

Chapter 1 Introduction

Multiple-Choice Questions

1) Which of the following is an example of how the question of "what goods and services to produce?" is answered by the command process?

- A) government subsidies for affordable housing
- B) laws regarding equal opportunity in employment
- C) government allowance for the deduction of interest payments on private mortgages
- D) government regulations concerning the dumping of industrial waste

Answer: A

2) Opportunity cost is best defined as

- A) the amount given up when choosing one activity over all other alternatives.
- B) the amount given up when choosing one activity over the next best alternative.
- C) the opportunity to earn a profit that is greater than the one currently being made.
- D) the amount that is given up when choosing an activity that is not as good as the next best alternative.

Answer: B

3) In a market economy, which of the following is the most important factor affecting scarcity?

- A) the needs and wants of consumers
- B) the price of the product
- C) the degree to which the government is involved in the allocation of resources.
- D) All of the above are equally important.

Answer: A

4) Which of the following is not considered by economists to be a basic resource or factor of production?

- A) money
- B) machinery and equipment
- C) technology
- D) unskilled labor

Answer: A

5) Select the group that best represents the basic factors of production.

- A) land, labor, capital, entrepreneurship
- B) land, labor, money, management skills
- C) land, natural resources, labor, capital
- D) land, labor, capital, technology

Answer: A

6) Which of the statements below best illustrates the use of the market process in determining the allocation of scarce resources?

- A) "Let's make this product because this is what we know how to do best."
- B) "Although we're currently making a profit on the products we make, we should consider shifting to products where we can earn even more money."
- C) "Everyone is opening video stores, why don't we?"
- D) "We can't stop making this product. This product gave our company its start."

Answer: B

7) Which of the following is the best example of "what goods and services should be produced?"

- A) the use of a capital intensive versus a labor intensive process of manufacturing textiles
- B) the production of army helicopters versus the production of new commercial jet aircraft
- C) the manufacturing of computer workstations in Hong Kong or in Germany
- D) the leasing versus the purchasing of new capital equipment

Answer: B

8) Which of the following is the best example of "how should goods and services be produced?"

- A) adherence to technical specifications in the production of jet aircraft
- B) the production of jet aircraft for the air force or for a commercial airline
- C) the use of additional full-time workers versus the use of supplementary part-time workers
- D) the production of a new manufacturing facility

Answer: C

9) Which of the following is the best example of opportunity cost?

- A) a company's expenditures on a training program for its employees
- B) the rate of return on a company's investment
- C) the amount of money that a company can earn by depositing excess funds in a money market fund
- D) the amount of profit that a company forgoes when it decides to drop a particular product line in favor of another one

Answer: D

10) From the standpoint of a soft drink company the question of "What goods and services should be produced?" is best represented by which of the following decisions?

- A) whether or not to hire additional workers
- B) whether or not to increase its advertising
- C) whether or not to shut down selected manufacturing facilities
- D) All of the above are examples.
- E) None of the above are examples.

Answer: E

11) Scarcity is a condition that exists when

- A) there is a fixed supply of resources.
- B) there is a large demand for a product.
- C) resources are not able to meet the entire demand for a product.
- D) All of the above.

Answer: C

12) Managerial economics is best defined as

- A) the study of economics by managers.
- B) the study of the aggregate economic activity.
- C) the study of how managers make decisions about the use of scarce resources.
- D) All of the above are good definitions.

Answer: C

13) In the text, the authors refer to "Stage II" of the process of changing economics as

- A) demand management.
- B) cost management.
- C) diminishing returns.
- D) profit taking.

Answer: B

14) Which of the following is the best example of the "command" process?

- A) MCI-Worldcom buys Sprint.
- B) Striking auto workers force General Motors to shut down its factories.
- C) Banks raise their fees on late payments by credit card holders.
- D) The FCC requires local telephone companies to provide access to their local networks before being able to offer long distance service.

Answer: D

15) A critical element of entrepreneurship (as opposed to managerial skills) is

- A) leadership skills.
- B) risk taking.
- C) technology.
- D) political skills.

Answer: B

16) In the text, a key factor in the changing "economics of a business" is

- A) the need to grow revenues.
- B) increasing competition.
- C) rising labor costs.
- D) the need to expand market share.

Answer: B

17) In the "four-stage" model of change, Stage III is represented by

- A) deciding how much to markup costs to set a profitable product price.
- B) cost-cutting and restructuring to maintain and improve production.
- C) narrowing product lines to those offering the greatest revenue potential.
- D) focusing on markets with the greatest growth potential.

Answer: C

18) The economic concept of "opportunity cost" is most closely associated with which of the following management considerations?

- A) market structure
- B) resource scarcity
- C) product demand
- D) technology

Answer: B

19) Which of the following is the best example of the "traditional process"?

- A) commercial bank mergers
- B) minimum age limits for the purchase of alcoholic beverages

- C) auctioning US Treasury bills
- D) colleges and universities give admissions preferences to children of alumni

Answer: D

20) The best definition of economics is

- A) how choices are made under conditions of scarcity.
- B) how money is used.
- C) how goods and services are produced.
- D) how businesses maximize profits.

Answer: A

21) Managerial economics is best defined as the economic study of

- A) how businesses can make the most profits.
- B) how businesses can decide on the best use of scarce resources.
- C) how businesses can operate at the lowest costs.
- D) how businesses can sell the most products.

Answer: B

Analytical Questions

1) What economic conditions are relevant in managerial decision-making?

Answer: Such factors as market structure, supply and demand conditions, technology, government regulations, international factors, expectations about the future, and the macroeconomy are economic factors that play a role in managerial decision-making.

2) What factors lead to competitive advantage for a firm?

Answer: Cost leadership (lower costs than competing firms), product differentiation, selection and focus on a market niche, outsourcing and merger strategies, and international focus or expansion are factors in the competitive advantage of the firm.

3) What are the typical types of risk faced by a firm?

Answer: Changes in supply and demand conditions, changes in technology, increased competition, changes in interest rates and inflation rates, exchange rate changes, and political risk are typical types of risk faced by firms.

4) What are the four stages of change faced by firms?

Answer: Stage I: Market dominance, in which the only strategy required to earn a profit is

sufficient markup over cost. (Cost-plus)

Stage II: Technology and competition place pressures on the firm, often resulting in cost-cutting, downsizing, restructuring, and reengineering. (Cost management)

Stage III: Focus on growth of top lines of business. (Revenue management)

Stage IV: Striving for continued profitable growth. (Revenue plus)

5) How do the three basic economic questions relate to the firm?

Answer: Firms must choose WHAT goods and services to produce, HOW to produce them (through appropriate choice of resources and technology), and FOR WHOM they will be provided (what segment of the market on which to focus).

6) What other business disciplines are related to Managerial Economics?

Answer: Accounting, Finance, Management Science (Quantitative Methods), Management Strategies, Marketing