Business Environment Themes and Issues in a Globalizing World 4th edition Wetherly Test Bank

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Type: essay/short answer question
Title: Chapter 2 - Question 01
01) Explain what is meant by the economic problem and show how economic efficiency relates to its three parts.
Feedback: Describe the problem of scarcity—limited resources but unlimited needs and wants.

Describe and explain the three parts of the economic problem in terms of allocation, production, and distribution.

Show how efficiency then needs to relate to allocation, production, and distribution, and how we might measure the degree to which it has been achieved.

Page reference: 36–9

Type: essay/short answer question
Title: Chapter 2 - Question 02
02) Define what is meant by 'market failure' and show the circumstances in which this might occur.
Feedback: Describe the operation of market forces in terms of allocation, production, and distribution decisions.

Show how, in relation to allocation, market failure might occur in not providing merit goods, public goods, or in failing to take into account externalities.

Show how there may be problems in production as a result of monopolies, destructive competition, market instability, long-term projects, and risk and uncertainty.

Show how distribution issues are important, and that if there is inequity then this is a problem.

Page reference: 58–61

Type: essay/short answer question
Title: Chapter 2 - Question 03
03) Explain what is meant by the term 'price elasticity of demand', and show with examples how differences in the price elasticity of demand faced by firms will influence their behaviour.
Feedback: Define and explain the nature of the price elasticity of demand.

Explain the degrees of price elasticity and the determinants of these.

Show how the behaviour of firms will depend on the nature of the degree of elasticity. In general, if markets are competitive then there will be incentives for firms to cut prices, but the reverse is true if markets are not competitive.

Page reference: 55–7

Type: essay/short answer question
Title: Chapter 2 - Question 04
04) Explain why there was a widespread adoption of neoclassical and neoliberal policies across the global economy from the mid 1970s onwards. What are seen as the main weaknesses of this approach to economic policy?
Feedback: Explain the context in which neoclassical policy came to prominence in the mid 1970s (i.e. the perceived failure of the Keynesian welfare consensus in the 'first world' and the collapse of communism in the 'second world', as opposed to the success of the Asian economies).

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Explain the main features of the neoclassical view (i.e. the belief in markets; this can be related back to the discussion of how—in theory—markets work).

The main arguments against this perspective (i.e. inequality and lack of financial regulation; again, this can be related back to the discussion about the potential problems of the free market).

Page reference: 43–5 and 58–64

Type: essay/short answer question
Title: Chapter 2 - Question 05
05) To what extent is there agreement that the 2008 global financial crisis was the result of insufficient attention being paid to government regulation? What actions are needed to reform the global financial system?
Feedback: Explain the origins of the 2008 financial crisis.

What are the broad areas of agreement as to the causes of this crisis?

What types of support then should governments provide at both the national and global level?

Page reference: 65–6

Type: multiple choice question
Title: Chapter 2 - Question 06
06) The opportunity cost of an individual's decision to allocate a fixed amount of resources to an activity is best described as:
a. The value to the individual of that activity
Feedback: Opportunity cost can only be measured in terms of what was given up in order to undertake a particular economic activity. Value to both individuals and society is subjective and monetary cost is irrelevant when assessing opportunity cost. Our focus is on resource use and so we measure opportunity cost in terms of what the next best activity could have been.
Page reference: 37
b. The costs to society of that activity
Feedback: Opportunity cost can only be measured in terms of what was given up in order to undertake a particular economic activity. Value to both individuals and society is subjective and monetary cost is irrelevant when assessing opportunity cost. Our focus is on resource use and so we measure opportunity cost in terms of what the next best activity could have been.
Page reference: 37
*__c.__ The value of the next best activity forgone
Feedback: Opportunity cost can only be measured in terms of what was given up in order to undertake a particular economic activity. Value to both individuals and society is subjective and monetary cost is irrelevant when assessing opportunity cost. Our focus is on resource use and so we measure opportunity cost in terms of what the next best activity could have been.
Page reference: 37
d. The monetary costs of that activity
Feedback: Opportunity cost can only be measured in terms of what was given up in order to undertake a particular economic activity. Value to both individuals and society is subjective and monetary cost is irrelevant when assessing opportunity cost. Our focus is on resource use and so we measure opportunity cost in terms of what the next best activity could have been.
Page reference: 37

Type: multiple choice question
Title: Chapter 2 - Question 07
07) Which of the following is **not** universally accepted as being a reason for legitimate government policy?

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a. The provision of merit goods
Feedback: Incorrect. Merit goods are widely seen as an area in which governments should intervene to ensure adequate provision.
Page reference: 58
b. The provision of public goods
Feedback: Incorrect. It is widely accepted that markets cannot provide public goods so the state needs to take action to make sure that they are provided.
Page reference: 59
c. The need to take account of externalities
Feedback: Incorrect. If there are social costs or benefits then it is acknowledged that governments need to intervene to either cut back on provision of commodities which incur social costs or increase the provision of those which provide social benefits.
Page reference: 59
***d.** Very high taxation rates on the richer members of society
Feedback: While many critics do argue that the rich should pay higher taxes to provide for the benefits that the government might provide for the poor, neoclassical critics feel that tax rates that are too high can deter the incentives that are needed for entrepreneurs to operate and provide the business opportunities that benefit all of society.
Page reference: 62

Type: multiple choice question
Title: Chapter 2 - Question 08
08) If the demand for a good is relatively price elastic and its price falls the revenue will:
a. Fall
Feedback: If the price elasticity of demand is elastic and the price falls then the rise in demand will be greater than the fall in price and so the revenue will rise.
Page reference: 56–7
b. Remain constant
Feedback: If the price elasticity of demand is elastic and the price falls then the rise in demand will be greater than the fall in price and so the revenue will rise.
Page reference: 56–7
***c.** Rise
Feedback: If the price elasticity of demand is elastic and the price falls then the rise in demand will be greater than the fall in price and so the revenue will rise.
Page reference: 56–7
d. None of the above
Feedback: If the price elasticity of demand is elastic and the price falls then the rise in demand will be greater than the fall in price and so the revenue will rise.
Page reference: 56–7

Type: multiple choice question
Title: Chapter 2 - Question 09
09) Which of the following would indicate that markets are operating efficiently?
***a.** Consumer sovereignty is being achieved
Feedback: If there is consumer sovereignty then consumers are getting value for money. If firms are making high profits this may be because they are exploiting consumers as a result of monopoly power. A rise in money values does not mean that there are more resources available and if incomes are distributed equally this will mean that people may lack the incentives to work harder or take risks. It is argued that it is not equality that economic systems should seek to achieve but equity.
Page reference: 44–5
b. Firms are making a high level of profits
Feedback: If there is consumer sovereignty then consumers are getting value for money. If firms are making high profits this may be because they are exploiting consumers as a result of monopoly power. A rise in money values does not mean that there are more resources available and if incomes are distributed equally this will mean that people may lack the incentives to work harder or take risks. It is argued that it is not equality that economic systems should seek to achieve but equity.

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Page reference: 44–5
c. There is a constant rise in the money value of goods and services
Feedback: If there is consumer sovereignty then consumers are getting value for money. If firms are making high profits this may be because they are exploiting consumers as a result of monopoly power. A rise in money values does not mean that there are more resources available and if incomes are distributed equally this will mean that people may lack the incentives to work harder or take risks. It is argued that it is not equality that economic systems should seek to achieve but equity.
Page reference: 44–5
d. Incomes are distributed equally across all people
Feedback: If there is consumer sovereignty then consumers are getting value for money. If firms are making high profits this may be because they are exploiting consumers as a result of monopoly power. A rise in money values does not mean that there are more resources available and if incomes are distributed equally this will mean that people may lack the incentives to work harder or take risks. It is argued that it is not equality that economic systems should seek to achieve but equity.
Page reference: 44–5

Type: multiple choice question
Title: Chapter 2 - Question 10
10) Which of the following activities in the supply chain for automobiles is an example of a service activity?
a. Production of the rubber for the tyres
Feedback: Production of rubber is a primary activity and the manufacture of the tyres and the assembly takes place at the secondary stage. The retailing of the car is a service activity.
Page reference: 58
b. The production of the tyres themselves
Feedback: Production of rubber is a primary activity and the manufacture of the tyres and the assembly takes place at the secondary stage. The retailing of the car is a service activity.
Page reference: 58
c. The assembly of all the car components into a finished motor car
Feedback: Production of rubber is a primary activity and the manufacture of the tyres and the assembly takes place at the secondary stage. The retailing of the car is a service activity.
Page reference: 58
*__d.__ The selling of the car through a motor sales dealership
Feedback: Production of rubber is a primary activity and the manufacture of the tyres and the assembly takes place at the secondary stage. The retailing of the car is a service activity.
Page reference: 58

Type: multiple response question
Title: Chapter 2 - Question 11
11) Which of the following are examples of an externality? Please select all that apply.
Feedback: Externalities can be either negative or positive. They are costs/benefits that are incurred but are not reflected in the market price of a commodity. In the case of the cost to a cigarette smoker of a packet of cigarettes and the cost of petrol to a motorist, the costs are the individual costs and reflect the private benefit gained by the cigarette smoker or car user. When considering the noise levels for households who live near airports there is a negative externality as a result of the actions of the producers and consumers of air travel. This will probably lower house price values in these areas. In terms of the effect on the value of homes for existing homeowners of an increase in the reputation of schools in the neighbourhood, there is a positive benefit to householders, as house prices will probably rise as families try to move into the area.
Page reference: 59
a. The cost to a cigarette smoker of a packet of cigarettes
*__b.__ Noise levels for households who live near airports
*__c.__ The effect on the value of homes for existing homeowners of an increase in the reputation of schools in the neighbourhood
d. The cost of petrol to a motorist

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Type: multiple response question
Title: Chapter 2 - Question 12
12) Which of the following businesses can be best described as being in the primary sector? Please select all that apply.
Feedback: This question is about the categorization of different sectors in terms of business activity. Both a farm and an oil rig provide raw materials—i.e. foodstuff and oil—and so can be considered to be part of the primary sector.
Page reference: 58
***a.** A farm
***b.** An oil rig
c. A supermarket
d. A bank

Type: multiple response question
Title: Chapter 2 - Question 13
13) If as a result of a 5 per cent rise in price demand falls by 10 per cent, which of the following statements is correct? Please select all that apply.
Feedback: The elasticity of demand is elastic, and using the formula percentage change in the quantity demanded/percentage change in price, we can see that its value is −2. This means that since price has risen by 5 per cent but demand has fallen by 10 per cent, the overall revenue will fall. If the firm was trading in an uncompetitive market then it is likely that the price elasticity will be inelastic.
Page reference: 56−7
***a.** The price elasticity of demand is elastic
***b.** The price elasticity of demand is −2
***c.** The revenue for the firm will fall
d. It is likely that the firm is operating in an uncompetitive market

Type: multiple response question
Title: Chapter 2 - Question 14
14) If there was a shortage in a particular market, which of the following is least likely to happen if the market is allowed to operate freely? Please select all that apply.
Feedback: In a free market, if demand is greater than supply, prices will rise. This will act to both reduce demand and increase supply until supply matches demand. Thus it is most likely that prices would rise to choke off the excess demand, and, in the long run, supply would increase to eradicate the shortage. In this way, there is no need for permanent black markets, and if there is a shortage, prices are not likely to fall.
Page reference: 52−3
***a.** A permanent black market would form
b. Prices would rise to choke off the excess demand
c. In the long run supply would increase to eradicate the shortage
***d.** Prices will fall

Type: multiple response question
Title: Chapter 2 - Question 15
15) Which of the following are the most likely characteristics of a market which has a high degree of monopoly power? Please select all that apply.
Feedback: Monopoly power is a threat to allocative, productive, and distributive efficiency and so most governments seek to control and curb monopoly power.
Page reference: 55 and 59
***a.** Prices will be high and allocative efficiency will not be evident
***b.** Productive efficiency will not be attained
***c.** The elasticity of demand for the product will be relatively inelastic
***d.** There will be very large profits

Type: true/false
Title: Chapter 2 - Question 16
16) Assume that a person has sufficient resources to consume either A, B, or C, and chooses C. The opportunity cost of C is A and B.

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a. True
Feedback: The opportunity cost is the cost of the next most desirable alternative and not the cost of all possible alternatives.
Page reference: 37
***b.** False
Feedback: If C is chosen then the opportunity cost is either the cost of not having A or the cost of not having B. If the next most desirable alternative was B then the opportunity cost of C is B.
Page reference: 37

Type: true/false
Title: Chapter 2 - Question 17
17) The basic economic problem is simply that we haven't got enough money to do all the things that we want.
a. True
Feedback: It isn't money itself that is scarce but resources. If resources are limited and money increases this does not lead to an increase in resources, but simply a rise in their money value. In Chapter 6, we see that this is simply inflation.
Page reference: 37–8
***b.** False
Feedback: The economic problem arises from the scarcity of resources and these are labour, land, capital, and enterprise. Money in and of itself has no value unless it can be used to get hold of resources.
Page reference: 37–8

Type: true/false
Title: Chapter 2 - Question 18
18) Economic efficiency has to encompass the three parts to the economic problem.
***a.** True
Feedback: Economic efficiency is defined in terms of allocation, production, and distribution, and for an economy to be truly efficient it must achieve efficiency in all three areas.
Page reference: 38
b. False
Feedback: Economic efficiency is defined in terms of allocation, production, and distribution, and for an economy to be truly efficient it must achieve efficiency in all three areas.
Page reference: 38

Type: true/false
Title: Chapter 2 - Question 19
19) If revenue from sales of a product increases as a result of an increase in price, then the price elasticity of demand for the product must be relatively inelastic.
***a.** True
Feedback: If price elasticity of demand is relatively inelastic, then if its price rises the demand will fall—but by a smaller percentage—and so revenue will rise.
Page reference: 56–7
b. False
Feedback: Price elasticity of demand will affect the revenue of a firm if it changes price. If it is inelastic and price rises then revenue will rise. In this case, although demand falls the percentage fall is lower than the percentage rise in price. Since revenue is price X sales, revenue rises. If it is inelastic and price falls then revenue will fall since here the percentage rise in demand will be less than the percentage fall in price and so overall revenue falls.
Page reference: 56–7

Type: true/false
Title: Chapter 2 - Question 20
20) As incomes rise we would expect there be a greater percentage of this spent on services than on primary goods.
***a.** True

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Feedback: The income elasticity of demand for services is relatively elastic and that for primary goods relatively inelastic.
Page reference: 58
b. False
Feedback: As incomes increase we spend a greater percentage of our incomes on services and a smaller percentage on primary goods.
Page reference: 58

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