

## Chapter 01: Exploring the World of Business and Economics

### True / False

1. As the founder of an American business firm, Peter Jenkins can, within certain limits, produce and/or sell any product he chooses and sell it at any price it sets.

- a. True
- b. False

*ANSWER:* True

2. After getting her bachelor's degree in business, Brit Jackson realized she was much more productive at her job than she had been before. Brit's degree helped her to become a better employee.

- a. True
- b. False

*ANSWER:* True

3. Sony is most correctly classified as a marketing intermediary type of business.

- a. True
- b. False

*ANSWER:* False

4. How the price of homes affects the number of homes built and sold would be an economic issue studied in a Macroeconomics course.

- a. True
- b. False

*ANSWER:* False

5. When a business distributes profits to business owners, these profits become household income and are removed from the circular flow of the economy.

- a. True
- b. False

*ANSWER:* False

6. Real gross domestic product is an economic measure that has been adjusted for price increases of goods and services during a given period of time.

- a. True
- b. False

*ANSWER:* True

7. The consumer price index (CPI) and the producer price index (PPI) actually measure the same economic factors.

- a. True
- b. False

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*ANSWER:* False

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8. As the price of a product increases, the amount of the product that a producer is willing to supply increases.
- a. True
  - b. False

*ANSWER:* True

9. As the price of a product increases, the amount of the product that consumers purchase increases.
- a. True
  - b. False

*ANSWER:* False

10. A copyright of a product exists indefinitely.
- a. True
  - b. False

*ANSWER:* False

11. A factory system of manufacturing involves the separation of a manufacturing process into separate tasks and the assignment of different tasks to different employees.
- a. True
  - b. False

*ANSWER:* False

12. Specialization is meant to increase the efficiency of industrial workers.
- a. True
  - b. False

*ANSWER:* True

13. During the 1930s, government became deeply involved in business for the first time.
- a. True
  - b. False

*ANSWER:* True

14. According to global experts, India is the fastest-growing economy in the world.
- a. True
  - b. False

*ANSWER:* False

15. In our free-enterprise system, federal and state governments decide what products and services to provide.
- a. True
  - b. False

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*ANSWER:* False

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16. A working knowledge of our business system combined with technical skills can give an applicant an advantage in looking for a job.

- a. True
- b. False

*ANSWER:* True

17. Today, managers and employees are no longer concerned about cultural diversity.

- a. True
- b. False

*ANSWER:* False

18. Because e-businesses use the Internet, there is no need to meet the needs of their customers.

- a. True
- b. False

*ANSWER:* False

19. In order for a business to be successful, it must be organized, it must satisfy needs, and it must make a profit.

- a. True
- b. False

*ANSWER:* True

20. The four resources that a business must use to operate successfully include material resources, human resources, financial resources, and operational resources.

- a. True
- b. False

*ANSWER:* False

21. Generally there are three types of businesses: manufacturing businesses, service businesses, and marketing intermediaries.

- a. True
- b. False

*ANSWER:* True

22. People buy goods and services simply to own them.

- a. True
- b. False

*ANSWER:* False

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23. The ultimate goal of every business firm should be to satisfy the needs of its customers.
- a. True
  - b. False

*ANSWER:* True

24. If a firm's sales revenue exceeds its expenses, the firm has earned a profit.
- a. True
  - b. False

*ANSWER:* True

25. Profit is the payment business owners receive for assuming the risks of ownership.
- a. True
  - b. False

*ANSWER:* True

26. The term *stakeholders* refers only to the people who have invested money in a business.
- a. True
  - b. False

*ANSWER:* False

27. Economics is the study of how wealth is created and distributed.
- a. True
  - b. False

*ANSWER:* True

28. Macroeconomists often study the effect of taxes, government spending, interest rates, and similar factors on a nation's economy.
- a. True
  - b. False

*ANSWER:* True

29. The factors of production include natural resources, labor, government assistance, and entrepreneurship.
- a. True
  - b. False

*ANSWER:* False

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30. The four basic questions in a capitalist economy are what to produce, how to produce, who should produce, and when to produce.
- a. True
  - b. False

*ANSWER:* False

31. Adam Smith is the person who actually organized American business as we know it today.
- a. True
  - b. False

*ANSWER:* False

32. According to Adam Smith, under laissez-faire capitalism, each person should be allowed to work toward his or her own economic gain without government interference.
- a. True
  - b. False

*ANSWER:* True

33. Adam Smith argued that the creation of wealth is a proper concern of government.
- a. True
  - b. False

*ANSWER:* False

34. Adam Smith developed the concept of the invisible hand to explain how all economic activity should be based on a nation's needs and not the individual's needs.
- a. True
  - b. False

*ANSWER:* False

35. A market economy is sometimes referred to as a command economy.
- a. True
  - b. False

*ANSWER:* False

36. The U.S. business system is commonly referred to as a mixed economy.
- a. True
  - b. False

*ANSWER:* True

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37. Consumers exchange tax money to purchase goods and services.

- a. True
- b. False

*ANSWER:* False

38. A business provides goods and services in exchange for sales revenues.

- a. True
- b. False

*ANSWER:* True

39. The services that government provides would not be produced by private business firms or would be produced only for those who could afford them.

- a. True
- b. False

*ANSWER:* True

40. The government uses taxes to purchase resources and products required to provide services.

- a. True
- b. False

*ANSWER:* True

41. Command economies include capitalism, socialism, and communism.

- a. True
- b. False

*ANSWER:* False

42. In a socialist economy, the key industries are owned and controlled by the government.

- a. True
- b. False

*ANSWER:* True

43. Karl Marx is known as the father of communism.

- a. True
- b. False

*ANSWER:* True

44. Productivity is the total output per worker per year.

- a. True
- b. False

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*ANSWER:* False

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45. Reducing costs and enabling employees to work more efficiently are at the core of all attempts to improve productivity.

- a. True
- b. False

*ANSWER:* True

46. Fewer workers producing more goods and services can lead to higher overall employment rates.

- a. True
- b. False

*ANSWER:* False

47. Gross domestic product is a loose, subjective measure of how well a society can satisfy its people through goods and services.

- a. True
- b. False

*ANSWER:* False

48. The terms *real gross domestic product* and *gross domestic product* can be used interchangeably.

- a. True
- b. False

*ANSWER:* False

49. Inflation is a general rise in the level of prices experienced by people in a nation.

- a. True
- b. False

*ANSWER:* True

50. Deflation is a general decrease in the level of prices.

- a. True
- b. False

*ANSWER:* True

51. The recurrence of periods of growth and recession in a nation's economic activity is a depression.

- a. True
- b. False

*ANSWER:* False

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52. Economists define a recession as two or more consecutive three-month periods of decline in a country's gross domestic product.

- a. True
- b. False

*ANSWER:* True

53. A depression is a severe recession that lasts longer than a recession.

- a. True
- b. False

*ANSWER:* True

54. Monetary policies exert the government's influence on the amount of savings and expenditures by altering the tax structure and changing the levels of government spending.

- a. True
- b. False

*ANSWER:* False

55. The national debt in the United States is about \$1.1 trillion.

- a. True
- b. False

*ANSWER:* False

56. Basically, there are four recognized degrees of competition: perfect competition, monopolistic competition, oligopoly, and monopoly.

- a. True
- b. False

*ANSWER:* True

57. Perfect competition is the market situation in which a product has many buyers and sellers, and no single buyer or seller is powerful enough to affect a product's price.

- a. True
- b. False

*ANSWER:* True

58. The equilibrium or market price exists when the supply of a product exceeds the amount that consumers are willing to purchase.

- a. True
- b. False

*ANSWER:* False



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59. The products available in a monopolistically competitive market are similar in nature and are intended to satisfy the same need.

- a. True
- b. False

*ANSWER:* True

60. An oligopoly is a market situation in which there is one producer and a few large buyers.

- a. True
- b. False

*ANSWER:* False

61. In a monopoly situation, there is no close substitute for the product or service.

- a. True
- b. False

*ANSWER:* True

62. A legal monopoly is often referred to as a natural monopoly.

- a. True
- b. False

*ANSWER:* False

63. Typical service businesses in the U.S. include real estate, repair companies, and restaurants.

- a. True
- b. False

*ANSWER:* True

64. Because of technology and the Internet, the use of information by business managers has increased.

- a. True
- b. False

*ANSWER:* True

65. During the peak or prosperity stage of a nation's business cycle, businesses are reluctant to offer new products and services.

- a. True
- b. False

*ANSWER:* False

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### Multiple Choice

66. All of the following are material resources for Honda Motor Company *except*
- a. paint.
  - b. steel.
  - c. factory.
  - d. tires.
  - e. money.

*ANSWER: e*

67. The monetary contributions that the owners of IBM pay for shares of the company's stock are \_\_\_\_\_ resources for IBM.
- a. material
  - b. financial
  - c. informational
  - d. human
  - e. manufacturing

*ANSWER: b*

68. Mandy Bush decides to start a residential landscaping business. How would this business *most likely* be classified?
- a. Manufacturing business
  - b. Marketing intermediary
  - c. Service business
  - d. Corporation
  - e. Nonprofit organization

*ANSWER: c*

69. Kroger grocery stores would *most likely* be classified as
- a. service businesses.
  - b. sole proprietorships.
  - c. a marketing intermediary.
  - d. manufacturing establishments.
  - e. perfect competition.

*ANSWER: c*

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70. The ultimate objective of every firm, such as Apple and Starbucks, must be to
- sell either to other firms or to consumers.
  - satisfy the needs of its customers.
  - pay out money to cover the various expenses of doing business.
  - know that people generally buy a product and store it.
  - make it impossible to satisfy customers.

*ANSWER:* b

71. The relationship between sales and profits can be written as
- sales revenues + expenses = profit.
  - loss + profit = sales revenue.
  - profit – expenses = sales revenue.
  - expenses + loss = sales revenue + profit.
  - sales revenue – expenses = profit.

*ANSWER:* e

72. The study of an individual's economic decisions would be an example of
- macroeconomics.
  - microeconomics.
  - fiscal policy.
  - monetary policy.
  - national economic policy.

*ANSWER:* b

73. Capital or capital goods as recognized by economists would include all of the following *except*
- crude oil.
  - facilities.
  - money.
  - machinery.
  - computer equipment.

*ANSWER:* a

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74. Which of the following scenarios would *best* exemplify Adam Smith's view of best serving the interests of society?
- Individuals are selected to fill certain positions within the economy of their nation according to the needs of the nation as a whole.
  - Markets are carefully regulated to ensure that all individuals within a nation are treated fairly and charged standardized prices.
  - A country only has a limited amount of space for college students and uses a type of lottery system to determine who gets these spaces.
  - Government scarcely exists in this country, and transactions are based on a system of barter, or trading goods, for other goods.
  - Individuals in the country may pursue their own economic gain and self-interest by doing whatever is best for them.

*ANSWER:* e

75. Which of the following is *not* a feature of laissez faire capitalism?
- Competition
  - Guaranteed income
  - Private ownership of wealth
  - Economic freedom
  - Limited role of government

*ANSWER:* b

76. In Adam Smith's view, which of the following is *not* the role of government in business?
- Providing defense against foreign governments
  - Regulating business activity
  - Ensuring internal order
  - Furnishing public works
  - Providing education

*ANSWER:* b

77. All of the following would typically be considered consumer products *except* a
- 2-liter of Coke.
  - DVD player.
  - prom dress.
  - high-powered drill press.
  - bag of dog food.

*ANSWER:* d

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78. When consumers spend their money to purchase Samsung android phones or computers with an Intel processor, or when they discontinue buying such items as compact discs, they are telling resource owners
- how to produce.
  - for whom to produce.
  - what to produce.
  - when to produce.
  - to avoid faddish products.

*ANSWER:* c

79. For the U.S. government to provide services, it collects revenue from
- only individuals in the form of taxes.
  - only corporations in the form of taxes.
  - selling bonds to foreign governments.
  - both households and businesses in various forms of taxes.
  - selling manufactured goods overseas.

*ANSWER:* d

80. The government uses tax dollars to
- invest in foreign bonds.
  - invest in foreign corporations.
  - purchase resources and products needed to provide services.
  - purchase other nations.
  - increase consumer income.

*ANSWER:* c

81. In a socialist economy, key industries owned by the government include all *except*
- utilities.
  - communications.
  - food production.
  - banking.
  - transportation.

*ANSWER:* c

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82. Which of the following is *uncharacteristic* of a socialist economy?
- All capital and capital goods are privately owned.
  - The government owns and controls key industries.
  - Land and raw materials may be the property of the state.
  - What to produce and how to produce it are based on national goals.
  - Distribution of goods and services is controlled by the state.

ANSWER: a

83. France, a socialist economy, does *not* have which of the following goals?
- Equitable distribution of income
  - Elimination of poverty
  - Reduction of government regulations
  - Elimination of economic waste
  - Distribution of social services to all who need them

ANSWER: c

84. The nationalization of key industries in countries such as Sweden and India is indicative of a(n) \_\_\_\_\_ economy.
- socialist
  - communist
  - capitalist
  - nationalist
  - industrialized

ANSWER: a

85. All of the following are characteristics of communist countries such as Cuba *except*
- intensive production of goods the government needs.
  - all workers contribute to society according to their ability.
  - frequent shortages of consumer goods.
  - government ownership of almost all economic resources.
  - an adequate supply of consumer goods.

ANSWER: e

86. All of the following *except* \_\_\_\_\_ are effects felt by individuals in regard to the health of a nation's economy.
- the amount of interest paid for a home
  - acquiring a job
  - obtaining financing for your education
  - increases in productivity
  - the interest paid on credit card purchases

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ANSWER: d

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87. Which of the following statements is false?

- a. One way to reduce costs is to increase productivity.
- b. Increased productivity can lead to higher manufacturing costs.
- c. Increased productivity is a concern for nations throughout the world.
- d. Productivity is expected to improve as more economic activity is transferred to the Internet.
- e. Productivity growth enables American business firms to compete more effectively with other nations in a competitive world.

*ANSWER:* b

88. Which of the following would *not* be included in the gross domestic product of the United States?

- a. Value of tax return services performed by H&R Block, U.S. locations
- b. Value of BMW automobiles manufactured in Alabama
- c. Total value of Procter & Gamble products produced in Michigan
- d. Value of medical care services rendered in the United States
- e. Value of McDonald's sales for their Tokyo locations

*ANSWER:* e

89. Which of the following is *not* a characterization of a depression?

- a. High unemployment rates
- b. Lower stock values
- c. two or more consecutive three-month periods of GDP decline
- d. General decrease in business activity
- e. General lack of confidence in the economy by members of the population

*ANSWER:* c

90. During which stage of the business cycle would a company such as 3M begin to focus on being more value conscious in its production decisions?

- a. Depression
- b. Peak
- c. Recession
- d. Trough
- e. Recovery

*ANSWER:* c

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91. The Federal Reserve uses \_\_\_\_ when it lowers the interest rate charged to banks on short-term loans.
- monetary policy
  - national debt
  - inflation
  - fiscal policy
  - competition

*ANSWER:* a

92. In France, income taxes are reduced so that individuals will have more income to spend, which in turn will stimulate the economy. This is an example of
- the business cycle.
  - economic stimulation.
  - monetary policy.
  - recession.
  - fiscal policy.

*ANSWER:* e

93. Some economists believe that sound fiscal and monetary policy can reduce the amount of time the economy is in the \_\_\_\_ stage of the business cycle.
- recession
  - recovery
  - repression
  - prosperity
  - trough

*ANSWER:* a

94. For firms like Apple and Samsung, competition
- is not a factor that must be considered in a free-market economy.
  - affects smaller businesses but not large chain operations.
  - affects larger chain operations but not smaller businesses.
  - is a rivalry among businesses for sales to potential customers.
  - is a problem that has been eliminated in the twenty-first century.

*ANSWER:* d



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95. As a farmer, Charles Forsythe is familiar with the economics of perfect competition. How is the price at which he sells his corn determined?
- It is determined by Charles because he has the product that many people want.
  - The price is determined by combining the actions of all buyers and all sellers together.
  - The price he will receive is primarily determined by the buyer at the local grain bin.
  - The government sets the price of the corn to level the playing field for everyone.
  - The price will be approximately 25 percent higher than what other farmers are selling the same corn for because Charles is an astute businessperson.

*ANSWER:* b

96. As computers gained popularity, the \_\_\_\_ typewriters decreased along with the price.
- demand for
  - supply of
  - equilibrium of
  - productivity of
  - monopoly associated with

*ANSWER:* a

97. As the price of jeans rises, Lee is likely to
- decrease production and thus decrease the supply.
  - increase production and thus increase the supply.
  - do nothing to influence the available supply of jeans.
  - discontinue producing jeans in favor of a different product.
  - increase production to influence the demand for jeans.

*ANSWER:* b

98. Monopolistic competition is a market situation in which
- similar but not identical products are available.
  - only one product is available.
  - several identical products are available.
  - the same price is charged for all products.
  - the government regulates prices.

*ANSWER:* a

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99. Which of the following is *not* a characteristic of an oligopoly?

- a. There are few sellers.
- b. The seller has considerable control over price.
- c. Any duplication of facilities is wasteful.
- d. Sizable investments are required to enter the market.
- e. The market actions of each seller can strongly affect other sellers.

*ANSWER:* c

100. When General Mills and a few other firms dominate the American cereal market, this is an example of

- a. pure competition.
- b. monopolistic competition.
- c. oligopoly.
- d. natural monopoly.
- e. monopoly.

*ANSWER:* c

101. Shell and Valero are two of the relatively few sellers in the oil-refining industry. Due to the tremendous capital investment required to enter this industry, these companies are insulated significantly from the threat of new competitive entrants and thus have considerable control over price. This market situation is referred to as a(n)

- a. cartel.
- b. monopoly.
- c. natural monopoly.
- d. oligopoly.
- e. trust.

*ANSWER:* d

102. When Honda experienced declining sales as a result of quality and safety issues, it began offering buyer incentives to new-car buyers. Nearly immediately, Ford and General Motors began similar promotions. These businesses

- a. represent an oligopoly in which there are few sellers, and each seller has considerable control over price.
- b. represent a monopoly in which only one firm supplies a product or products.
- c. are engaging in monopolistic competition in which there are many buyers as well as a relatively large number of sellers that differentiate their products from those of competitors.
- d. are engaging in pure competition, in which no single seller is powerful enough to affect prices.
- e. are engaging in monopolistic competition, in which the products are very similar.

*ANSWER:* a

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103. If all leading corporations in the soft-drink industry merged, this would
- encourage pure competition.
  - encourage monopolistic competition.
  - lead to an oligopoly.
  - create a limited monopoly.
  - create a monopoly.

*ANSWER:* e

104. What must a monopoly, such as a public utility, account for when setting its prices?
- A monopoly, because it has no competitors, can set prices as high as it likes.
  - A monopoly must consider customer demand, and then set prices at the most profitable level.
  - A monopoly must take into account what its top competitors are charging for the same product or service.
  - A monopoly has no say in what prices it will charge because the government sets the prices for all monopolistic industries.
  - A monopoly must look at the importance of each client, and then determine what respective rate each will be charged.

*ANSWER:* b

105. Nautilus, Inc., which manufactures total strength training systems for home use, obtained a patent on its power rods. Nautilus has a(n) \_\_\_\_\_ for this product.
- monopoly
  - oligopoly
  - natural monopoly
  - limited monopoly
  - illegal monopoly

*ANSWER:* d

106. When Microsoft copyrighted its Windows software, it established a(n) \_\_\_\_\_ monopoly.
- domestic
  - international
  - legal
  - natural
  - unnatural

*ANSWER:* c

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107. United Airlines traded eight 747s for twelve DC-10s owned by Delta Airlines. This transaction is an example of
- barter.
  - ancient trading.
  - the domestic system.
  - the factory system.
  - an unequal exchange of goods.

*ANSWER:* a

108. Which of the following is *not* a characteristic of the Great Depression?
- Stock prices decreased.
  - It was a period of misery and human suffering.
  - There was a near collapse of the nation's economy.
  - The government became less involved in business activities.
  - People lost faith in business and its ability to satisfy society's needs.

*ANSWER:* d

109. In the early 1980s, Craig Anderson, a corporate finance manager, was faced with which of the following problems?
- High inflation rates
  - Competition from e-business firms
  - Too much productivity
  - Declining interest rates
  - A decline in the use of specialization

*ANSWER:* a

110. Which of the following statements does *not* describe the U.S. economy as we finish the first decade of the new millennium?
- Information technology will continue to fuel the new economy.
  - There will be more investment in information technology.
  - There will be fewer opportunities for international trade.
  - e-business will be a more important part of the economy.
  - Service businesses will continue to employ more than half of the American workforce.

*ANSWER:* c

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111. Which of the following issues will *not* be a challenge for our economy in the years to come?
- How can we encourage economic growth while conserving natural resources?
  - How can we preserve the benefits of competition?
  - How can we meet the challenges of managing a culturally diverse workforce?
  - How can individuals reinvest all the profits that have been made in the stock market as a result of the strong economy?
  - How can we meet the needs of the less fortunate?

*ANSWER:* d

### Satellite Communications

Steven worked for Satellite Communications for twenty years. In the time that he worked there, he learned a lot about the company and how it operated. The company met its sales and revenue goals every year. However, most of the employees had similar educational and cultural backgrounds. He believed that the company could do much better if it cultivated an environment that promoted many different ideas. Additionally, Satellite Communications was mostly focused on how much revenue it earned in a given year. Steven felt that the most important goal should be to satisfy customers. He believed financial success would result from focusing on customers.

After a lot of consideration, Steven decided to open his own business called Universal Communications and hire employees that reflected a more diverse customer base. He was happy to have this opportunity because it was a dream that he had always had. He had always wanted to make his own decisions about what his company would produce and how. The only aspect of the business he was unsure of was pricing, yet he knew this would be important for his ultimate success.

112. Refer to Satellite Communications. Steven is operating in a \_\_\_\_\_ because he has the opportunity to decide what and how to do things.
- command economy
  - mixed environment
  - market economy
  - split economy
  - micro-economy

*ANSWER:* c

113. Refer to Satellite Communications. Steven's success will contribute to society. This is referred to as the
- objective.
  - market economy.
  - business cycle.
  - invisible hand.
  - standard of living.

*ANSWER:* d

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114. Refer to Satellite Communications. When hiring people, Steven thinks it is important to consider
- unilateral thinking.
  - profit.
  - wage increases.
  - health benefits.
  - cultural diversity.

*ANSWER:* e

115. Refer to Satellite Communications. Now that Steven plans to open his own business, he needs to look at the factors of production. Which of the following is *not* a factor of production?
- Labor
  - Capital
  - Machinery
  - Demand
  - Entrepreneurship

*ANSWER:* d

### Home Inspirations

Mary works for her father in a family-owned business called Home Inspirations, a bedding company that has been in operation since the 1800s. When her father retires, Mary plans on taking over the business. Mary is aware of many things about the company that she likes, and a few things that she does not. She has particularly noted that when the economy has low unemployment and high total income, sales are great. However, any other time, sales are not so good.

Currently, all of the bedding items are created in one place and everyone works on various tasks every day. Mary is thinking about streamlining the production process so that individuals would be responsible for only one task. She believes that if production would increase, she could sell her products at a lower price and increase revenue. She knows that most bedding products available in the market are very similar in nature and satisfy the same need. However, if she were able to lower prices, this might give her company the competitive advantage that it needs. She would then be able to invest money in differentiating her products by providing unique features, building the brand name, and offering services such as free delivery. She is also considering selling her products on the Internet. Mary knows that her father does not like change very much, but she feels these changes are important for the future of the company.

116. Refer to Home Inspirations. Mary noticed that when sales were up, the economy was in a
- depression.
  - peak period.
  - grace period.
  - recession.
  - stagnant mode.

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*ANSWER:* b

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117. Refer to Home Inspirations. Home Inspirations currently operates in a \_\_\_\_ environment.

- a. purely competitive
- b. demand
- c. monopolistically competitive
- d. command
- e. supply

*ANSWER: c*

118. Refer to Home Inspirations. Mary's goal of offering products with unique features and special services is called

- a. specialization.
- b. product differentiation.
- c. barter.
- d. a factory system.
- e. a natural monopoly.

*ANSWER: b*

119. Refer to Home Inspirations. Mary feels that for productivity to improve, the company must practice

- a. free enterprise.
- b. work ethics.
- c. specialization.
- d. cultural diversity.
- e. pure competition.

*ANSWER: c*

120. Anthony chooses to work only thirty hours a week as an engineering assistant while trying to shield himself from additional responsibilities at work. Anthony seems to value

- a. recognition and rewards.
- b. the opportunity to help others.
- c. promotions and transfers.
- d. more free time.
- e. get-rich-quick schemes.

*ANSWER: d*

## Chapter 01: Exploring the World of Business and Economics

121. A local retailer calls its customers when it receives merchandise that they may be interested in, provides individual service to each customer, provides forms and phone numbers for complaints and comments, and has a 100 percent satisfaction guarantee. Which objective is this business working hard to accomplish?
- Making a profit
  - Achieving low employee turnover
  - Satisfying the needs of its customers
  - Increasing the owner's wealth
  - Keeping up with the current technology

*ANSWER:* c

122. In the mid-1970s, American auto manufacturers produced big gas-guzzling cars and tried to sell them to consumers who needed fuel-efficient transportation. This happened because manufacturers
- lost sight of consumers' needs.
  - attempted to satisfy consumers' needs.
  - followed consumers' wants too closely.
  - knew the economy would rise again.
  - did not expect a profit.

*ANSWER:* a

123. During 2016, Just-the-One Jewelry had sales revenues of \$1,500,000. This retailer also had expenses that totaled \$800,000. What is the firm's profit or loss amount?
- \$2,300,000
  - \$1,500,000
  - \$800,000
  - \$700,000
  - It is impossible to calculate profit or loss with the above information.

*ANSWER:* d

124. Matthew Brown decides to become a part owner of a corporation. As a part owner, he expects to receive a profit as payment because he has assumed the risk of
- serious inflation eroding the purchasing power of his investment.
  - being paid before the suppliers and employees are paid.
  - losing his home, car, and life savings.
  - losing the money he has invested in the corporation and not receiving profits.
  - the company giving all of the profits to local communities.

*ANSWER:* d



## Chapter 01: Exploring the World of Business and Economics

125. William Welsh, a former Air Force pilot, decides to operate a helicopter tour company to provide customers with breathtaking views of the Rocky Mountains. He obtains a loan and purchases the necessary land, facilities, advertising, and five helicopters for his business. What important factor of production has he overlooked in creating his business?
- Equipment
  - Capital
  - Labor
  - Entrepreneurship
  - Natural resources

*ANSWER:* c

126. Henry Spring, a chef at a major restaurant in San Francisco, wants to start his own restaurant. He surveys the market, finds a suitable location, and calculates how much money he will need to lease the building and purchase the necessary equipment and supplies. Henry visits his banker and requests a loan. The money Henry will receive from the loan and the resources he will purchase with it are known as
- capital.
  - profit.
  - revenue.
  - collateral.
  - stock.

*ANSWER:* a

127. Gabby is passionate about soccer and decides to open her own soccer sporting goods store. She invests her money, time, and effort into making the store a success. Gabby can be *best* described as a(n)
- capitalist.
  - laborer.
  - corporate owner.
  - entrepreneur.
  - competitor.

*ANSWER:* d

128. Chris Okowo recently moved to the United States with many hopes and dreams. However, he realizes that economic freedom includes all of the following *except* the right to
- guaranteed economic success.
  - use owned resources to produce a profit.
  - accept or reject any job offered.
  - sell a product at the price chosen.
  - buy any economic good or service producers sell.

*ANSWER:* a

## Chapter 01: Exploring the World of Business and Economics

129. Sherry Garcia begins her first job after graduating from college and starts putting money away in a savings account. She believes she has removed this money from the circular flow between buyers and sellers that she studied in Introduction to Business. Is Sherry correct?
- Yes, by putting this money into a savings account, only she has access to the funds and they are no longer available to the circular flow.
  - No, even though she has saved this money, the bank will in turn invest the money back into the circular flow.
  - Yes, only direct investments into companies, such as purchasing ownership shares of that company, will put her savings back into the circular flow.
  - Yes, the circular flow focuses on businesses and government, and therefore Gail's savings have no impact on the circular flow.
  - No, because she earned this money from a company and because she paid taxes on it, it is always considered part of the flow.

*ANSWER:* b

130. Tim Hughes works at an institutional bakery and is paid a wage dictated by the government. He does not like his job but is not allowed other options. Tim must purchase necessities for his family at fixed prices. The country Tim lives in can be described as a \_\_\_\_ economy.
- demand
  - command
  - market
  - free-enterprise
  - capitalist

*ANSWER:* b

131. Fred Sanchez owns and operates his own small automobile repair shop. However, the prices he can charge are fixed, and he rents his land and building from the government. Most of his friends work for industries owned by the government. Fred's country is *most likely* a(n) \_\_\_\_ economy.
- market
  - communist
  - socialist
  - industrialized
  - capitalist

*ANSWER:* c

## Chapter 01: Exploring the World of Business and Economics

132. The production and operations manager at a large shoe factory in Lawrence, Massachusetts, notices that the total number of hours worked by production employees has increased 12 percent, while the number of pairs of shoes ready for shipping has dropped 6 percent this year over last year. This means
- the inflation rate is unchanged.
  - the demand for shoes is decreasing.
  - the manager's calculations cannot be correct.
  - productivity has decreased.
  - the gross national product has increased by 6 percent.

*ANSWER:* d

133. An executive at a U.S. steel company uses growth in gross domestic product as one way to develop trends in industry steel use, so he records GDP change for each year on a graph. However, the executive's figures are considerably higher than those of the staff economist, who also has drawn a graph. This difference is *most likely* the result of
- measurement errors by the U.S. Bureau of the Census.
  - a decline in gross domestic product.
  - an increase in gross domestic product.
  - the economist adjusting the figures for the inflation rate.
  - a change in productivity.

*ANSWER:* d

134. A furniture manufacturer like Thomasville would be concerned with the producer price index because it
- is related to the real gross domestic product.
  - measures prices that manufacturers must pay for lumber and other raw materials used in the manufacturing process.
  - tracks the cost of housing and transportation.
  - is published daily.
  - measures the effect of interest rates on the economy.

*ANSWER:* b

135. As Veronica Janneck and her friends prepare to graduate from college, they are faced with numerous job offers with starting salaries better than they could have imagined when they began college four years ago. Based on this information, which stage of the business cycle would the economy be in?
- Depression
  - Peak
  - Recession
  - Trough
  - Recovery

*ANSWER:* b

## Chapter 01: Exploring the World of Business and Economics

136. Researchers just released the results of a study that shows eating fish at least four times a week dramatically decreases adults' risk of heart disease. What will likely result from this new information?
- The demand for fish will decrease.
  - The supply of fish will decrease, causing a decrease in the price.
  - The demand for fish will increase at every price.
  - The demand for fish will decrease at every price.
  - The demand for fish will likely remain the same, but the market price will adjust.

*ANSWER: c*

137. The maker of Hanes pantyhose attempts to set its product apart from the competition. As a result, the company obtained some limited control over the price of its product. Achieving price control in this manner is known as
- advertising.
  - distributional efficiency.
  - low-cost production.
  - niche marketing.
  - product differentiation.

*ANSWER: e*

138. Arthur Jones distributes rawhide to several different homes. In turn, each household produces a product such as satchels, belts, shoes, and boots, and then Arthur sells the finished goods. This represents a(n)
- oligopoly.
  - domestic system.
  - system of specialization.
  - factory system.
  - barter system.

*ANSWER: b*

139. The Miller family owns and operates an interior decorating business. Henry installs hardwood floors and chair rails; Chloe reupholsters furniture and takes care of the finances; Charles designs and makes draperies and pillows; and Mary coordinates the overall color, look, and design. The process the Miller family uses to run its business is
- specialization.
  - division of service.
  - the factory system.
  - the domestic system.
  - the barter system.

*ANSWER: a*

## Chapter 01: Exploring the World of Business and Economics

140. Weyerheuser owns vast acres of land in Washington State near Mt. Saint Helens where it grows trees for harvesting to make everything from lumber to build houses to newsprint for newspapers. Which of the following best represents some of the material resources of this business.
- Trees, logging trucks, and paper mills.
  - Secretaries, loggers, and truckers.
  - Computers, cash, and desks.
  - Trees, loggers, and computers.

*ANSWER:* a

141. Melinda lives in a country where individuals may own their own property and the factors of production, however, the government lays very heavy taxes on individuals and businesses and uses the taxes to provide life-long pensions to each citizen in accordance with their economic need. The government also provides almost free medical and dental services and education through college. This kind of economic system could best be described as
- communist.
  - socialist.
  - mixed.
  - capitalist.

*ANSWER:* c

142. Stephanie would like to study abroad for a year before graduating from college. She would like to live someplace that is close to her native country of Ireland in terms of development because she will need to use the Internet for many of her classes. She can choose from programs in three countries. What could she use to measure the economic performance of the three countries?
- Gross Domestic Product.
  - Productivity and Gross Domestic Productivity.
  - Marketing measures.
  - Accounting processes.

*ANSWER:* a

143. George would like to start his own lawn maintenance business but is not quite sure where to begin or what to do to start a business. He has come to you for advice. What would you recommend for him to do?
- First, determine what you want, why you want to do it, and write it down.
  - Focus on one task at a time then bounce between these tasks to accomplish them all.
  - Structure your time and do all of the mundane unimportant things first so they don't hang over your head all day.
  - Don't leave your desk until the job is done. If you take breaks, you may forget what you were doing and have to start over.

*ANSWER:* a

## Chapter 01: Exploring the World of Business and Economics

144. Zoe, geologist, has discovered a new mineral which she named *brellio*. She believes that it can be used to generate clean energy. The mineral is much like uranium and can be used to create energy without the harmful radiation side-effects. What factors of production will she use to mine the mineral and establish her energy business?
- Land and natural resources, labor, capital, and entrepreneurship.
  - Natural resources, political associations, and capital.
  - Labor, advertising, and capital.
  - Entrepreneurship, labor, and ethics.

*ANSWER:* a

145. Stella and Matt went to the mall. While there they passed a Vans store, Nike's store, New Balance store, and Adidas store. Matt commented that there was really a large number of sellers and noted that there seemed to be many buyers as well. What kind of market competition is represented by these stores?
- Perfect.
  - Monopolistic.
  - Oligopoly.
  - Monopoly.

*ANSWER:* a

146. Andrew and Timmy are neighbors. Andrew owns a boat but never uses it. Timmy owns a car that he no longer needs since his son left for college in another state. Andrew needs a car. Andrew and Timmy make an agreement to trade the boat for car. What is the economic term given to this kind of exchange?
- Barter.
  - Buying and selling.
  - Bargained-for exchange.
  - Replevin.

*ANSWER:* a

147. When an individual chooses his or her ideal career, it is *most likely* a reflection of one's
- values.
  - hobbies.
  - skills.
  - education.
  - desire to be rich.

*ANSWER:* a

## Chapter 01: Exploring the World of Business and Economics

148. Of the following, which is *not* considered a basic management function necessary to be an effective manager?
- a. Planning
  - b. Organizing
  - c. Leading and motivating
  - d. Controlling
  - e. Selling

*ANSWER:* e

149. Cultural diversity represents
- a. a business theory that is no longer valid.
  - b. the differences among people in a workforce.
  - c. a technical skill.
  - d. a statistical method used to project sales revenues and profits for global companies.
  - e. a religious issue that doesn't affect business organizations.

*ANSWER:* b

150. The ability for a manager to think in abstract terms while envisioning the “big picture” falls into the category of \_\_\_\_\_, deemed an important management trait.
- a. interpersonal skills
  - b. conceptual skills
  - c. leading and motivating functions
  - d. mechanical skills
  - e. controlling functions

*ANSWER:* b

151. The organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs is called
- a. consumerism.
  - b. the economy.
  - c. capitalism.
  - d. business.
  - e. the workplace.

*ANSWER:* d

## Chapter 01: Exploring the World of Business and Economics

152. Raw materials, buildings, and machinery are \_\_\_\_ resources.

- a. human
- b. financial
- c. informational
- d. labor
- e. material

*ANSWER:* e

153. \_\_\_\_ resources include the funds needed to pay wages, purchase raw materials, and operate a business.

- a. Human
- b. Financial
- c. Informational
- d. Labor
- e. Material

*ANSWER:* b

154. \_\_\_\_ resources are the individuals who provide labor for an organization in exchange for wages.

- a. Human
- b. Material
- c. Labor
- d. Financial
- e. Informational

*ANSWER:* a

155. What resource tells the managers of a business how effectively the other three resources are being combined and used?

- a. Technical
- b. Human
- c. Financial
- d. Material
- e. Informational

*ANSWER:* e



## Chapter 01: Exploring the World of Business and Economics

156. Organizations that combine raw materials, machinery, and labor to produce goods are called
- manufacturing businesses.
  - service businesses.
  - merchandisers.
  - market intermediaries.
  - processors.

*ANSWER:* a

157. Which of the following companies is an example of a manufacturer?
- Best Buy
  - Intel
  - Walmart
  - McDonalds
  - H&R Block

*ANSWER:* b

158. A business' efforts to sustain the planet and their participation in ecological movements are part of a firm's
- free enterprise system.
  - stakeholder responsibilities.
  - factors of production.
  - social responsibility.
  - business cycle.

*ANSWER:* d

159. When a firm's sales revenues are greater than its expenses, the firm has a
- profit.
  - loss.
  - positive cash flow.
  - financial resource.
  - factor of production.

*ANSWER:* a

160. When a firm's expenses are greater than its sales revenue, the firm has a
- profit.
  - loss.
  - negative cash flow.
  - recession.
  - depression.

---

*ANSWER:* b

## Chapter 01: Exploring the World of Business and Economics

161. For a business, stakeholders represent
- investors in the business.
  - lenders that have provided loans.
  - suppliers that have extended credit to the firm in search of profit for the firm..
  - employees who work for the firm.
  - all of the different people or groups who are affected by the business.

*ANSWER:* e

162. \_\_\_\_ is the study of how wealth is created and distributed.
- Economics
  - Business
  - Marketing
  - Capitalism
  - Finance

*ANSWER:* a

163. Microeconomics is the study of
- global economies.
  - the entire U.S. economy.
  - the decisions made by individuals.
  - the national unemployment rate.
  - productivity in other countries.

*ANSWER:* c

164. When economists study the national economy or global economy, they are using a(n) \_\_\_\_ approach.
- macroeconomics
  - microeconomics
  - fiscal
  - monetary
  - intuitive

*ANSWER:* a

165. According to economists, natural resources, labor, capital, and entrepreneurship are called
- free resources.
  - competitive resources.
  - factory resources.
  - factors of manufacturing.
  - factors of production.

---

*ANSWER:* e

## Chapter 01: Exploring the World of Business and Economics

166. A natural resource, as recognized by economists, would include which of the following?

- a. Crude oil
- b. Buildings
- c. Tools
- d. Machinery
- e. Equipment

*ANSWER:* a

167. The work performed to produce goods and services is referred to as

- a. land.
- b. financial resources.
- c. material resources.
- d. capital goods.
- e. labor.

*ANSWER:* e

168. For a Pepperidge Farm production facility, managers and employees would be

- a. natural resources.
- b. capital.
- c. information resources.
- d. labor.
- e. the entrepreneurial resource.

*ANSWER:* d

169. A person who risks his or her time, effort, and money to start and operate a business is called a(n)

- a. free-market specialist.
- b. entrepreneur.
- c. intrapreneur.
- d. competitor.
- e. profit taker.

*ANSWER:* b

## Chapter 01: Exploring the World of Business and Economics

170. An economic system in which individuals and businesses make the decisions about what to produce and what to buy, and the market determines how much is sold and at what prices, is called a \_\_\_\_\_ economy.

- a. product
- b. producer's
- c. market
- d. planned
- e. command

ANSWER: c

171. The United States, whose economy exhibits elements of both capitalism and socialism, has what is known as a(n) \_\_\_\_\_ economy.

- a. planned
- b. utilitarian
- c. nationalized
- d. mixed
- e. centralized

ANSWER: d

172. Which of the following represents the biggest customer of American business?

- a. Government
- b. Other businesses
- c. Foreign governments
- d. Consumers
- e. The military

ANSWER: d

173. Households provide all of the following resources to businesses *except*

- a. labor.
- b. land.
- c. dividends.
- d. buildings.
- e. capital.

ANSWER: c

## Chapter 01: Exploring the World of Business and Economics

174. A system where the basic economic questions are determined, at least to some degree, through centralized government planning is referred to as a \_\_\_\_ economy.
- a. command
  - b. capitalistic
  - c. mixed
  - d. laissez-faire
  - e. communal

*ANSWER:* a

175. Examples of command economies include
- a. socialism and free enterprise.
  - b. capitalism and socialism.
  - c. socialism and market economy.
  - d. communism and capitalism.
  - e. socialism and communism.

*ANSWER:* e

176. An example of a command economy is
- a. capitalism.
  - b. laissez-faire.
  - c. oligopoly.
  - d. communism.
  - e. mixed economy.

*ANSWER:* d

177. Which economist has been called the father of communism?
- a. Adam Smith
  - b. Fidel Castro
  - c. Mark Cuban
  - d. Karl Marx
  - e. Alan Greenspan

*ANSWER:* d

## Chapter 01: Exploring the World of Business and Economics

178. In a communist country such as Cuba, emphasis is placed on producing what type of goods?

- a. Goods needed by the government
- b. Consumer goods
- c. Goods for export
- d. Perishable goods such as food
- e. Durable goods such as machinery

*ANSWER:* a

179. Although changes have occurred over the years, \_\_\_\_\_ is historically considered to have a communist economy.

- a. Germany
- b. Sweden
- c. Norway
- d. North Korea
- e. Britain

*ANSWER:* d

180. Productivity can *best* be described as

- a. a country's total output.
- b. the efficiency of a company's operations.
- c. economic growth in a country.
- d. the average level of output per worker per hour.
- e. the average level of output per worker per year.

*ANSWER:* d

181. To compare the productivity of the United States to that of Japan, one should examine their respective

- a. defense budgets.
- b. trade deficits.
- c. gross domestic products.
- d. stock markets' performance.
- e. consumer price indices.

*ANSWER:* c

182. The total dollar value of all goods and services produced by all people within the boundaries of a country is called

- a. productivity.
- b. gross domestic product.
- c. gross national product.
- d. inflation factor.
- e. standard of living.

---

*ANSWER:* b

## Chapter 01: Exploring the World of Business and Economics

183. Which of the following economic terms describes the total value of a nation's goods or services that have been adjusted for inflation?
- a. Altered gross domestic product
  - b. Gross domestic product
  - c. Real gross domestic product
  - d. Altered gross national product
  - e. Gross national product

*ANSWER:* c

184. According to economists, inflation is
- a. a general decrease in the level of prices.
  - b. a general rise in the level of prices.
  - c. unavoidable, and therefore something beyond the control of government.
  - d. eliminated by the government.
  - e. a general problem for countries with command economies.

*ANSWER:* b

185. Deflation
- a. is a typical economic event in the U.S. economy.
  - b. is scheduled by the nation's economists to make economic corrections.
  - c. occurs only in command economies.
  - d. is a general decrease in the level of prices.
  - e. is characteristic of a mixed economy.

*ANSWER:* d

186. The consumer price index (CPI)
- a. is a quarterly index that producers receive for their finished goods.
  - b. measures increases or decreases in the level of worker performance.
  - c. is the price of metals, lumber, and raw materials.
  - d. measures prices paid during periods of deflation.
  - e. is a monthly index that tracks the prices paid by consumers.

*ANSWER:* e

## Chapter 01: Exploring the World of Business and Economics

187. The producer price index is an accurate predictor of
- future changes in the consumer price index.
  - the level of unemployment.
  - prime interest rates.
  - Internet business activity.
  - an individual's standard of living.

*ANSWER:* a

188. Fluctuations in a nation's economy are referred to as its
- economic upheaval.
  - inflation problem.
  - depression cycle.
  - business cycle.
  - recession period.

*ANSWER:* d

189. Which of the following is *not* one of the four states included in a typical business cycle?
- Repression
  - Peak
  - Recession
  - Trough
  - Recovery

*ANSWER:* a

190. During which phase of the business cycle would a company like General Electric introduce new products?
- Repression
  - Peak
  - Recession
  - Depression
  - Recovery

*ANSWER:* b

191. Economists define a \_\_\_\_\_ as two consecutive three-month periods of decline in a country's gross domestic product.
- repression
  - prosperity
  - recession
  - trough
  - recovery

---

*ANSWER:* c



## Chapter 01: Exploring the World of Business and Economics

192. The economic term used to describe the Federal Reserve's actions to determine the size of the supply of money in the nation and the level of interest rates is
- monetary policy.
  - fiscal policy.
  - debt policy.
  - recovery technique.
  - recovery guideline.

*ANSWER:* a

193. The economic term used to describe the government's influence on savings and changing the levels of government spending is
- monetary policy.
  - fiscal policy.
  - debt policy.
  - recovery technique.
  - recovery guideline.

*ANSWER:* b

194. When the U.S. government spends more than it receives within a fiscal year, this is called the
- economic debt.
  - federal deficit.
  - fiscal debt.
  - national debt.
  - consumer debt.

*ANSWER:* b

195. The total of all federal deficits in the United States is called the
- economic debt.
  - federal deficit.
  - fiscal debt.
  - national debt.
  - consumer debt.

*ANSWER:* d

## Chapter 01: Exploring the World of Business and Economics

196. Since World War II, the average length of recessions has been

- a. six months
- b. eleven months
- c. twenty-two months
- d. three years
- e. five years

*ANSWER:* b

197. During which phase do high unemployment rates decline and levels of income increase?

- a. Repression
- b. Peak
- c. Recession
- d. Trough
- e. Recovery

*ANSWER:* e

198. The rivalry among businesses for sales to potential customers

- a. is an unfair business practice.
- b. is a necessary part of a command economy.
- c. is referred to as competition.
- d. is typical in a communist nation.
- e. doesn't exist in the real world.

*ANSWER:* c

199. Perfect competition is characterized by

- a. many buyers and many sellers.
- b. few buyers and few sellers.
- c. few buyers and many sellers.
- d. many buyers and few sellers.
- e. a few companies that control the market.

*ANSWER:* a

200. \_\_\_\_ is a necessary and extremely important by-product of capitalism.

- a. Monopoly
- b. Socialism
- c. Communism
- d. Competition
- e. Poverty

---

*ANSWER:* d

## Chapter 01: Exploring the World of Business and Economics

201. If the demand for a product declines, what happens to the price of the product?

- a. The price stays the same.
- b. The price decreases.
- c. The price increases.
- d. The equilibrium price will be maintained.
- e. The market price will be maintained.

*ANSWER:* b

202. A price at which the demanded quantity is equal to the produced quantity of that product is called the \_\_\_\_ price.

- a. market
- b. customer
- c. equality
- d. demand
- e. supply

*ANSWER:* a

203. \_\_\_\_ is the process of developing and promoting the differences between one's products and other similar products.

- a. Advertising
- b. Monopolistic competition
- c. Product differentiation
- d. Branding
- e. Goods distinction

*ANSWER:* c

204. Although all casual clothing ultimately provides the same purpose, companies such as The Gap strive to make their brand seem unique from the many other brands available on the market. The market for casual clothing can *best* be characterized as

- a. pure competition.
- b. monopolistic competition.
- c. an oligopoly.
- d. a monopoly.
- e. a natural monopoly.

*ANSWER:* b

## Chapter 01: Exploring the World of Business and Economics

205. \_\_\_\_\_ is a market situation (or industry) in which there are few sellers.

- a. Monopolistic competition
- b. Pure competition
- c. Monopoly
- d. Oligopoly
- e. Natural monopoly

*ANSWER:* d

206. Which of the following industries would *most likely* have the characteristics of an oligopoly?

- a. Clothing
- b. Restaurants
- c. Automobiles
- d. Cameras
- e. Make-up

*ANSWER:* c

207. A market or industry with only one seller is referred to as

- a. a limited command system.
- b. a monopoly.
- c. an oligopoly.
- d. monopolistic competition.
- e. a perfect competitive market.

*ANSWER:* b

208. Public utilities are often referred to as

- a. sole proprietorships.
- b. monopolistic competitors.
- c. monopolies.
- d. oligopolies.
- e. socialistic.

*ANSWER:* c

## Chapter 01: Exploring the World of Business and Economics

209. \_\_\_\_\_ is a loose, subjective measure of how well off an individual or society is in terms of obtaining want-satisfying goods and services.
- a. Employment success
  - b. Standard of wealth
  - c. Standard of living
  - d. Economic satisfaction
  - e. Satisfaction economic factor

*ANSWER:* c

210. The system in which raw materials are distributed by entrepreneurs to homes in which family members process those materials into finished products is referred to as
- a. the factory system.
  - b. an apprenticeship.
  - c. specialization.
  - d. free enterprise.
  - e. the domestic system.

*ANSWER:* e

211. The use of the factory system in the United States helped to usher in the
- a. colonial period.
  - b. Industrial Revolution.
  - c. Great Depression.
  - d. Renaissance.
  - e. twentieth century.

*ANSWER:* b

212. One of Samuel Slater's contributions to the development of American business was the use of
- a. capital.
  - b. flexible manufacturing.
  - c. domestic robots.
  - d. the factory system.
  - e. the domestic system.

*ANSWER:* d

## Chapter 01: Exploring the World of Business and Economics

213. The separation of a manufacturing process into distinct tasks and the assignment of different tasks to different individuals is called
- specialization.
  - entrepreneurship.
  - free market.
  - barter.
  - factory manufacturing.

*ANSWER:* a

214. The purpose of specialization is to
- reduce productivity.
  - increase the efficiency of industrial workers.
  - boost the morale of an employee because he or she is special.
  - relieve boredom.
  - make the nature of the work more general.

*ANSWER:* b

215. When did the U.S. government become more deeply involved in business than it had been previously?
- In the early 1920s
  - After Franklin D. Roosevelt became president
  - After the Vietnam War
  - During the social responsibility movement during the 1960s
  - After the Korean War

*ANSWER:* b

216. All except \_\_\_\_ are considered important, major events that shaped the nation's economy during the period of 1940 to 2000.
- the Korean War
  - the institution of Franklin D. Roosevelt's federal government programs
  - the shortage of crude oil
  - high inflation with high interest rates and reduced business profits
  - the Vietnam War

*ANSWER:* b

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217. Increased competition from firms in other nations is an example of the
- technological environment.
  - global environment.
  - command environment.
  - laissez-faire environment.
  - mixed environment.

*ANSWER:* b

218. The organized effort of individuals to produce and sell, for a profit, the products and services that satisfy society's needs through the Internet is known as
- business.
  - economy.
  - entrepreneurship.
  - e-business.
  - e-marketing.

*ANSWER:* d

219. The current technology environment
- is not as important as it was fifteen years ago.
  - does not affect manufacturing firms.
  - changes the way business firms communicate with customers.
  - doesn't change as often as it did fifteen years ago.
  - is not a concern for most firms that do business only in the United States.

*ANSWER:* c

220. The concept of sustainability focuses on which of the following?
- The needs of the present without compromising the future
  - The needs of the future without compromising the present
  - The needs of the firm to make a profit in the present
  - The needs of future employees
  - The needs of the government in the future

*ANSWER:* a

## Chapter 01: Exploring the World of Business and Economics

221. Service businesses employ approximately \_\_\_ percent of the U.S. work force.
- 40
  - 50
  - 65
  - 75
  - 86

*ANSWER:* e

222. Andy is interested in investing in the stock market, but having studied the Great Depression in school, she is afraid she could lose all of her money. She reads through the finance pages of the newspaper and sees that unemployment has dropped to the lowest level it has been in the past ten years, new businesses are opening, housing sales are up because interest rates are level, and the national debt is decreasing. If the economy is her only concern about buying stock, should she buy stock?
- The level of unemployment, the rise in new business starts, the increase in housing sales, and the decrease in national debt indicate that the economy is growing so it would be a good time to buy stock.
  - In spite of all of the positive indicators, it is never a good time to buy stock.
  - The stock market works independent of unemployment, business starts, housing sales, and the level of the national debt so these things will not influence the rise or fall of the market.
  - Andy should not base her decision to buy stock on the factors indicated, she should base it solely on the consumer price index.

*ANSWER:* a

223. William and Carrie go to the local Farmer's Market every Saturday morning. The market has many vegetable stands, many flower stalls, many artisan craft stalls selling handmade soaps and scented oils, and many stalls selling yard ornaments. All of the sellers within a sales category (vegetables, flowers, artisan crafts, and ornaments) sell their goods for essentially the same price, with little variation. Carrie comments to William that the vegetable stands enjoy perfect competition. What factors did she take into consideration when making this comment?
- She is considering that there are many buyers and sellers of a product and no single buyer or seller is powerful enough to affect the price of that product.
  - She is considering that there are many sellers and few buyers so the sellers set their own perfect price.
  - She is considering that the vegetables are in perfect condition so the competition should also be perfect.
  - She is considering that vegetables, flowers, and crafts are different products and thus one could not be substituted for another so the vegetable stands are in a perfect location with a perfect market to sell their produce.

*ANSWER:* a



## Chapter 01: Exploring the World of Business and Economics

224. In 1770, Thomas Pine I was a tobacco merchant in Virginia. In 2014, Thomas Pine VI, the descendant of Thomas Pine I, was a tobacco merchant in Virginia. In terms of the global competitive environment, which of the following is *not* a difference between the competitions faced by Thomas Pine I and Thomas Pine VI?
- The 1770 merchant has very few choices in regard to the nation to which he exported his tobacco.
  - The 1770 merchant most likely exported only the surplus of his product that he could not sell in America.
  - In 1770 there was no factory system to make tobacco production and processing more efficient and financially rewarding.
  - There were few tobacco merchants in America in 1770, but in 2014 tobacco was farmed in all of the 50 states.

*ANSWER:* d

225. Margaret has just completed college and is considering tactics to be employed in a profession that interests her, will permit her to use her abilities, allow her to grow, and will challenge her. She is not quite sure what steps to take to find a job that will fulfill these needs. Which of the following would be good steps to take to find a job that will meet Margaret's needs?
- Use online networking to begin to identify and join sites where she can connect with people who like the same sports and recreational activities she does.
  - Use online networking and social media sites to locate job openings and help prospective employers find her.
  - Review job openings in newspapers and magazines but give very little information about herself on online networking sites to prevent identity theft.
  - Create one static online profile with few photographs and posts to communicate that she does not waste her time with social media but instead, devotes herself to work and school.

*ANSWER:* b

226. Rebekah is opening her own bakery. In order to bake the cookies, pie, cakes, and bread she will be selling, she will need money to purchase an oven, baking pans, various kitchen tools, thermometers, sugar, yeast, salt, flour, oil, milk, water, spices, and other ingredients. She will also need people to work in the business baking the goods, drivers to deliver them to the stores, accountants to keep track of the income and costs, and a computer with software to track how effectively she is using the ingredients. Which of the following best describes the resources used by Rebekah's bakery.
- Rebekah's business is a manufacturing business.
  - Rebekah will be using material resources, human resources, and information resources.
  - Rebekah will be using goods and services.
  - Rebekah will be using material resources, human resources, financial resources, and information resources.

*ANSWER:* d

## Chapter 01: Exploring the World of Business and Economics

227. John owns stock in ABC, Inc. Mary is an employee of ABC, Inc. D'Shawn uses the products sold by ABC, Inc. Pham and Alexis are on the board of directors of ABC, Inc. Winifred lives in a housing tract adjacent to the ABC, Inc. factory. Which of the following best describes the roles of these individuals as they relate to ABC, Inc.?
- Each of these individuals is a stakeholder of ABC, Inc.
  - John, Mary, Pham, and Alexis are affected by the policies, decisions, and activities of ABC, Inc., but Winifred and D'Shawn are not.
  - Only Pham and Alexis are stakeholders in ABC, Inc., because they are on the board of directors.
  - All but Winifred are stakeholders in ABC, Inc.

*ANSWER:* a

228. In Sweden, businesses are free to sell any legal product they want in any manner they desire as long as it does not violate any laws or ordinances. The nation has a very liberal welfare policy with most citizens, even at an early age, receiving monthly pension checks from the government. What type of economic system is employed in Sweden?
- Sweden has a command economy.
  - Sweden has a socialist economic system as demonstrated by its pension program.
  - Sweden has a free market capitalistic economy.
  - Sweden has a mixed economy similar to the United States.

*ANSWER:* c

229. The gross domestic product (GDP) of Sweden is \$498.1 billion (2016 est.), with a real GDP growth rate of 3.6% (2016 est.), and GDP per capita of \$49,700 (2016 est.). The GDP of Poland is \$1.052 trillion (2016 est.), with a real GDP growth rate of 3.1% (2016 est.), and GDP per capita of \$27,700 (2016 est.). The GDP of Botswana is \$36.51 billion (2016 est.), with a real GDP growth rate of 3.1% (2016 est.), and GDP per capita of \$16,900 (2016 est.). When comparing the gross domestic product (GDP) numbers of these three nations, which of the following conclusions would be appropriate?
- Of the three nations, Sweden has the lowest growth rate with the other two nations tied for second place.
  - While Poland has a higher GDP, individuals in Sweden produce more per capita and Botswana produces less per capita and has the lowest GDP of the three nations.
  - Of the three nations, Botswana produces the least per capita with Poland second and Sweden the most.
  - These three nations have roughly the same GDP figures.

*ANSWER:* b

## Chapter 01: Exploring the World of Business and Economics

230. D'Jeanea inherited money from her grandparents in 2007 and invested it in the stock market. In 2008 the market dropped drastically. During the recession that followed, her portfolio lost thousands of dollars in value even though all of the companies she invested in remained solvent. D'Jeanea left her money in the market and kept it invested in the same companies as 2007. What is the most likely state of her portfolio today?
- It has most likely gained value due to the uptick in the business cycle and economic growth experienced since 2011 and it is no doubt worth as much or more than it was worth in 2007.
  - It has continued to lose value.
  - It has grown then faltered and decreased in value due to the recovery and is most likely worth the same or less than it was worth in 2007.
  - Since an economic recovery generally lasts an average of 24 months, her portfolio gains in value and is currently on the down-turn as the economy enters another downward cycle.

*ANSWER:* a

231. Boeing, Airbus, Bombardier Aerospace, and Cessna are among the ten manufacturers and sellers of business jets. Because the production of jets requires a sizeable investment, it is difficult to enter this market and the sellers are quite large. Which of the following best describes the market or industry situation in which these companies operate?
- These businesses operate in a market best described as monopolistic competition.
  - These businesses operate in a market that would best be described as a monopoly.
  - These businesses operate in a perfect competition market.
  - These businesses operate in an oligopoly.

*ANSWER:* d

232. Marcus sells washing machines from his store on a main street in his city. He normally sells ten washing machines a month. He has been considering ways to improve his sales and has improved his advertising, his store signage, and utilizes social media to contact potential buyers in the most likely demographic group, but has only improved sales by one washing machine a month. This month he decided that if he has three times more washing machines in his store and sells them at the same price he is now offering them, he will sell three times more washing machines. What is the fundamental flaw in his plan?
- Buyers are rational people and the demand for the product will only increase if the price is set at a higher level than it now is
  - In order to sell more washing machines he will have to raise the price per washing machine.
  - Demand for a product is not necessarily increased just because there is a greater supply, in addition, based on his sales, he has no doubt reached the equilibrium price.
  - The supply of a particular product is the quantity of the product that producers are willing to sell at each of various prices. Producers offer more of a product for sale at higher prices and offer less of the product at lower prices therefore, to reach his sales goal, he needs to raise the price.

*ANSWER:* c

## Chapter 01: Exploring the World of Business and Economics

233. Xavier and Yvette are discussing starting a business that will take little start-up capital but, nonetheless, meets the needs of customers. They have reviewed a variety of economic and business publications and found one business area that seems to fit their capital requirements. Businesses in this area employ 86 percent of the nation's workforce. They now just need to determine which specific type of business in this area they will open. What type of business will they open?
- They will open a service business.
  - They will open a manufacturing business because these businesses have large workforces.
  - They will open a wholesale business supplying goods to retailers.
  - They will open a government business.

*ANSWER:* a

### Essay

234. In your own words, describe what you have to offer to a potential employee of a company that you desire to work for.

*ANSWER:* Answers will vary. Potential student responses may include communication, technical, or computer skills. They may provide specific skills such as accounting or auditing experience or education, expertise with Microsoft Office including Excel and/or Access, or expertise in social media and social networking. Students may mention internship experience or quality experience while completing their degree.

235. How can online networking improve your chances of success in the business world?

*ANSWER:* Answers will vary. It may be best to make the most of online networking by identifying and joining sites where you can connect with prospective employers, current and former classmates, and others who may help you spread the word of a job search. Online networking can also advance your career by being a part of sites such as Facebook, Twitter, and LinkedIn, among others. May also include damaging effects of ill-advised social media items.

236. An entrepreneur combines four kinds of resources into a business. What would be the effect on the business if any one were left out?

*ANSWER:* The four kinds of resources include material resources (raw materials), human resources (people), financial resources (capital and money), and informational resources (information to make decisions and to evaluate a firm's activities). Every business must work to organize these four resources. If one resource is not available or is left out, the business will, most likely, fail since it is the combination and balancing of the four resources that creates business success. For example, a manufacturer cannot produce products if there are no raw materials. And the other three resources are just as important.

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237. What is profit and why is it important to a business?

*ANSWER:* Profit is what remains after all business expenses have been deducted from sales revenue. Sales revenue is the money received from customers in exchange for goods or services. In addition, all businesses have expenses which are deducted from revenue, thus, leaving the profit. A negative profit, called a loss, cannot be sustained long term for a business to survive. If a firm is operating at a loss, management must take action to eliminate the loss, increase sales, and reduce expenses or the firm may be forced to file for bankruptcy protection or go out of business.

238. What three activities must a business perform in order to be successful? Briefly describe each of these and why each is essential to business success.

*ANSWER:* A business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. For a business to be successful, it must (1) be organized; (2) make a profit on the goods or services it sells to its customers; and (3) meet the needs of its customers. If one or more of the three elements is missing, the business will not be a success.

239. Why do we say that the U.S. economy is a mixed economy?

*ANSWER:* The United States economy exhibits elements of both capitalism and socialism, and, therefore, can be deemed a mixed economy. The U.S. government, for example, participates in the economy as more than simply an umpire or rule maker. The U.S. government participates in the four basic economic questions — what, how, for whom, and who. For example, the government is involved in public schools, social services including subsidized childcare or job-search assistance, and public-private partnerships such as with hospitals or research institutes.

240. Why is productivity important? How can a nation's productivity rate be improved?

*ANSWER:* Productivity is the average level of output per worker per hour. An increase in productivity results in economic growth because a larger number of goods and services are produced by the labor force. Increased productivity growth helps an economy's businesses to compete more effectively in the global environment due to more goods or services being produced at a lower cost. Productivity rates can be improved through technology, advanced employee training, as well as transferring routine functions to other locations, possibly through the Internet.

241. A nation's economy fluctuates instead of growing at a steady pace every year. These fluctuations are generally referred to as the business cycle. Describe the four different phases of the business cycle.

*ANSWER:* The business cycle generally includes four phases: the *peak*, sometimes called prosperity; *recession*, two or more consecutive three-month periods of decline in a country's GDP; the *trough*, the turning point when a nation's production and employment bottom out and reach their lowest levels; and *recovery*, sometimes called expansion.

242. In perfect competition, who sets the price of a product?

*ANSWER:* In perfect competition, there are many buyers and sellers of a product or service and no single buyer or seller is powerful enough to affect prices. Therefore, the actions of buyers sets the price of a product since, in theory, all products are the same and buyers will pay the lowest price for the same products.

## Chapter 01: Exploring the World of Business and Economics

243. Describe how supply and demand affect the price of a product.

*ANSWER:* The supply of a product is the quantity of the product that producers are willing to sell at each of various prices. Suppliers supply more product when consumers are willing to pay a higher price. The demand for a product is the quantity that buyers are willing to purchase at various prices. Buyers demand more when a price is low. Shifts in demand for a product raise and lower the market price. Also, a change in the supply of a product can cause a change in the price for the product.

244. In a monopolistic competition setting, how can a manufacturer differentiate a product?

*ANSWER:* Sellers attempt to differentiate their product or service so it is attractive to consumers. Product differentiation is the process of developing and promoting differences between one's products and all competitive products. For example, sellers provide unique product features, attention-getting brand or product names, unique and attractive packaging, and services such as free delivery or a lifetime warranty.

245. How does a monopoly have complete control over the price of its product?

*ANSWER:* A monopoly has some control over the price of its product because it is the only firm in the industry. No firm, however, can set its price at some astronomical figure simply due to lack of competition. The firm would find that no customers would be willing to pay an exorbitant price. Therefore, the firm in a monopoly position must consider the demand for its product and set the price at the most profitable level.

246. What effect did the Industrial Revolution and the golden age of invention have on the development of American business?

*ANSWER:* In the late 1700s, the factory system of manufacturing was born in which all materials, machinery, and workers required to manufacture a product were assembled in one place. Specialization was also introduced during the Industrial Revolution. Specialization is the separation of a manufacturing process into distinct tasks and the assignment of different tasks to different individuals. The years of 1820 to 1900 were considered the golden age of invention and innovation in machinery. Many basic characteristics of the modern business system took form during these time periods.

247. Explain how the notion of *scarcity* is related to personal as well as business decision making.

*ANSWER:* Answers will vary. Scarcity refers to the lack of resources—money, time, natural resources, etc.—that are needed to satisfy a want or need. Because resources are always scarce, businesses as well as individuals must make decisions based on resource availability. Personal decisions such as whether to buy a \$5,000 used car versus a \$18,500 new car are usually driven by the scarcity of resources and the ability to pay based on the scarcity. Business decisions are similar.

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248. Explain how the basic economic questions are answered in capitalistic and command economies.

*ANSWER:* The four basic economic questions are (1) what goods and services will be produced; (2) how will they be produced; (3) for whom will they be produced; and (4) who controls the factors of production. In a capitalistic economy, supply and demand is primarily driven by the market and what price a product or service will bring. In a capitalistic economy, businesses and individuals answer the four basic economic questions. In a command economy, the government decides what goods and services will be produced, how they will be produced, and at what price they will be offered.

249. How does socialism differ from communism?

*ANSWER:* In a socialist economy, the key industries are owned and controlled by the government. Private ownership of smaller businesses is often permitted in socialist economies. In a communist society, all workers contribute to the economy through government ownership, and management. In a communist economy, the four basic economic questions—what, how, for whom, and who—are answered through centralized government plans.

250. What is the difference between monetary policies and fiscal policies? How does each affect the nation's economy?

*ANSWER:* Monetary policies are the Federal Reserve's decisions that determine the size of the supply of money in a nation and interest rate levels. Fiscal policy is determined by government's influence in the amount of savings and expenditures of individuals, businesses, and government by altering the tax structure and changing the levels of government spending. Some experts believe that effective use of monetary and fiscal policies can speed up recovery and reduce the amount of time the economy is in recession.

251. What do you consider the most important challenges that American business faces today?

*ANSWER:* Student answers will vary. The need to create a stable economy with the creation of new jobs will likely be a continual challenge for the U.S. Regulation of banks, savings and loan associations, credit unions, and other financial institutions to prevent abuse will continue to be a challenge. Other challenges include reducing national debt, defeating terrorism, and resolving conflict with other countries. Using technology to make workers more productive and competitive, preserving small business benefits in a global environment, balancing economic growth with sustainability, and meeting the needs of two-income families, single parents, older Americans, and the less fortunate will also continue to challenge American business.