Business in Action 10th edition Bovee Test Bank

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Business in Action, 10e **(Bovee/Thill)**
Chapter 2 Economics, Money, and Banking

1) ________ is/are the study of how a society uses scarce resources to produce and distribute goods.
A) Factors of production
B) Economics
C) Capitalism
D) Economic indicators
Answer: B
Explanation: Economics is the study of how a society uses its scarce resources to produce and distribute goods and services.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

2) What is included in the study of microeconomics?
A) Production as a means of stimulating the economy
B) Unemployment rates
C) Economic behavior among consumers and businesses
D) Policies that raise capital and labor output by increasing the incentive to produce
Answer: C

Explanation: The study of economic behavior among consumers, businesses, and industries that collectively determine the quantity of goods and services demanded and supplied at different prices is termed microeconomics.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

3) Which of the following refers to people and their individual talents and capabilities?
A) Entrepreneurship
B) Knowledge
C) Capital investments
D) Human resources
Answer: D
Explanation: Human resources are people and their individual talents and capacities.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

4) The money, equipment, and buildings that a business needs in order to produce goods and services are called ________.
A) natural resources
B) human resources
C) capital
D) knowledge
Answer: C
Explanation: Capital includes money, computers, machines, tools, and buildings that a business needs in order to produce goods and services.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

5) ________ is/are led by innovation, initiative, and the willingness to take the risks in creating and operating businesses?
A) Entrepreneurship
B) Socialization
C) Macroeconomics
D) Deregulation
Answer: A
Explanation: Entrepreneurship is the spirit of innovation, the initiative, and the willingness to take the risks involved in creating and operating businesses.
Difficulty: 2: Moderate

AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

6) Which of the following creates competition for finite resources, thereby forcing trade-offs by participants in the economy?
A) Redundancy
B) Scarcity
C) Opportunity costs
D) Free market systems
Answer: B
Explanation: Scarcity doesn't mean a shortage of a particular resource; rather, it means that the resource has a finite supply. Scarcity has two powerful effects: It creates competition for resources, and it forces trade-offs on the part of every participant in the economy.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

7) The value given up when a different opportunity was pursued is referred to as ________.
A) opportunity cost
B) factors of production
C) scarcity value
D) finite supply
Answer: A
Explanation: Opportunity cost is a way to measure the value of what you gave up when you pursued a different opportunity.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

8) Which factor of production represents the collective intelligence of an organization?
A) Natural resources
B) Human resources
C) Knowledge
D) Entrepreneurship
Answer: C
Explanation: Each society must decide how to use its economic resources, or factors of production. Knowledge is the collective intelligence of an organization.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

9) Which of the following is considered to be a key resource needed to successfully utilize an advantage in the global marketplace?
A) Capital
B) Supplies
C) Intellectual assets
D) Workforce
Answer: C
Explanation: Traditionally, a business or a country was considered to have an advantage if its location offered plentiful supplies of natural resources, human resources, capital, and entrepreneurs. In today's global marketplace, however, intellectual assets are often the key.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

10) What can companies use to protect themselves in long-term purchasing contracts?
A) Producer price index
B) Gross domestic product rates
C) Inflation rate clauses
D) Price-escalation clauses
Answer: D
Explanation: In addition to monitoring economic activity, PPIs have a number of managerial uses, from helping companies place an accurate value on inventories to protecting buyers and sellers with price-escalation clauses in long-term purchasing contracts.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

11) What is gross domestic product?
A) Products a country is famous for producing
B) An up and down swing in the economy
C) A measure of a country's economic health
D) All products produced and only used within a country
Answer: C
Explanation: The broadest measure of an economy's health is the gross domestic product (GDP). Gross domestic product measures a country's output–its production, distribution, and use of goods and services–by computing the sum of all goods and services produced for final use in a country during a specified period (usually a year).
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

12) The ________ measures the rate of inflation by comparing changes in the prices of a representative basket of goods and services such as clothing, food, housing, and utilities.
A) gross domestic product (GDP)
B) producer price index (PPI)
C) inflationary stability index (ISI)
D) consumer price index (CPI)
Answer: D
Explanation: The consumer price index (CPI) measures the rate of inflation by comparing the change in prices of a representative "basket" of consumer goods and services, such as clothing, food, housing, and transportation.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

13) The ________ measures price at the producer or wholesaler level, reflecting what businesses are paying for the products they need.
A) gross domestic product (GDP)
B) producer price index (PPI)
C) inflationary stability index (ISI)
D) consumer price index (CPI)
Answer: B
Explanation: The producer price index (PPI) measures price at the producer or wholesaler level, reflecting what businesses are paying for the products they need. Like the CPI, the PPI is often referred to as a single index, but it is actually a family of more than 600 industry-specific indexes.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

14) Economics is the study of how a society uses its scarce resources to produce and distribute goods and services to its citizens.
Answer: TRUE
Explanation: Economics is the study of how a society uses its scarce resources to produce and distribute goods and services to its citizens.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

15) Capital includes land and minerals that a business needs in order to produce goods and services.
Answer: FALSE
Explanation: Capital includes money, computers, machines, tools, and buildings that a business needs in order to produce goods and services.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

16) Scarcity creates competition for resources, and forces trade-offs on the part of every participant in the economy.
Answer: TRUE
Explanation: Scarcity has two powerful effects: It creates competition for resources, and it forces trade-offs on the part of every participant in the economy.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

17) Deciding how much money to spend on new manufacturing equipment versus launching a new advertising campaign is described as opportunity cost.
Answer: FALSE
Explanation: Opportunity cost refers to the value of the most appealing alternative from all those that weren't chosen. In other words, opportunity cost is a way to measure the value of what you gave up when you pursued a different opportunity.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

18) Compare and contrast microeconomics and macroeconomics.
Answer: Economics is the study of how a society uses its scarce resources to produce and distribute goods and services. Economics is divided into a small-scale perspective and a large-scale perspective. The study of economic behavior among consumers, businesses, and industries that collectively determine the quantity of goods and services demanded and supplied at different prices is termed microeconomics. The study of a country's larger economic issues, such as how firms compete, the effect of government policies, and how an economy maintains and allocates its scarce resources, is termed macroeconomics. While microeconomics looks at the small picture and macroeconomics looks at the big picture, understanding the economy at either scale requires an understanding of how the small and large forces interact. For instance, a number of macro forces and policies determine whether homeowners can afford to install solar energy systems. In turn, the aggregate behavior of all those homeowners at the micro level affects the vitality and direction of the overall economy.

Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

19) Explain the different factors of production.
Answer: *Natural resources* are things that are useful in their natural state, such as land, forests, minerals, and water. *Human resources* are people and their individual talents and capacities. *Capital* includes money, computers, machines, tools, and buildings that a business needs in order to produce goods and services. *Entrepreneurship* is the spirit of innovation, the initiative, and the willingness to take the risks involved in creating and operating businesses. *Knowledge* is the collective intelligence of an organization. *Knowledge workers* are employees whose primary contribution is the acquisition and application of business knowledge, are a key economic resource for businesses in today's economy.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

20) Compare and contrast between trade-offs and opportunity costs.
Answer: Due to universal scarcity of resources, consumers, companies, and governments are constantly forced to make trade-offs, meaning they have to give up something to get something else. You have to decide how to spend the 24 hours you have every day, and every choice involves a trade-off–the more time you spend on one activity means less time for every other activity you could possibly pursue. Businesses must make similar trade-offs, such as deciding how much money to spend on advertising a new product versus how much to spend on the materials used to make it, or deciding how many employees to have in sales versus customer support. Opportunity cost refers to the value of the most appealing alternative from all those you didn't choose. In other words, opportunity cost is a way to measure the value of what you gave up when you pursued a different opportunity.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.1: Define economics, explain why scarcity is central to economic decision making, and identify the major ways of measuring economic activity.

21) In a ________, individuals and companies can decide what to produce, how to produce, whom to sell to, and at what price to sell.
A) planned system
B) regulated economy
C) socialist economy
D) free-market system
Answer: D
Explanation: In a free-market system, individuals and companies are largely free to decide what products to produce, how to produce them, whom to sell them to, and at what price to sell them. In other words, they have the chance to succeed–or to fail–by their own efforts.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

22) Which of the following is characteristic of a country with a planned economic system?
A) The economy relies chiefly on market forces to allocate goods and resources and to determine prices.
B) The economic system combines private and state enterprises with limited intervention from the government.
C) The economy subscribes to capitalistic competition, where private parties own and operate the majority of businesses.
D) The government allocates resources, including decisions about what to produce and in what quantities.
Answer: D
Explanation: In a planned system, also called a command system or a command-and-control system, government controls the allocation of resources, including decisions regarding which products are produced and in what quantities. Planned economies are often equated with socialism, which in its most developed theoretical form involves collective ownership of the means of production.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

23) ________ occurs when a government takes control of a company or industry, which may result in a change in the entire economy.
A) Privatization
B) Deregulation
C) Nationalization

D) Free-market systems
Answer: C
Explanation: The line between socialism and capitalism isn't always easy to define, and it doesn't always stay in the same place, either. Governments can change the structure of the economy by nationalizing–taking ownership of–selected companies or in extreme cases even entire industries.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

24) Which of the following is one of the ways the government helps to stabilize or stimulate the national economy?
A) Changes in supply
B) Changing monetary policy
C) Adjusting equilibrium pricing
D) Eliminating monopolies
Answer: B
Explanation: Governments have two sets of tools they can use to stabilize and stimulate the national economy: monetary policy and fiscal policy.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

25) Which of the following involves changing the government's revenues or expenditures to change the growth rate of the economy?
A) Monetary policy
B) Regulation
C) Deregulation
D) Fiscal policy
Answer: D
Explanation: Fiscal policy involves changes in the government's revenues and expenditures to stimulate a slow economy or dampen a growing economy that is in danger of overheating and causing inflation. On the revenue side, governments can adjust the revenue they bring in by changing tax rates and various fees collected from individuals and businesses.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

26) Governments established ________ in an effort to ensure all competitors have an equal chance of succeeding.
A) fiscal policies
B) deregulation legislation
C) free-market economies
D) antitrust legislation
Answer: D
Explanation: Antitrust laws limit what businesses can and cannot do, to ensure that all competitors have an equal chance of succeeding.

Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

27) Which of the following actions of the government indicates the privatization of an industry?
A) Allowing private businesses to operate in an industry that was previously operated by the government
B) Discouraging private business to operate in an industry that is critical for the growth of the economy
C) Imposing regulations on multinational businesses to protect local businesses
D) Imposing taxes on scarce raw materials to discourage unfair pricing by its suppliers
Answer: A
Explanation: Governments can change the structure of the economy by nationalizing–assuming ownership of–selected companies or, in extreme cases, even entire industries. They can also move in the opposite direction, privatizing services once performed by the government by allowing private businesses to perform them instead.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

28) Which of the following best describes deregulation?
A) Putting rules in place to govern economic activity
B) Having fewer rules and relying on the market to prevent excesses
C) Increasing the revenues to stimulate spending and limiting inflation
D) Adjusting the amount of "spendable" money in the economy at any given time
Answer: B
Explanation: Much of the debate about the government's role can be framed as a question of regulation versus deregulation—having more rules in place to govern economic activity or versus having fewer rules in place and relying more on the market to prevent excesses and correct itself over time.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

29) Why do governments sometimes prohibit companies from combining through mergers?
A) To preserve competition
B) To eliminate consumer choice
C) To encourage the divestiture of underperforming divisions
D) To increase government revenues and decrease expenditures
Answer: A
Explanation: To preserve competition and customer choice, governments occasionally prohibit companies from combining through mergers or acquisitions. In other cases, they may approve a combination but only with conditions, such as divesting (selling) some parts of the company or making other concessions.

Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

30) Capitalism is a term used to describe the free-market system, one in which private parties own and operate the majority of businesses and where competition, supply, and demand determine which goods and services are produced.
Answer: TRUE
Explanation: Capitalism is a term used to describe the free-market system, one in which private parties own and operate the majority of businesses and where competition, supply, and demand determine which goods and services are produced.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

31) In practice, no economy is truly a free-market economy.
Answer: TRUE
Explanation: Free market economy is a situation in which so many buyers and sellers exist that no single buyer or seller can individually influence market prices. In practice, no economy is truly a free-market economy.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

32) Fiscal policy involves the government limiting the nation's "spendable" money in the economy at any given time.
Answer: FALSE
Explanation: Fiscal policy involves changes in the government's revenues and expenditures to stimulate a slow economy or dampen a growing economy that is in danger of overheating and causing inflation.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

33) Global economists use the terms capitalism and private enterprise to describe centrally planned economic systems.
Answer: FALSE
Explanation: The terms capitalism and private enterprise are often used to describe free-market systems.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

34) Compare and contrast between free-market systems and planned systems.
Answer: In a free-market system, individuals and companies are largely free to decide what products to produce, how to produce them, whom to sell them to, and at what price to sell them. In other words, they have the chance to succeed–or to fail–by their own efforts. Capitalism and private enterprise are the terms most often used to describe the free-market system, one in which private parties (individuals, partnerships, or corporations) own and operate the majority of businesses and where competition, supply, and demand determine which goods and services are produced.

In a planned system, governments largely control the allocation of resources and limit freedom of choice in order to accomplish government goals. Because social equality is a major goal of planned systems, private enterprise and the pursuit of private gain are generally regarded as wasteful and exploitive. The planned system that allows individuals the least degree of economic freedom is communism.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

35) Describe four areas of the economy where the government uses regulation and deregulation to govern economic activity.
Answer: Four major areas in which the government plays a role in the economy are protecting stakeholders, fostering competition, encouraging innovation and economic development, and stabilizing and stimulating the economy.

In an attempt to balance the interests of stakeholders and protect those who might be adversely affected by business, the U.S. federal government has established numerous regulatory agencies, and state and local governments have additional agencies. The government fosters competition through the use of antitrust legislation and the merger and acquisition process. Governments can use their regulatory and policymaking powers to encourage specific types of economic activity, such as encouraging the development and adoption of innovations that governments consider beneficial in some way. Fourth, the government can use monetary policy and fiscal policy to stabilize and stimulate the national economy.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

36) Discuss how antitrust legislation fosters competition in the marketplace.
Answer: Based on the belief that fair competition benefits the economy and society in general, governments intervene in markets to preserve competition and ensure that no single enterprise becomes too powerful. For instance, if a company has a monopoly, it can potentially harm customers by raising prices or stifling innovation and harm potential competitors by denying access to markets. Numerous laws and regulations have been established to help prevent individual companies or groups of companies from taking control of markets or acting in other ways that restrain competition or harm consumers. Antitrust laws limit what businesses can and cannot do, to ensure that all competitors have an equal chance of succeeding. Some of the earliest government moves in this arena produced such landmark pieces of legislation as the Sherman Antitrust Act, the Clayton Antitrust Act, and the Federal Trade Commission Act, which generally sought to rein in the power of a few huge companies that had financial and management control of a significant number of other companies in the same industry. Usually referred to as trusts (hence the label antitrust legislation), these huge companies controlled enough of the supply and distribution in their respective industries. Governments remain active in antitrust activities to this day, with tech giants such as Google, Facebook, Amazon, and Microsoft getting hit with antitrust lawsuits and penalties that sometimes run into the billions of dollars.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

37) Explain why socialism and capitalism are not mutually exclusive and provide an example.
Answer: While free-market capitalism remains the foundation of the U.S. economy, some important elements of the U.S. economy are socialized and have been for many years. Public schools, the postal service, much of the transportation infrastructure, various local and regional utilities, and several major health care programs all fit the economic definition of socialism. Socialism and capitalism are competing philosophies, but they are not mutually exclusive, and each approach has strengths and weaknesses, which is why most modern economies combine aspects of both.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.2: Define economic system, and explain the government's role in a free-market economy.

38) Which of the following refers to the amount of a good or service that customers will buy at a given time at various prices?
A) Demand
B) Utility
C) Equilibrium
D) Want
Answer: A
Explanation: Demand refers to the amount of a good or service that customers will buy at a given time.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.3: Explain the interaction between demand and supply.

39) ________ refers to the quantities of a good or service that producers will provide on a particular date at various prices.
A) Necessity
B) Supply
C) Demand
D) Utility
Answer: B
Explanation: Supply refers to the quantities of a good or service that producers will provide on a particular date at various prices.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.3: Explain the interaction between demand and supply.

40) A(n) ________ shows the relationship between the amount of product that buyers will purchase at various prices, all other factors being equal.
A) supply curve
B) monopolistic competition
C) demand curve
D) competitive balance
Answer: C
Explanation: A demand curve is a graph showing the relationship between the amount of product that buyers will purchase at various prices, all other factors being equal.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.3: Explain the interaction between demand and supply.

41) Demand curves typically slope downward. This implies that a(n) ________.
A) decrease in price will increase the quantity demanded
B) decrease in price will decrease the quantity demanded
C) increase in price will increase the quantity demanded
D) increase in price will have no effect on quantity demanded
Answer: A
Explanation: Demand curves typically slope downward, implying that as price drops, more people are willing to buy.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.3: Explain the interaction between demand and supply.

42) The ________ depicts the relationship between prices and quantities that sellers will offer for sale, regardless of demand.
A) fiscal cycle
B) supply curve
C) equilibrium point
D) competitive analysis
Answer: B
Explanation: The depiction of the relationship between prices and quantities that sellers will offer for sale is called a supply curve.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.3: Explain the interaction between demand and supply.

43) Movement along the supply curve typically slopes upward because ________.
A) the amount of government regulation in an industry rises with increase in demand
B) the quantity that the sellers are willing to supply rises with an increase in price
C) the amount of government regulation in an industry rises with an increase in price
D) the demand should never be equal to the supply in the free-market
Answer: B
Explanation: Movement along the supply curve typically slopes upward: as prices rise, the quantity that sellers are willing to supply also rises. Similarly, as prices decline, the quantity that sellers are willing to supply declines.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.3: Explain the interaction between demand and supply.

44) The point at which the quantity demanded and supplied are balanced is called the ________.
A) equilibrium point
B) aggregation point
C) marginal point
D) break-even point
Answer: A
Explanation: The point at which the demand and supply curves intersect–the point at which the quantity demanded and supplied are equal–is the equilibrium point.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.3: Explain the interaction between demand and supply.

45) Demand refers to the quantities of a good or service that producers will provide on a particular date at various prices.
Answer: FALSE
Explanation: Demand refers to buyers' willingness and ability to purchase products at various price points.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.3: Explain the interaction between demand and supply.

46) The demand curve will shift to the left if the price of substitute products increases.
Answer: FALSE
Explanation: The demand curve will shift to the right if the price of substitute products increases.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.3: Explain the interaction between demand and supply.

47) Movement along the supply curve typically slopes upward.
Answer: TRUE
Explanation: Movement along the supply curve typically slopes upward: As prices rise, the quantity that sellers are willing to supply also rises. Similarly, as prices decline, the quantity that sellers are willing to supply declines.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.3: Explain the interaction between demand and supply.

48) The supply curve of a firm will shift to the right if technology increases the firm's production costs.
Answer: FALSE
Explanation: The supply curve of a firm will shift to the left if technology increases the firm's production costs.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.3: Explain the interaction between demand and supply.

49) The equilibrium point is the point at which quantity of a good or service equals the quantity demanded.
Answer: TRUE
Explanation: The point at which quantity of a good or service equals the quantity demanded is known as the equilibrium point.
Difficulty: 1: Easy

AACSB: Analytical thinking
LO: 2.3: Explain the interaction between demand and supply.

50) "Because the supply and demand curves are dynamic, so is the equilibrium point." Explain this statement with an example.
Answer: As variables affecting supply and demand change, so will the equilibrium price. For example, increased concerns about airline safety could encourage some travelers to choose alternatives such as automobile travel or web conferencing, thus reducing the demand for air travel at every price and moving the equilibrium point as well. Suppliers might respond to such a reduction in demand by either cutting the number of flights offered or lowering ticket prices in order to restore the equilibrium level.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.3: Explain the interaction between demand and supply.

51) How are fluctuations in an economy's rate of growth over a period of several years characterized?
A) Microeconomics
B) Competitive pressures
C) Cyclical machinations
D) Business cycles
Answer: D
Explanation: Business cycles are fluctuations in the rate of growth that an economy experiences over a period of several years.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

52) Which of the following occurs when there are many buyers and sellers in the market, and no single firm is large enough to influence prices?
A) Pure monopoly
B) Monopolistic competition
C) Pure competition
D) Oligopoly
Answer: C
Explanation: Pure competition is a situation in which no single firm is large enough to influence prices and distort the workings of the free-market system.
Difficulty: 2: Moderate

AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

53) When the number of competitors in a market is small, and competitors influence each other through production and pricing decisions, a situation known as ________ is created.
A) monopoly
B) duopoly
C) oligopoly
D) pure competition
Answer: C
Explanation: When the number of competitors in a market is quite small, a situation known as oligopoly is created. Customers have some choice, unlike in a monopoly, but not as many choices as in monopolistic competition.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

54) Which of the following is a characteristic feature of economic contraction?
A) Decreased unemployment rates
B) Decreased consumer spending
C) Increased income
D) Increased demand
Answer: B
Explanation: During an economic contraction, spending declines, employment drops, and the economy as a whole slows down.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

55) The term ________ indicates two consecutive quarters of decline in the country's gross domestic product.
A) deflation
B) stagnation
C) depression
D) recession
Answer: D
Explanation: If the period of downward swing is severe, the nation may enter into a recession. There are no official definitions of what constitutes a recession, but a common benchmark is a decline in GDP for two consecutive quarters.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

56) A deep and prolonged recession is known as ________.
A) an economic contraction
B) stagnation
C) deflation
D) a depression
Answer: D
Explanation: A deep and prolonged recession can be considered a depression, which doesn't have an official definition but is generally considered to involve a catastrophic collapse of financial markets.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

57) When a downward swing or recession is over, the economy enters into a period of ________.
A) recovery
B) depression
C) contraction
D) stagnation
Answer: A
Explanation: When a downward swing or recession is over, the economy enters into a period of recovery.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

58) ________ unemployment is the natural movement of workers into and out of jobs, such as when a person quits one job without first lining up a new job.
A) Structural
B) Seasonal
C) Frictional
D) Cyclical
Answer: C
Explanation: Frictional unemployment is the natural movement of workers into and out of jobs, such as when a person quits one job without first lining up a new one.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

59) When demand for goods and services drops, businesses reduce production, resulting in economic contraction. The unemployment resulting because of this phenomenon is known as ________ unemployment.
A) intrinsic
B) cyclical
C) frictional
D) seasonal
Answer: B
Explanation: When demand for goods and services drops, businesses reduce production, thereby requiring fewer workers. This leads to cyclical unemployment.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

60) Which of the following reflects the percentage of the labor force currently without work?
A) Economic contraction
B) Economic fluctuation
C) Deflation
D) Unemployment rate
Answer: D
Explanation: The unemployment rate indicates the percentage of the labor force currently without employment. The labor force consists of people ages 16 and older who are either working or looking for jobs.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

61) Why is inflation a concern for businesses and consumers?
A) Inflation affects the amount of goods and services you can buy for a given amount of money.
B) Inflation affects the amount of government intervention in small businesses.
C) Inflation affects the amount of goods and services a firm can produce in a production cycle.
D) Inflation affects the ability for sustained economic contraction.
Answer: A
Explanation: Inflation is a steady rise in the average prices of goods and services throughout the economy. Inflation is a major concern for consumers, businesses, and government leaders because of its effect on purchasing power or the amount of a good or service you can buy for a given amount of money.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

62) The situation in which one supplier thoroughly dominates a market and essentially shuts out other competitors is called a monopoly.
Answer: TRUE
Explanation: In a monopoly, one supplier so thoroughly dominates a market that it can control prices and essentially shut out other competitors. Monopolies can happen "naturally," as companies innovate and gain customers or as markets evolve (a pure monopoly), or by government mandate (a regulated monopoly).
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

63) Economic contraction occurs when spending declines, employment drops, and the economy slows down.
Answer: TRUE
Explanation: Economic contraction occurs when such spending declines, employment drops, and the economy as a whole slows down.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

64) In an oligopoly, buyer's choices tend to be extensive.
Answer: FALSE
Explanation: In an oligopoly, a small number of suppliers are in the market, making the number of choices for the buyer limited.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

65) Deflation is an economic condition in which prices fall steadily throughout the economy.
Answer: TRUE
Explanation: Deflation is an economic condition in which prices fall steadily throughout the economy.
Difficulty: 2: Moderate

AACSB: Analytical thinking
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

66) Cyclical unemployment is caused by a mismatch between workers' skills and current employer needs.
Answer: FALSE
Explanation: Cyclical unemployment refers to seasonal unemployment caused by economic fluctuations. When demand for goods and services drops, businesses reduce production, thereby requiring fewer workers.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

67) How does capitalism promote monopolistic competition in the market?
Answer: Most of the competition in advanced free-market economies is monopolistic competition, in which a number of sellers offer products that can be distinguished from competing products in at least some small way. The risk/reward nature of capitalism promotes constant innovation in pursuit of competitive advantage, rewarding companies that do the best job of satisfying customers.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

68) Differentiate between structural and cyclical unemployment.
Answer: Structural unemployment occurs due to a mismatch between the skills of workers and the needs of employers. Workers can't find jobs that match their qualifications, and employers can't find employees with the skills their job openings require. Structural unemployment is an ongoing concern because changes in the external environments of business make some skills obsolete and create demand for new skills.

Cyclical unemployment is caused by economic fluctuations. When demand for goods and services drops, businesses reduce production, thereby requiring fewer workers. Then, an increasing number of people who want to work can't find jobs. During catastrophic depressions, cyclical unemployment can run as high as 20 or 25 percent.
Difficulty: 2: Moderate
AACSB: Analytical thinking

LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

69) Describe the term *business cycles* and how a business cycle can affect the economy.
Answer: The economy is always in a state of change, expanding or contracting in response to the combined effects of factors such as technological breakthroughs, changes in investment patterns, shifts in consumer attitudes, world events, and basic economic forces. *Business cycles* represent the fluctuations in the rate of growth that an economy experiences over a period of several years. These cycles include *economic expansion*, when the economy is growing and consumers are spending more money, which stimulates higher employment and wages, which then stimulate more consumer purchases. The cycles include *economic contraction*, when spending declines, employment drops, and the economy as a whole slows down. Even though experts call these up-and-down swings business cycles, this term is somewhat misleading, because real economies do not expand and contract in regular and predictable "cycles." More accurately, the behavior of an economy can be characterized as e*conomic fluctuations*.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

70) Money serves as a ________ when it is used as a way of accumulating wealth until it is needed.
A) unit of accounting
B) means of payment
C) temporary store of value
D) medium of exchange
Answer: C
Explanation: Money serves as a temporary store of value when used as a way of accumulating wealth until it is needed.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

71) How does money simplify transactions when a buyer trades it for a good or service?
A) It serves as unit of accounting
B) It is an indication of value
C) It serves as a medium of exchange
D) It acts as a measure of liquidity
Answer: C
Explanation: Money is anything generally accepted as a means of paying for goods and services. Money performs four financial functions. First, it serves as a medium of exchange, a tool for simplifying transactions between buyers and sellers.
Difficulty: 3: Challenging

AACSB: Analytical thinking
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

72) In addition to trust, which of the following is the basis for the practical value of money?
A) Liquidity
B) Exchange rate
C) Medium of exchange
D) Unit of accounting
Answer: A
Explanation: The practical value of money stems from two key properties: liquidity and trust. Money is the most liquid asset because it can be exchanged easily and more or less instantly for something else of value.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

73) In the money supply, what represents the cash held by the public and money deposited in checking accounts?
A) Liquidity
B) M1
C) M2
D) Time deposits
Answer: B
Explanation: The money supply can be measured in several ways. Economists focus on two aggregates known as M1 and M2. M1 consists of cash held by the public and money deposited in a variety of checking accounts. In simple terms, M1 is money that is spendable now, and M2 adds money that could be spendable fairly soon.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

74) Which of the following best describes cryptocurrency?
A) Digital tokens issued to workers in a gig economy
B) Digital tokens that rely on cryptography for security
C) Any currency tied to a physical asset such as gold
D) A currency that is liquid and can be easily exchanged for tangible products
Answer: B
Explanation: Today, a new wave of alternative money is happening in the form of cryptocurrencies, digital tokens that rely on cryptography for security.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

75) What do nonfungible tokens represent in the money supply?
A) Sole ownership of a digital asset
B) The amount of money in time deposits
C) The exchange rate for cryptocurrencies
D) Currency issued and maintained through government fiat
Answer: B
Explanation: Nonfungible tokens (NFTs) are digital certificates that convey sole ownership of a digital asset. A nonfungible asset is unique and could conceivably be created for any form of intellectual property.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

76) Money is anything generally accepted as a means of paying for goods and services.
Answer: TRUE
Explanation: Money is anything generally accepted as a means of paying for goods and services. It serves as a medium of exchange, a unit of accounting, a store of value, and a standard of deferred value.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

77) Cryptocurrency is a speculative investment that has the potential to be a disruptive force in the global economy. It also has the potential to disrupt global economics and politics, especially when sanctions are used against countries.
Answer: TRUE
Explanation: Cryptocurrency is used as a speculative investment, and some have experienced huge price increases.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

78) What are the four essential functions of money?
Answer: Money is anything generally accepted as a means of paying for goods and services. Every country has its own system of money, or currency, except for those that opt to share a currency such as the euro. Money performs four essential functions. First, it serves as a medium of exchange, a tool for simplifying transactions between buyers and sellers. Second, it serves as a unit of accounting (a measure of value, in other words) so that buyers and sellers don't have to negotiate the relative worth of dissimilar items with every transaction. Third, money serves as a temporary store of value-a way of accumulating wealth until it is needed. Fourth, money serves as a standard of deferred payment, meaning it can be used to represent debt obligations.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.5: List the four financial functions of money, and define two key measures of the money supply.

79) The ________ is a fundamental driver of economic behavior because it influences short-term and long-term interest rates, foreign exchange rates, and inflation.
A) prime mortgage market
B) amortization ratio
C) global prime rate
D) federal funds rate
Answer: D
Explanation: The federal funds rate is a fundamental driver of economic behavior because it influences short-term and long-term interest rates, foreign exchange rates, and inflation.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

80) How can the Federal Reserve inject money into the economy and decrease the federal funds rate?
A) Reduce the discount window for banks
B) Impose selective credit controls
C) Buy Treasury bonds
D) Increase the reserve requirement on deposits
Answer: C
Explanation: When the Federal Reserve buys Treasuries, this action injects money into the economy, thereby increasing the money supply, which tends to then decrease the federal funds rate. The opposite effect happens when the Federal Reserve sells Treasuries: Selling pulls money out of the economy, decreasing the money supply and increasing the federal funds rate.
Difficulty: 2: Moderate
AACSB: Analytical thinking
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

81) Which of the following actions by the Federal Reserve has the goal of reducing the money supply in markets?
A) The Federal Reserve liberalizes credit control actions on loans.
B) The Federal Reserve buys treasury bills from the market.
C) The Federal Reserve raises the discount rate.
D) The Federal Reserve reduces the reserve requirement.
Answer: C
Explanation: The discount rate is the interest rate that member banks pay when they borrow funds from the Federal Reserve. Raising the discount rate discourages loans and therefore, tightens the money supply.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

82) ________ rate is the interest rate a bank charges its best loan customers.
A) Federal funds
B) Discount
C) Prime
D) Overnight
Answer: C
Explanation: Prime rate is the interest rate a bank charges its best loan customers. Many other interest rates are also based on the prime rate.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

83) The ________ is the federal agency responsible for protecting money in customer accounts and managing the transition of assets whenever a bank fails.
A) Federal National Loan Corporation
B) Federal Deposit Insurance Corporation
C) Federal Home Loan Association
D) Federal Mortgage Corporation
Answer: B
Explanation: After thousands of banks failed in the United States during the Great Depression, the government established the Federal Deposit Insurance Corporation (FDIC). It is the federal agency responsible for protecting money in customer accounts and managing the transition of assets whenever a bank fails.

Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

84) ________ is one of the government-sponsored enterprises responsible for purchasing and guaranteeing loans made by banks to low and moderate income buyers?
A) The secondary mortgage market
B) The Federal Deposit Insurance Corporation
C) Fannie Mae
D) The NYSE
Answer: C
Explanation: Fannie Mae and Freddie Mac are two government-sponsored companies that operate with a mandate to support home ownership for low- and moderate-income buyers by making mortgage funding more readily available. Fannie Mae and Freddie Mac don't extend home loans themselves but rather purchase and guarantee loans made by banks and other primary lenders, thus helping to ensure the availability of funds for home buyers.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

85) ________ refers to sums of money (equal to a certain percentage of their deposits) that banks are legally required to keep on hand.
A) Securities
B) Mortgages
C) Reserves
D) Savings
Answer: C
Explanation: All depository institutions (those that accept deposits from customers), including commercial banks, savings and loan associations, and credit unions, are required to hold a portion of those deposits in reserve to make sure they have cash on hand for customers who wish to withdraw it.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

86) Which of the following offers investing and advisory services to organizational customers, including corporations, other financial intuitions, pension funds, and governments?
A) FDIC
B) Credit rating agencies
C) Commercial banks
D) Investment banks
Answer: D
Explanation: Investment banks offer a variety of services related to initial public stock offerings, mergers and acquisitions, and other investment matters.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

87) Which type of commercial banking institution offer financial services to businesses, particularly in the area of international finance?
A) Investment banks
B) Retail banks
C) Private banks
D) Merchant banks
Answer: D
Explanation: Merchant banks offer financial services to businesses, particularly in the area of international finance. Merchant banking is sometimes more narrowly defined as managing private equity investments, making it more akin to investment banking.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

88) Banking institutions that offer deposit accounts and focus on offering home mortgage loans are known as ________.
A) merchant banks
B) retail banks
C) thrift banks
D) private banks
Answer: C
Explanation: Thrift banks, also called thrifts, or savings and loan associations, offer deposit accounts and focus on offering home mortgage loans.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

89) ________ are not-for-profit, member-owned cooperatives that offer deposit accounts and lending services to consumers and small businesses.
A) Loan associations
B) Retail banks
C) Credit unions
D) Thrift banks
Answer: C
Explanation: Credit unions are not-for-profit, member-owned cooperatives that offer deposit accounts and lending services to consumers and small businesses.
Difficulty: 2: Moderate

AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

90) The federal funds rate is also known as the *overnight rate*.
Answer: TRUE
Explanation: The federal funds rate, also referred to as the overnight rate, is the rate that member banks charge each other to borrow money overnight from the funds they keep in the Federal Reserve accounts.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

91) The discount rate is the interest rate that member banks charge each other to borrow money overnight from the funds they keep in the Federal Reserve accounts.
Answer: FALSE
Explanation: Discount rate is the rate that member banks pay when they borrow funds from the Federal Reserve.
Difficulty: 1: Easy
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

92) If the Federal Reserve sells Treasuries in open-market operations, the country's money supply increases.
Answer: FALSE
Explanation: If the Federal Reserve sells Treasuries in open-market operations, the country's money supply decreases.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

93) A business does not have to be a bank to lend money to consumers.
Answer: TRUE
Explanation: A variety of nonbank institutions also lend money to consumers and businesses for vehicles, home improvements, and other purposes. Some of these finance companies are independent; others are affiliated with retailers or manufacturers.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

94) Shadow banking is the lending of money by nonbank lenders and is considered illegal.
Answer: FALSE

Explanation: Shadow banks lend money outside of the purview of regulatory agencies but their activities are legal and regulated in various ways, although not in the same way as bank lending is.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

95) Describe why some banks are now considered too big to fail.
Answer: The banking industry has consolidated dramatically in recent years, to the point that the United States now has only half as many banks as it had 20 years ago. Thanks in part to this consolidation, the largest banks are huge, and they hold a staggering portion of the country's cash accounts. Given their size and interconnectedness, the failure of just one of these big banks could cause tremendous strain on the government and the economy. However, this doesn't mean a bank can't fail because it is too big. It means a bank's presence in the economy is so big that regulators will take special action to make sure it doesn't fail.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

96) Identify and discuss the Federal Reserve's major responsibilities.
Answer: The work of the Federal Reserve can be divided into five broad categories: (1) conducting monetary policy as required by Congress, (2) maintaining the stability of the financial system, (3) supervising and regulating individual financial institutions, (4) ensuring a secure and efficient payment system to support financial transactions, and (5) protecting consumers and promoting community development.

As the "bank for banks," the Fed provides many of the services that a commercial bank provides to businesses and consumers, including holding deposits and making loans. It also operates two electronic systems for transferring money between banks, one for large amounts of cash and the smaller automated clearing house (ACH) system for routine payments made by check.
Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.6: Explain the role of the Federal Reserve System, list the major types of banking institutions, and summarize banking's role in the economy.

97) Which of the following describes the wide range of innovations that have the potential to improve financial services or cause radical disruption of them?
A) Neobanking
B) Nonfungible tokens
C) Fintech
D) Crowdfunding
Answer: C
Explanation: The term fintech is used as a label for a wide range of innovations that have the potential to improve financial services—and in some instances, radically disrupt them. Globally, more than 25,000 companies are active in fintech, so advances are taking place in just about every corner of banking, investing, and insurance.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.7: Define fintech, and discuss five ways that financial institutions are innovating with digital technology.

98) ________ use(s) cloud technology to provide services through mobile and digital channels, thereby reducing the cost of banking services.
A) Neobanks
B) Peer-to-peer lending services
C) Fintech
D) Robo advisors
Answer: A
Explanation: Mobile and cloud technologies have also helped to create a new category of banks, often referred to as neobanks, which provide services entirely through mobile and digital channels. Without large staffs and physical branches to maintain, these companies have much lower cost structures and therefore can offer banking services at lower costs.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.7: Define fintech, and discuss five ways that financial institutions are innovating with digital technology.

99) How do fintech innovators use artificial intelligence to protect financial service companies from cybercriminals?
A) By identifying intrusions and plugging vulnerabilities
B) By keeping the transfer of funds only between app-based sites
C) By using AI bots to speed processing of transactions, limiting the window of exposure
D) By licensing front-end user apps by banks
Answer: A
Explanation: Even when a company is equipped with comprehensive safeguards, the sheer number of intrusion alerts can overwhelm security staff. Fintech innovators are now applying automated, AI-based threat intelligence to help identify intrusions and plug vulnerabilities more quickly. Intelligent systems also work to spot suspicious transactions correctly, both to protect customers and to catch illegal activity.
Difficulty: 2: Moderate
AACSB: Application of knowledge
LO: 2.7: Define fintech, and discuss five ways that financial institutions are innovating with digital technology.

100) Discuss how fintech innovations work to improve investor returns in portfolio management.
Answer: A final group of fintech innovations apply cognitive automation and other tools to help investors make better financial decisions without paying for the services of a financial adviser. These so-called robo advisers assemble investment portfolios based on each client's risk tolerance, resources, and objectives. These systems aim to improve investors' returns by removing emotionally driven decision making and automating tasks that are time-consuming to do manually, such as rebalancing portfolios over time and tax-loss harvesting (selling an investment that has declined in value to use the loss as a tax write-off and then buying back into the market).

Difficulty: 3: Challenging
AACSB: Analytical thinking
LO: 2.7: Define fintech, and discuss five ways that financial institutions are innovating with digital technology.