Chapter 01
The Dynamics of Business and Economics

True / False Questions

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

FALSE

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

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

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

TRUE

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

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

<u>FALSE</u>

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

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4. A central issue of economics is how to fulfill an unlimited demand for goods and services in a world with limited resources.

<u>TRUE</u>

Economics is the study of how resources are distributed for the production of goods and services.

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Topic: Economics and the Types of Economic Systems

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

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

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Multiple Choice Questions

6. _____ is the primary goal of business.
A. Charity
B. Profit
C. Bureaucracy
D. Quality
E. Strategy

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

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7. The difference between what it costs to make and sell a product and what a customer pays for it is referred to as _____.

A. net value
B. gross price
C. profit
D. retail price
E. stake

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

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

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

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

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

A. A movie DVD
B. A sandwich
C. A sports car
<u>D.</u> A music concert
E. Jewelry

A product can be a tangible good, a service of value to a customer, or even an idea. However, a product can also be intangible and in the form of a service. Dry cleaning, a checkup by a doctor, a performance by a basketball player—these are examples of services.

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

<u>A.</u> An automobile
B. A movie
C. A theatre play
D. A music concert
E. A business conference

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

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11. Which of the following statements is true about businesses and profits?
A. Profit making is a business activity that seldom requires risk taking.
B. Businesses do not have the right to use their profits the way they choose.
C. Profit-making businesses often weaken the economy of a country.
D. Earning profits contributes to society by providing employment.
E. Ignoring the interests of stakeholders is the best way for a business to be profitable.

Earning profits contributes to society by providing employment, which in turn provides money that is reinvested in the economy.

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12. Which of the following is a similarity between businesses and nonprofit organizations?
A. Both do not have to abide by government regulations.
B. Both are unaffected by political or social change.
C. Both of them engage in management and finance activities.
D. Both of them do not need to adapt to technological changes.
E. Both aim to maximize financial returns for their owners.

Nonprofit organizations engage in management, marketing, and finance activities to help reach their goals.

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

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

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

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14. Which of the following is a force within an organization's control that has an impact on the business's daily operations?

A. Employees
B. Regulatory environment
C. Competition
D. Political environment
E. Technology

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

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15. Among the major activities of business, which of the following is an element of management?
A. Marketing activities
B. Product research
C. Personal selling
D. Promoting sales
E. Acquiring resources

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

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

A. The finance department is concerned with acquiring, developing, and using human resources effectively and efficiently.

B. The marketing team handles all activities concerned with obtaining money for the firm and using it effectively.

C. The managers of nonprofit organizations conduct all kinds of business operations except collecting funds.

D. The senior management is not involved in the day-to-day functions of production and manufacturing.

E. The primary responsibility of providing financial resources for the operation of the business lies with the business owners.

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

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17. _____ is an element of the management activity in a business.
A. Production
B. Advertising
C. Sales promotion
D. Personal selling
E. Publicity

Production and manufacturing is another element of management. Management involves coordinating employees' actions to achieve the firm's goals, organizing people to work efficiently, and motivating them to achieve the business's goals.

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18. The functions of organizing, staffing, planning, and controlling are most closely associated with:
A. managers.
B. assembly line workers.
C. investment advisors.
D. stockbrokers.
E. direct sales executives.

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

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

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

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

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

A. Marketing and finance
B. Management and end-users
C. Organization and customers
D. Marketing and consumers
E. Management and regulatory forces

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

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

A. finance
B. promotion
C. production
D. fundraising
E. social responsibility

Marketing includes all the activities designed to provide goods and services that satisfy customers' needs and wants.

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22. Coupons, games, sweepstakes, movie tie-ins are all forms of _____.

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

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

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23. Which of the following is true of marketers?
A. Marketers are involved primarily in production and management of infrastructure.
B. Marketers gather information and conduct research to determine what customers want.
C. Marketers in nonprofit organizations do not use promotion.
D. Marketers are concerned with acquiring, developing, and using resources.
E. Marketers plan, organize, staff, and control the tasks required to carry out the work of a company.

Marketers gather information and conduct research to determine what customers want. Using information gathered from marketing research, marketers plan and develop products and make decisions about how much to charge for their products and when and where to make them available.

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24. When a business fails or does not make a profit, _____ have the most to lose in terms of finances.
A. consumers
B. media agencies
C. government bodies
D. owners
E. market experts

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

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25. _____ refers to all activities concerned with obtaining and managing money and using it effectively.

A. Public relations
B. Marketing
C. Production
D. Advertising
E. Finance

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

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26. People who work as accountants, stockbrokers, investment advisors, or bankers are all part of the _____ world.

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

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

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

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

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

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Topic: Key Economic Indicators and How they Affect Business

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

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

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

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29. _____ refers to the physical and mental abilities that people use to produce goods and services.

A. Labor
B. Economics
C. Finance
D. Capital
E. Natural resources

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

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30. Financial resources are also known as _____.

A. capital
B. labor
C. barter
D. natural resources
E. exchange

Financial resources, also known as capital, are used to acquire the natural and human resources needed to provide products.

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31. _____ are the funds used to acquire the natural and human resources needed to provide products.
A. Skills
B. Exchanges
C. Capital resources
D. Labor charges
E. Barter charges

Financial resources, or capital, are the funds used to acquire the natural and human resources needed to provide products. Because natural, human, and financial resources are used to produce goods and services, they are sometimes called factors of production.

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32. Which of the following is a factor of production for a firm?
A. Advertising media
B. Legal consultants
C. Customers
D. Natural resources
E. Company reputation

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

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Topic: The Factors of Production

33. Which of the following is a natural resource?

A. Minerals
B. People
C. Capital
D. Money
E. Labor

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

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34. Which of the following is a human resource?

A. Physical and mental abilities of people
B. Forests and minerals
C. Economic capital
D. Financial assets
E. Company reputation

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

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

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

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

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36. Which of the following statements is true about communism?

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

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

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37. Which of the following is considered a command economy?
A. Capitalism
B. Libertinism
C. Private enterprise
D. Communism
E. Laissez-faire market

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

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38. Which of the following is a characteristic of communist economies in reality?
A. Critical shortages of consumer goods
B. High standards of living
C. Low prices
D. Excessive freedom
E. Absence of corruption

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

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

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

China has become the first communist country to make strong economic gains by adopting capitalist approaches to business. The Chinese state is the largest shareholder among China's 150 largest companies and influences thousands of other businesses.

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40. Identify the form of business ownership in communist systems.

A. Individuals own and operate all businesses.
B. The government owns and operates major industries; individuals own small businesses.
C. Religious groups own businesses and dictate norms of business.
D. Government owns most businesses and operates them single-handedly.
E. Market forces and private enterprise stakeholders own businesses.

In communist systems, most businesses are owned and operated by the government.

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41. Which of the following is true of product availability in a communist system?
A. Consumers have a wide choice of goods but not services.
B. Consumers have a wide choice of services but not goods.
C. Consumers have a limited choice of goods and services.
D. Consumers have a limited choice of services but not goods.
E. Consumers have a wide choice of services and goods.

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

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42. In which of the following economic systems do most people work for government-owned industries or farms?
A. Capitalist
B. Communist
C. Socialist
D. Libertarian
E. Neo-realist

In a communist system, consumers have a limited choice of goods and services; prices are usually high. Most people work for government-owned industries or farms.

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43. In a socialist economic system, _____.
A. individuals own and operate all businesses
B. very few people work for government organizations
C. competition is restricted in major industries
D. there is no concept of small businesses owned by individuals
E. demand and supply have no role to play in the pricing of products and services

In socialist systems, competition is restricted in major industries; encouraged in small business.

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44. _____ is an economic system in which the government owns and operates basic industries.
A. Collectivism
B. Capitalism
C. Socialism
D. Egalitarianism
E. Utilitarianism

In socialist systems, competition is restricted in major industries; encouraged in small business.

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

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

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46. Which of the following is true of a free market system?
A. It is different from laissez fair capitalism.
B. In a free market, a government regulates business.
C. It is also called modified capitalism.
D. In a free market system, all economic decisions are made without government intervention.
E. In a free market system, central government planning determines what goods and services satisfy citizens' needs.

In pure capitalism, also called a free-market system, all economic decisions are made without government intervention.

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

Consumers have a wide choice of goods and services; prices are determined by supply and demand.

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48. ____ is often called the father of capitalism.
A. Karl Marx
B. George Washington
C. Benjamin Franklin
D. Alan Greenspan
E. Adam Smith

The modern free market system was first described by Adam Smith in The Wealth of Nations in 1776.

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Topic: Economics and the Types of Economic Systems

49. In which of the following systems are all economic decisions made without government intervention?
A. Socialism
B. Communism
C. Capitalism
D. Marxism
E. Collectivism

In pure capitalism, also called a free-market system, all economic decisions are made without government intervention. This economic system was first described by Adam Smith in The Wealth of Nations (1776).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

55. Generally, when a retailer announces a discount sale on all its products:
A. consumers will not demand more than usual.
B. the store will not supply more products than it normally does.
C. consumers will demand more products.
D. the manufacturer will halt production.
E. consumers will demand fewer products than usual.

Generally, when prices decrease consumers will increase demand.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

56. Which of the following statements describes the force that drives the distribution of resources (goods and services, labor, and money) in a free-enterprise economy?
A. Prices for goods and services vary according to the changes in supply and demand.
B. Supply and demand curves intersect at the point where supply and demand are not equal.
C. Changing the price of a product does not alter the supply curve.
D. The price at which the number of products that businesses are willing to supply is inversely proportional to the amount of products that consumers are willing to buy at a specific point in time.
E. Businesses are willing to supply more of a good or service at higher prices because the potential for profits is higher.

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

57. Which of the following markets is most likely to be a monopoly?
A. Agricultural commodities
B. Lifestyle gadgets
C. Airlines
D. Electricity supply
E. Sports utility vehicles

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

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

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

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

AACSB: Analytic
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

59. According to Adam Smith, competition:
A. mitigates growth.
B. fosters efficiency.
C. prevents low prices.
D. increases demand.
E. increases prices.

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

60. When different businesses promote similar products that differ in some characteristics but satisfy the same consumer need, the competitive environment is most likely to be:
A. monopolistic competition.
B. pure competition.
C. an oligopoly.
D. a monopoly.
E. socialist.

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

61. Monopolistic competition exists when:
A. there are very few businesses selling a product
B. many small businesses selling one standardized product are present in the market.
C. there is only one producer of a product in a given market.
D. individual businesses have control over their products' price.
E. there is slowdown of the economy characterized by a decline in spending.

Monopolistic competition exists when there are fewer businesses than in a pure competition environment and the differences among the goods they sell is small.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

62. Which of the following exists when there are many small businesses selling one standardized product, such as agricultural commodities like wheat, corn, and cotton?
A. Pure competition
B. Monopolistic rivalry
C. Imperfect competition
D. Oligopoly
E. Monopsony

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

63. The market for corn in Brazil has a large number of sellers and there is no difference in the products sold by each seller. As there are also a large number of buyers for corn, the actions of a single seller or buyer cannot affect the price. The market for corn in Brazil can be described as ____.

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

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

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

64. _____ exists when there are many small businesses selling one standardized product.

A. Monopolistic competition
B. Oligopoly
C. Pure competition
D. Monopoly
E. Monopsony

Pure competition is the market structure that exists when there are many businesses selling one standardized product.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

65. When there is only one business providing a product in a given market, there exists:
A. an oligopoly.
B. modified competition.
C. pure competition.
D. monopolistic competition.
E. a monopoly.

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

66. In which of the following market structures do individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace?
A. Monopsony
B. Monopoly
C. Oligopoly
D. Government-granted monopoly
E. Coercive gambling

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

67. An oligopoly exists when:
A. there are very few businesses selling a product
B. there are many small businesses selling one standardized product.
C. only one producer of a product is present in a given market.
D. individual businesses have control over their products' price.
E. there is a slowdown of the economy characterized by a decline in spending.

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

68. Following a bad harvest, the prices of agricultural commodities in Urbania have increased dramatically, as have the prices of products manufactured from agricultural commodities. Government intervention has failed to arrest the rising prices. Based on this information, Urbania is undergoing _____.
A. deflation
B. stagflation
C. contraction
D. depression
E. inflation

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

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

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

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

70. A condition characterized by continuing rise in prices over a period of time refers to:
A. inflation.
B. depression.
C. a recession.
D. economic contraction.
E. deflation.

Inflation is a condition characterized by continuing rise in prices over a period of time.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

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

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

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

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

73. Which of the following is associated with a decline in spending?
A. Inflation
B. Economic contraction
C. Economic expansion
D. Employment boom
E. Job expansion

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

74. Economic contraction is said to have occurred when:
A. GDP increases.
B. spending declines.
C. jobs increase.
D. inflation decreases.
E. unemployment falls.

In an economic contraction, businesses cut back on production and lay off workers, raising unemployment. Rising unemployment tends to stifle spending.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

75. Increased unemployment can reduce consumer demand for goods and services, leading to:
A. economic expansion.
B. inflation.
C. deflation.
D. budget surplus.
E. recovery.

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 01-04 Describe the role of supply, demand, and competition in a free-enterprise system.
Topic: Key Economic Indicators and How they Affect Business

76. Which of the following statements is true about GDP as a measure of a country's economic health?
A. It does not include the services produced in a country.
B. It measures only those goods and services made within a country.
C. It includes profits from companies' overseas operations.
D. It does not include profits earned by foreign companies within the country being measured.
E. It essentially takes into account the concept of GDP in relation to population.

GDP measures only those goods and services made within a country and therefore does not include profits from companies' overseas operations.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: Key Economic Indicators and How they Affect Business

77. A budget deficit occurs when a nation:
A. reduces its expenditures.
B. receives excess taxes.
C. has no national debts.
D. spends more than it takes in from taxes.
E. balances taxes and expenditures.

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: Key Economic Indicators and How they Affect Business

78. _____ measures changes in the prices of goods and services purchased for consumption by typical urban households.
A. GDP
B. Per capita income
C. Worker productivity
D. Trade balance
E. Consumer price index

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: Key Economic Indicators and How they Affect Business

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

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

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: The Economic Foundations of Business

80. When a nation takes in more from taxes than it spends, it has a _____.

A. fiscal deposit
B. small cap
C. Kondratieff wave
D. budget deficit
E. balance of trade

When a nation spends more than it takes in from taxes, it has a budget deficit. In the 1990s, the U.S. government eliminated its long-standing budget deficit by balancing the money spent for social, defense, and other programs with the amount of money taken in from taxes.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 01-05 Specify why and how the health of the economy is measured.
Topic: Key Economic Indicators and How they Affect Business

81. Before the Industrial Revolution, the economy of North America under the colonists was characterized by:
A. hunting and gathering instead of agriculture.
B. the export of manufactured goods to England.
C. a scarcity of natural resources.
D. dependence on England for everyday goods.
E. the domestic system of manufacturing goods.

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

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

82. Which of the following is a change that occurred in the U.S. during the Industrial Revolution?
A. Farm production decreased as industrial production increased.
B. As work became more localized, productivity decreased.
C. Trade within the country decreased as regions became self-sufficient.
D. Farmers began to move to cities to find jobs in factories.
E. Fewer goods were available, and prices of goods increased.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. People were self-sufficient and produced everything they needed at home, including food, clothing, and furniture.

B. People found natural resources such as coal and iron ore and used them to produce goods such as horseshoes.

C. Farm families who produced surplus goods sold or traded them for things they could not produce themselves.

D. Expensive goods such as cars and appliances could be purchased on a time-payment plan.

E. Factories began to spring up along the railways to manufacture farm equipment and a variety of other goods to be shipped by rail.

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

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

87. Which of the following is a characteristic of a manufacturing economy?
A. It is concerned with the indigenous production of food, clothing, and furniture.
B. It is devoted to producing goods and services rather than producing agricultural products.
C. It is characterized by the development of the road and railways.
D. It is significant for the development of factories along the railways to manufacture farm equipment.
E. It is particularly important for enabling farmers to send their surplus crops and goods all over the nation for barter or for sale.

Industrialization brought increased prosperity, and the United States gradually became a manufacturing economy—one devoted to manufacturing goods and providing services rather than producing agricultural products.

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

88. An entrepreneur has been primarily associated with the willingness to:
A. change employers frequently.
B. work under authority.
C. be conservative.
D. possess a government job.
E. take risks.

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

AACSB: Technology
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: Define Entrepreneurship

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

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

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

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

90. As U.S. consumers get busier and earn more money, they hire others to do tasks such as housecleaning, laundry, and landscaping, resulting in the development of a(n) _____ economy focused on making life easier for busy consumers.

A. manufacturing
B. service
C. agricultural
D. technology-based
E. marketing

As consumers get busier and earn more money, they hire others to do tasks such as housecleaning, laundry, and landscaping.

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

91. Which of the following emerged in the United States as a result of industrialization?
A. Government ownership of business
B. Price regulation by planning commissions
C. Low standard of living
D. Increase in number of farmers
E. Increase in the variety of goods available

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

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

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

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

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.
Topic: The Ethical Concerns that Affect Business

93. After World War II, the United States became a(n):
A. agricultural economy
B. service economy
C. indigenous economy
D. market economy
E. manufacturing economy

After World War II, with the increased standard of living, Americans had more money and more time. They began to pay others to perform services that made their lives easier.

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

94. The American economic system is best described as _____ because the government regulates business to preserve competition and protect consumers and employees.
A. scientific socialism
B. pure communism
C. mixed Marxism
D. modified capitalism
E. pure capitalism

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

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

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

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

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

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

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

A. Raising interest rates
B. Lowering reserve rate of funds banks must hold in reserve
C. Increasing money supply
D. Decreasing interest rate on loans to member banks
E. Buying security

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

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