to increase its profits. Which of the following points out a flaw in Shawna's reasoning?

- A) Other similar companies have increased their profits too.
- B) Revenue is not always relevant to figuring profitability.
- C) Profitability is not the only objective of the company.
- D) The company can increase revenue only by cutting costs.
- E) It is possible to increase profits by lowering costs.

Answer: E

Diff: 3 Type: MC

Skill: Analysis

5) Allied Industries is a manufacturer of basic building materials like ready mix concrete, aggregates, and other construction material. It sells its products primarily to three large real estate companies. One of these companies, Cicada Corporation, has asked for a huge discount for future orders. Allied's CEO feels that this may be a good move to retain a customer, but many senior managers think otherwise.

Assume that Allied has required Cicada to not handle any of Allied's competitors' products. Which of the following most strongly suggests that this arrangement is legal?

- A) The pricing demands of Cicada have forced many building suppliers out of business.
- B) Companies like Allied have demonstrated strong financial performance in recent years.
- C) Cicada often sells groups of homes to institutions that then resell them to individual consumers.
- D) In the past, Cicada and Allied were part of the same company.
- E) Monopolistic competition is encouraged by the government in some cases.

Answer: B

Diff: 3 Type: MC

Skill: Analysis

6) Many companies start as niche operations in order to get a foothold against larger competitors and then grow into broader competitors. Enterprise Rent-A-Car began by building a network of neighborhood offices rather than competing with Hertz and Avis in airport locations. Enterprise is now a large car rental company.

Which of the following is best supported by the statements above?

- A) The best path to long-term growth is to avoid confrontation with larger competitors for as long as possible.
- B) It is generally better to confront one established competitor at a time rather than many at once.
- C) Even when competing in a niche, a company should act in every respect as if it is targeting every market segment.
- D) The car rental industry is the best example for niche companies to consider when evaluating how to grow into prominence.
- E) A company's initial goals do not place limits on its long-term success.

Answer: E

Diff: 3 Type: MC

Skill: Analysis

7) Anon Corporation is a manufacturer of Widgets. Faced with increasing input material costs, the company is considering a 15-20 percent price increase. There are significant disagreements among senior personnel in the company about this move.

Which of the following, if true, would strengthen the argument in favour of a price increase?

- A) Substitutes for Widgets are available in the market.
- B) The price of materials consumed along with Widgets has gone up.
- C) A change in the environment is likely to stimulate overall demand for Widgets.
- D) Competitors have announced that they intend to keep prices at current levels.
- E) Relaxation of import restrictions would lead to foreign competitors flooding the market.

Answer: C

Diff: 3 Type: MC

Skill: Analysis

8) Anon Corporation is a manufacturer of Widgets. Faced with increasing input material costs, the company is considering a 15-20 percent price increase. There are significant disagreements among senior personnel in the company about this move.

Which of the following, if true, would weaken the argument for a price increase?

- A) The input costs of raw materials are expected to increase further in the coming months.
- B) Customers are loyal to the brand mainly because they believe in the quality of ingredients used.
- C) Anon's competitors have announced an increase in prices.
- D) One of Anon's major competitors has just declared bankruptcy.
- E) Market research done by the company reveals that demand for Widgets is readily affected by the price.

Answer: E

Diff: 3 Type: MC

Skill: Analysis

9) Anon Corporation is a manufacturer of Widgets. Faced with increasing input material costs, the company is considering a 15-20 percent price increase. There are significant disagreements among senior personnel in the company about this move.

Assuming other factors remain constant, Anon would have the most power to raise prices if Widgets were which of the following?

- A) Life-saving drugs
- B) Automobiles
- C) Beverages
- D) Toys
- E) Jewellery

Answer: A

Diff: 3 Type: MC

Skill: Analysis

10) Retepson, Inc. has been in business for over 50 years. Retepson is best known for its "Guide to Colleges" line of books designed for high school students seeking admission to undergraduate programs. Basic information about a program is included in the books at no charge to the colleges, but colleges may purchase additional advertising space. Traditionally, Retepson has made money by selling advertising in its books and by charging students for the books themselves. Recently, however, profits are down, and the company is considering whether new developments in information technology will make its current business model obsolete.

Which of the following questions is most relevant to Retepson's decisions with respect to the viability of its business model?

- A) Does Retepson currently have high market share or low market share in the industries in which it competes?
- B) Has Retepson been profitable throughout its history?
- C) Would the profit margins of any new businesses be higher or lower than current profit margins?
- D) To what extent will college students be likely to choose books to get information about colleges?
- E) Are people who bought Retepson books in the past likely to buy new editions of those books after they leave college?

Answer: D

Diff: 3 Type: MC

Skill: Analysis

11) A new watch manufacturer would like to determine the market price of a new line of watches. How could the manufacturer *most* effectively determine the market price?

- A) Place several of the new watches on sale at a watch store and see which sells most quickly
- B) Arrange to sell the watches in a number of diverse auctions
- C) Set the price of one watch higher than another and see which sells the most quickly
- D) Survey potential customers and retailers on what they think the price should be
- E) Ask executives from competing companies about what they think the price should be

Answer: B

Diff: 3 Type: MC

Skill: Analysis

12) A new feature on the latest Acme smart phone has made it wildly popular. Which action should Acme take to maximize profits?

- A) Increase the supply of the smart phone
- B) Decrease the supply of the smart phone
- C) Reduce the price of the smart phone
- D) Maintain the current supply until demand falls
- E) Create a shortage of the smart phone

Answer: A

Diff: 3 Type: MC

Skill: Analysis

13) Which of the following is *not* a likely reason why a small business in a free enterprise system should seek the ideal combination of price charged and quantity supplied?

- A) To maintain goodwill among customers
- B) To maximize profits
- C) To avoid surpluses and shortages
- D) To avoid government regulation
- E) To discourage competition

Answer: D

Diff: 3 Type: MC

Skill: Analysis

1.3 True/False Questions

1) Business principles are helpful to non-profit organizations as they try to achieve their service goals.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 4

Skill: Comprehension

Objective: 1.1

2) A business is an organization that seeks to earn profits by providing goods and services to customers.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 4

Skill: Knowledge

Objective: 1.1

3) Many organizations in Canada do not even try to make a profit.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 4

Skill: Knowledge

Objective: 1.1

4) Profit is computed by subtracting depreciation expenses and income taxes from total business revenue.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 4

Skill: Knowledge

Objective: 1.1

5) The term "business" typically includes large organizations, such as General Motors), which seek a profit, but does not include individuals who are self-employed, e.g., a carpenter, or a beautician who operates a shop in her home.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 4

Skill: Comprehension

Objective: 1.1

6) A business is an organization that seeks to earn profits by providing one or more of the factors of production to consumers.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 4

Skill: Knowledge

Objective: 1.1

7) An economic system determines how a nation allocates resources among its citizens.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 5

Skill: Knowledge

Objective: 1.2

8) A command economy relies on a centralized government to control all or most of the factors of production and to make all or most production and allocation decisions.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 6

Skill: Knowledge

Objective: 1.2

9) There are several different economic systems, but they all allocate resources in fundamentally the same way.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 5

Skill: Comprehension

Objective: 1.2

10) Information resources are not needed by those businesses that produce only physical goods.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 5

Skill: Comprehension

Objective: 1.2

11) Capital is needed only at the start-up phase of a business.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 5

Skill: Comprehension

Objective: 1.2

12) The natural resources component of the factors of production includes the physical and mental capabilities of people in the work force.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 5

Skill: Comprehension

Objective: 1.2

13) If two people exchange apples, they still each have only one apple, but if two people exchange ideas, each person now has two ideas instead of one. This example is consistent with the argument that "information" as a factor of production is conceptually different than land, labour, and capital as factors of production.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 5

Skill: Analysis

Objective: 1.2

14) In the input market, firms supply goods and services in response to demand on the part of households.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 7

Skill: Knowledge

Objective: 1.2

15) Communism and socialism are both types of command economies.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 6

Skill: Comprehension

Objective: 1.2

16) Workers in socialist countries are usually allowed to choose their occupations, but a large proportion generally work for the government.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 6

Skill: Knowledge

Objective: 1.2

17) Capitalism relies on demand and supply in the marketplace to determine what, when, and for whom to produce.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 7

Skill: Knowledge

Objective: 1.2

18) There are more command economies in the world now than there were 30 years ago.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 6

Skill: Knowledge

Objective: 1.2

19) The most important role of government is that of "regulator."

Answer: FALSE

Diff: 2 Type: TF Page Ref: 8-11

Skill: Comprehension

Objective: 1.2

20) The reasons why the government regulates many aspects of business activity include protecting competition, protecting consumers, achieving social goals, and protecting the environment.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 8-11

Skill: Comprehension

Objective: 1.3

21) Total Canadian government expenditures in 2017 were about \$100 billion.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 8

Skill: Knowledge

Objective: 1.3

22) Revenue taxes are levied to control certain activities that legislative bodies believe should be controlled.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 10-11

Skill: Knowledge

Objective: 1.3

23) If the Canadian Auto Workers (CAW) want to bring their interests to government officials, they can hire a lobbyist.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 11

Skill: Comprehension

Objective: 1.3

24) The Competition Act prohibits resale price maintenance, which occurs when companies refuse to sell their products to discount stores.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 9

Skill: Comprehension

Objective: 1.3

25) A demand and supply schedule is derived from market research and other systematic studies of the market.

Answer: TRUE

Diff: 3 Type: TF Page Ref: 13

Skill: Knowledge

Objective: 1.4

26) The law of demand states that buyers will purchase more of a product as its price drops.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 12

Skill: Knowledge

Objective: 1.4

27) In economic terms, a "market" refers to a specific place (e.g., a supermarket).

Answer: FALSE

Diff: 2 Type: TF Page Ref: 12

Skill: Knowledge

Objective: 1.4

28) If the market for diamonds is at equilibrium and De Beers increased its prices, people would still demand the same quantity of diamonds.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 13

Skill: Application

Objective: 1.4

29) A demand curve shows the amount of goods and services a producer will create at different prices.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 13

Skill: Knowledge

Objective: 1.4

30) The point on a demand and supply schedule where supply and demand are equal is known as the break-even point.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 13

Skill: Knowledge

Objective: 1.4

31) A surplus in the market is good news for the firm selling a product or service because there are additional customers still trying to purchase the product.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 14

Skill: Comprehension

Objective: 1.4

32) The equilibrium price is the profit-maximizing point at which the quantity demanded equals the quantity supplied.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 13

Skill: Knowledge

Objective: 1.4

33) The private enterprise system guarantees a profit for each business firm, as long as it does not break the law.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 14

Skill: Comprehension

Objective: 1.5

34) The concept of freedom of choice applies only to buyers of goods and services, not to sellers.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 14

Skill: Comprehension

Objective: 1.5

35) What a company chooses to produce will be affected by the profits it hopes to make.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 14

Skill: Comprehension

Objective: 1.5

36) The private enterprise system guarantees that competition among business firms will be fair.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 14

Skill: Comprehension

Objective: 1.5

37) In monopolistic competition, sellers try to make their products appear at least slightly different from those of other competitors by tactics such as brand names, design, styling, and advertising.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

38) As a general rule, in perfect competition (e.g., in farming) there will be very few sellers.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

39) The privatization of postal services in several countries is consistent with the argument that there is no such thing as a "natural" monopoly.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

40) The market for clothing is best characterized as monopolistic competition.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 14-15

Skill: Knowledge

Objective: 1.5

41) Monopolistically competitive businesses may be large or small and may enter or exit the market easily.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 14-15

Skill: Knowledge

Objective: 1.5

42) Coke and Pepsi represent oligopolistic competition.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

43) A differentiating strategy used in monopolistic competition is to use brand names such as Tide and Cheer.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

44) Private enterprise requires the presence of four elements: (1) private property rights, (2) freedom of choice, (3) competition, and (4) no government control.

Answer: FALSE

Diff: 3 Type: TF Page Ref: 14

Skill: Knowledge

Objective: 1.5

45) Fruit vendors at a busy outdoor farmer's market are involved in perfect competition. They cannot truly distinguish one apple from the ones sold at the next table.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 14

Skill: Comprehension

Objective: 1.5

46) An oligopoly exists when firms in an industry are so small and numerous that no one is powerful enough to dominate the market.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 14-15

Skill: Knowledge

Objective: 1.5

47) In the supply management system, producers are allowed to produce more than their allowed quota if prices drop below a certain specified level.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 15

Skill: Knowledge

Objective: 1.5

48) If there is anything left after a business subtracts its expenses from revenues it is referred to as profit.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 4

Skill: Knowledge

Objective: 1.1

ESL: Alternate/ESL

49) An organization that provides goods or services to people but is not motivated to make money doing it is called a business.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 4

Skill: Knowledge

Objective: 1.1

ESL: Alternate/ESL

50) How a nation trades with other countries is called its economic system.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 4

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

51) An exchange process between buyers and sellers of a good or service is called a market.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 6

Skill: Knowledge

Objective: 1.2

ESL: Alternate/ESL

52) Progressive revenue taxes charge a higher rate on higher-income taxpayers and at a lower rate on lower-income taxpayers.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 10

Skill: Knowledge

Objective: 1.3

ESL: Alternate/ESL

53) A lobbyist is a person hired by a company or an industry to represent its interests with government officials.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 11

Skill: Knowledge

Objective: 1.3

ESL: Alternate/ESL

54) Supply is the willingness and ability of buyers to purchase a product or service.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 11

Skill: Knowledge

Objective: 1.4

ESL: Alternate/ESL

55) When the quantity of goods demanded, and the quantity of goods supplied are equal it is called market or equilibrium price.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 13

Skill: Knowledge

Objective: 1.4

ESL: Alternate/ESL

56) In perfect competition all the firms in an industry are small, the number of firms in the industry is large, and the products produced by the different firms are virtually identical.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 14

Skill: Knowledge

Objective: 1.5

ESL: Alternate/ESL

57) An oligopoly is when only one producer exists in a market and can therefore set the price of its products or services.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 15

Skill: Knowledge

Objective: 1.5

ESL: Alternate/ESL

1.4 Short Answer Questions

1) What is a business?

Answer: A business is an organization that provides goods or services that are sold to earn profits.

Diff: 1 Type: SA Page Ref: 4

Skill: Comprehension

Objective: 1.1

2) What are profits and why are they important in Canada's economic system?

Answer: Profits = revenues minus expenses

- They are rewards for taking risks
- They are used to support government and charities, and to pay wages
- They are needed to continue the financing of goods and services production

Diff: 2 Type: SA Page Ref: 5

Skill: Comprehension

Objective: 1.1

3) What are the five factors of production?

Answer: The factors of production are labour, capital, entrepreneurs, physical resources, and information resources.

Diff: 1 Type: SA Page Ref: 4-5

Skill: Knowledge

Objective: 1.2

4) What is an entrepreneur?

Answer:

- An individual who organizes and manages labour, capital, and natural resources to produce goods and services to earn a profit, but who also runs the risk of failure
- Business person
- Manager
- Initiator
- Leader
- Calculated Risk taker

Diff: 2 Type: SA Page Ref: 5

Skill: Comprehension

Objective: 1.2

5) Explain the terms, "command economy" and "market economy." Give an illustration of each.

Answer:

- *Command*: government dominated, government controls the factors of production, people often work for the government, share the wealth equally, one class society, example - Cuba

- *Market*: the people have a say in what the government does, individuals control factors of production, independent wealth, rich/middle class/poor, example — ,the USA is the best example (although in reality it is a mixed market economy as well). Most nations, including Canada, are mixed market economies borrowing elements from both.

Diff: 2 Type: SA Page Ref: 6-8

Skill: Comprehension

Objective: 1.2

6) What is the fundamental difference between a command economy and a market economy?

Answer: A command economy relies on a centralized government to control all or most factors of production and to make all or most production and allocation decision. In a market economy, individuals control production and allocation decisions through supply and demand.

Diff: 1 Type: SA Page Ref: 6-8

Skill: Comprehension

Objective: 1.2

7) What is a mixed market economy?

Answer: A mixed market economy is one that has features of both command and market economies. Since very few economies are purely command or market economies, most countries of the world technically have a mixed market economy. But China's mixed market economy is quite different than Canada's.

Diff: 1 Type: SA Page Ref: 8

Skill: Comprehension

Objective: 1.2

8) What is the difference between deregulation and privatization?

Answer: Deregulation means a reduction in the number of laws affecting business activity and in the powers of government enforcement agencies. Privatization means converting government enterprises into private sector companies. In the 1990s, there was a definite trend toward deregulation and privatization, but the major economic problems that many countries have been facing in recent years, particularly in their financial sectors, has meant the re-imposition of stricter government controls in some areas of the economy.

Diff: 2 Type: SA Page Ref: 8

Skill: Comprehension

Objective: 1.2

9) List one major benefit and one major drawback of each type of economic system.

Answer: A market economy is efficient and provides wealth for many people in the society, but there may be a significant disparity between the rich and poor. A command economy is less efficient, but there is typically less disparity between rich and poor.

Diff: 2 Type: SA Page Ref: 6-8

Skill: Comprehension

Objective: 1.2

10) There are three major types of economic systems in existence. Identify and briefly describe them.

Answer:

- *Command economies*: a type in which the government controls all or most factors of production and makes all or most production decisions
- *Market economies*: a type in which individuals control all or most factors of production and make all or most production decisions
- *Mixed economies*: a type with elements of both a command economy and a market economy

Diff: 2 Type: SA Page Ref: 6-8

Skill: Comprehension

Objective: 1.2

11) What is socialism?

Answer: Socialism is a less extensive command system in which the government owns and operates selected major industries. The government may control banking, transportation, or manufacturing industries, for example. Smaller businesses, such as clothing stores and restaurants, are privately owned.

Diff: 1 Type: SA Page Ref: 8

Skill: Comprehension

Objective: 1.2

12) How does government compete with business in Canada?

Answer: Government competes with business through the activities of Crown corporations like Hydro Quebec, Manitoba Hydro, the Liquor Control Board of Ontario, and Canada Post. Crown corporations exist at both the federal and provincial levels. Many people argue that business firms could provide these goods and services more efficiently than the government can.

Diff: 1 Type: SA Page Ref: 9

Skill: Comprehension

Objective: 1.3

13) What four areas are the focus of the government's role as a "regulator"?

Answer: The four areas are promoting competition (e.g., ensuring that healthy competition exists among business competitors), protecting consumers (e.g., legislation regarding hazardous products), achieving social goals (e.g., universal access to health care), and protecting the environment (e.g., passing air pollution legislation).

Diff: 1 Type: SA Page Ref: 8-10

Skill: Comprehension

Objective: 1.3

14) How does government influence business? How does business influence government?

Answer: Government influences business through each of the roles that government plays in our society. For example, as a customer, government purchases influence the amount of demand that exists for the products and services that business produces. Business influences government in a variety of ways, including the use of lobbyists, who try to influence the type legislation that government is considering that might affect how businesses operate.

Diff: 1 Type: SA Page Ref: 8-11

Skill: Comprehension

Objective: 1.3

15) What is the law of demand? What is the law of supply?

Answer: The law of demand states that buyers will purchase more of a product as its price drops and less of a product as its price increases. The law of supply states that sellers will offer more of a product for sale as its price increases.

Diff: 1 Type: SA Page Ref: 11

Skill: Knowledge

Objective: 1.4

16) Explain what happens when the demand curve intersects with the supply curve.

Answer: At this intersection, we have the equilibrium or market price. At this price, there will be neither a shortage nor surplus. Over time, markets tend to price products at the equilibrium price.

Diff: 2 Type: SA Page Ref: 11-14

Skill: Comprehension

Objective: 1.4

17) Expert Electronics sells state-of-the-art desktop computer systems. The company can fill all orders, but it has no waiting list. How is Expert Electronics apparently pricing its computer systems?

Answer: It appears that Expert Electronics is pricing its computers at the equilibrium price, i.e., at the intersection of the demand and supply curves. At the equilibrium price, the quantity of goods demanded, and the quantity of goods supplied is equal.

Diff: 2 Type: SA Page Ref: 11-14

Skill: Comprehension

Objective: 1.4

18) What does the supply curve show?

Answer: The supply curve shows how much of a product will be supplied at different prices.

Diff: 2 Type: SA Page Ref: 11-14

Skill: Comprehension

Objective: 1.4

19) What does the demand curve show?

Answer: The demand curve shows how many products will be demanded at different prices.

Diff: 2 Type: SA Page Ref: 11-14

Skill: Comprehension

Objective: 1.4

20) What happens when a company underestimates demand?

Answer:

- Too few products are produced
- Potential profits lost
- Unhappy customers cannot buy what they want
- Knowledge of the shortage attracts more competition

Diff: 2 Type: SA Page Ref: 11-14

Skill: Comprehension

Objective: 1.4

21) In a country operating under a capitalistic, market-based economy, what four elements must be present in the economic system to make it work?

Answer: The required elements are private property rights, freedom of choice, profits, and competition.

Diff: 2 Type: SA Page Ref: 14

Skill: Comprehension

Objective: 1.5

22) List the four degrees of competition that can exist in a private enterprise system.

Answer: Perfect competition, monopolistic competition, oligopoly, and monopoly

Diff: 2 Type: SA Page Ref: 14-15

Skill: Knowledge

Objective: 1.5

23) Describe monopolistic competition.

Answer: In a market characterized by monopolistic competition, there are fewer sellers than in perfect competition. Sellers will attempt to differentiate their product from those of their competitors. Product differentiation gives sellers some control over prices. Monopolistically competitive businesses can be large or small and can enter and exit the market easily.

Diff: 2 Type: SA Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

24) How does Canada's supply management system work?

Answer: In Canada's supply management system, production quotas are established for commodities like dairy products, maple syrup, eggs, chickens, and turkeys. Producers of these commodities are not allowed to produce more than the quota they have been granted. To discourage foreign competitors from entering the market, high tariffs are charged on imports of these commodities.

Diff: 2 Type: SA Page Ref: 15

Skill: Comprehension

Objective: 1.5

1.5 Essay Questions

1) Explain the role of both profit-seeking businesses and non-profit organizations in the overall "meaning of business."

Answer: Businesses are organizations that provide goods and services that are then sold to earn profits. Indeed, the prospect of earning profits—the difference between a business's revenue and its expenses—is what encourages people to open and expand businesses. After all, profits are the reward owners get for risking their money and time. The right to pursue profits distinguishes a business from non-profit organizations, such as universities, hospitals, and government agencies, that run in much the same way but that generally do not seek profits. Whereas profits may be considered the final reward in profit-seeking businesses, the final reward for non-profit organizations might be, for example, operational efficiency.

Diff: 3 Type: ES Page Ref: 4

Skill: Comprehension

Objective: 1.1

2) What are the factors of production? Explain each one.

Answer: *Natural resources*: items used in the production of goods and services in their natural state, including land, water, minerals, and trees

Labour: the mental and physical training and talents of people; sometimes called human resources

Capital: the funds needed to operate an enterprise

Entrepreneur: an individual who organizes and manages natural resources, labour, and capital to produce goods and services to earn a profit, but who also runs the risk of failure

Newer perspectives tend to broaden the idea of "natural resources" to include all physical resources

While the production of tangible goods once dominated most economic systems, today information resources play a major role

Diff: 2 Type: ES Page Ref: 4-5

Skill: Comprehension

Objective: 1.2

3) Vermont Computers is a manufacturer of computers on the large, but isolated, island nation of New Vermont. Although imports are extremely limited, but there are a handful of computer manufacturers in addition to Vermont Computers. While the government provides some services, such as public education and a well-maintained road system, almost all businesses are privately owned. Home ownership is unusually high, with 80 percent of all families owning their own home. Vermont Computers is selling a state-of-the-art computer for 1,299 veros (the local currency). At this price, the company can fill all orders, but they have no waiting list. What type of economic system exists in New Vermont? Support your conclusions.

Answer: It appears that New Vermont operates under a market-based, capitalist economy. In a market economy, there is private ownership of the factors of production. Almost all businesses are privately owned, and people can own their own homes. The political basis for a market economy is capitalism, which sanctions the private ownership of the factors of production and encourages entrepreneurship by offering profits as an incentive.

Diff: 2 Type: ES Page Ref: 6-8

Skill: Comprehension

Objective: 1.2

4) Consider the following statement: "A nation's economic system is its system for allocating its resources among its citizens, both individuals and organizations." What are a nation's "resources," and what important role do they play in a nation's economic system?

Answer: A nation's resources, often referred to as the *factors of production*, include four traditional factors: labour, capital, entrepreneurs, and physical resources. Recently, information resources have been added to the list. An economic system is defined by how it manages and allocates these factors of production. In a planned economy, for example, the factors of production are government-owned and controlled. In a market economy, such as that of Canada, individual producers and consumers control production and allocation by creating combinations of supply and demand. In a mixed-market economy like Canada's, which features characteristics of both a planned and a market economy, there is some government control of some factors of production—often through the nation's major industries, such as transportation, communication, and information—alongside some private ownership.

Diff: 3 Type: ES Page Ref: 4-5

Skill: Comprehension

Objective: 1.2

5) What is the difference between capitalism and socialism?

Answer:

- Capitalism: an economic system in which markets decide what, when, and for whom to produce

- Capitalist market economy: citizens run businesses, more efficient, choose your own job

- Socialism: a kind of command economy in which the government owns and operates the main industries, while individuals own and operate less crucial industries. It is less efficient, and a large proportion of people end up working for government

Diff: 2 Type: ES Page Ref: 6-8

Skill: Comprehension

Objective: 1.2

6) What is socialism?

Answer: Socialism is a partially planned system in which the government owns and operates selected major industries. In such mixed market economies, the government may control, for example, banking, transportation, or manufacturing industries. Smaller businesses, such as clothing stores and restaurants, are privately owned.

Diff: 1 Type: ES Page Ref: 6

Skill: Comprehension

Objective: 1.2

7) "All the different economic systems of the world are moving toward a mixed economy with elements of a planned economy and a market economy." Agree or disagree and support your position.

Answer: Since communist countries are adopting at least some deregulation and privatization, and capitalist countries regulate private enterprise, it can be argued that all countries are moving toward a mixed market economy. But there are still major differences between the economies of the various countries of the world. In Cuba and North Korea, for example, citizens have far less economic freedom than Canadian citizens.

Diff: 2 Type: ES Page Ref: 6-8

Skill: Comprehension

Objective: 1.2

8) How does a planned economy differ from a market economy?

Answer: A planned economy relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions. In a market economy, individuals control production and allocation decisions through supply and demand. Planned economies are systems in which the government owns and operates all or most factors of production. Market economies rely on capitalism and free enterprise to create an environment in which producers and consumers are free to buy and sell what they choose.

Diff: 2 Type: ES Page Ref: 6-8

Skill: Comprehension

Objective: 1.2

9) Discuss the government's role as: (a) a competitor, (b) a regulator, (c) a taxation agent, and (d) a provider of incentive programs.

Answer: *Competitor*: the government competes with business through Crown corporations (energy, Royal Canadian Mint, St. Lawrence Seaway Authority).

Regulator: federal and provincial governments in Canada still regulate many aspects of business activity. Government regulates business through many administrative boards, tribunals, or commissions (CRTC, CTC, Canadian Wheat Board).

Taxation agent: taxes are imposed to fund government services and programs and to regulate and control certain activities. There are revenue taxes and restrictive taxes.

Provider of incentive programs: through programs like the Industrial Regional Development Program, federal assistance is delivered to industries, particularly those in disadvantaged regions. Other programs include tax and duty rebates.

Diff: 2 Type: ES Page Ref: 8-11

Skill: Comprehension

Objective: 1.3

10) How does the government justify regulation of business activities? As an owner or manager, do you believe regulation of business is justified? As a consumer?

Answer: Government justifies the regulation of business activities on the grounds that consumers must be protected from unreasonable behaviour by business firms (e.g., anti-competitive actions which are designed to benefit the business at the expense of consumers). Government wants to encourage and protect competition by seeking to eliminate restrictive trade practices. Some business owners dislike government regulation because it prevents them from engaging in certain activities (e.g., price-fixing), but, business owners recognize that government regulations are designed to create a fair and honest business world that has the best interests of everyone as its goal. But there is much debate about whether government regulation achieves that goal. For their part, consumers believe that business must be regulated so that consumers are protected from selfish or ill-advised activity by business firms.

Diff: 2 Type: ES Page Ref: 8-11

Skill: Analysis

Objective: 1.3

11) Explain the roles of demand and supply in a market economy.

Answer: On all economic levels of a market economy, decisions about what to buy and what to sell are determined primarily by the forces of demand and supply. Demand is the willingness and ability of buyers to purchase a product; supply is the willingness and ability of producers to offer a good or service for sale. The law of demand states that buyers will purchase more of a product as its price drops and less as its price increases. The law of supply states that producers will offer more of a product for sale as its price rises and less as its price drops.

Diff: 2 Type: ES Page Ref: 12-13

Skill: Comprehension

Objective: 1.4

12) Explain what happens when the demand curve intersects with the supply curve.

Answer: The intersection marks the equilibrium, or market price. At this price, there will be neither a shortage nor surplus. Over time, markets tend to price products at the equilibrium price. At the intersection of the demand and supply curve, we have the equilibrium, or market price. At this price, there will be neither a shortage nor surplus. Over time, markets tend to price products at the equilibrium.

Diff: 2 Type: ES Page Ref: 13

Skill: Comprehension

Objective: 1.4

13) Inaccuracies in forecasting an exact supply-demand schedule create surpluses and shortages. Describe what surpluses and shortages are using the concepts of supply and demand and indicate the probable impact of each upon price.

Answer: Surpluses occur when the quantity supplied exceeds the quantity demanded, prices will decrease.

Shortages occur when the quantity demanded exceeds the quantity supplied, prices will increase.

Diff: 2 Type: ES Page Ref: 14

Skill: Comprehension

Objective: 1.4

14) Explain the role of private enterprise in a market economy. Include an explanation of the elements that comprise free enterprise.

Answer: Market economies rely on a private enterprise system, one that allows individuals to pursue their own interests with minimal government restriction. Private enterprise requires four elements: private property rights, freedom of choice, profits, and competition. Private property rights allow the ownership of resources used to create wealth to be in the hands of individuals. Freedom of choice allows a number of freedoms in the market, including the freedom for a worker to sell his or her labour to any employer he or she chooses, the freedom to choose which products and brands to buy, and the freedom for producers to choose whom they hire and what they will produce. Profits are the incentives for entrepreneurs to assume the risks of business ownership. Competition occurs when businesses vie for the same resources and customers; competition is a driver of goods and services quality and price levels. All four of these elements are welcomed in a market economy.

Diff: 2 Type: ES Page Ref: 14

Skill: Comprehension

Objective: 1.5

15) Explain the effects of monopolies on consumers and the economy.

Answer: If a company has a monopoly, it can harm consumers by raising prices, cutting output, or stifling innovation. Furthermore, because most monopolies have total control over certain products and prices and the market share for those products, competitors are likely to find it extremely difficult to enter markets where monopolies exist. Consequently, several laws and regulations have been established to prohibit individual companies or groups of companies from gaining control of markets in ways that restrain competition or harm consumers.

Diff: 3 Type: ES Page Ref: 15

Skill: Comprehension

Objective: 1.5

16) Expert Electronics sells state-of-the-art computers. It competes with several other large computer manufacturers. How would you characterize the level of competition in this scenario? How are prices set in this type of competitive environment? If Expert Electronics cuts the prices for its computers how will competitors likely respond?

Answer: Because there are only a few sellers, this is a situation of oligopoly. In an oligopoly, the prices of comparable products are usually very similar. In an oligopoly, when one firm cuts prices or offers incentives to increase sales, the others usually protect sales by doing the same.

Diff: 2 Type: ES Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

17) Discuss the reasons why the Canadian government permits certain "natural" monopolies while forbidding attempts by private sector business firms to develop a monopoly. Are natural monopolies a good thing, or should all monopolies be banned?

Answer: So-called "natural" monopolies are industries in which one organization can most efficiently supply all the product or service needed by consumers (e.g., provincial electric utilities). It is argued that natural economies eliminate unnecessary duplication, costs, and waste. Competition is the reason why business works so well in capitalistic society, and monopolies, by definition, mean that there is no competition. When a monopoly exists, companies run less efficiently, product or service quality suffers, and society does not benefit. Some people argue that there is no such thing as a natural monopoly, and that government-sanctioned monopolies like Canada Post can be replaced with private sector organizations that will do the job better. They point to privatization trends as proof of their argument. Supporters of government monopolies argue that if they are privatized, Canadians in various parts of the country will lose access to various services that are now provided by monopolies.

Diff: 2 Type: ES Page Ref: 15

Skill: Comprehension

Objective: 1.5

18) Describe perfect competition in terms of the number of competitors, ease of entry into the market, similarity of goods/services offered by competing firms, and level of control over price by individual firms. Give an example of a purely competitive market or industry.

Answer: For perfect competition to exist, all the firms in an industry must be small and the number of the firms in the industry must be large. Under these conditions, no single firm is powerful enough to influence the price of its product. The products of each firm are so similar that buyers will perceive them as identical to those of other firms. Because each firm is small, it is easy for firms to enter or leave the market. Canadian agriculture is a good example of perfect competition.

Diff: 3 Type: ES Page Ref: 14

Skill: Comprehension

Objective: 1.5

19) Describe monopolistic competition in terms of the number of competitors, ease of entry into the market, similarity of goods/services offered by competing firms, and level of control over price by individual firms. Give an example of a market or industry characterized by monopolistic competition.

Answer: In a market characterized by monopolistic competition, there are fewer sellers than in perfect competition. Sellers will attempt to differentiate their product from those of their competitors. Product differentiation gives sellers some control over prices. While monopolistically competitive businesses can be large or small, they can enter and exit the market easily. There are many examples of monopolistically competitive markets, particularly in the retail market (the market for jeans, the market for laundry detergents, the market for soft drinks, etc.).

Diff: 3 Type: ES Page Ref: 14

Skill: Comprehension

Objective: 1.5

20) Describe oligopoly in terms of the number of competitors, ease of entry into the market, similarity of goods/services offered by competing firms, and level of control over price by individual firms. Give an example of a market or industry that is an oligopoly.

Answer: When an industry has only a few sellers, an oligopoly exists. While there are only a few sellers, they tend to be large. The entry of new competitors is difficult because of the large capital investment needed. As with monopolistic competition, sellers will attempt to differentiate their product from those of their competitors and each seller will have some control over price. However, when one firm cuts prices, others will tend to do the same. Therefore, the prices of comparable products are usually similar. The automobile, airline, and steel industries are all oligopolies.

Diff: 3 Type: ES Page Ref: 15

Skill: Comprehension

Objective: 1.5

21) Describe monopoly in terms of the number of competitors, ease of entry into the market, and level of control over price by individual firms. Give an example of a market or industry that is a monopoly.

Answer: A monopoly exists when an industry or market has only one producer. The sole supplier enjoys complete control over the prices of its products. Its only constraint is a decrease in consumer demand due to increased prices.

Diff: 3 Type: ES Page Ref: 15

Skill: Comprehension

Objective: 1.5

22) Compare and contrast the four degrees of competition in a private enterprise system.

Answer: The four degrees of competition include perfect competition, monopolistic competition, oligopoly, and monopoly. In *perfect competition*, all firms in an industry are small, but the number of firms in the industry is large. No single firm is powerful enough to influence price; therefore, price is determined by such market forces as supply and demand. The products in a perfectly competitive market are so similar that buyers view them as identical to those of other firms. In monopolistic competition, there are many buyers and sellers. Often, sellers attempt to differentiate their products and services from others through design, styling, advertising, or the use of brand names; this often gives sellers some control over prices. In *monopolistic competition*, businesses face few market entry/exit barriers. In an oligopoly, an industry has only a handful of sellers, who are generally quite large. Market entry is difficult because large capital outlays are needed for new start-ups. In an *oligopoly*, the actions of one firm tend to affect the actions of all firms; for example, when one firm changes price, all firms tend to change price rather quickly. A *monopoly* exists when an industry or market has only one producer that dominates the entire market. Though monopolies are generally illegal, natural monopolies—such as provincial utility companies—are allowed and are subject to government regulation. They are allowed to exist since one such company can often efficiently supply all electricity needs.

Diff: 3 Type: ES Page Ref: 14-15

Skill: Comprehension

Objective: 1.5

23) What problems are evident in Canada's supply management system?

Answer: Consumers may pay higher prices because the supply management system imposes tariffs on foreign products in order to discourage their sale in Canada. As a result, Canadian producers can raise their prices because there is less competition from foreign producers. The supply management system continues to operate in spite of evidence that it also encourages smuggling, reduces innovation, and inhibits exports.

Diff: 3 Type: ES Page Ref: 16

Skill: Analysis

Objective: 1.5