Business Essentials (Canadian) 8th edition Ebert Test Bank

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Chapter 2 The Environment of Business

2.1 Multiple-Choice Questions

1) In terms of organizational boundaries and environments, which is correct?
A) Large business firms are heavily influenced by events in the external environment, but small business firms are much less influenced.
B) No single firm can control the environment.
C) Most organizations have a single environment, but some have multiple environments they must cope with.
D) The major elements of the external environment are marketing, finance, production, and human resources.
E) The most important features of the external environment are the political and social aspects.
Answer: B
Diff: 2 Type: MC Page Ref: 25-26
Skill: Comprehension
Objective: 2.1

2) Distributors who are in a grocery store restocking shelves are normally considered part of the _____ rather than the _____.
A) environment; culture
B) organization; environment
C) culture; store
D) environment; organization
E) none of these are correct
Answer: D
Diff: 2 Type: MC Page Ref: 25
Skill: Comprehension
Objective: 2.1

3) A(n) _____ separates the organization from its environment.
A) organizational boundary
B) process boundary
C) enterprise resource
D) aggregate output
E) integration
Answer: A
Diff: 1 Type: MC Page Ref: 25
Skill: Knowledge
Objective: 2.1

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4) How might low inflation levels in the general economy affect a company like McDonald's?
A) McDonald's will pay much higher prices for supplies and will charge customers more for its products.
B) McDonald's will pay higher prices for supplies and will charge customers more for its products.
C) McDonald's will pay relatively constant prices for supplies, but will be unable to increase the price paid by customers.
D) McDonald's will pay relatively constant prices for supplies and will charge customers more for its products.
E) McDonald's will pay higher prices for supplies, but will be unable to increase the price paid by customers.
Answer: C
Diff: 3 Type: MC Page Ref: 26
Skill: Comprehension
Objective: 2.2

5) Agriculture efficiency has resulted in
A) Canadians contributing more resources to farms.
B) an increase in the number of people employed in the industry.
C) Canadians needing more farms.
D) a decrease in the number of people employed in the industry.
E) none of these.
Answer: B
Diff: 2 Type: MC Page Ref: 27
Skill: Comprehension
Objective: 2.2

6) Since the increase in the unemployment level in a small Atlantic Canadian town, retailers have noticed that sales have decreased. The retailers are being affected by which element of the external environment?
A) Socio-cultural
B) Economic
C) Environmental
D) Global
E) Political-legal
Answer: B
Diff: 2 Type: MC Page Ref: 27
Skill: Comprehension
Objective: 2.2

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7) At one time, about _____ of the population of Canada was involved in producing the food that we needed; today less than _____ percent of the population works in agriculture.
A) half; 0.5
B) half; 2.5
C) one-third; 5
D) three-quarters; 2.5
E) four-fifths; 3
Answer: B
Diff: 3 Type: MC Page Ref: 27
Skill: Knowledge
Objective: 2.2

8) Agricultural production has _____ because _____.
A) grown; we have increased total output in that sector
B) increased; Canada imports more agricultural products
C) declined; fewer Canadians are working in agriculture
D) remained unchanged; there have been relatively few changes in agricultural technology
E) increased; more people are involved in farming
Answer: A
Diff: 2 Type: MC Page Ref: 27
Skill: Comprehension
Objective: 2.2

9) The main measure of growth in an economic system is
A) the business cycle.
B) standard of living.
C) gross national product.
D) gross domestic product.
E) aggregate output.
Answer: E
Diff: 1 Type: MC Page Ref: 27
Skill: Knowledge
Objective: 2.2

10) Which is the *best* explanation for why standard of living only increases through productivity?
A) The more goods that are available, the lower prices will be.
B) More goods are available without having to come by additional resources.
C) Productivity increases the money supply in an economy.
D) Purchasing power increases when there is more consumer choice.
E) Prices are determined by the standard of living.
Answer: B
Diff: 1 Type: MC Page Ref: 27
Skill: Knowledge
Objective: 2.2

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11) Which of the following *best* defines the term *aggregate output*?
A) The total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
B) The measure of economic growth that compares how much a system produces with the resources needed to produce it
C) The pattern of short-term ups and downs in an economy
D) The total quantity of goods and services produced by an economic system during a given period
E) The conditions of the economic system in which an organization operates
Answer: D
Diff: 2 Type: MC Page Ref: 27
Skill: Comprehension
Objective: 2.2

12) _____ refers to the total quality and quantity of goods and services that a country's citizens can purchase with the currency used in their economic system.
A) Aggregate output
B) The national debt
C) Standard of living
D) The business cycle
E) The consumer price index
Answer: C
Diff: 1 Type: MC Page Ref: 27
Skill: Knowledge
Objective: 2.2

13) Which of the following *best* defines the term *business cycle*?
A) The conditions of the economic system in which an organization operates
B) The pattern of short-term ups and downs in an economy
C) The total quantity of goods and services produced by an economic system during a given period
D) The measure of economic growth that compares how much a system produces with the resources needed to produce it
E) The total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
Answer: B
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Skill: Comprehension
Objective: 2.2

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14) Which of the following is correct with regard to the business cycle?
A) Due to better government management of the economic environment, the business cycle has become less volatile in recent decades.
B) A depression occurs when the trough of the business cycle extends five or more years.
C) There are no recognizable short-term phases in the business cycle; rather, the cycle can only be recognized as a long-term phenomenon.
D) A recession is usually defined as two consecutive quarters when the economy shrinks.
E) All of these are correct.
Answer: D
Diff: 2 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

15) Sales had been low at Stephen's Home Office Supplies for several months, but then business starting picking up again. Stephen's business went through which two phases of the business cycle?
A) Recession and trough
B) Peak and recession
C) Trough and recovery
D) Recovery and peak
E) Any of these answers could be correct.
Answer: C
Diff: 2 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

16) Which statement is *true* with regard to the standard of living?
A) It is dependent on the size of the city in which one lives.
B) It is comparable for every citizen in every country.
C) It is the amount and quality of goods and services that people can buy with their money.
D) It is improved when high-end stores stock expensive merchandise.
E) It is unaffected by business productivity.
Answer: C
Diff: 2 Type: MC Page Ref: 27
Skill: Knowledge
Objective: 2.2

17) Which of the following would *not* likely be a consequence of a recession?
A) Aggregate output declines.
B) Producers will hire more employees.
C) Unemployment will increase.
D) Less labour will be needed to produce products.
E) GDP will decrease.
Answer: B
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Skill: Comprehension
Objective: 2.2

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18) Which of the following *best* gives the meaning of the term *gross national product*?
A) Total quantity of goods and services produced by an economic system
B) Total quantity of goods and services produced within a given period by a national economy, not including foreign production
C) Total value of all goods and services produced within a given period by a national economy through domestic factors of production
D) Total value of all goods and services produced within a given period regardless of where the factors of production are located
E) Total value of all goods and services that are exported
Answer: D
Diff: 2 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

19) Which of the following *best* describes the term *gross domestic product*?
A) Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
B) Conditions of the economic system in which an organization operates
C) The total value of all goods and services produced within a given period by a national economy through domestic factors of production
D) The total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located
E) The total quantity of goods and services produced by an economic system
Answer: C
Diff: 2 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

20) Which of the following *best* describes *nominal GDP*?
A) Total quantity of goods and services produced by an economic system
B) Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
C) Total value of all goods and services produced within a given period by a national economy, through domestic factors of production measured in current dollars, with all components valued at current prices
D) Total value of all goods and services produced within a given period by a national economy through domestic and international factors of production
E) Total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located
Answer: C
Diff: 2 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

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21) Which of the following *best* describes *real GDP*?
A) Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
B) Total quantity of goods and services produced by an economic system
C) Total value of all goods and services produced within a given period by a national economy through domestic and international factors of production
D) Total value of all goods and services produced within a given period by a national economy, through domestic factors of production measured in current dollars, or with all components valued at current prices
E) Total value of all goods and services produced by a national economy within a given period, calculated to account for changes in currency values and price changes
Answer: E
Diff: 2 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

22) Which of the following would be *included* in the gross national product of Canada?
A) The wages paid to Peruvian workers producing coffee for a Brazilian company
B) The profits earned by a Canadian-owned automobile plant in Brazil
C) The profits earned by a Brazilian coffee company operating in Canada
D) The profits earned by a Brazilian coffee company operating in Peru
E) The wages paid to Brazilian workers producing coffee for sale in Canada
Answer: B
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

23) Which of the following would be *included* in the gross national product of Brazil?
A) The profits earned by a Brazilian coffee company operating in Canada
B) The wages paid to Peruvian workers producing coffee for a Canadian company
C) The profits earned by a Canadian coffee company operating in Peru
D) The profits earned by a Canadian-owned automobile plant in Brazil
E) The wages paid to Peruvian workers producing coffee for sale in Canada
Answer: A
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

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24) Which of the following would be *included* in the GNP of Canada?
A) A Canadian company produces and sells products in Brazil.
B) A Brazilian company produces and sells products in Canada.
C) A U.S. company produces and sells products in Canada.
D) A Canadian company produces and sells products in Canada.
E) It is not possible to tell given the information that is provided
Answer: A
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

25) Which of the following would be *included* in the GNP of Brazil?
A) A Canadian company produces and sells products in Brazil.
B) A Brazilian company produces and sells products in Canada.
C) A U.S. company produces and sells products in Brazil.
D) A Brazilian company produces and sells products in Brazil.
E) It is not possible to tell given the information that is provided.
Answer: B
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

26) Which of the following would be *excluded* from the GDP of Canada?
A) A Canadian company produces and sells products in Brazil.
B) A U.S. company produces and sells products in Canada.
C) A Canadian company produces and sells products in Canada.
D) A Brazilian company produces and sells products in Canada.
E) It is not possible to tell given the information that is provided.
Answer: A
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

27) Which of the following would be *excluded* from the GDP of Brazil?
A) A Canadian company produces and sells products in Brazil.
B) A U.S. company produces and sells products in Brazil.
C) A Brazilian company produces and sells products in Canada.
D) A Brazilian company produces and sells products in Brazil.
E) It is not possible to tell given the information that is provided.
Answer: C
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Skill: Comprehension
Objective: 2.2

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28) Honata Automobiles is a South Korean-owned company. Honata has factories in Indonesia and Brazil. Which of the following is/are affected by the production of Honata automobiles?
A) Indonesia, Brazil, and South Korea's GDP
B) Indonesia and Brazil's GDP
C) South Korea's GDP
D) Indonesia and Brazil's GNP
E) Indonesia, Brazil, and South Korea's GNP
Answer: B
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

29) The _____ is the growth rate of GDP adjusted for inflation and change in value of the country's currency.
A) adjusted growth rate
B) gross national product
C) real growth rate
D) per capita GDP
E) real GDP
Answer: C
Diff: 2 Type: MC Page Ref: 28
Skill: Knowledge
Objective: 2.2

30) How is per capita GDP computed?
A) GDP minus all expenses incurred to generate GDP
B) Gross wages earned by all workers in Canada divided by the number of workers
C) GNP divided by Canada's population
D) Total gross domestic product divided by Canada's population
E) GNP minus GDP
Answer: D
Diff: 1 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

31) _____ is GDP measured in current dollars with all components valued at current prices.
A) Per capita GDP
B) Net GDP
C) Adjusted GDP
D) Nominal GDP
E) Real GDP
Answer: D
Diff: 1 Type: MC Page Ref: 28
Skill: Knowledge
Objective: 2.2

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32) The principle of _____ states that exchange rates are set so that the prices of similar products in different countries are about the same.
A) nominal GDP
B) gross national product
C) consumer price index
D) equal prices
E) purchasing power parity
Answer: E
Diff: 1 Type: MC Page Ref: 28
Skill: Knowledge
Objective: 2.2

33) _____ is a measure of economic growth that compares how much a system produces with the resources needed to produce it.
A) Purchasing power parity
B) Stability
C) Recession
D) Inflation
E) Productivity
Answer: E
Diff: 1 Type: MC Page Ref: 29
Skill: Knowledge
Objective: 2.2

34) Which of the following is accurate regarding purchasing power parity?
A) It gives us a better idea of what people can actually buy with the financial resources they have.
B) It reflects the principle that exchange rates are set so that prices of similar products in different countries are unequal.
C) It does not really give a good sense of the standards of living around the world.
D) It reflects the principle that capitalism is a better system than communism.
E) None of these statements are accurate.
Answer: A
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Skill: Comprehension
Objective: 2.2

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35) Which of the following *best* describes *purchasing power parity*?
A) Total quantity of goods and services produced by an economic system
B) Total quantity of goods and services that can be purchased with one paycheque
C) Total quantity of goods and services that could have been purchased if one's pay rose in the same proportion as inflation
D) The principle that exchange rates are set so that prices of similar products in different countries are about the same
E) The principle that a market economy determines supply and demand for consumer products
Answer: D
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

36) The _____ is the economic value of all the products that a country exports minus the economic value of imported products.
A) real GDP
B) gross national product
C) nominal GDP
D) balance of trade
E) national debt
Answer: D
Diff: 1 Type: MC Page Ref: 29
Skill: Knowledge
Objective: 2.2

37) Canada's GDP in 2014 was about
A) $275 billion.
B) $950 billion.
C) $1.8 trillion.
D) $3.6 trillion.
E) $8.3 trillion.
Answer: C
Diff: 2 Type: MC Page Ref: 28
Skill: Knowledge
Objective: 2.2

38) With regard to GDP and GNP, which of the following is correct?
A) The profits earned by a Canadian company abroad are included in GDP, but not in GNP.
B) Profits earned by foreign firms in Canada are included in GNP.
C) GDP increased as a result of the BP oil spill in the Gulf of Mexico in 2010.
D) GDP has been increasing for many years.
E) GNP and GDP measure essentially the same thing.
Answer: D
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

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39) When comparing GNP to GDP, it is correct to say that
A) GNP is a better indicator of economic progress than GDP.
B) GNP treats activities that harm our quality of life as costs and gives them negative values.
C) GNP is a better measure of economic growth for advanced industrial countries, but GDP is a better measure for developing countries.
D) the activities required to clean up an oil spill are not included in the calculation of GDP.
E) none of these is correct.
Answer: E
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

40) If GDP is going up, the nation is experiencing
A) inflation.
B) growth.
C) an increase in demand.
D) a recession.
E) it is not possible to tell given the information provided.
Answer: B
Diff: 1 Type: MC Page Ref: 28
Skill: Knowledge
Objective: 2.2

41) Which of the following *best* gives the meaning of the term *gross domestic product*?
A) Total quantity of goods and services produced by an economic system
B) Total quantity of goods that a country's citizens can purchase with the currency used in their economic system
C) Conditions of the economic system in which an organization operates
D) Total value of all goods and services produced within a given period by a national economy through domestic factors of production
E) Indicators of available goods and services produced within a specific domestic market
Answer: D
Diff: 1 Type: MC Page Ref: 28
Skill: Knowledge
Objective: 2.2

42) Canada's GDP per capita (in $US) is approximately
A) $15 000.
B) $31 000.
C) $42 000.
D) $50 000.
E) $66 000.
Answer: C
Diff: 2 Type: MC Page Ref: 28
Skill: Knowledge
Objective: 2.2

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43) Purchasing power parity gives us a good idea of
A) what people are buying outside their own country while on vacation or while doing international business.
B) what people can actually buy with the financial resources allocated to them by their economic system.
C) what people would like to buy with the financial resources in their economic system.
D) purchasing trends across the globe.
E) average annual income.
Answer: B
Diff: 2 Type: MC Page Ref: 29
Skill: Comprehension
Objective: 2.2

44) Paul owns a Canadian shipping company that generates profits as a result of business activities in Brazil. These profits are included in Brazil's
A) GDP.
B) national employment.
C) productivity.
D) GNP.
E) GPI.
Answer: A
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

45) If we know that it takes, on average, one Canadian worker and one Canadian dollar to make 10 soccer balls in an 8 hour work day, we can measure Canada's
A) balance of trade.
B) GDP.
C) productivity.
D) GNP.
E) GNP and productivity.
Answer: C
Diff: 1 Type: MC Page Ref: 29
Skill: Comprehension
Objective: 2.2

46) What does productivity measure?
A) The total value of all goods and services produced by a national economy
B) How much a system produces with the resources needed to produce it
C) How much output is necessary to produce a certain level of demand
D) The standard of living relative to purchasing power parity
E) How much gross national product results from inputs of labour
Answer: B
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Skill: Comprehension
Objective: 2.2

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47) Which of the following statements is correct?
A) GNP refers to the total value of all goods and services produced by a national economy.
B) GDP refers to the total value of all goods and services produced by a national economy regardless of where the factors of production are located.
C) Growth depends on output increasing at a faster rate than population.
D) Per capita GDP is calculated by dividing purchasing power parity by the rate of inflation.
E) Real GDP compares how much a system produces with the resources needed to produce it.
Answer: C
Diff: 3 Type: MC Page Ref: 28
Skill: Comprehension
Objective: 2.2

48) A _____ balance of trade results when a country exports more than it imports.
A) depressed
B) negative
C) real
D) nominal
E) positive
Answer: E
Diff: 1 Type: MC Page Ref: 29
Skill: Knowledge
Objective: 2.2

49) Which of the following is the *best* description of the balance of trade?
A) The total of a nation's revenues from income taxes minus its expenditures on goods and services
B) Changes in currency values and price changes
C) The profitability of business firms that are exporting goods and services
D) The total of a nation's exports minus its imports
E) The total value of all services provided to foreigners during a one year time period
Answer: D
Diff: 2 Type: MC Page Ref: 29
Skill: Comprehension
Objective: 2.2

50) Why would a government *most* likely be concerned about its country carrying a trade deficit?
A) A trade deficit means that the country's productivity is low.
B) A trade deficit means local companies do not have enough competition.
C) A trade deficit ties up money that could be used for economic growth.
D) A trade deficit decreases demand for goods overall.
E) A trade deficit means that consumers do not have enough purchasing power.
Answer: C
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Skill: Comprehension
Objective: 2.2

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51) If, in the long run, international trade improves the standard of living in participating countries, why might some countries want to place trade barriers, such as tariffs, on imported products?
A) Imported products compete with domestic products and thus put pressure on local business.
B) Imported products are usually not as good quality as domestically made products.
C) Generating government revenue is often more economically valuable than free trade.
D) This is necessary to keep a country's currency strong.
E) International trade tends to lead to political tension.
Answer: A
Diff: 2 Type: MC Page Ref: 29
Skill: Application
Objective: 2.2

52) Canada usually has a _____ balance of trade. It is therefore a _____ nation rather than a _____ nation.
A) positive; creditor; debtor
B) negative; debtor; creditor
C) positive; debtor; creditor
D) negative; creditor; debtor
E) none of these
Answer: A
Diff: 3 Type: MC Page Ref: 29
Skill: Comprehension
Objective: 2.2

53) A nation's _____ is the total amount of money that the government owes its creditors.
A) trade deficit
B) national debt
C) trade deficiency
D) trade shortage
E) trade surplus
Answer: B
Diff: 1 Type: MC Page Ref: 29
Skill: Knowledge
Objective: 2.2

54) If Taiwan has a positive balance of trade, this means that
A) money is flowing into the country to pay for imported goods.
B) the total amount of exported goods has increased from the previous year.
C) the total amount of imported goods has decreased from the previous year.
D) the nation is exporting more than it imports from other nations.
E) all of these are correct.
Answer: D
Diff: 2 Type: MC Page Ref: 29
Skill: Comprehension
Objective: 2.2

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55) Which of the following is correct with regard to budget deficits and the national debt?
A) Canada's national debt is the amount of money Canada owes the United States.
B) A budget deficit occurs when income tax revenue is less than interest payments on the national debt.
C) A budget deficit occurs when government expenditures in a given year exceed government revenues.
D) There is no relationship between annual budget deficits and the total national debt.
E) The national debt is more important than annual budget deficits.
Answer: C
Diff: 3 Type: MC Page Ref: 29
Skill: Comprehension
Objective: 2.2

56) The national debt refers to
A) the total amount of money that Canada owes to its creditors.
B) the ratio of Canada's exports to its imports.
C) the result of government spending more in a year than the value of GDP.
D) the excess amount of taxes over what the government spends in one year.
E) the amount of taxes the government collects in one year.
Answer: A
Diff: 1 Type: MC Page Ref: 29
Skill: Comprehension
Objective: 2.2

57) A budget deficit refers to
A) the measure of economic growth that compares how much a system produces with the resources needed to produce it.
B) government spending more in one year than it takes in during that year.
C) the total of a country's exports minus its imports.
D) the total amount of money that Canada owes its creditors.
E) the exchange rate that is set so prices of similar products in different countries are the same.
Answer: B
Diff: 2 Type: MC Page Ref: 29
Skill: Comprehension
Objective: 2.2

58) The more money the Canadian government borrows (by issuing savings bonds), the _____ money is available for private borrowing and investment that increases _____.
A) more; productivity
B) less; productivity
C) more; purchasing power parity
D) less; GDP
E) more; GDP
Answer: B
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Skill: Comprehension
Objective: 2.2

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59) With respect to inflation and deflation, which is correct?
A) Inflation is caused when consumers buy too many luxury goods.
B) When inflation occurs, people have more money to spend, and there will be an increased quantity of goods for sale.
C) When inflation occurs, purchasing power decreases.
D) Deflation is evident when the amount of money injected into the economic system increases faster than actual output.
E) All of these statements are correct.
Answer: C
Diff: 3 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

60) What is the economic condition characterized by widespread increased prices without increased purchasing power?
A) Unemployment
B) Inflation
C) Expansion
D) Deflation
E) Recession
Answer: B
Diff: 3 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

61) Arnold's is a Canadian company engaged in the manufacture of sports shoes. The CEO cautions that there is a disadvantage associated with the company planning increased globalization of production. Which of the following is the *most* likely disadvantage the CEO is referring to?
A) Heavy job losses can ensue in the domestic market.
B) Greater disparities in living standards will emerge.
C) Trade barriers will be reduced between countries.
D) Substantial job losses will occur in developing markets.
E) Increased competition will emerge between companies.
Answer: A
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Skill: Comprehension
Objective: 2.2

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62) A financial analyst has noticed a serious increase in inflation. What course of action might the financial analyst advise the government to take to reduce inflation?
A) The government can lower taxes.
B) The government can raise taxes.
C) Encourage the government to increase spending.
D) Encourage consumers to increase spending.
E) Encourage the government to increase spending and lower taxes.
Answer: B
Diff: 3 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

63) Which of the following *best* describes *economic stability*?
A) The measure of economic growth that compares how much a system produces with the resources needed to produce it
B) A condition in an economic system in which the amount of money available and the number of goods and services produced are growing at about the same rate
C) The economic condition in which a country's exports exceed its imports
D) A relative equality between what the government owes its creditors and the revenue it gets from imports
E) The economic value of all the products that a country exports minus the economic value of all the products it imports
Answer: B
Diff: 3 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

64) What are three factors that threaten stability?
A) Purchasing power parity, productivity, and inflation
B) Productivity, inflation, and deflation
C) Purchasing power parity, inflation, and deflation
D) Inflation, deflation, and unemployment
E) Productivity, unemployment, and inflation
Answer: D
Diff: 2 Type: MC Page Ref: 30
Skill: Knowledge
Objective: 2.2

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65) _____ is the economic condition characterized by widespread increased prices throughout an economic system.
A) Stability
B) Deflation
C) Unemployment
D) Stagflation
E) Inflation
Answer: E
Diff: 1 Type: MC Page Ref: 30
Skill: Knowledge
Objective: 2.2

66) Which of the following statements about inflation is *true*?
A) The consumer price index is a good way of measuring inflation.
B) Productivity decreases the purchasing power of consumer dollars.
C) Inflation increases the purchasing power of consumer dollars.
D) Localized price increases can cause inflation across the economic system.
E) The amount of money tends to be distributed evenly during inflationary periods.
Answer: A
Diff: 2 Type: MC Page Ref: 30
Skill: Knowledge
Objective: 2.2

67) Which of the following statements about inflation is *true*?
A) Inflation increases the purchasing power of consumer dollars.
B) Inflation occurs when people have more money to spend as the quantity of goods available increases.
C) Inflation occurs when the amount of money taken out of the economy exceeds the amount of money put into the economy.
D) Inflation and deflation are really almost synonymous in practice.
E) None of these.
Answer: E
Diff: 3 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

68) The _____ is a measure of the prices of a typical "basket of products" purchased by consumers.
A) consumer price index
B) national debt
C) balance of trade
D) gross national product
E) real GDP
Answer: A
Diff: 1 Type: MC Page Ref: 30
Skill: Knowledge
Objective: 2.2

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69) Which of the following *best* describes what the *consumer price index* is used to indicate?
A) The average wage rate for a given region
B) The economic performance of key consumer product companies
C) The changes in the cost of consumer products over time
D) The percentage of consumers in the total population looking for work
E) The number of price increases within a given period of time
Answer: C
Diff: 3 Type: MC Page Ref: 30
Skill: Knowledge
Objective: 2.2

70) Deflation refers to
A) a period of falling prices.
B) the occurrence of price increases throughout the economic system.
C) the condition in an economic system in which the amount of money available is greater than the amount of goods produced.
D) the measure of prices in urban areas.
E) the amount of government spending greater than the taxes collected in one year.
Answer: A
Diff: 2 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

71) John is experiencing _____ unemployment because he is out of work temporarily while looking for a new job, while Sally is experiencing _____ unemployment because she is out work because of a downturn in the business cycle.
A) seasonal; structural
B) structural; seasonal
C) frictional; cyclical
D) cyclical; frictional
E) seasonal; cyclical
Answer: C
Diff: 3 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

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72) Which of the following is correct regarding unemployment rates in Canada?
A) Unemployment rates have been fairly stable at about 6 percent for the last 30 years.
B) Unemployment rates have been fairly stable at about 2 percent for the last 30 years.
C) Unemployment rates for women have generally been slightly lower than unemployment rates for men.
D) The government did not keep track of unemployment rates for women until the 1980s.
E) The unemployment rate for women is about half the unemployment rate for men.
Answer: C
Diff: 3 Type: MC Page Ref: 31
Skill: Comprehension
Objective: 2.2

73) Ben is unemployed, but he is currently in a training program designed to increase the skills he needs to perform the kinds of jobs that are available. Ben is experiencing _____ unemployment.
A) frictional
B) seasonal
C) cyclical
D) structural
E) none of these
Answer: D
Diff: 2 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

74) Unemployment is the level of joblessness among
A) people over the age of 18 within a given economic system.
B) people who have been previously employed in an economic system.
C) people who have the skills for employment within an economic system.
D) people over the age of 18 and under the age of 65 in a given economic system.
E) people actively seeking work in an economic system.
Answer: E
Diff: 2 Type: MC Page Ref: 30
Skill: Knowledge
Objective: 2.2

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75) _____ unemployment results because workers lack the right skills, while _____ unemployment results when people are temporarily out of work while they are looking for a new job.
A) Cyclical; seasonal
B) Frictional; seasonal
C) Seasonal; structural
D) Cyclical; structural
E) Structural; frictional
Answer: E
Diff: 2 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

76) A computer programmer who has just quit her job but who will find a new one soon is an example of _____ unemployment.
A) seasonal
B) frictional
C) cyclical
D) structural
E) none of these
Answer: B
Diff: 2 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

77) Sam, an audiologist, lost his job two years ago and still hasn't found work. There is just no market for audiologists at this time. Sam is experiencing
A) structural unemployment.
B) full unemployment.
C) cyclical unemployment.
D) bad luck.
E) frictional unemployment.
Answer: A
Diff: 2 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

78) The chance that a society can actually achieve full employment is _____ percent.
A) 10
B) 75
C) 45
D) 1
E) 0
Answer: E
Diff: 1 Type: MC Page Ref: 31
Skill: Knowledge
Objective: 2.2

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79) Don is unemployed because of a downturn in economic activity; this is an example of _____ unemployment.
A) frictional
B) seasonal
C) structural
D) cyclical
E) none of these
Answer: D
Diff: 2 Type: MC Page Ref: 30
Skill: Comprehension
Objective: 2.2

80) _____ policy involves the collection and spending of government revenues, while _____ policy focuses on controlling the size of the nation's money supply.
A) Productivity; inflation
B) Taxation; monetary
C) Monetary; fiscal
D) Fiscal; monetary
E) National debt; annual deficit
Answer: D
Diff: 3 Type: MC Page Ref: 31
Skill: Comprehension
Objective: 2.2

81) If Canada fell into a depression, the Bank of Canada would most likely
A) raise interest rates.
B) leave interest rates alone.
C) lower interest rates.
D) it is not possible to tell with the information given.
E) increase gasoline taxes.
Answer: C
Diff: 2 Type: MC Page Ref: 31
Skill: Comprehension
Objective: 2.2

82) An increase in tax rates is an example of _____ policy, while the government influencing banks to lend more to consumers is an example of _____ policy.
A) GDP; GNP
B) fiscal; monetary
C) GNP; GDP
D) monetary; fiscal
E) none of these
Answer: B
Diff: 3 Type: MC Page Ref: 31
Skill: Comprehension
Objective: 2.2

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83) If you were the Minister of Finance taking care of fiscal policy, which one of the following could you implement?
A) A tax increase
B) A cut in social security programs
C) An increase in federal transfer payments
D) An increase in spending to military bases
E) All of these ideas could be implemented
Answer: E
Diff: 3 Type: MC Page Ref: 31
Skill: Application
Objective: 2.2

84) What effect do higher interest rates have on consumer spending?
A) Consumer spending increases as people try to quickly buy goods before rates go even higher.
B) Consumer spending decreases immediately, but then rises sharply after consumers get used to the new higher interest rates.
C) Consumer spending is not impacted by changes in interest rates.
D) Consumer spending decreases.
E) It is not possible to tell from the information given.
Answer: D
Diff: 1 Type: MC Page Ref: 31
Skill: Comprehension
Objective: 2.2

85) The government controls the size of the money supply through _____ policies.
A) revenue
B) monetary
C) inflation
D) economic
E) fiscal
Answer: B
Diff: 1 Type: MC Page Ref: 31
Skill: Knowledge
Objective: 2.2

86) _____ includes human knowledge, work methods, physical equipment, electronics and telecommunications, and various processing systems that are used in performing business activities.
A) The technological environment
B) The social environment
C) The political-legal environment
D) The competitive environment
E) The economic environment
Answer: A
Diff: 1 Type: MC Page Ref: 31
Skill: Knowledge
Objective: 2.3

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87) The advent of the iPod saw an increase in the downloading of music from the Internet. Music artists are noticing a decrease in the sales of their CDs, which is an effect of which dimension of the external environment?
A) Technological
B) Economic
C) Socio-cultural
D) Political
E) Global
Answer: A
Diff: 2 Type: MC Page Ref: 31
Skill: Comprehension
Objective: 2.3

88) Research and development (R&D) includes activities that are necessary to provide new products, services, and processes. Two basic types of R&D are
A) deflationary and inflationary.
B) public and economical.
C) college and university.
D) pure and theoretical.
E) basic and applied.
Answer: E
Diff: 2 Type: MC Page Ref: 31
Skill: Knowledge
Objective: 2.3

89) Basic research and development describes
A) focusing specifically on how a technological innovation can be put to use in the making of a product or service that can be sold in the marketplace.
B) those activities that do not create value for the firm.
C) the process involved in getting a new technology out of the lab and into the marketplace.
D) improving knowledge in an area without a primary focus on whether any discoveries that might occur are immediately marketable.
E) those activities that increase a company's revenues.
Answer: D
Diff: 2 Type: MC Page Ref: 31
Skill: Comprehension
Objective: 2.3

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90) The political-legal environment describes
A) the relationship between business and government.
B) the customs, values, attitudes, and demographic characteristics of the society in which an organization functions.
C) the intensity of the competition in an industry.
D) the relationship between international and domestic corporations.
E) the relationship between government and unions.
Answer: A
Diff: 2 Type: MC Page Ref: 33
Skill: Comprehension
Objective: 2.4

91) Ethical conduct and social responsibility are critical elements of which environment?
A) Global
B) Political-legal
C) Industry
D) Socio-cultural
E) Economic
Answer: D
Diff: 2 Type: MC Page Ref: 33
Skill: Knowledge
Objective: 2.5

92) The socio-cultural environment describes
A) the relationship between government and unions.
B) the relationship between business and government.
C) the relationship between international and domestic corporations.
D) the customs, values, attitudes, and demographic characteristics of the society in which an organization functions.
E) the intensity of the competition in an industry.
Answer: D
Diff: 2 Type: MC Page Ref: 34
Skill: Comprehension
Objective: 2.5

93) Which of the following is *not* an example of a factor in the socio-cultural environment?
A) Prepackaged chili is more popular in southwestern U.S. states than in the U.S. northeast.
B) Consumers in China perceive bicycles primarily as a mode of transportation, while consumers in Canada perceive bicycles as recreational items.
C) Companies are more likely to set up foreign operations in countries with stable political and economic systems.
D) McDonald's has added salads and other low fat foods to its menu.
E) Many people in the Middle East are unwilling to work in food service operations.
Answer: C
Diff: 3 Type: MC Page Ref: 34
Skill: Comprehension
Objective: 2.5

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94) If casinos notice an increase in business due to the fact that many people no longer regard gambling as wrong, this demonstrates a change in the _____ dimension of their external environment.
A) socio-cultural
B) technological
C) global
D) political-legal
E) economic
Answer: A
Diff: 2 Type: MC Page Ref: 34
Skill: Comprehension
Objective: 2.5

95) Companies that continue to act unethically (especially in the area of accounting) will most likely
A) have their shares appreciate in value because shareholders like aggressive accounting practices which help increase the price of their stock.
B) have their shares depreciate in value as shareholders become leery of aggressive accounting practices which distort a company's real financial condition.
C) never be able to sell shares of stock to the public.
D) find that their share price will be unaffected by this practice.
E) no pattern is evident.
Answer: B
Diff: 2 Type: MC Page Ref: 34
Skill: Comprehension
Objective: 2.5

96) The major cigarette companies have been experiencing a decline in sales due to the overall decrease in smoking across Canada in recent years. These companies are being affected by which dimension of their external environment?
A) Technological
B) Global
C) Business
D) Socio-cultural
E) Economic
Answer: D
Diff: 2 Type: MC Page Ref: 34
Skill: Comprehension
Objective: 2.5

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97) Which of the following *best* describes the breadth of socio-cultural environment factors?
A) Customs, attitudes, and values
B) Demographic characteristics, customs, and values
C) Values, attitudes, customs, and demographic characteristics
D) Customs, values, religious beliefs, and consumer wealth
E) Values, religious beliefs, and consumer wealth
Answer: E
Diff: 2 Type: MC Page Ref: 34
Skill: Comprehension
Objective: 2.5

98) Which of the factors in Porter's five forces model is generally most important?
A) Threat of potential entrants
B) Rivalry among existing competitors
C) Threat of substitutes
D) Suppliers
E) None of these
Answer: E
Diff: 2 Type: MC Page Ref: 34-36
Skill: Comprehension
Objective: 2.6

99) When Microsoft introduced Encarta, it caused the sale of hard copy encyclopedias sold by Encyclopedia Britannica to drop sharply. This is an example of which of Porter's five forces?
A) Rivalry among existing competitors
B) Threat of potential entrants
C) Suppliers
D) Buyers
E) Substitutes
Answer: B
Diff: 2 Type: MC Page Ref: 35
Skill: Comprehension
Objective: 2.6

100) _____ is often cited as a buyer that puts tremendous pressure on its suppliers.
A) The Bay
B) Canadian Tire
C) Target
D) Walmart
E) Costco
Answer: D
Diff: 1 Type: MC Page Ref: 36
Skill: Knowledge
Objective: 2.6

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101) Some industries are relatively easy to enter, but automobile manufacturing is not because
A) the market is saturated.
B) it is very capital-intensive.
C) it is a foreign market.
D) it is too labour intensive.
E) none of these is correct.
Answer: B
Diff: 2 Type: MC Page Ref: 35
Skill: Comprehension
Objective: 2.6

102) Porter's five forces model includes all of the following *except*
A) substitutes.
B) threat of potential entrants.
C) buyers.
D) suppliers.
E) threat of replacement products.
Answer: E
Diff: 1 Type: MC Page Ref: 34-36
Skill: Knowledge
Objective: 2.6

103) McDonald's has made aggressive moves to gain market share in the coffee market. This is an example of _____, while the opening of Target stores in Canada is an example of _____.
A) substitutes; threat of potential entrants
B) threat of potential entrants; buyers
C) buyers; suppliers
D) suppliers; rivalry among existing competitors
E) rivalry among existing competitors; threat of potential entrants
Answer: E
Diff: 2 Type: MC Page Ref: 35
Skill: Comprehension
Objective: 2.6

104) The Internet has changed the way people pay bills. From Canada Post's perspective, this is an example of which of Porter's five forces?
A) Substitutes
B) Threat of potential entrants
C) Buyers
D) Suppliers
E) Threat of replacement products
Answer: A
Diff: 2 Type: MC Page Ref: 36
Skill: Comprehension
Objective: 2.6

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105) _____ refers to the skills and resources with which the company competes best and creates the most value for its owners.
A) Labour
B) Outsourcing
C) Core competencies
D) Viral marketing
E) Business process management
Answer: C
Diff: 1 Type: MC Page Ref: 36
Skill: Knowledge
Objective: 2.6

106) The most successful firms are getting leaner by focusing on their core competencies, but these new business models call for
A) environmental management.
B) unprecedented coordination.
C) new corporate boundaries.
D) unprecedented funds.
E) none of these is correct.
Answer: B
Diff: 1 Type: MC Page Ref: 36
Skill: Knowledge
Objective: 2.6

107) Most successful firms are getting leaner by focusing on their _____, the skills and resources with which they compete best and create the most value for owners.
A) viral marketing
B) core competencies
C) processes
D) business process management
E) political-legal environment
Answer: B
Diff: 1 Type: MC Page Ref: 36
Skill: Knowledge
Objective: 2.6

108) _____ is the strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials or resources.
A) Enterprise management
B) Outsourcing
C) Alliance
D) Disruption
E) Core competency
Answer: B
Diff: 1 Type: MC Page Ref: 36
Skill: Knowledge
Objective: 2.6

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109) Which of the following is the best description of *outsourcing*?
A) Any activity that adds value to some input by transforming it into an output for an internal or external customer
B) An approach by which firms move away from department-oriented organization and toward process-oriented team structures that cut across old departmental boundaries
C) The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources
D) The strategy of using the Internet and word-of-mouth marketing to spread product information
E) The strategy of owning the means by which an organization produces goods or services
Answer: C
Diff: 2 Type: MC Page Ref: 36
Skill: Comprehension
Objective: 2.6

110) Many firms use _____ to provide cafeteria operations for their customers.
A) enterprise management
B) disruption management
C) outsourcing
D) core competencies
E) vertical integration
Answer: C
Diff: 2 Type: MC Page Ref: 36
Skill: Knowledge
Objective: 2.6

111) _____ uses word of mouth and the Internet to market products.
A) Virtual marketing
B) Compressed channel marketing
C) Viral marketing
D) Internet marketing
E) None of these
Answer: C
Diff: 1 Type: MC Page Ref: 37
Skill: Knowledge
Objective: 2.6

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112) When the Organic Trade Association partnered with Free Range Graphics to produce a 5-minute online spoof of the latest Star Wars movie, this was an example of
A) a strategic alliance.
B) viral marketing.
C) outsourcing.
D) business process management.
E) none of these.
Answer: B
Diff: 1 Type: MC Page Ref: 37
Skill: Comprehension
Objective: 2.6

113) Viral marketing can result in _____ when compared to traditional marketing.
A) faster consumer awareness and a wider reach
B) slower consumer awareness and a wider reach
C) quicker consumer awareness and higher costs
D) lower rates of recall and slower consumer awareness
E) lower rates of recall and higher costs
Answer: A
Diff: 2 Type: MC Page Ref: 37
Skill: Comprehension
Objective: 2.6

114) Which of the following best describes *viral marketing*?
A) The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources
B) An approach by which firms move away from department-oriented organization and toward process-oriented team structures that cut across old departmental boundaries
C) The strategy of owning the means by which an organization produces goods or services
D) Any activity that adds value to some input by transforming it into an output for an internal or external customer
E) The strategy of using the Internet and word-of-mouth marketing to spread product information
Answer: E
Diff: 2 Type: MC Page Ref: 37
Skill: Comprehension
Objective: 2.6

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115) _____ uses games, contests, chat rooms, and bulletin boards to encourage potential customers to try out products and tell other people about them.
A) Relationship marketing
B) Business process management
C) Enterprise planning
D) Vertical integration
E) Viral marketing
Answer: E
Diff: 2 Type: MC Page Ref: 37
Skill: Knowledge
Objective: 2.6

116) An approach which moves from a department-orientated organization to a process team orientation is called
A) process improvement.
B) business process management.
C) six sigma.
D) outsourcing.
E) virtual restructuring.
Answer: B
Diff: 2 Type: MC Page Ref: 37
Skill: Knowledge
Objective: 2.6

117) Which of the following best describes *business process management*?
A) An approach by which firms move away from department-oriented organization and toward process-oriented team structures that cut across old departmental boundaries
B) The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources
C) Any activity that adds value to some input by transforming it into an output for an internal or external customer
D) The strategy of using the Internet and word-of-mouth marketing to spread product information
E) The strategy of owning the means by which an organization produces goods or services
Answer: A
Diff: 2 Type: MC Page Ref: 37
Skill: Comprehension
Objective: 2.6

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118) Which of the following is the best definition of *vertical merger*?
A) A strategy in which one of the companies in the merger is a supplier or customer of the other
B) An approach by which firms move away from department-oriented organization and toward process-oriented team structures that cut across old departmental boundaries
C) The strategy of using the Internet and word-of-mouth marketing to spread product information
D) Any activity that adds value to some input by transforming it into an output for an internal or external customer
E) The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources
Answer: A
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

119) A(n) _____ is a merger of two firms that have previously had a buyer-seller relationship.
A) hostile takeover
B) conglomerate merger
C) friendly takeover
D) vertical merger
E) enterprise merger
Answer: D
Diff: 1 Type: MC Page Ref: 38
Skill: Knowledge
Objective: 2.7

120) A company that cuts and packages paper for photocopiers and printers that merges with a paper mill to reduce the risk of paper shortages is using a(n)
A) poison pill merger.
B) enterprise merger.
C) friendly takeover bid.
D) hostile takeover.
E) vertical merger.
Answer: E
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

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121) An acquisition takes place when
A) two firms who previously have been buyer and seller merge.
B) two firms join together to form a new entity.
C) one firm consolidates with another.
D) one firm simply buys another.
E) management adopts a defence to make its firm less attractive.
Answer: D
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

122) When one company sells part of its existing business operations to another company, this is called
A) outsourcing.
B) intense competition.
C) a spinoff.
D) a divestiture.
E) a strategic alliance.
Answer: D
Diff: 2 Type: MC Page Ref: 38
Skill: Knowledge
Objective: 2.7

123) If Shirley's Subs Inc. purchased Tony's Car Repair Inc., this would be _____.
A) a horizontal merger
B) a conglomerate merger
C) a spinoff
D) a vertical merger
E) a divestiture
Answer: B
Diff: 1 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

124) If Toyota Motors purchased Ruscombe Muffler, a small retail muffler business, the purchase would be
A) a horizontal merger.
B) a conglomerate merger.
C) a spinoff.
D) a vertical merger.
E) a divestiture.
Answer: D
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

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125) Company A and Company F have been in direct competition for many years. Recently, an announcement was made of a merger between the two companies. This would be a
A) reverse merger.
B) joint venture.
C) vertical merger.
D) friendly takeover.
E) horizontal merger.
Answer: E
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

126) A corporation may overcome the resistance of a takeover target by implementing which of the following actions?
A) Buy the target company's preferred stock instead of its common stock
B) Reduce the price offered for the target company's stock
C) Threaten to fire the officers of the target company
D) Buy more of the target company's stock
E) File a lawsuit
Answer: D
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

127) Stone Inc. has just been through a friendly takeover. This means that
A) these two firms are in a completely unrelated businesses merge.
B) two firms agree to join together.
C) the acquired company welcomes the acquisition because it may need cash or other benefits which it believes will be available from the other firm.
D) the organization will buy back their own stock from an investor who threatened a hostile takeover.
E) the two firms were direct competitors before the merger and now will not compete with each other after the merger.
Answer: C
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

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128) When Molson merged with Adolph Coors, this was an example of
A) a reverse merger.
B) a conglomerate merger.
C) a vertical merger.
D) a poison pill.
E) a horizontal merger.
Answer: E
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

129) BSX Inc. gave shareholders the right to purchase company stock at a 50 percent discount if a group without approval of BSX's board of directors acquired more than 20 percent of the company's shares. This is an example of
A) a stock buyback.
B) a conglomerate merger.
C) greenmail.
D) a poison pill.
E) a vertical merger.
Answer: D
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

130) PepsiCo created a new corporation called Tricon Global Restaurants (now called Yum! Brands Inc.) which included Pizza Hut, KFC, and Taco Bell. This is an example of a(n)
A) hostile takeover.
B) acquisition.
C) spinoff.
D) merger.
E) divestiture.
Answer: C
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

131) The primary objective of an ESOP is to
A) keep management from making bad decisions.
B) protect against takeovers.
C) prevent worker strikes.
D) provide workers with financial security.
E) motivate workers to work harder.
Answer: E
Diff: 2 Type: MC Page Ref: 38
Skill: Comprehension
Objective: 2.7

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2.2 Critical Thinking Questions

1) Flavour Foods runs The Hungry Cow, a chain of fast food restaurants located all over the country. The chain has a loyal customer base and is well-known for its signature dishes like the Big Bite Burger, Springy Fries, and the Orange Float. The company is faced with a critical decision: Should it expand its operations into China?

Which of the following, if true, would strengthen the argument for competing in the Chinese market?
A) Changes in exchange rates can affect the value of sales made in different countries.
B) Even global brands typically choose to tailor their offerings according to the tastes of consumers in different countries.
C) The Big Bite Burger has a higher selling price than other items on The Hungry Cow's menu, but it is not the most profitable item because of the cost of its ingredients.
D) The Hungry Cow's research indicates that reaching new customers in domestic markets will be more expensive than doing so in emerging markets.
E) Chinese companies tend not to pursue the franchise option when attempting to expand into other countries.
Answer: D
Diff: 3 Type: MC
Skill: Analysis

2) Flavour Foods runs The Hungry Cow, a chain of fast food restaurants located all over the country. The chain has a loyal customer base and is well-known for its signature dishes like the Big Bite Burger, Springy Fries, and the Orange Float. The company is faced with a critical decision: Should it expand its operations into China?

Which of the following, if true, would weaken the argument for competing in the Chinese market?
A) An American fast food chain found that the time to recoup its investments in China was greater under the franchise model as opposed to the corporate chain store model.
B) Chinese government policies can impose lengthy delays on businesses seeking food sale licenses.
C) Studies show that modern Chinese consumers are more likely than previous generations to dine outside the home.
D) When choosing a restaurant, Chinese consumers seek benefits beyond simple food quality.
E) Expanding into every market within China would require more resources than The Hungry Cow has at its disposal.
Answer: B
Diff: 3 Type: MC
Skill: Analysis

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3) In the past, only India's elite could afford to buy a car. But recent dramatic changes in India's economy have produced a growing middle class and rapidly rising incomes. Now, to meet the new demand, established automakers are introducing smaller, more affordable vehicles into India. But they will have to find a way to compete with India's Tata Motors, which has unveiled the least expensive car ever in this market, the Tata Nano. The Nano sells for only 100 000 rupees (about US$2200). It seats four passengers, gets 50 miles per gallon, and travels at a top speed of 60 miles per hour.

Based on the information above, Tata most likely believed that as a result of recent changes in India's economy, what would be true of a growing number of Indian consumers?
A) They had become even more cost-conscious than ever before.
B) They would be willing and able to spend 100 000 rupees on a car.
C) They would choose a vehicle with high fuel efficiency primarily because of concern about the natural environment.
D) They will eventually prefer models similar to those currently available in the United States and Europe.
E) They will place a higher value on car safety than fuel economy.
Answer: B
Diff: 3 Type: MC
Skill: Analysis

4) The economy in the African nation Sponeto has been stagnant for a long time. The government and central bank of Sponeto have been considering options for what can be done to help stimulate investment and growth in the economy.

The Sponeto national bank advocates increasing the money supply to encourage investment within the country. Which of the following, if true, would strengthen the case that this will cause inflation?
A) Jobs will be created.
B) Banks will lower interest rates.
C) Wages will decrease.
D) Foreign investment will be discouraged.
E) Only low-technology sectors will benefit.
Answer: B
Diff: 3 Type: MC
Skill: Analysis

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5) The economy in the African nation Sponeto has been stagnant for a long time. The government and central bank of Sponeto have been considering options for what can be done to help stimulate investment and growth in the economy.

Many in the Sponeto government agree that increasing the money supply to the nation's economy would be of significant help to the country. The national bank's reserve, however, is short on the funds needed, and suggests asking for them from the International Monetary Fund (IMF). Which of the following, if true, would strengthen the case for this course of action?
A) The IMF has been known to force donor countries to drop tariffs put in place to protect domestic industries.
B) The IMF has been known to force donor countries to privatize national companies.
C) The IMF contributes money as well as financial advice to help countries with economies suffering from balance-of-payment problems.
D) IMF loans typically come with many conditions attached that may result in increased poverty in the donor country.
E) A number of developing countries have suffered financial disasters from following IMF advice.
Answer: C
Diff: 3 Type: MC
Skill: Analysis

6) The economy in the African nation Sponeto has been stagnant for a long time. The government and central bank of Sponeto have been considering options for what can be done to help stimulate investment and growth in the economy.

Some in the Sponeto government would like the country to appeal to the World Bank for funding toward economic development, rather than short-term monetary stimulation. Which of the following, if true, would strengthen the case for this course of action?
A) Sponeto has come under criticism in the United Nations for alleged human rights abuses.
B) Sponeto has been able to grow enough food to export to surrounding nations.
C) Corruption is a major problem among Sponeto's government officials.
D) Sponeto urgently needs humanitarian aid due to a recent natural disaster.
E) Chronic and widespread poverty is Sponeto's biggest economic problem.
Answer: E
Diff: 3 Type: MC
Skill: Analysis

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7) Marquand says: Information technology has had its biggest impact on business in communication and access to data. With the networking and streamlined communication modalities now available to businesses, businesses can collaborate with each other as well as within a business at different locations with the greatest of ease. Businesses also have access to a greater range of information and at a greater speed than ever before. And with this information being constantly updated, businesses now have the ability to plan in response to market conditions with much greater efficiency than before.

Stevenson responds: Information is important, but what's most important is how that information is used. And there is no more direct way that information technology has helped businesses than the ability to sell directly. Selling online has opened up entirely new markets that allow businesses to make greater profits, with greater efficiency, than ever before. Many businesses, such as Amazon, have been able to use online selling exclusively to dramatic effect: without having to spend money on bricks-and-mortar storefronts, they can make billions in profits selling products at low prices.

Which of the following is at issue between Marquand and Stevenson?
A) Whether online selling is an important factor in business today
B) Whether information technology has made a significant difference to businesses
C) Whether doing business is significantly helped by online communications
D) What the most important effect of information technology has been on business
E) What has changed in business since the advent of the latest information technology
Answer: D
Diff: 3 Type: MC
Skill: Analysis

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8) Marquand says: Information technology has had its biggest impact on business in communication and access to data. With the networking and streamlined communication modalities now available to businesses, businesses can collaborate with each other as well as within a business at different locations with the greatest of ease. Businesses also have access to a greater range of information and at a greater speed than ever before. And with this information being constantly updated, businesses now have the ability to plan in response to market conditions with much greater efficiency than before.

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Which of the following, if true, would best support Marquand's position?
A) Having information to help it plan gives a business the greatest competitive edge.
B) Information technology has given consumers more choices than ever before.
C) The majority of consumers make at least one online purchase per month.
D) Information technology has greatly increased the choices available to consumers.
E) Most businesses are motivated to take advantage of the latest information technology.
Answer: A
Diff: 3 Type: MC
Skill: Analysis

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9) Marquand says: Information technology has had its biggest impact on business in communication and access to data. With the networking and streamlined communication modalities now available to businesses, businesses can collaborate with each other as well as within a business at different locations with the greatest of ease. Businesses also have access to a greater range of information and at a greater speed than ever before. And with this information being constantly updated, businesses now have the ability to plan in response to market conditions with much greater efficiency than before.

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Which of the following, if true, would best support Stevenson's position?
A) In general, the more that information technology is used by businesses, the better they perform.
B) Businesses that exclusively sell online have been the fastest-growing.
C) The most successful businesses are those that make use of information technology.
D) Many more businesses sell their products over the Internet now than in the past.
E) Easily packaged imperishable consumer goods are those that are best suited to being sold over the Internet.
Answer: B
Diff: 3 Type: MC
Skill: Analysis

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10) Marquand says: Information technology has had its biggest impact on business in communication and access to data. With the networking and streamlined communication modalities now available to businesses, businesses can collaborate with each other as well as within a business at different locations with the greatest of ease. Businesses also have access to a greater range of information and at a greater speed than ever before. And with this information being constantly updated, businesses now have the ability to plan in response to market conditions with much greater efficiency than before.

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Which of the following is assumed by Marquand?
A) All businesses now use information technology for communications and information.
B) Relatively few businesses sell products online.
C) Less information was available to businesses before the information technology revolution than there is now.
D) Consumers preferentially choose to buy from businesses that use the latest information technology.
E) Selling online is relatively unimportant to most businesses.
Answer: C
Diff: 3 Type: MC
Skill: Analysis

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11) Marquand says: Information technology has had its biggest impact on business in communication and access to data. With the networking and streamlined communication modalities now available to businesses, businesses can collaborate with each other as well as within a business at different locations with the greatest of ease. Businesses also have access to a greater range of information and at a greater speed than ever before. And with this information being constantly updated, businesses now have the ability to plan in response to market conditions with much greater efficiency than before.

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Which of the following is assumed by Stevenson?
A) Most people do not like shopping at traditional retail stores.
B) Many businesses are reluctant to adopt the latest information technology.
C) Most consumers use the Internet primarily to buy goods.
D) The greatest benefit of information technology has been to businesses.
E) Many products are more efficiently sold online than in traditional stores.
Answer: E
Diff: 3 Type: MC
Skill: Analysis

2.3 True/False Questions

1) The external environment has only a limited impact on the success or failure of most organizations, but it does have a significant impact on some firms.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 25
Skill: Comprehension
Objective: 2.1

2) In the past, organizational boundaries were fairly clear-cut and easy to identify, but they have now become much more complex.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 25
Skill: Comprehension
Objective: 2.1

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3) Prevailing economic conditions affect mostly businesses that provide physical products, not businesses that provide intangible services.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 26
Skill: Knowledge
Objective: 2.2

4) Low inflation will allow McDonald's to increase the prices it charges consumers.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 26
Skill: Comprehension
Objective: 2.2

5) The standard of living in a country improves through increases in the money supply.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 27
Skill: Comprehension
Objective: 2.2

6) The business cycle consists of four phases: peak, recession, trough, and recovery.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 28
Skill: Knowledge
Objective: 2.2

7) GNP is the total value of all the goods and services produced by an economic system during a period, regardless of where the factors of production are located.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 28
Skill: Knowledge
Objective: 2.2

8) Canada's GDP in 2014 was approximately $6.4 trillion.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 28
Skill: Knowledge
Objective: 2.2

9) Profits from a Canadian-owned automobile factory in Brazil are included in the GDP of Brazil.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 28
Skill: Comprehension
Objective: 2.2

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10) GDP includes the total value of goods and services produced within a given period by a national economy through domestic factors of production.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 28
Skill: Knowledge
Objective: 2.2

11) The real growth rate of the Canadian economic system is the growth rate of GDP adjusted for inflation and changes in the value of a country's currency.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 28
Skill: Knowledge
Objective: 2.2

12) Real GDP is more important than nominal GDP.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 28
Skill: Comprehension
Objective: 2.2

13) Purchasing power parity is a principle that states exchange rates are set so that the prices of similar products in different countries are about the same.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 28
Skill: Knowledge
Objective: 2.2

14) A negative balance of trade results when a country imports more than it exports.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 29
Skill: Knowledge
Objective: 2.2

15) Canada is a usually a creditor nation, while the United States is a consistent debtor nation.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 29
Skill: Knowledge
Objective: 2.2

16) In 2014, Canada had a trade surplus of approximately $4.4 billion.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 29
Skill: Knowledge
Objective: 2.2

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17) Inflation is relevant only for specific industries.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 30
Skill: Comprehension
Objective: 2.2

18) Inflation causes an increase in the purchasing power of money.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 30
Skill: Knowledge
Objective: 2.2

19) The consumer price index (CPI) is a measure of the prices of typical products purchased by consumers.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 30
Skill: Knowledge
Objective: 2.2

20) The rise in housing and food prices means that Canadian consumers now spend a larger proportion of their income on necessities than they did 40 years ago.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 30
Skill: Comprehension
Objective: 2.2

21) Deflation is generally a positive thing for consumers because their dollars go further.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 30
Skill: Comprehension
Objective: 2.2

22) The "basket of goods" included in the Consumer Price Index has remained the same over the years so the government can make accurate year-to-year comparisons about the rate of inflation.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 30
Skill: Comprehension
Objective: 2.2

23) Ted has not worked in 5 years and has given up looking for work. He is considered unemployed.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 30
Skill: Comprehension
Objective: 2.2

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24) Full employment is impossible.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 30
Skill: Knowledge
Objective: 2.2

25) When unemployment is low, employers will tend to reduce the prices of their products.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 31
Skill: Comprehension
Objective: 2.2

26) When unemployment is low, businesses raise the wages that they are willing to pay.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 31
Skill: Comprehension
Objective: 2.2

27) Mary is temporarily out of work while she is looking for a new job. She is experiencing cyclical unemployment.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 30
Skill: Comprehension
Objective: 2.2

28) Mark is out of work because he lacks the skills needed to perform jobs that are available. He is experiencing structural unemployment.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 30
Skill: Comprehension
Objective: 2.2

29) The private sector accounts for about 80 percent of R&D expenditures.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 31
Skill: Knowledge
Objective: 2.3

30) Political stability is an important factor for international firms because no business wants to set up shop in another country unless trade relationships with that country are well defined and stable.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 33
Skill: Comprehension
Objective: 2.4

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31) The quality of relations between sovereign governments does not have much impact on businesses operating in those countries.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 33
Skill: Comprehension
Objective: 2.4

32) The socio-cultural environment includes things like attitudes and values, but not demographic factors because the latter cannot easily be changed.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 34
Skill: Comprehension
Objective: 2.5

33) Customer preferences must be taken into consideration across national boundaries, but not generally within the same country.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 34
Skill: Comprehension
Objective: 2.5

34) Porter's five forces model describes five important forces that cause managers to make mistakes when marketing new products.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 34
Skill: Comprehension
Objective: 2.5

35) Viral marketing uses word of mouth that spreads information like a virus from customer to customer.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 37
Skill: Knowledge
Objective: 2.6

36) A hostile takeover occurs when one organization buys enough of the shares of another company to take control of the company even though that company may be opposed to the takeover.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 38
Skill: Comprehension
Objective: 2.7

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37) When Molson and Adolph Coors merged, this was an example of a horizontal merger.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 38
Skill: Comprehension
Objective: 2.7

38) A poison pill is generally used in hostile takeovers to ensure that outsiders can't get any shares of stock.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 38
Skill: Comprehension
Objective: 2.7

39) In an acquisition, one firm simply buys another firm, whereas in a merger the consolidation is more collaborative.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 38
Skill: Comprehension
Objective: 2.7

40) The majority of companies that have adopted ESOPs have experienced improvement in both sales and profits.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 38
Skill: Knowledge
Objective: 2.7

2.4 Short Answer Questions

1) What is an *organizational boundary*?
Answer: An organizational boundary is that which separates the organization from its environment.
Diff: 2 Type: SA Page Ref: 25
Skill: Comprehension
Objective: 2.1

2) List the five dimensions of the external environment of business organizations.
Answer: The five dimensions are economic, technological, political-legal, socio-cultural, and business environments.
Diff: 2 Type: SA Page Ref: 26
Skill: Knowledge
Objective: 2.1

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3) There is a trend toward mixing business and entertainment. This is an example of which element of the external environment?
Answer: The trend toward mixing business and entertainment is an example of the influence of the sociocultural environment.
Diff: 2 Type: SA Page Ref: 26
Skill: Knowledge
Objective: 2.1

4) What is the main measure of growth in the business cycle?
Answer: The main measure of growth in the business cycle is aggregate output.
Diff: 2 Type: SA Page Ref: 27
Skill: Knowledge
Objective: 2.1

5) List the four phases in the business cycle.
Answer: The four phases are peak, recession, trough, and recovery.
Diff: 1 Type: SA Page Ref: 28
Skill: Knowledge
Objective: 2.2

6) What is a *recession*?
Answer: A recession is a period during which aggregate output declines.
Diff: 2 Type: SA Page Ref: 28
Skill: Comprehension
Objective: 2.2

7) How is *GDP per capita* calculated?
Answer: GDP per capita is calculated by dividing the total GDP by the total population of a country.

Diff: 2 Type: SA Page Ref: 28
Skill: Comprehension
Objective: 2.2

8) What is reflected in *real GDP*?
Answer: Real GDP is calculated to account for changes in currency values and price changes.
Diff: 2 Type: SA Page Ref: 28
Skill: Comprehension
Objective: 2.2

9) If a Danish company builds a production facility in Canada, will the value of the goods produced be included in Canada's GNP? Explain.
Answer: The value of the goods won't be included in Canada's GNP, but will be included in its GDP because they are produced domestically, that is, in Canada.
Diff: 2 Type: SA Page Ref: 28
Skill: Comprehension
Objective: 2.2

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10) What is productivity?
Answer: Productivity is a measure of economic growth that compares how much a system produces with the resources that are needed to produce it.
Diff: 2 Type: SA Page Ref: 29
Skill: Comprehension
Objective: 2.2

11) Explain purchasing power parity.
Answer: Purchasing power parity is the principle that exchange rates are set so that the prices of similar products in different countries are about the same.
Diff: 2 Type: SA Page Ref: 28
Skill: Comprehension
Objective: 2.2

12) Under what circumstances can inflation be a positive factor?
Answer: As a sign of economic growth, where more products are sold, more workers are hired, and more investment in new products is made.
Diff: 2 Type: SA Page Ref: 30
Skill: Comprehension
Objective: 2.2

13) What is the national debt?
Answer: The national debt is the amount of money a country owes its creditors. It is the result of accumulated annual budget deficits.
Diff: 1 Type: SA Page Ref: 29
Skill: Comprehension
Objective: 2.2

14) A key goal of an economic system is stability. What is meant by *stability* in an economic system?
Answer: Stability is a condition in which the amount of money available in an economic system and the quantity of goods and services produced in it are growing at about the same rate. Stability can be undermined by inflation and unemployment.
Diff: 1 Type: SA Page Ref: 30
Skill: Comprehension
Objective: 2.2

15) List the three primary factors that threaten economic stability.
Answer: Inflation, deflation, and unemployment are the three primary factors that threaten economic stability.
Diff: 1 Type: SA Page Ref: 30
Skill: Knowledge
Objective: 2.2

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16) What is measured by the consumer price index (CPI)?
Answer: The consumer price index measures the changes in the cost of a "basket" of goods and services that a typical family might buy.
Diff: 1 Type: SA Page Ref: 30
Skill: Comprehension
Objective: 2.2

17) Define the term *unemployment*.
Answer: Unemployment is the joblessness of people actively seeking work in an economic system.
Diff: 2 Type: SA Page Ref: 30
Skill: Knowledge
Objective: 2.2

18) What is *cyclical unemployment*?
Answer: Cyclical unemployment is unemployment that results from a downturn in the business cycle.
Diff: 2 Type: SA Page Ref: 30
Skill: Comprehension
Objective: 2.2

19) How does cyclical unemployment differ from frictional unemployment?
Answer: Cyclical unemployment results from a downturn in the business cycle, while frictional unemployment refers to people who are out of work temporarily while they are looking for a new job, irrespective of which phase the business cycle is in.
Diff: 2 Type: SA Page Ref: 30
Skill: Comprehension
Objective: 2.2

20) What is the difference between pure and applied R&D?
Answer: "Pure" R&D involves developing knowledge in an area without regard to whether any discoveries that occur will be immediately marketable. "Applied" R&D means focusing specifically on how a technological innovation can be sold in the marketplace.
Diff: 1 Type: SA Page Ref: 31
Skill: Comprehension
Objective: 2.3

21) Why are customer preferences and tastes important to business?
Answer: Tastes and preferences determine what products and services will sell in various geographic regions and among various ethnic groups in Canada.
Diff: 1 Type: SA Page Ref: 34
Skill: Comprehension
Objective: 2.5

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22) List the five forces in Porter's model.
Answer: Rivalry among existing competitors, threat of potential entrants, suppliers, buyers, and substitutes
Diff: 1 Type: SA Page Ref: 35
Skill: Knowledge
Objective: 2.6

23) What is meant by the term *core competencies*?
Answer: Core competencies are the skills and resources with which an organization competes best and creates the most values for owners.
Diff: 2 Type: SA Page Ref: 36
Skill: Comprehension
Objective: 2.6

24) What is *outsourcing*?
Answer: Outsourcing is a strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials or resources.
Diff: 2 Type: SA Page Ref: 36
Skill: Comprehension
Objective: 2.6

25) What is *business process management*?
Answer: A process is any activity that adds value to some input, transforming it into an output for a customer. Business process management means moving away from traditional organization by department and toward organizing around process-oriented team structures.
Diff: 2 Type: SA Page Ref: 37
Skill: Comprehension
Objective: 2.6

26) What is *viral marketing*?
Answer: The rapid spread of information among consumers about products. It is facilitated by electronic means such as the Internet.
Diff: 2 Type: SA Page Ref: 37
Skill: Comprehension
Objective: 2.6

27) How is a *vertical merger* different than a *horizontal merger*?
Answer: A vertical merger occurs when one of the companies involved in the merger is a supplier or customer of the other. A horizontal merger occurs when two companies that are competitors in the same industry merge (for example, when Molson Inc. merged with Adolph Coors Co.).
Diff: 2 Type: SA Page Ref: 38
Skill: Comprehension
Objective: 2.7

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28) What is a *poison pill*?
Answer: A poison pill is a defence that company management uses to make the company less attractive to another company that is trying to take it over. It usually takes the form of allowing current stockholders to buy the company's stock at a big discount if a hostile suitor buys more than a certain proportion of the outstanding stock.
Diff: 2 Type: SA Page Ref: 38
Skill: Comprehension
Objective: 2.7

2.5 Essay Questions

1) How does the external environment affect business?
Answer: All businesses operate within the context of a larger external environment. The external environment consists of everything outside a business's boundaries that might affect it. The domestic business environment refers to the environment in which a firm operates, conducting operations and generating revenues. The global business environment includes the international forces affecting a business. The technological environment refers to human knowledge, work methods, physical equipment, electronics and telecommunications, and various processing systems used to conduct a business. The relationship between business and government describes the political-legal environment. The sociocultural environment includes the customs, mores, values, and demographic characteristics of the society in which a business conducts operations. Finally, the economic environment refers to the economic conditions which exist in the economic system in which a company operates.
Diff: 2 Type: ES Page Ref: 26
Skill: Comprehension
Objective: 2.1

2) List and briefly describe each of the organizational environments that affect businesses.
Answer: The environments are (1) *economic* (the condition of the economic system in which the company operates), (2) *technological* (changes in the way that businesses create value for their customers), (3) *political-legal* (the relationship between businesses and government), (4) *socio-cultural* (the customs, values, attitudes, and demographics of the society in which a company operates), and (5) *business* (the complex, demanding, and ever-changing set of circumstances in which businesses try to differentiate themselves from their competitors).
Diff: 2 Type: ES Page Ref: 26
Skill: Comprehension
Objective: 2.1

3) How might an economic environment characterized by moderate unemployment and low inflation affect a McDonald's restaurant?
Answer: Moderate unemployment will result in most people being able to afford to eat out, but it also means that McDonald's must pay higher wages to attract employees. Low inflation will result in McDonald's paying relatively constant prices for its supplies, but it also means that McDonald's will be constrained from increasing the prices it charges.
Diff: 3 Type: ES Page Ref: 26
Skill: Comprehension
Objective: 2.2

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4) How does GNP differ from GDP? Give an example of a product that would be included in Canada's GNP, but not its GDP.
Answer: A nation's gross national product (GNP) measures the total value of all goods and services produced by its economy within a given period of time, regardless of where the factors of production are located. A nation's gross domestic product (GDP) measures the total value of all goods and services produced within a given period by a national economy through domestic factors of production. The profits earned by a Canadian-owned automobile plant operating in Brazil would be included in Canadian GNP, but not GDP.
Diff: 3 Type: ES Page Ref: 28
Skill: Comprehension
Objective: 2.2

5) How does the national debt affect economic growth?
Answer: A country's national debt is the amount of money that the government owes its creditors. The government raises money through taxes and the sale of bonds. By selling bonds, the government competes with other potential borrowers for the available supply of loanable money. The more the government borrows, the less money is available for the private borrowing and investment that increases productivity.
Diff: 3 Type: ES Page Ref: 29
Skill: Comprehension
Objective: 2.2

6) Explain the relationship between productivity and the standard of living.
Answer: Standard of living refers to the total quantity and quality of goods and services that people can purchase with the currency used by their economic system. Productivity is a measure of economic growth that compares how much a system produces with the resources needed to produce it. Standard of living improves only through increases in productivity.
Diff: 3 Type: ES Page Ref: 27-29
Skill: Comprehension
Objective: 2.2

7) What are the pros and cons of prolonged economic stability?
Answer: Pros: Balance, wages constant, low inflation, predictability, stable interest rates
Cons: Possible stagnation, less innovation, decreasing efficiency, job loss, slowed economy, high unemployment
Diff: 2 Type: ES Page Ref: 30
Skill: Comprehension
Objective: 2.2

8) New Vermont underwent a recession two years ago. How might New Vermont's aggregate output have been affected?
Answer: A recession is defined as a period during which aggregate output, as measured by GDP, declines. Therefore, New Vermont's aggregate output would have declined.
Diff: 2 Type: ES Page Ref: 27
Skill: Comprehension
Objective: 2.2

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9) What is inflation and how does it threaten economic stability?
Answer: Inflation occurs when there are widespread price increases throughout an economic system. During periods of inflation, the amount of money injected into an economy outstrips the increase in actual output. When this happens, people will have more money to spend, but there will still be the same quantity of products available for them to buy. As they compete with one another to buy available products, prices go up. Higher prices erase the increase in the amount of money injected into the economy and purchasing power declines.
Diff: 3 Type: ES Page Ref: 30
Skill: Comprehension
Objective: 2.2

10) How might the productivity of a company that is located in an island nation (e.g., Madagascar) be negatively affected?
Answer: Productivity is the measure of economic growth that compares how much a system produces with the resources needed to produce it. Because Madagascar's location may result in a less-than-optimum efficiency of imports and exports, manufacturers located there may be more dependent on local materials, which may not facilitate the highest levels of productivity.
Diff: 3 Type: ES Page Ref: 29
Skill: Comprehension
Objective: 2.2

11) How does inflation affect purchasing power?
Answer: Inflation is the occurrence of widespread price increases throughout an economic system. Purchasing power declines as a result of the increased prices associated with inflation.
Diff: 2 Type: ES Page Ref: 30
Skill: Comprehension
Objective: 2.2

12) What is unemployment? How does low unemployment threaten economic stability?
Answer: Unemployment is the joblessness of people actively seeking work in an economic system. While low unemployment might seem to be positive, it can threaten economic stability. When unemployment is low, there is a shortage of labour available for businesses to hire. As businesses compete with one another for the available supply of labour, businesses raise the wages that they are willing to pay. Because higher wages cut into profit margins, companies raise the prices of their products. While the increase in pay results in consumers having more money to spend, high prices offset any gain and purchasing power declines.
Diff: 3 Type: ES Page Ref: 30
Skill: Comprehension
Objective: 2.2

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13) How is the effectiveness of the government's attempts to manage Canada's economy measured? Briefly explain each tool.
Answer:
- GDP: value of all goods and services produced *in* a country
- GNP: value of all goods and services produced *by* a country
- Productivity: a measure of efficiency
- Standard of living: a measure of a society's economic well-being
- Balance of trade: exports minus imports.
Diff: 2 Type: ES Page Ref: 31
Skill: Comprehension
Objective: 2.2

14) List and describe the three factors that threaten stability.
Answer: The three factors are inflation (the occurrence of widespread price increases throughout an economic system), deflation (a period of generally falling prices), and unemployment (the level of joblessness among people actively seeking work in an economic system).
Diff: 1 Type: ES Page Ref: 30
Skill: Comprehension
Objective: 2.2

15) List and discuss the four different types of unemployment, using examples to demonstrate the different types.
Answer: (1) Frictional unemployment (people are unemployed while they search for a new job), (2) seasonal unemployment (people are unemployed because of the seasonal nature of their work), (3) cyclical unemployment (people are unemployed because of a downturn in the business cycle), and (4) structural unemployment (people are unemployed because they do not have the specific skills the market requires). For example, farm workers may be out of work during the winter because there are no crops to harvest (seasonal unemployment). Computer workers may be unemployed because they do not have certain software or hardware skills that the market demands (structural unemployment). Some people are unemployed because they have quit their current job because they were dissatisfied with it, but they haven't yet found another job (frictional unemployment). Some people are unemployed because they have been laid off from their job because of a downturn in the business cycle (cyclical unemployment).
Diff: 2 Type: ES Page Ref: 30
Skill: Comprehension
Objective: 2.2

16) Why should companies always be on the lookout for technological breakthroughs?
Answer: There are two good reasons. First, technological breakthroughs might allow a company to develop new products to supplement its current product offerings. The new product may well contribute to increased profits. Second, a technological breakthrough may make one or more of a company's current product line obsolete and threaten its very survival.
Diff: 2 Type: ES Page Ref: 32
Skill: Comprehension
Objective: 2.3

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17) Why is it important for businesses to be aware of trends in the political?legal environment?
Answer: There are several reasons why it is important for businesses to be aware of trends in the political-legal environment. First, the legal system defines in part what an organization can and can't do. Various government agencies regulate important areas such as advertising practices, safety and health considerations, and acceptable standards of business conduct. Periods of pro-business sentiment may result in less regulation, while periods of anti-business sentiment may result in greater restriction in competitive activities. Finally, political stability is also an important consideration, especially for international firms.
Diff: 3 Type: ES Page Ref: 33
Skill: Comprehension
Objective: 2.4

18) Why is the socio-cultural environment important for business firms?
Answer: It is important because the values, attitudes, tastes, customs, and demographic characteristics of a society strongly influence what products or services a company can profitably sell to consumers. For example, failure to accurately assess consumer tastes will lead to poor sales and reduced profitability. Unethical behaviour by a company's managers will lead to a poor public image for the company and may very well result in decreased sales and profits.
Diff: 3 Type: ES Page Ref: 34
Skill: Comprehension
Objective: 2.5

19) How is Porter's five forces model useful?
Answer: Porter's model helps managers analyze the competitive situation in their industry and then decide what their competitive strategy should be. Using the model requires assessment of five elements: rivalry among existing competitors (intensity and type varies across industries), the threat of potential new entrants (new competitors can cause big changes in an industry), the amount of bargaining power that suppliers have (the greater the number of suppliers, the less their individual bargaining power), the amount of bargaining power that buyers have (the fewer the number of buyers, the more their bargaining power), and product substitutes (if there are many substitute products, the industry is more competitive).
Diff: 3 Type: ES Page Ref: 34
Skill: Comprehension
Objective: 2.6

20) What is *outsourcing*? Give an example of outsourcing.
Answer: Outsourcing is the strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and services. A large bank might outsource an ancillary service such as food service. Other firms outsource payroll, training, and research and development functions.
Diff: 3 Type: ES Page Ref: 36
Skill: Comprehension
Objective: 2.6

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21) Describe three advantages of *outsourcing*.
Answer: Outsourcing provides a number of advantages to organizations. Outsourcing often saves time and money, increases effectiveness in a firm's core business, and results in more value for customers and owners.
Diff: 3 Type: ES Page Ref: 36
Skill: Comprehension
Objective: 2.6

22) What is *viral marketing*? Why do firms use it?
Answer: Viral marketing is the strategy of using the Internet and word-of-mouth marketing to spread product information. Viral marketing can gain consumer awareness faster, with a wider reach than traditional media messages, and at a lower cost.
Diff: 2 Type: ES Page Ref: 37
Skill: Comprehension
Objective: 2.6

23) Why is business process management important?
Answer: It is important because it requires a business to ask a very fundamental question: What must we do well to stay in business? To answer that question, a business must identify the major processes that must be performed well, and then organize resources and skills around those essential processes. This leads to faster decision making and a stronger customer orientation.
Diff: 3 Type: ES Page Ref: 37
Skill: Comprehension
Objective: 2.6

24) What is a *vertical* merger? Provide an example.
Answer: A vertical merger occurs when there is a consolidation of two firms and one of the firms is a supplier or customer of the other. An example would include a car manufacturer merging with one of its parts suppliers.
Diff: 3 Type: ES Page Ref: 38
Skill: Comprehension
Objective: 2.7

25) How does a *poison pill* work?
Answer: A poison pill is a defence used to make a firm less attractive to an actual or potential hostile suitor in a takeover attempt. The objective is to make the "pill" so distasteful that the potential acquirer will not want to swallow it. For example, BCE allowed its shareholders to purchase BCE stock at a 50 percent discount if another organization announced its intention to purchase 20 percent or more of BCE.
Diff: 3 Type: ES Page Ref: 38
Skill: Comprehension
Objective: 2.7

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