Foundations of Business 7th edition Pride Test Bank

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Name:________________________ Class:________________ Date:__________

Chapter 01: Exploring the World of Business and Economic

True / False

1. Only about half of business firms survive the first five years.
   a. True
   b. False

ANSWER: True

2. 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

3. Specialization is meant to increase the efficiency and productivity of industrial workers.
   a. True
   b. False

ANSWER: True

4. During the Great Depression, government became deeply involved in business to stimulate the nation’s economy.
   a. True
   b. False

ANSWER: True

5. A person must own stock in a corporation to be considered a stakeholder.
   a. True
   b. False

ANSWER: False

6. Today, managers and employees are no longer concerned about cultural diversity.
   a. True
   b. False

ANSWER: False

7. 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

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

ANSWER: True

9. If a firm's sales revenue exceeds its expenses, the firm has earned a profit.

a. True

b. False

ANSWER: True

10. 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

11. According to Adam Smith, under laissez-faire capitalism, everyone should be allowed to work toward their own economic gain without government interference.

a. True

b. False

ANSWER: True

12. A market economy is sometimes referred to as a command economy.

a. True

b. False

ANSWER: False

13. The U.S. business system is more accurately referred to as a mixed economy.

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

16. 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

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

a. True

b. False

ANSWER: False

18. Inflation is a general rise in the level of prices experienced by people in a nation.
    a. True
    b. False

ANSWER: True

19. Economists define a recession as two or more consecutive three-month periods of decline in a country's gross domestic product (GDP).
    a. True
    b. False

ANSWER: True

20. A depression is a severe recession that lasts longer than a recession.
    a. True
    b. False

ANSWER: True

21. 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

22. 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

23. The products available in a monopolistically competitive market are similar in nature and are intended to satisfy the same basic need.
    a. True
    b. False

ANSWER: True

24. An oligopoly is a market situation in which there is one producer and a few large buyers.
    a. True
    b. False

ANSWER: False

25. 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

Multiple Choice

26. All the following are material resources for Toyota Motor Corporation except _______.
    a. paint
    b. steel
    c. factory
    d. tires
    e. money

ANSWER: e

27. Zaila 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

28. Publix Super Markets would be classified as _______.
    a. service businesses
    b. sole proprietorships
    c. a marketing intermediary
    d. manufacturing establishments
    e. perfect competition

ANSWER: c

29. The ultimate objective of every company—from giant Starbucks with thousands of stores to Jo’s Coffee with just two stores—must be to _______.
    a. sell either to other firms or to consumers
    b. satisfy the needs of its customers
    c. pay out money to cover the various expenses of doing business
    d. know that people generally buy a product and store it
    e. make it impossible to satisfy customers

ANSWER: b

30. Which of the following best expresses the relationship between sales and profits?
    a. Sales revenues + expenses = profit
    b. Loss + profit = sales revenue
    c. Profit − expenses = sales revenue
    d. Expenses + loss = sales revenue + profit
    e. Sales revenue − expenses = profit

ANSWER: e

31. An e-business differs from a traditional business only in that _______.
    a. a traditional business does not require information resources
    b. an e-business does not require financial resources
    c. a traditional business distributes through facilities available on the internet
    d. an e-business distributes through facilities available on the internet
    e. an e-business does not require human resources

ANSWER: d

32. Gail’s company is on the verge of failing. What is an essential step that many experts believe business owners ignore that could help her business succeed?
    a. Copy successful competitors
    b. Secure venture capital before opening their doors
    c. Promote her products through social media
    d. Going public first
    e. Talk to customers about what they need and want

ANSWER: e

33. Which of the following statements is false?
    a. Most start-up businesses fail because customers don’t need or want what the business is selling.
    b. e-Business is the organized effort of individuals to produce and sell, for a profit, the products and services that satisfy society's needs through the internet.
    c. For a business to be organized, it must combine material, human, financial, and informational resources.
    d. Business is the organized effort of individuals to produce and sell, for a profit, the products and services that satisfy society's needs through the internet.
    e. A business’s profit is what remains after all its expenses have been deducted from its sales revenue.

ANSWER: d

34. Analysis of an individual's economic choices would be part of _______.
    a. macroeconomics
    b. microeconomics
    c. mesoeconomics
    d. monetary policy
    e. fiscal policy

ANSWER: b

35. Capital or capital goods as recognized by economists would include all the following except _______.
    a. crude oil
    b. facilities
    c. tools
    d. machinery
    e. computer equipment

ANSWER: a

36. Which of the following scenarios would most exemplify Adam Smith's view of best serving the interests of society?
    a. Individuals are selected to fill certain positions within the economy of their nation according to the needs of the nation as a whole.
    b. Markets are carefully regulated to ensure that all individuals within a nation are treated fairly and charged standardized prices.
    c. 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.
    d. Government scarcely exists in this country, and transactions are based on a system of barter, or trading goods, for other goods.
    e. Individuals in the country may pursue their own economic gain and self-interest by doing whatever is best for them.

ANSWER: e

37. Which of the following is not a feature of laissez-faire capitalism?
    a. Competition
    b. Guaranteed income
    c. Private ownership of wealth
    d. Economic freedom
    e. Limited role of government

ANSWER: b

38. In Adam Smith's view, which of the following is not the role of government in business?
    a. Defending against foreign enemies
    b. Regulating business activity
    c. Ensuring internal order
    d. Building public works
    e. Providing education

ANSWER: b

39. Which of the following would least likely be considered a consumer product?
    a. Twelve-pack of Sprite
    b. Nintendo Switch
    c. Prom dress
    d. High-powered drill press
    e. Bag of cat food

ANSWER: d

40. When consumers spend their money to purchase Apple iPhones or computers with an AMD processor, or when they discontinue buying such items as DVDs, they are telling resource owners _______.
    a. how to produce
    b. for whom to produce
    c. what to produce
    d. when to produce
    e. where to produce

ANSWER: c

41. For the U.S. government to provide the services expected by its citizens, it collects revenue _______.
    a. solely from individuals in the form of taxes
    b. solely from corporations in the form of taxes
    c. by selling bonds to foreign governments
    d. from both households and businesses in various forms of taxes
    e. by selling manufactured goods overseas

ANSWER: d

42. Which of the following best characterizes how the government uses tax dollars?
    a. To invest in foreign bonds
    b. To invest in foreign corporations
    c. To purchase resources and products needed to provide services
    d. To purchase other nations
    e. To increase consumer income

ANSWER: c

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

ANSWER: a

44. Vietnam, a socialist economy, does not have which of the following goals?
    a. Equitable distribution of income
    b. Elimination of poverty
    c. Reduction of government regulations
    d. Private ownership of key industries
    e. Distribution of social services to all who need them

ANSWER: c

45. The nationalization of key industries by countries such as Sweden and Norway is characteristic of a(n) _______ economy.
    a. socialist
    b. communist
    c. capitalist
    d. nationalist
    e. industrialized

ANSWER: a

46. All of the following are characteristics of communist countries such as North Korea except _______.

a. intensive production of goods the government needs
b. all workers contribute to society according to their ability
c. frequent shortages of consumer goods
d. a society whose citizens together own all economic resources
e. an adequate supply of consumer goods

ANSWER: e

47. Which of the following is not one of the four basic economic questions that determine which type of economic system a nation has?
a. How will manufacturing be conducted to conserve natural resources?
b. For whom will goods and services be produced?
c. Who owns and controls the factors of production?
d. What goods and services will be produced?
e. How will goods and services be produced?

ANSWER: a

48. Which of the following statements about productivity 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. Increased productivity enables workers to work more efficiently.
e. Productivity growth enables American business firms to compete more effectively with other nations in a competitive world.

ANSWER: b

49. Which of the following would not be included in the gross domestic product (GDP) of the United States?
a. Value of tax return services performed by H&R Block in its 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 Pizza Hut's sales for its Tokyo locations

ANSWER: e

50. Which of the following would you use to determine the extent to which a nation is experiencing economic growth on an annual or quarterly basis?
a. Real GDP
b. The GDP growth rate
c. Inflation
d. Deflation
e. Productivity

ANSWER: b

51. Which of the following would you use to determine whether inflation is affecting consumers?
a. Productivity

b. Gross domestic product
c. Consumer product index
d. Producer price index
e. Consumer price index

ANSWER: e

52. Which of the following is not a characteristic 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

53. During which stage of the business cycle would Nike begin to focus on being more value conscious in its apparel and shoe production decisions?
a. Prosperity
b. Peak
c. Recession
d. Trough
e. Recovery

ANSWER: c

54. Which of the following is the Federal Reserve applying when it lowers the interest rate charged to banks on short-term loans?
a. Monetary policy
b. National debt
c. Inflation
d. Fiscal policy
e. Competition

ANSWER: a

55. 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 _______.
a. the business cycle
b. economic stimulation
c. monetary policy
d. recession
e. fiscal policy

ANSWER: e

56. 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.
a. recession

b. depression
c. repression
d. prosperity
e. trough

ANSWER: a

57. For T-Mobile and Verizon, competition _______.
a. is not a factor that must be considered in a free-market economy
b. affects smaller businesses but not large chain operations
c. affects larger chain operations but not smaller businesses
d. is a rivalry among businesses for sales to potential customers
e. is a problem that has been eliminated in the twenty-first century

ANSWER: d

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

ANSWER: b

59. As smartphones gained popularity, the _______ film cameras decreased along with the price.
a. demand for
b. government regulation of
c. equilibrium of
d. productivity of
e. monopoly associated with

ANSWER: a

60. As the price of jeans rises, American Eagle is likely to _______.
a. decrease production and thus decrease the supply
b. increase production and thus increase the supply
c. do nothing to influence the available supply of jeans
d. discontinue producing jeans in favor of a different product
e. increase production to influence the demand for jeans

ANSWER: b

61. If the market for household cleaning supplies includes many similar but not identical products, this would suggest that the competitive environment for household cleaning products is _______.
a. monopolistic
b. a monopoly

c. oligopolistic

d. perfect

e. dictated by the government.

ANSWER: a

62. 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

63. When Delta Air Lines, American Airlines, and a few other firms dominate the U.S. airline industry, this is an example of _______.

a. pure competition

b. monopolistic competition

c. oligopoly

d. natural monopoly

e. monopoly

ANSWER: c

64. Chevron and ExxonMobil are two of the relatively few sellers in the oil- and gas-production industry. Due to the tremendous capital investment required to enter this industry, these companies are insulated significantly from the threat of new competitors and thus have considerable control over their prices. This market situation is referred to as a(n) _______.

a. perfect competition

b. monopoly

c. natural monopoly

d. oligopoly

e. trust

ANSWER: d

65. When Volkswagen experienced declining sales as a result of quality and safety issues, it began offering incentives to new-car buyers. Almost immediately, Toyota and General Motors introduced 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

66. If Ford, GMC, Honda, Toyota, and Volkswagen merged into one multinational corporation, this would effectively

_______.

a. encourage pure competition
b. encourage monopolistic competition
c. lead to an oligopoly
d. create a recession
e. create a monopoly

ANSWER: e

67. What must a monopoly, such as a public utility, account for when setting its prices?

a. A monopoly because it has no competitors, it can set prices as high as it likes.
b. A monopoly must consider customer demand, and then set prices at the most profitable level.
c. A monopoly must take into account what its top competitors are charging for the same product or service.
d. A monopoly has no say in what prices it will charge because the consumers set the prices for all products and services.
e. A monopoly must look at the importance of each client, and then determine what respective rate each will be charged.

ANSWER: b

68. Peloton, which manufactures an interactive indoor exercise bicycle system for home use, obtained a patent on its interactive treadmill. Peloton has a(n) _______ for this smart treadmill product, at least for a while.

a. monopoly
b. oligopoly
c. natural monopoly
d. limited monopoly
e. illegal monopoly

ANSWER: d

69. When Apple copyrighted its iOS software for smartphones, it established a(n) _______ monopoly.

a. domestic
b. international
c. legal
d. natural
e. unnatural

ANSWER: c

70. Bigelow Tea, like a growing number of companies, uses social media and influencers to communicate information about its products as well as recipes that make use of Bigelow teas to satisfy consumers. This best relates to which of the following?

a. The economic environment
b. The competitive environment
c. The technology environment
d. The free-market environment
e. The global environment

ANSWER: c

71. Which of the following issues will not be a challenge for our economy in the years to come?
    a. How can we conserve and sustain natural resources?
    b. How can we preserve the benefits of competition?
    c. How can we create a more stable economy?
    d. How can we reinvest all the profits that have been made in the stock market as a result of the strong economy?
    e. How can we address social unrest, discrimination, and inequality in society?

ANSWER: d

72. Which of the following helped spur the mass production of consumer goods?
    a. Slater's textile mill
    b. Smith's laissez-faire capitalism
    c. Dudley's haircare system
    d. Marx's communist ideals
    e. Ford's assembly line

ANSWER: e

<u>NeuroNet Communications</u>
Stefan worked for NeuroNet Communications for 20 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. Stefan believed that the company could do much better if it fostered a culture that promoted many different ideas. Additionally, it seemed to Stefan that the management of NeuroNet Communications was narrowly focused on quarterly and annual revenues. Stefan believed that the most important goal should be to satisfy customers. He believed greater financial success would result from focusing on customers.

After a lot of consideration, Stefan decided to open his own business called Global CommNet 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.

73. Refer to NeuroNet Communications. Stefan is operating in a _______ because he has the opportunity to decide what to produce.
    a. command economy
    b. mixed environment
    c. market economy
    d. split economy
    e. micro-economy

ANSWER: c

74. Refer to NeuroNet Communications. Stefan recognizes that his success will also contribute to society. This relates best to (the) _______.
    a. laissez-faire
    b. market economy
    c. business cycle
    d. invisible hand
    e. perfect competition

ANSWER: d

75. Refer to NeuroNet Communications. When hiring people, Stefan thinks it is important to consider _______.
    a. unilateral thinking
    b. profit
    c. wage increases
    d. health benefits
    e. cultural diversity

ANSWER: e

76. Refer to NeuroNet Communications. Now that Stefan is opening his own business, he needs to analyze the factors of production. Which of the following is not a factor of production Stefan should consider?
    a. Labor
    b. Capital
    c. Natural resources
    d. Demand
    e. Entrepreneurship

ANSWER: d

<u>Cozy Comforts</u>
Nikole works for her father in a family-owned business called Cozy Comforts, a bedding company that has been in operation since the 1800s. When her father retires, he intends for Nikole to take over the business. Nikole 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. Nikole is thinking about streamlining the production process so that workers would be responsible for only one task. She believes that if the company could increase production, 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. Nikole knows that her father does not like change very much, but she feels these changes are important for the future of the company.

77. Refer to Cozy Comforts. Nikole noticed that when sales were up, the economy was in a _______.
    a. depression
    b. peak period
    c. grace period
    d. recession
    e. trough

ANSWER: b

78. Refer to Cozy Comforts. Cozy Comforts currently operates in a _______ environment.
    a. purely competitive
    b. demand
    c. monopolistically competitive

d. monopolistic

e. supply

ANSWER: c

79. Refer to Cozy Comforts. Nikole's goal of offering products with unique features and special services is called _______.

a. specialization

b. product differentiation

c. domestic system

d. a factory system

e. a natural monopoly

ANSWER: b

80. Refer to Cozy Comforts. Nikole 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

81. Which of the following is not a powerful motivation to study business?

a. To become a successful employee

b. To become a better consumer and investor

c. To start your own business

d. To get better grades

e. For help in choosing a career

ANSWER: d

82. A small retail store calls its customers when it receives merchandise that they may be interested in, affords individual service to each customer, provides contact information for complaints and comments, and has a 100 percent satisfaction guarantee. Which objective is this business working hard to accomplish?

a. Making a profit

b. Achieving low employee turnover

c. Satisfying the needs of its customers

d. Increasing the owner's wealth

e. Keeping up with the current technology

ANSWER: c

83. In the 2010s, many U.S. auto manufacturers continued to focus on selling smaller fuel-efficient cars or large trucks, yet most car buyers were purchasing new SUVs like the Chevrolet Suburban and crossover vehicles like the Honda CR-V. This happened because manufacturers _______.

a. lost sight of consumers' needs

b. attempted to satisfy consumers' needs

c. followed consumers' wants too closely

d. knew the economy would rise again

e. did not expect a profit

ANSWER: a

84. In 2021, Jenelle's 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?

a. $2,300,000 profit

b. $1,500,000 loss

c. $800,000 profit

d. $700,000 profit

e. $700,000 loss

ANSWER: d

85. Joe and Mavis Teegan decide to become part owners of a corporation by investing in its stock. As owners, the Teegans hope to receive a profit as payment because they assumed the risk of _______.

a. inflation eroding the purchasing power of their investment

b. being paid before the suppliers and employees are paid

c. losing their home, car, and life savings

d. losing the money they have invested in the corporation and not earning any profits from their investment

e. the corporation donating all of the profits to local communities

ANSWER: d

86. TC, a former Air Force pilot, decides to start 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 a helicopter for his business. What important factor of production has he overlooked in creating his business?

a. Equipment

b. Capital

c. Labor

d. Entrepreneurship

e. Natural resources

ANSWER: c

87. Haunani-Kay is passionate about soccer and decides to open her own soccer-focused sporting goods store. She invests her money, time, and effort into making the store a success. She can be best described as a(n) _______.

a. capitalist

b. laborer

c. corporate owner

d. entrepreneur

e. competitor

ANSWER: d

88. Shelly 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 Shelly correct?

a. Yes, by putting this money into a savings account, only she has access to the funds so they are no longer available to the circular flow.
b. No, even though she has saved this money, the bank will in turn invest the money back into the circular flow.
c. Yes, only direct investments into companies, such as purchasing ownership shares of that company, will put her savings back into the circular flow.
d. Yes, the circular flow focuses on businesses and government, and therefore Shelly's savings have no impact on the circular flow.
e. 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

89. Ga-ram works at an institutional bakery and is paid a wage set by the government. He does not like his job but is not allowed other options. Ga-ram must purchase necessities for his family at fixed prices. The country Ga-ram lives in can be described as a _______ economy.

a. demand
b. capitalist
c. market
d. free-enterprise
e. command

ANSWER: e

90. Raul 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. Raul's country is most likely a(n) _______ economy.

a. market
b. communist
c. socialist
d. industrialized
e. capitalist

ANSWER: c

91. The production manager at a large boot factory in Ames, Iowa, notices that the total number of hours worked by production employees has increased 12 percent, but the number of pairs of boots ready for shipping has dropped 6 percent this year over last year. This means _______.

a. the inflation rate is unchanged
b. the demand for boots is decreasing
c. the manager's calculations cannot be correct
d. productivity has decreased
e. the gross national product has increased by 6 percent

ANSWER: d

92. An executive at a U.S. lumber company uses growth in gross domestic product as one way to identify trends in industry lumber use, so he records the change in GDP 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 _______.

a. measurement errors by the U.S. Bureau of the Census
b. a decline in gross domestic product
c. an increase in gross domestic product
d. the economist adjusting the figures for the inflation rate
e. a change in productivity

ANSWER: d

93. Ethan Allen, a furniture manufacturer, would be concerned with the producer price index because it _______.
a. is related to the real gross domestic product
b. measures prices that manufacturers receive for their finished goods
c. tracks the cost of housing and transportation
d. is published daily
e. measures the effect of interest rates on the economy

ANSWER: b

94. As Vanessa and her friends prepare to graduate from college, they are getting 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 is the economy likely to be in?
a. Depression
b. Peak
c. Recession
d. Trough
e. Competitive

ANSWER: b

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

ANSWER: c

96. Adidas attempts to set its running shoes apart from the competition. As a result of this effort, the company obtained some limited control over the price of its product. Achieving price control in this manner is known as _______.
a. advertising
b. monetary policy
c. fiscal policy
d. niche marketing
e. product differentiation

ANSWER: e

97. Josiah distributes rawhide to several different homes. In turn, each of those households uses the rawhide to produce a

product such as satchels, belts, shoes, and boots, and then Josiah collects and sells the finished goods. This represents a(n) _______.

a. oligopoly
b. domestic system
c. system of specialization
d. factory system
e. barter system

ANSWER: b

98. The Butler family owns and operates an interior decorating business. Colin installs hardwood floors and chair rails; Tyra reupholsters furniture and takes care of the finances; Levi designs and makes draperies and pillows; and Mila coordinates the overall color, look, and design. The process the Butler family uses to run its business is _______.

a. specialization
b. division of service
c. the factory system
d. the domestic system
e. the barter system

ANSWER: a

99. Boise Cascade owns vast acres of land throughout the Pacific Northwest 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?

a. Trees, logging trucks, and paper mills.
b. Secretaries, loggers, and truckers.
c. Computers, cash, and desks.
d. Trees, loggers, and computers.
e. Software, computers, and loans

ANSWER: a

100. Malia lives in a country where individuals may own their own property and the factors of production; however, the government levies heavy taxes on individuals and businesses and uses the taxes to provide lifelong pensions to every 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 _______.

a. communist
b. market
c. invisible hand capitalist
d. laissez-faire capitalist
e. mixed

ANSWER: e

101. Elise would like to study abroad for a year before graduating from college. She would like to live in a country that has experienced economic growth for at least five years. She can choose from study-abroad programs in three different countries. What measure could she use to evaluate the economic performance of the three countries?

a. Gross domestic product
b. Productivity and gross domestic productivity

c. Marketing measures

d. Accounting processes

e. Tax revenues

ANSWER: a

102. Jonah 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*?

a. Determine what you want, why you want to do it, and write it down

b. Focus on one task at a time then bounce between these tasks to accomplish them all

c. Structure your time and do all of the mundane unimportant things first so they don't hang over your head all day

d. 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

e. Look at national economic data such as gross domestic product

ANSWER: a

103. Octavia, a geologist, has discovered a new mineral which she named *afronium.* 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 side effects of radiation. What factors of production will she use to mine the mineral and establish her energy business?

a. Land and natural resources, labor, capital, and entrepreneurship

b. Natural resources, political associations, and capital

c. Labor, advertising, and capital

d. Entrepreneurship, labor, and ethics

e. Entrepreneurship, taxes, productivity, and competition

ANSWER: a

104. Kim and Trayvon went to the mall. While there they passed a Vans store, an ASICS store, a Puma store, as well as several specialty stores and some department stores selling shoes. Trayvon commented about the large number of shoe sellers and observed that each store was trying to differentiate its shoe products from the other shoe stores. What kind of market competition is represented by these stores?

a. Command

b. Perfect

c. Oligopoly

d. Monopoly

e. Monopolistic

ANSWER: e

105. Alonso and Khalil are neighbors. Alonso owns a boat but never uses it. Khalil owns a car that he no longer needs since his son left for college in another state. Alonso needs a car. Alonso and Khalil make an agreement to trade the boat for the car. What is the economic term given to this kind of exchange?

a. Barter

b. Buying and selling

c. Bargained-for exchange

d. Capitalism

e. Domestic system

ANSWER: a

106. When people choose their ideal career, it is most likely a reflection of their _______.
    a. values
    b. hobbies
    c. skills
    d. education
    e. desire to be rich

ANSWER: a

107. Of the following, which is not considered a fundamental role of management necessary to be an effective manager?
    a. Planning
    b. Organizing
    c. Leading and motivating
    d. Controlling
    e. Selling

ANSWER: e

108. Which of the following best describes cultural diversity?
    a. A business theory that is no longer valid
    b. Appreciating the differences among people in a workforce
    c. Promoting homogeneous viewpoints in a workplace
    d. Finding consensus among a variety of viewpoints
    e. A religious issue that doesn't affect business organizations

ANSWER: b

109. 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

110. Raw materials, buildings, and machinery are _______ resources.
    a. human
    b. financial
    c. informational
    d. labor
    e. material

ANSWER: e

111. BiffCo, a medium manufacturing company, is struggling to remain competitive, especially against lower-cost

competitors from overseas. It turns to PricewaterhouseCoopers' Strategy& for advice. In this case, Strategy& best represents which type of resource for BiffCo?

a. Human
b. Information
c. Financial
d. Labor
e. Material

ANSWER: b

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

a. Stakeholders
b. Human
c. Financial
d. Material
e. Informational

ANSWER: e

113. InGen Corp. combines raw materials, machinery, and labor to produce robots and related products. InGen is best described as a(n) _______.

a. manufacturing business
b. service business
c. social media
d. marketing intermediary
e. e-business

ANSWER: a

114. Which of the following companies is an example of a manufacturer?

a. PetSmart
b. NVIDIA
c. Target
d. Wendy's
e. Jackson Hewitt Tax Service

ANSWER: b

115. Unilever's initiatives to sustain the planet and its choice to contribute to environmental charities are part of the firm's ______.

a. free enterprise system
b. stakeholder responsibilities
c. factors of production
d. social responsibility
e. business cycle

ANSWER: d

116. For Dell, Peet's Coffee, or Yahoo, stakeholders are best described as _______.

a. investors in the business

b. lenders that have provided loans

c. suppliers that have extended credit to the firm

d. employees who work for the firm

e. all the different people or groups who are affected by the business

ANSWER: e

117. Which of the following studies the choices made by people and organizations, such as whether to buy new vehicles or buildings now or to delay purchases until conditions improve?

a. Business

b. Macroeconomics

c. Microeconomics

d. Macromarketing

e. Micromarketing

ANSWER: c

118. When scientists study the impacts of inflation, unemployment, government spending, and taxes on the national economy, they are using a(n) _______ approach.

a. macroeconomics

b. microeconomics

c. mesoeconomics

d. monetary

e. intuitive

ANSWER: a

119. According to economists, natural resources, labor, capital, and entrepreneurship are called _______.

a. free resources

b. competitive resources

c. factory resources

d. factors of manufacturing

e. factors of production

ANSWER: e

120. Which of the following would be considered a natural resource by ConocoPhillips?

a. Bank loans

b. Buildings

c. Tools

d. Machinery

e. Natural gas

ANSWER: e

121. Which of the following relates to the effort involved with making goods and services?

a. Land

b. Financial resources
c. Material resources
d. Capital goods
e. Labor

ANSWER: e

122. For a Keebler production facility, managers and employees would be considered _______.

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

ANSWER: d

123. Jeff Bezos, Elon Musk, and Beyoncé risked their time, effort, and money to establish and operate businesses; in this case, they are best described as _______.

a. free-market specialists
b. entrepreneurs
c. intrapreneurs
d. socialists
e. profit takers

ANSWER: b

124. An economic system that gives decision-making power about what to produce and what to buy to individuals and businesses, and in which the market determines how much is sold and at what prices, is best called a _______ economy.

a. product
b. market
c. monetary
d. planned
e. command

ANSWER: b

125. Most countries in the world today have economies that demonstrate aspects of both capitalism and socialism; they are therefore characterized as _______ economies.

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

ANSWER: d

126. 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

127. Which of the following is not one of the resources that households provide to businesses?
a. Labor
b. Land
c. Wages
d. Buildings
e. Capital

ANSWER: c

128. 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. controlled
d. laissez-faire
e. communal

ANSWER: a

129. Which of the following is not one of the fundamental assumptions of Adam Smith's capitalism?
a. Individuals must own private property and the resources used to create wealth.
b. The role of government should be limited to providing defense against foreign enemies, ensuring internal order, and furnishing public works and education.
c. The creation of wealth is the concern of private individuals, not the government.
d. Economic freedom ensures the existence of competitive markets that allow both sellers and buyers to enter and leave the market as they choose.
e. The key industries are owned and controlled by the government.

ANSWER: e

130. Which of the following best illustrates a command economy?
a. Capitalism
b. Laissez-faire
c. Oligopoly
d. Communism
e. Mixed economy

ANSWER: d

131. In a command economy, who or what decides what goods and services will be produced, how they will be produced, for whom available goods and services will be produced, and who owns and controls the major factors of production?
a. Consumers
b. Businesses

c. The government
d. The invisible hand
e. Supply and demand

ANSWER: c

132. In a communist country such as North Korea, what types of goods have the greatest importance?
a. Goods needed by the government
b. Goods needed by consumers
c. Goods for export
d. Perishable goods such as food
e. Durable goods such as machinery

ANSWER: a

133. Who, or what, determines the prices of goods under capitalism?
a. The government
b. Central planning
c. Businesses
d. The interaction of consumers and businesses in the marketplace
e. Stakeholders

ANSWER: d

134. To assess whether a country’s economic growth is due to a productivity increase, you should examine _______.
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

135. How could you compare the economic well-being of the United States with that of Japan?
a. Examine their respective defense budgets
b. Examine their respective trade deficits
c. Examine their respective gross domestic products
d. Examine their respective stock markets' performance
e. Examine their respective consumer price indices

ANSWER: c

136. Which of the following best describes the total value of a nation's products after making adjustments to account for the effects of inflation?
a. Adjusted gross national product
b. Gross domestic product
c. Real gross domestic product
d. Consumer price index

e. Producer price index

ANSWER: c

137. 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

138. Which of the following is not a measure of the economic health of a nation?

a. Productivity rate

b. Consumer price index

c. Unemployment rate

d. Business cycle rate

e. Gross domestic product

ANSWER: d

139. 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

140. The producer price index is an accurate predictor of _______.

a. future changes in the consumer price index

b. the level of unemployment

c. prime interest rates

d. internet business activity

e. an individual's standard of living

ANSWER: a

141. Fluctuations in a nation's economy are referred to as its _______.

a. economic upheaval

b. inflation problem

c. depression cycle

d. business cycle

e. recession period

ANSWER: d

142. Which of the following is not one of the four states included in a typical business cycle?

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

ANSWER: a

143. During which phase of the business cycle would Dyson, a small-appliance manufacturer, be most likely to introduce new products?

a. Repression
b. Peak
c. Recession
d. Depression
e. Recovery

ANSWER: b

144. Economists define a _______ as two consecutive three-month periods of decline in a country's gross domestic product.

a. depression
b. prosperity
c. recession
d. trough
e. recovery

ANSWER: c

145. When the Federal Reserve takes steps, such as raising or lowering interest rates, that help stimulate employment and calm prices, it is called _______.

a. monetary policy
b. fiscal policy
c. debt policy
d. recovery technique
e. recovery guideline

ANSWER: a

146. When the federal government takes steps, such as reducing or increasing spending levels, that affect savings and spending by consumers and businesses, it is called _______.

a. monetary policy
b. fiscal policy
c. debt policy
d. recovery technique
e. recovery guideline

ANSWER: b

147. If the Canadian national government spends more than it receives within a fiscal year, is has a(n) _______.

a. national deficit
b. federal deficit
c. fiscal debt
d. national debt
e. consumer debt

ANSWER: b

148. The total of all federal deficits in the United States is called the _______.
a. economic debt
b. federal deficit
c. fiscal debt
d. national debt
e. consumer debt

ANSWER: d

149. During which business cycle phase do high unemployment rates decline and levels of income increase?
a. Repression
b. Correction
c. Recession
d. Trough
e. Recovery

ANSWER: e

150. Which of the following is not a concept that is necessary for the existence of perfect competition?
a. There are no restrictions on firms entering the industry.
b. All sellers offer essentially the same product for sale.
c. The actions of a single buyer or seller can affect the overall market.
d. The market is for a single product.
e. All buyers and sellers know everything there is to know about the market.

ANSWER: c

151. 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

152. _______ is an essential and significant result of capitalism.
a. Monopoly
b. Socialism
c. Communism

d. Competition

e. Poverty

ANSWER: d

153. If the demand for curved 4K televisions weakens, what will happen to the price of the curved 4K televisions?

a. The price will stay the same.

b. The market price will be maintained.

c. The equilibrium price will be maintained.

d. The price will increase.

e. The price will decrease.

ANSWER: e

154. A price at which the demanded quantity is equal to the quantity supplied of that product is called the _______ price.

a. market

b. customer

c. equality

d. demand

e. supply

ANSWER: a

155. In a market with a relatively large number of sellers, companies try to develop and promote unique features, unique packaging, and/or free delivery, a process known as _______.

a. perfect competition

b. monopolistic competition

c. product differentiation

d. branding

e. marketing

ANSWER: c

156. Although all casual clothing ultimately provides the same purpose, Old Navy strives to make its brand seem unique from the many other brands available on the market. The market for Old Navy's casual clothing can be characterized as _______.

a. pure competition

b. monopolistic competition

c. an oligopoly

d. a monopoly

e. a natural monopoly

ANSWER: b

157. _______ 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

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

a. Clothing
b. Restaurants
c. Makeup
d. Bread
e. Smartphones

ANSWER: e

159. Because Monsanto has patents worldwide on many genetically modified seeds used by farmers around the world, and farmers realistically cannot plant seeds from any other company, Monsanto effectively has _______.

a. a natural monopoly
b. a legal monopoly
c. an oligopoly
d. monopolistic competition
e. a perfect competitive market

ANSWER: b

160. It may come as a surprise to you that all the major brands of sunglasses are owned by a single Italian firm, Luxottica. Although Luxottica-produced sunglasses are sold under many different brand names, with different features and price points, they are still sold by a single company. In this case, the sunglass industry is _______.

a. one of perfect competition
b. one of pure competition
c. one of monopolistic competition
d. an oligopoly
e. a monopoly

ANSWER: e

161. _______ 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

162. Which of the following describes a system in which entrepreneurs distributed raw materials to homes in which households processed those materials into finished goods the entrepreneur could sell?

a. The factory system
b. An apprenticeship
c. Specialization

d. Product differentiation

e. The domestic system

ANSWER: e

163. Which of the following helped to usher in the Industrial Revolution?

a. The use of the domestic system

b. The use of the factory system

c. The Great Depression

d. The use of computers

e. The twentieth century

ANSWER: b

164. One of Samuel Slater's contributions to the development of business in the United States was the use of _______.

a. capital

b. flexible manufacturing

c. domestic robots

d. the factory system

e. the domestic system

ANSWER: d

165. To improve productivity in manufacturing, managers may break up a manufacturing process into distinct tasks and assign different tasks to different individuals, a process called _______.

a. the factory system

b. the domestic system

c. product differentiation

d. production factors

e. specialization

ANSWER: e

166. At Wellman Plastics, managers have separated the manufacturing process into distinct tasks and assigned them to different individuals. Their rationale for this specialization is to _______.

a. reduce productivity

b. increase the efficiency of industrial workers

c. boost the morale of employees by making them feel special

d. relieve boredom

e. make the nature of the work more general

ANSWER: b

167. When did the U.S. government begin to become more deeply involved in business than it had been previously?

a. In the late 1800s

b. During the Great Depression

c. After the Vietnam War

d. During the social responsibility movement during the 1960s

e. After the Korean War

ANSWER: b

168. All of the following are considered major events that shaped the nation's economy during the period of 1910 to 2000 except _______.

a. the Korean War
b. the Great Depression
c. a crude oil shortage
d. high inflation and high interest rates along with reduced business profits
e. the golden age of inventions

ANSWER: e

169. Online interaction that allows people and businesses to communicate and share ideas, personal information, and information about products is known as _______.

a. e-business
b. free enterprise
c. capitalism
d. capitalistic media
e. social media

ANSWER: e

170. For seasonings maker McCormick & Company, the concept of sustainability focuses on which of the following?

a. The ability to create and maintain conditions under which present and future generations can exist in productive harmony
b. The ability to increase profits today while still conserving resources for the future
c. The maximization of profits for a company and its employees
d. The needs of future employees
e. The needs of the government in the future

ANSWER: a

171. What percentage of the U.S. work force is employed by service businesses?

a. 40 percent
b. 50 percent
c. 60 percent
d. 70 percent
e. 80 percent

ANSWER: e

172. Alicia is interested in investing in the stock market, but having studied the Great Depression in school, she is afraid she could lose all 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 stable, and even the national debt is decreasing. If the economy is her only concern about buying stock, should she buy it?

a. 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.
b. In spite of all of the positive indicators, it is never a good time to buy stock.

c. 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.

d. Alicia should not base her decision to buy stock on the factors indicated; she should base it solely on the consumer price index.

e. 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 stagnant so now is not a good time to buy stock.

ANSWER: a

173. Due to the COVID-19 pandemic, the United States suffered more than two consecutive three-month periods of decline in its gross domestic product; this is best described as a(n) _______.

a. depression

b. prosperity

c. recession

d. trough

e. recovery

ANSWER: c

174. Kai works as a currency exchange trader in the train station of a major city. There are many buyers and sellers in the market for exchanging currencies; no one of them can affect the market; all the sellers have the same knowledge about currency exchanges; and each charges the same rates for exchanging different currencies. In this case, the currency exchange market most resembles _______.

a. perfect competition

b. monopolistic competition

c. oligopolistic competition

d. an oligopoly

e. a monopoly

ANSWER: a

175. AT&T, T-Mobile, and Verizon are the only real competitors of any size remaining in the wireless industry, which has undergone significant consolidation in part so that companies can make sizable investments in new technology such as 5G. Today’s wireless industry is most likely _______.

a. monopolistic competition

b. pure competition

c. a monopoly

d. an oligopoly

e. a natural monopoly

ANSWER: d

176. Aaron and Madilyn go to their local farmers’ market every Saturday morning. The market attracts many consumers and has many vegetable stands, flower stalls, artisan craft stalls selling handmade soaps and scented oils, as well as stalls selling baked goods and prepared foods. All the sellers within a sales category (vegetables, flowers, artisan crafts, and prepared food) sell their goods for essentially the same price, with little variation. Madilyn comments to Aaron that the vegetable stands seem to enjoy perfect competition. What factors did she take into consideration when making this observation?

a. 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.

b. She is considering that there are many sellers and few buyers so the sellers can set their own perfect price.

c. She is considering that the vegetables are in perfect condition so the competition should also be perfect.

d. She is considering that vegetables, flowers, and crafts are different products and thus one cannot be substituted for another so the vegetable stands are in a perfect location with a perfect market to sell their produce.

e. She is considering that though there are many buyers and sellers, each seller differentiates its products so that they can set their own price.

ANSWER: a

177. The Industrial Revolution in the United States was born _______.

a. in the late 1990s with the invention of desktop computers

b. in the 1960s with the invention of television and new advertising methods

c. around 1850 when Henry Ford began using the assembly line to produce automobiles

d. in the late 1700s when American businesses began using the factory system

e. in the 1600s when American families began using the domestic system

ANSWER: d

178. Noor has just completed college and is considering strategies to gain employment 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 Noor's needs?

a. 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

b. Use online networking and social media sites to locate job openings and help prospective employers find her

c. Review job openings in newspapers and magazines but give very little information about herself on online networking sites to prevent identity theft

d. 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

e. Avoid social media to demonstrate that she is focused on her career and education

ANSWER: b

179. Sabina is opening her own bakery. To bake the cookies, pies, cakes, and bread she will be selling, she will need money to rent a store and 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, delivering the goods to stores, and waiting on customers. She will also need a computer with software to keep track of income and expenses and to track how effectively she is using the ingredients. Which of the following best describes the resources used by Sabina's bakery?

a. Sabina's business is a mixed resource business.

b. Sabina will be using material resources, human resources, and information resources.

c. Sabina will be using goods and services.

d. Sabina will be using material resources, human resources, financial resources, and information resources.

e. Sabina's business is a marketing intermediary.

ANSWER: d

180. Manny owns stock in G&G, Inc. Sarah is an employee of G&G, Inc. Emmanuel uses the products sold by G&G, Inc. Tam and Alex are on the board of directors of G&G, Inc. Winnie lives in a housing tract adjacent to the G&G, Inc. factory. Which of the following best describes the roles of these individuals as they relate to G&G, Inc.?

a. Each of these individuals is a stakeholder of G&G, Inc.
b. Manny, Sarah, Tam, and Alex are affected by the policies, decisions, and activities of G&G, Inc., but Winnie and Emmanuel are not.
c. Only Tam and Alexis are stakeholders in G&G, Inc., because they are on the board of directors.
d. All but Winnie are stakeholders in G&G, Inc.
e. Only Manny is a stakeholder in G&G, Inc.

ANSWER: a

181. In the brand new country of Genovia, 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. A business is also free to decide what to produce, how to produce it, and at what price to sell it. What type of economic system is employed in the new nation of Genovia?

a. Genovia has a command economy.
b. Genovia has a socialist economic system because the government guarantees that a business will be successful.
c. The system of business in Genovia is based on the concept of free enterprise.
d. Genovia has a mixed economy similar to the economic system in Sweden, Canada, and Norway.
e. Genovia has a communist economy.

ANSWER: c

182. Beechcraft, Embraer, Bombardier, and Gulfstream are among the eight manufacturers and sellers of business jets. Because the production of jets requires a sizeable investment, it is difficult to enter this market and these sellers are quite large. Which of the following best describes the market in which these companies operate?

a. These businesses operate in a market best described as monopolistic competition.
b. These businesses operate in a market that would best be described as a monopoly.
c. These businesses operate in a perfect competition market.
d. These businesses operate in an oligopoly.
e. These businesses operate in a command market.

ANSWER: d

183. Sanjay 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 increase his sales. To that end, Sanjay has improved his advertising and store signage, and he has begun to use social media to raise awareness of his business, but sales have only improved 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 as many washing machines. What is the fundamental flaw in his plan?

a. Buyers are rational people and the demand for the product will only increase if the price is set at a higher level than what it's at now.
b. In order to sell more washing machines, he will have to raise the price per washing machine.
c. Demand for a product is not necessarily increased just because there is a greater supply.
d. 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.
e. Buyers will buy more of a product at higher prices and less of a product at lower prices.

ANSWER: c

184. Huan and Fen are discussing starting a business together. They want to open a business that will require little start-up capital but still be successful and satisfying for customers. They have reviewed a variety of economic and business

publications and identified one type of business which seems to fit their capital requirements. This type of business employs 80 percent of the nation's workforce. What type of business will they open?

a. A service business

b. A manufacturing business because these businesses have large workforces

c. A wholesale business supplying goods to retailers

d. A government business

e. An e-business

ANSWER: a

Essay

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

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

186. 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 (the money received from customers in exchange for goods or services). In addition, all businesses have expenses that are deducted from revenue, thus leaving the profit. A negative profit, called a loss, cannot be sustained indefinitely if a business is to survive. If a firm is operating at a loss, managers must take action to eliminate the loss by increasing sales and/or reducing expenses or the firm may be forced to file for bankruptcy protection or go out of business.

187. What three activities must a business perform in order to be successful? Briefly describe each of these and why each is essential for a 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. Students' elaborations about the nature of the three activities may vary.

188. 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. In a mixed economy, the four basic economic questions (what to produce, how to produce, for whom to produce, and who controls the factors of production) are answered through the interaction of households, businesses, and governments. In particular, the U.S. government participates in the economy as more than simply an umpire or rule maker. 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. It also creates rules and regulations, and it provides services such as national defense, education, and infrastructure development, that individuals and businesses cannot or will not supply.

189. 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. Productivity growth also helps a nation'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 by reducing costs and/or making it possible for employees to work more efficiently, perhaps through technology and investments in state-of-the-art equipment and employee training.

190. 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. Which phase are we currently in?

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. Student's answers to the last part will vary depending on current economic conditions.

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

ANSWER: In perfect competition, there are many buyers and sellers of a product and no single buyer or seller is powerful enough to affect prices. Therefore, the actions of all buyers and sellers together set the price of a product because all products are the same and buyers will be motivated to pay the lowest price for the same products.

192. 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 products 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. In addition, a change in the supply of a product can cause a change in the price for the product.

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

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

194. 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.

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

ANSWER: The late 1700s saw the birth of the factory system of manufacturing 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.

196. 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.

197. 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.

198. Explain the difference between monetary policies and fiscal policies in your own words. How does each affect the nation's economy?

ANSWER: Monetary policies are the Federal Reserve's actions to promote maximum employment, stabilize prices, and increase or decrease interest rates. 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.

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

ANSWER: Student answers will vary but should demonstrate an understanding of the chapter content. Many will cite the need to create a more stable economy along with new jobs. Other challenges students may point out include reducing national debt, defeating terrorism, resolving conflict with other countries, and addressing social unrest and inequality. 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.