

Chapter 1--Economics and Management

Student: _____

1. The Dodd-Frank law

- A. created new regulations for financial markets and firms.
- B. based compensation of bankers on shareholder value.
- C. rewarded bankers when market share increased.
- D. created rules that help create the recent financial crisis.
- E. removed capital requirements on financial institutions.

2. On average each year, about 7 percent of all firms in the United States are new, and 1 percent go out of business. According to the text, which of the following is not true?

- A. Luck may play a role in a firm's performance.
- B. A focus on quality may have a role in a firm's performance.
- C. Being a first mover is never a reason for failure.
- D. Size may be an important factor of success.
- E. A firm that globalizes may find that it fails.

3. On average each year, about 7 percent of all firms in the United States are new and 1 percent go out of business. According to the text, luck may play a role. Which of the following reasons for failure might be attributable to luck?

- A. An individual undertakes a very risky venture so that his product is first to market.
- B. An executive fails to undertake an investment that would have yielded great success.
- C. An executive focuses on the incorrect objective.
- D. An executive undertakes an investment just prior to a major natural catastrophe that destroys the firm's assets.
- E. An executive fails to perceive what customers really want.

4. A focus on quality means:

- A. A firm does nothing but produce the highest quality product.
- B. An inability to actually produce anything.
- C. A firm must decide whether an additional focus on quality is worth the cost.
- D. The firm will definitely be successful.
- E. Consumers will not be willing to purchase the product.

5. Being a first mover means:

- A. Being the first firm to offer a product in a particular market.
- B. Being successful.
- C. Asking for failure.
- D. Nothing unless the firm continues to be the first mover.
- E. That there is never a benefit to not being the first mover.

6. If large, dominant firms tend to be more successful and last longer than small, non-dominant firms, it would be because:

- A. the large firm can dictate what it wants to consumers and to its suppliers.
- B. the large, dominant firm is able to offer more products at lower prices.
- C. the large, dominant firm has an advantage in its costs or in being able to meet customer wants.
- D. the small firm is a risk-taker and typically is not around for long.
- E. the small firm can never compete with the large firm.

7. Firms will merge or one firm will acquire another for all but which of the following reasons:

- A. one large firm has a cost advantage over two smaller firms.
- B. synergies involved between the two firms.
- C. to enter a new market.
- D. to diversify risk.
- E. one large firm can sell more than two smaller firms.

8. Globalization does not mean:

- A. the homogenizing of markets.
- B. when one product or one brand is sold in many different international markets.
- C. the increase in trade among nations.
- D. the establishment of manufacturing plants in more than one nation.
- E. the purchase of supplies from foreign firms.

9. According to the text, success requires:

- A. there is no secret formula that guarantees success.
- B. a visionary leader.
- C. a focus on quality.
- D. a customer-orientation.
- E. an emphasis on efficiency.

10. According to the text, economics offers the business person

- A. a substitute for the accounting department.
- B. a substitute for the marketing department.
- C. a way to forecast demand.
- D. an approach to thinking.
- E. a replacement for the personnel department.

11. A Basic principle of economics is:

- A. knowing your customer means understanding their income.
- B. there are costs involved in any action or decision.
- C. demand equals supply.
- D. equilibrium is beneficial.
- E. size and market share are important goals for a business.

12. "Knowing your customer" means:

- A. knowing what factors affect customer choices.
- B. knowing the names of customers.
- C. knowing whether something is a fad or a fashion.
- D. knowing that people do not believe advertising.
- E. having an understanding of why price goes up or down.

13. According to the text, "economics tempers the enthusiasm of a manager to focus on the customer" because

- A. customers hardly know what they want.
- B. focusing solely on the customer may ignore other important elements of business success.
- C. it shows the manager that the greatest benefit to the firm is to sell more.
- D. it enables the manager to see that any kind of customer focus is not worth the costs.
- E. it ensures that managers will find equilibrium.

14. Core competency implies:

- A. a firm produces one single product.
- B. a firm hires only one type of employee.
- C. a firm focuses on only one type of customer.
- D. a firm does one thing better than it does other things.
- E. a firm must be competent at its core - its executive level.

15. TQM means

- A. total quiet management.
- B. total quality maneuvers.
- C. total quality management.
- D. totally quiet motion.
- E. totally quality means.

16. According to the text, many firms who adopt TQM find that

- A. the firm increases sales and profits.
- B. quality is costly.
- C. quality is free.
- D. quality increases market share.
- E. customers do not care about quality.

17. There is no free lunch means

- A. each action has a cost.
- B. each choice involves a free item.
- C. each decision has elements of free goods in it.
- D. if you get your lunch paid for by someone else, it is free, but if you have to pay, it is not free.
- E. if you are invited to lunch by someone, you are not expected to pay for it.

18. According to the text, the essence of good management is:

- A. to determine when a free lunch is actually free.
- B. to be sure there are not "too many chefs stirring the broth."
- C. to ensure that the reputation of the firm remains high.
- D. to ensure that the stock price remains high.
- E. to determine whether the implementation of a practice increases the value that a firm adds.

19. According to the text, economic decision making refers to:

- A. comparing costs and benefits.
- B. rejecting wish-driven strategies.
- C. ensuring that wants and needs are matched.
- D. analyzing demand and supply.
- E. forecasting.

20. According to the text, tradeoffs
- A. lie at the heart of the executive's job.
 - B. are unethical.
 - C. involve giving up something in order to get more of it later.
 - D. lie at the heart of costs and benefits.
 - E. have nothing to do with successful management.

21. To an economist, the word 'marginal' means:

- A. total.
- B. average.
- C. next or additional.
- D. sunk.
- E. none of these choices.

22. Generally, marginal costs _____ as quantity increases?

- A. rise.
- B. fall.
- C. remain constant.
- D. equal marginal benefits.
- E. equal total costs.

23. Net social benefits are maximized when:

- A. marginal benefits equal marginal costs.
- B. marginal benefits are greater than marginal costs.
- C. marginal benefits are less than marginal costs.
- D. total benefits are equal to total costs.
- E. average benefits are marginal benefits are equal.

24. Business success is largely dependent on

- A. being a first mover.
- B. quality products.
- C. dynamic management.
- D. a global focus.
- E. many different things.

25. First movers

- A. are usually firms with large market share.
- B. are the first to bring out a new product.
- C. usually copy successful products.
- D. are mainly found in the computer industry.
- E. have memorable trade names.

26. Mergers and acquisitions

- A. are usually associated with business success.
- B. are usually successful as management styles usually blend easily.
- C. are illegal if the firms were competitors.
- D. can sometimes lead to the loss of a core competency.
- E. can be successful if they add to the value chain.

27. If firms focus on quality

- A. sales always go up.
- B. market share grows.
- C. they realize that it is not free.
- D. they are developing a common core competency.
- E. competitors follow suit making it less profitable.

28. Popular management jargon includes

- A. benchmarking.
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29. The essence of good management is to determine whether a new practice adds

- A. revenue.
- B. market share.
- C. customer satisfaction.
- D. value.
- E. costs.

30. Economic decision making recognizes that

- A. all choices have benefits and costs.
- B. benefits are largely free while costs are not.
- C. costs are controllable but benefits are not measurable.
- D. prices do not reflect all information known to managers.
- E. resources and wants are limited.

31. The Dodd-Frank bill is new financial regulation.
True False

32. The Dodd-Frank bill led to the financial meltdown of 2008.
True False

33. While a focus on quality can lead to business success, its development is not free.
True False

34. First movers are also product innovators.
True False

35. Having a large market share is one of the main ingredients to business success.
True False

36. Marginal benefits and total benefits are equal when net total benefits are maximized.
True False

37. Evidence suggests that mergers and increased profitability do not necessarily go hand in hand.
True False

38. Over a twenty-five year period, about half of the merger acquisitions are split up.
True False

39. There are few truly global brands.

True False

40. Globalization leads to a homogenizing of markets.

True False

41. The personality of the business leader is necessary for a firm's success.

True False

42. Economics can be viewed as a way to think about problems.

True False

43. To an economist, all choices have costs.

True False

44. A good bit of management jargon often simply symbolizes fundamental economic analysis.

True False

45. To know the customer is to understand costs.

True False

46. Good management always seeks to add value.

True False

47. To be the best at everything is possible.

True False

48. Net total benefits of an activity are maximized when marginal benefits and marginal costs are equal.

True False

49. Business decisions can be made by focusing mainly on the benefits of a decision because most costs are fixed.

True False

50. Business decisions must be undertaken with a view of comparing the costs of the decision with its benefits.

True False

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