Contemporary Business 19th edition Boone Test Bank

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Chapter Number: 2

Question type: Multiple Choice

1) Attempting to bring about changes in economic activity through changes in the size of the nation's money supply is called _____.

a) fiscal policy
b) monetary policy
c) supply
d) microeconomics

Answer: b

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Knowledge

2) _____ is an economic situation characterized by price increases that reduce the amount of goods and services people can purchase with a given amount of money.

a) The consumer price index (CPI)
b) Inflation
c) Equilibrium price
d) Recession

Answer: b

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB ‖ Analytic
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3) _____ measures the monthly average change in prices of goods and services.

a) The consumer price index (CPI)
b) Inflation
c) Equilibrium price
d) Demand

Answer: a

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Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
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4) The amount of goods and services for sale at different prices is known as _____.

a) the consumer price index (CPI)
b) equilibrium price
c) supply
d) demand

Answer: c

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
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5) _____ is the relationship between the goods and services produced in a nation each year and the inputs needed to produce them.

a) Gross domestic product (GDP)
b) Supply
c) Demand
d) Productivity

Answer: d

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
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6) If the government spends more than the amount of money it raises through taxes, then a(n) _____ occurs.

a) inflation
b) budget deficit

c) Productivity

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d) recession

Answer: b

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
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7) During a(n) _____, consumers frequently postpone major purchases and shift buying patterns toward basic, functional products carrying low prices.

a) Inflation
b) budget deficit
c) recession
d) monopoly

Answer: c

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
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8) _____ is the sum of all goods and services produced within a country's borders.

a) Gross domestic product (GDP)
b) Equilibrium price
c) Supply
d) Productivity

Answer: a

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
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9) _____ is a market structure characterized by relatively few sellers and barriers to entry resulting from high start-up costs.

a) Fiscal policy
b) Pure competition

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c) Oligopoly
d) Monopoly

Answer: c

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

10) The study of small economic units, such as individual consumers, families, and businesses, is called _____.

a) the consumer Price Index (CPI)
b) monetary policy
c) demand
d) microeconomics

Answer: d

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

11) The use of government tax and spending policies to bring about desired changes in the economy is called _____.

a) gross domestic product (GDP)
b) fiscal policy
c) monetary policy
d) productivity

Answer: b

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
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12) _____ is a market structure in which large number of buyers and sellers exchange homogenous products and no single participant has a significant influence on price.

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a) Equilibrium price
b) Pure competition
c) Oligopoly
d) Monopoly

Answer: b

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
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13) _____ refers to the willingness and ability of buyers to purchase goods and services at different prices.

a) Equilibrium price
b) Supply
c) Demand
d) Productivity

Answer: c

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
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14) In a(n) _____, a single seller dominates trade in a product for which buyers can find no close substitutes.

a) pure competition
b) recession
c) oligopoly
d) monopoly

Answer: d

Difficulty: Easy
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15) The point where the supply and demand curves intersect is the _____.

a) the consumer Price Index (CPI)
b) equilibrium price
c) supply
d) demand

Answer: b

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
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16) _____ refers to the willingness and ability of buyers to purchase goods and services at different prices.

a) Socialism
b) Supply
c) Capitalism
d) Demand

Answer: d

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
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17) Which of the following best describes the study of macroeconomics? It is:

a) concerned with studying a country's overall economic issues
b) primarily concerned with the economic choices and decisions of individual consumers
c) not related to microeconomics
d) not related to government decisions concerning spending and taxes

Answer: a

Difficulty: Easy

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18) An economist studies the consumer behavior in a particular area. This is an example of _____.

a) microeconomics
b) macroeconomics
c) sociology
d) psychology

Answer: a

Difficulty: Easy
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19) As price of a good or service increases, in general, the quantity demanded _____.

a) declines
b) remains the same irrespective of the product type
c) increases
d) first increases and then decreases irrespective of the product type

Answer: a

Difficulty: Easy
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20) If the number of buyers decreases, the demand curve will shift to the _____ and the price will ____.

a) left; fall
b) right; fall
c) right; rise
d) left; rise

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Answer: a

Difficulty: Medium
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21) The demand curve will shift to the _____ and the prices will _____, if buyers' incomes increase.

a) right; rise
b) left; fall
c) right; fall
d) left; rise

Answer: a

Difficulty: Medium
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22) If the prices of substitute goods decrease, the demand curve will shift to the _____ and the price will _____.

a) right; fall
b) left; fall
c) right; rise
d) left; rise

Answer: b

Difficulty: Medium
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23) A demand curve will shift to the left if the _____.

a) number of buyers increases

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b) future expectations become more optimistic
c) buyers' incomes decrease
d) prices of substitute goods increase

Answer: c

Difficulty: Easy
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24) Which of these best describes a graph showing the amount of a product that buyers will purchase at different prices?

a) Production possibility curve
b) Supply curve
c) Utility curve
d) Demand curve

Answer: d

Difficulty: Easy
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25) Which of the following is an implication of demand curves sloping downward?

a) Buyers will purchase greater quantities of a good or service as its price falls.
b) Sellers will supply greater quantities of a good or service as its price increases.
c) Buyers will purchase greater quantities of a good or service as their incomes fall.
d) Sellers will supply greater quantities of a good or service as taxes increase.

Answer: a

Difficulty: Medium
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26) A demand curve is the schedule that shows the relationship between the price of a product and the _____.

a) overhead costs
b) social costs
c) quantity of that product buyers will purchase
d) quantity of that product manufacturers will supply

Answer: c

Difficulty: Easy
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27) The supply curve will shift left when _____.

a) suppliers in the market increase
b) taxes increase
c) the costs of technologies decrease
d) the costs of inputs decrease

Answer: b

Difficulty: Medium
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28) During an epidemic, the price of surgical masks increased. Which of the following is most likely to have been a consequence of this increase in price?

a) Decrease in the demand for surgical masks
b) Increase in the tax on surgical masks
c) Increase in the supply of surgical masks
d) Decrease in the profits from selling surgical masks

Answer: c

Difficulty: Medium
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29) Which of these is caused by an increase in consumers' incomes?

a) Break-even point to shift to the right
b) Demand curve to shift to the right
c) Break-even point to shift to the left
d) Demand curve to shift to the left

Answer: b

Difficulty: Medium
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30) Which of these happens, according to a supply curve?

a) As prices rise, quantity of a product supplied falls
b) As prices fall, consumers will buy in smaller quantities
c) As prices rise, the quantity of a product that is supplied also rises
d) As prices rise, consumers will buy in larger quantities

Answer: c

Difficulty: Medium
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31) If the cost of producing a good or service increases, the supply curve will shift to the _____ and the price will _____.

a) right; fall
b) right; rise
c) left; fall
d) left; rise

Answer: d

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Difficulty: Medium
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32) As the number of suppliers of a product increases, the supply curve shifts to the _____ and the price will _____.

a) right; fall
b) right; rise
c) left; fall
d) left; rise

Answer: a

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
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33) Assume that the price of gasoline triples. What will likely happen to the demand for fuel-efficient small cars? The demand curve will shift to the _____ and demand will _____.

a) right; decrease
b) left; increase
c) right; increase
d) left; decrease

Answer: c

Difficulty: Medium
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34) Under which of the following conditions, is the equilibrium price is established?

a) Prevailing market price of an item is same as the price at which a consumer can buy the item
b) Demand curve and the supply curve are parallel to each other
c) Opportunity cost of a product is greater than its production cost

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d) Production cost of an item is greater than its selling price

Answer: a

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35) What are the three major types of economic systems?

a) Collectivism, developed economies, and oligopoly
b) Individualism, developing economies, and duopoly
c) Ethnocentrism, cultural relativism, and polycentrism
d) Capitalism, planned economies, and mixed economies

Answer: d

Difficulty: Easy
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36) Most industrialized nations operate economies based on _____.

a) planned economies
b) private enterprise systems
c) communist systems
d) socialist systems

Answer: b

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
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37) In which of the following types of economic systems do entrepreneurs and investors have the most amount of freedom with regard to controlling business ownership, profits, and resource allocations?

a) Socialism

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b) Capitalism
c) Communism
d) Mixed economy

Answer: b

Difficulty: Easy
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38) In which of these systems are incentives to motivate employees to perform at their highest level?

a) Capitalist
b) Communist
c) Socialist
d) Collectivist

Answer: a

Difficulty: Easy
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39) Which of the following is considered to be the BEST example of pure competition in today's business environment?

a) The steel industry
b) The market for pet food
c) The fishing industry
d) The paper industry

Answer: c

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
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40) Quinn cultivates and sells sugarcane to a sugar manufacturing company. Brett is a retailer for pet food. Which of the following is a difference between Quinn's and Brett's businesses?

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a) Unlike Brett, Quinn has very few competitors.
b) Unlike Brett, Quinn is eligible for tax exemptions.
c) Unlike Brett, Quinn has no control over the pricing of his product.
d) Unlike Brett, Quinn can patent his product.

Answer: c

Difficulty: Medium
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
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41) A particular industry has many competitors, each of whom has no significant control over price. In addition, it is fairly easy to enter the industry. This industry is an example of _____.

a) pure competition
b) monopolistic competition
c) an oligopoly
d) a pure monopoly

Answer: a

Difficulty: Medium
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42) Global Flowers Inc. (GFI), an exporter of flowers across the globe, operates in an industry where there are many sellers and buyers. This makes it difficult for any one single seller or buyer to influence the market price of the flowers. Also, it is difficult for sellers or exporters to differentiate their products from each other. What type of market structure does this illustrate?

a) Oligopoly
b) Pure competition
c) Monopoly
d) Monopolistic competition

Answer: b

Difficulty: Medium
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Standard 2: Bloom's || Application

43) Ogechi ventures into a new business with few competitors and requires a huge investment. Soon after entering the business, one of Ogechi's competitors introduces a price cut that forces Ogechi to reduce the prices of her products as well. In this scenario, Ogechi has ventured into _____.

a) oligopoly
b) pure competition
c) monopoly
d) monopolistic competition

Answer: a

Difficulty: Medium
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
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44) Monopolistic competition has _____.

a) many buyers and sellers, who have some control over price
b) few sellers, but only one major buyer
c) many sellers, who sell a homogeneous product
d) no barriers to keep out new competitors

Answer: a

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
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45) Consumers can choose from hundreds of different kinds and producers of cheese, each with a slightly different flavor and texture. This type of market structure is known as _____.

a) pure competition
b) monopolistic competition
c) a monopoly
d) an oligopoly

Answer: b

Difficulty: Medium

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Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
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46) Pure competition is different form monopolistic competition in that _____.

a) buyers in pure competition see little difference between the goods offered by competitors
b) new competitors cannot easily enter a purely competitive market
c) buyers in monopolistic competition have no control over prices
d) sellers in monopolistic competition can never exit the industry

Answer: a

Difficulty: Easy
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47) A particular industry has only a few competitors, who have some control over price. However, high start-up costs make entry into the industry difficult. This industry is an example of _____.

a) pure competition
b) monopolistic competition
c) an oligopoly
d) a pure monopoly

Answer: c

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
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48) Which of the following best describes an industry where there is no direct competition, yet a firm operating in such an industry will have almost no control over pricing?

a) Monopolistic competition
b) A regulated monopoly
c) An oligopoly
d) Pure competition

Answer: b

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49) Among the types of competition in a private enterprise system, control over price by individual firms is high in a(n) _____.

a) mixed economy
b) regulated monopoly
c) oligopoly
d) pure monopoly

Answer: d

Difficulty: Easy
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50) Sharp Looks Inc. (SLI) is the sole supplier of cosmetic nose implants. Which of the following market structures does SLI exhibit?

a) Pure competition
b) Monopolistic competition
c) Oligopoly
d) Monopoly

Answer: d

Difficulty: Medium
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51) In which of these, a local, state, or federal government grants exclusive rights in a certain market to a single firm.

a) Pure competition
b) Oligopolies
c) Regulated monopolies
d) Monopolistic competition

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Answer: c

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52) The state of Brookcliff has granted exclusive rights to the BC Electricity Board for the supply of electricity. This is an example of a(n) _____.

a) fiscal policy
b) regulated monopoly
c) mixed market economy
d) oligopoly

Answer: b

Difficulty: Medium
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53) Before the patent on its allergy medicine expired, Ingles Pharma Inc. (IPI) was able to set its own market price for the drug. From which type of market structure did the company benefit?

a) Oligopoly
b) Pure competition
c) Monopolistic competition
d) Monopoly

Answer: d

Difficulty: Medium
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54) _____ is an economic system in which private property is eliminated.

a) Socialism
b) Capitalism
c) Individualism

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d) Communism

Answer: d

Difficulty: Easy
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55) Under the economic system of communism, _____.

a) individual rights to profits are not allowed
b) government interference is limited
c) employees have the complete freedom to choose their own occupation
d) businesses are owned by individuals

Answer: a

Difficulty: Easy
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56) Which of the following is an economic system in which the government owns all of a nation's major industries but still allows private ownership in less crucial areas?

a) Communism
b) Socialism
c) Capitalism
d) Ethnocentrism

Answer: b

Difficulty: Easy
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57) In the country of ABC, the government owns the public transportation, basic services like energy supply and communication, and the core manufacturing firms. Small businesses are privately owned. What type of economic system does ABC have?

a) Capitalism

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b) Communism
c) Socialism
d) Individualism

Answer: c

Difficulty: Medium
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Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

58) United States of Mahan (USM) is a nation in which industries like steel, communications, electricity, railways, education, and health care are owned by the government. The leaders of the nation believe that it is detrimental to the public's interest to allow such core industries to be owned by private firms. However, private ownership is encouraged in industries like restaurants, entertainment, and retail shops, which have a lower impact on social welfare. Which of the following economic systems has USM adopted?

a) Capitalism
b) Socialism
c) Individualism
d) Communism

Answer: b

Difficulty: Medium
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59) _____ has a blend of both planned economy and private enterprise system.

a) Capitalism
b) Communism
c) A mixed market economy
d) A free market economy

Answer: c

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

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60) A country has a strong private sector, along with publicly-owned enterprises. Entrepreneurs and private-sector investors are entitled to profits after paying taxes, and even state-owned enterprises are expected to generate returns. What type of economic system does this country have?

a) Mixed market economy
b) Communism
c) Socialism
d) Self-managed economy

Answer: a

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

61) If United States were to consider converting the U.S. Postal Service into a privately held business, it would be an example of _____.

a) nationalization
b) government appropriation
c) commercialization
d) privatization

Answer: d

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

62) During an economic recession, consumer spending _____ and unemployment _____.

a) increases; increases
b) increases; decreases
c) decreases; increases
d) decreases; decreases

Answer: c

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.

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Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

63) During an economic recession _____.

a) unemployment begins to decline as business activity accelerates
b) businesses expand by hiring more employees
c) people turn to lower-priced retailers for the goods they need
d) consumer confidence about the future is optimistic

Answer: c

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

64) During a recession, which of the following businesses is most likely to do well?

a) North Sun Ships, a luxury cruise service
b) Red Couture Inc., a designer store for clothes and accessories
c) Save Market, a chain of discount stores
d) Ink Theory, a store that sells premium pens

Answer: c

Difficulty: Medium
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

65) _____ is the relationship between the goods and services produced in a nation each year and the inputs necessary to produce them.

a) Gross domestic product
b) Per capita income
c) Prosperity
d) Productivity

Answer: d

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.

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Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

66) Many of the gains in U.S. productivity can be attributed to _____.

a) technology
b) deflation
c) inexpensive labor
d) budget surplus

Answer: a

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

67) Which of these is a commonly used measure of nation's total productivity?

a) Gross domestic product
b) Product mix ratio
c) Contribution margin
d) Break-even point

Answer: a

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

68) Gross domestic product (GDP) is based on the _____ of a country.

a) allocative efficiency
b) output
c) factor income
d) net asset value

Answer: b

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance

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Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

69) Which of these is caused by increases in the prices of raw materials and other factors of production?

a) Negative amortization
b) Supply-side deflation
c) Cost-push inflation
d) Price penetration

Answer: c

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

70) Assume that the number of people wanting to buy houses in your locality increases sharply. This will cause the price of houses to increase, which is an example of _____.

a) demand-pull inflation
b) cost-push inflation
c) supply-side deflation
d) credit deflation

Answer: a

Difficulty: Medium
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

71) Which of these is an economic situation characterized by soaring prices?

a) Hyperinflation
b) Deflation
c) Budget surplus
d) Balanced budget

Answer: a

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.

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Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
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72) _____ is experienced by members of the workforce who are temporarily not working but are looking for jobs.

a) Structural unemployment
b) Cyclical unemployment
c) Seasonal unemployment
d) Frictional unemployment

Answer: d

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

73) In the Midwest part of the United States, farm laborers are out of work for some months after they have harvested and sold the produce. This is an example of _____.

a) structural unemployment
b) cyclical unemployment
c) seasonal unemployment
d) frictional unemployment

Answer: c

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

74) Markell graduated from college in December and is currently looking for a job. This is an example of _____.

a) structural unemployment
b) cyclical unemployment
c) seasonal unemployment
d) frictional unemployment

Answer: d

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Difficulty: Medium
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

75) The recent recession has left Brionna, previously a manager in a restaurant, unemployed. This is an example of_____.

a) cyclical unemployment
b) frictional unemployment
c) structural unemployment
d) seasonal unemployment

Answer: a

Difficulty: Medium
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

76) _____ occurs when workers lack the necessary skills for available jobs or because the skills they have are no longer in demand.

a) Structural unemployment
b) Cyclical unemployment
c) Seasonal unemployment
d) Frictional unemployment

Answer: a

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

77) Magnus has been unemployed for a long time because he has not been able to find a job in which he can apply his specialized knowledge about the Robostic Data System (RDS), a computer system that is now obsolete. What type of unemployment is Magnus facing?

a) Structural unemployment
b) Frictional unemployment
c) Seasonal unemployment
d) Cyclical unemployment

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Answer: a

Difficulty: Medium
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

78) Which of the following is true of monetary policy?

a) It uses taxation and spending to control economic activities.
b) It is dictated by international organizations like the United Nations
c) It is a mechanism to control the flow of foreign currency into a nation by reducing its exports.
d) It uses variations in interest rate and money supply to influence a nation's economy.

Answer: d

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

79) In the United States, the _____ is responsible for formulating and implementing the nation's monetary policy.

a) Federal Reserve System
b) Department of the Treasury
c) Department of Commerce
d) Federal Executive Institute

Answer: a

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

80) Business borrowing becomes more difficult when the _____.

a) federal government reduces taxes
b) federal government increases spending
c) Federal Reserve decreases the money supply
d) Federal Reserve reduces interest rates

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Answer: c

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

81) What is the purpose of a restrictive monetary policy?

a) Stimulate spending
b) Reduce the cost of borrowing
c) Stimulate employment
d) Curb rising prices and overexpansion

Answer: d

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

82) The purpose of an expansionary monetary policy is to _____.

a) limit entrepreneurial activities
b) increase the money supply
c) increase the cost of borrowing
d) curb rising prices

Answer: b

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

83) In the context of fiscal policy, lower taxes and increased government spending _____.

a) cut unemployment rates
b) limit economic expansion
c) reduce inflation
d) reduce the profits of a business

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Answer: a

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

84) Fiscal policy involves which of these?

a) Curbing political activities by limiting the spending on political campaigns
b) Controlling the flow of foreign currency by reducing exports and increasing imports
c) Adjusting money supply by varying the exchange rate of the national currency
d) Influencing economic activities by making decisions about taxes and government spending

Answer: d

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

85) In the context of fiscal policy, increased taxes and reduced government spending _____.

a) restrict economic activities
b) create more profits for firms
c) increase a nation's gross domestic product
d) cut unemployment rates

Answer: a

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

86) A nation will achieve a balanced budget when _____

a) the amount of savings equal the amount of borrowings from banks
b) the consumer price index is equal to the producer price index
c) imports are equal to its exports
d) total revenues raised by taxes equal the total proposed spending for the year

Answer: d

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Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

87) The government of Badland, a less-developed country, has been spending the revenue generated from taxes and fees on infrastructural development, health care, and public utilities. Its expenditure has exceeded its revenue. This condition referred to as a _____.

a) trade surplus
b) positive balance of payment
c) break-even point
d) budget deficit

Answer: d

Difficulty: Medium
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

88) The federal government raises corporate taxes in order to reduce the budget deficit. This is an example of the government using _____ policy as a tool to _____ economic activities.

a) political; restrict
b) social; fuel
c) monetary; increase
d) fiscal; decrease

Answer: d

Difficulty: Medium
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

89) If the government of a country takes in more money than it spends, it is said to have a _____.

a) trade deficit
b) budget surplus
c) balanced budget
d) negative balance of payment

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Answer: b

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

90) Which of the following is NOT a source of government funds to cover the annual budget?

a) Taxes
b) Fees
c) Subsidiaries
d) Borrowing

Answer: c

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

91) All of the following are part of the national debt EXCEPT:

a) Corporate taxes
b) Treasury bills
c) Treasury notes
d) Treasury bonds

Answer: a

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

92) According to the annual World Economic Forum, all of the following are key challenges facing business today's economy EXCEPT _____.

a) increasing younger workforce
b) asset bubbles in a major economy
c) illicit trade
d) failure/shortfall of critical infrastructure

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Answer: a

Difficulty: Easy
Learning Objective 1: 02-05: Describe the global economic challenges encountered by businesses today.
Section Reference 1: Global Economic Challenges
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

93) The annual World Economic Forum meeting identifies global risks in all of the following categories except _____.

a) economic
b) environmental
c) political
d) societal

Answer: c

Difficulty: Easy
Learning Objective 1: 02-05: Describe the global economic challenges encountered by businesses today.
Section Reference 1: Global Economic Challenges
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

94) _____ amounts to a balance between what we want and what we can afford.

a) Economics
b) Marketing
c) Sociology
d) Psychology

Answer: a

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

95) Two goods are _____ goods if an increase in the price of one causes a fall in demand for the other.

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a) substitute
b) complementary
c) supply-driven
d) opposite

Answer: b

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Knowledge

96) Under which types of competition do individual firms have some control over price?

a) pure competition and a monopoly
b) monopolistic competition and an oligopoly
c) an oligopoly and pure competition
d) a pure monopoly and a regulated monopoly

Answer: b

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Knowledge

97) Under which types of competition is ease of entry into industry by new firms is regulated by government?

a) Pure competition
b) Monopolistic competition
c) An oligopoly
d) Monopoly

Answer: d

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Knowledge

98) A local fitness center is an example for which type of competition?

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a) Pure competition
b) Monopolistic competition
c) An oligopoly
d) Monopoly

Answer: b

Difficulty: Medium
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Application

Question type: True/False

99) Changes in overall government spending have a macroeconomic effect.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Comprehension

100) Research finds that decisions made by individual consumers and businesses have an insignificant impact on overall economic conditions.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Comprehension

101) For most of us, economics amounts to a balance between what we want and what we can afford.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.

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Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

102) Two goods are substitute goods if an increase in the price of one causes a fall in demand for the other.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

103) Microeconomics examines not just the economic policies of individual nations, but the ways in which those individual policies affect the overall world economy.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

104) Taxing and spending decisions made by governments are part of macroeconomics.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

105) Not-for-profit organizations must also make economic decisions just like other business organizations.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.

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Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

106) When Vincent, a manager at Beauty Products International, tries to evaluate the price and the quantity of a product that will be sold, he is dealing with microeconomics.

Answer: True

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

107) Microeconomics and macroeconomics have no correlation.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Learning Objective 2: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Section Reference 2: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

108) As prices of goods and services rise, the quantity demanded will generally decline.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

109) A demand curve is the graph showing the relationship between different prices and the quantities of a good or service that sellers will offer for sale.

Answer: False

Difficulty: Easy

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Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

110) The demand curve will shift to the right if consumers have more money to spend.

Answer: True

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

111) The price of gasoline rises sharply. One likely outcome is that the demand curve for hybrid vehicles should shift to the left.

Answer: False

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

112) The prevailing market price at which consumers can buy an item is called the equilibrium price.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

113) If number of buyers increase, the demand curve for most products will shift to the left.

Answer: False

Difficulty: Medium

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Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

114) Assume electric water heaters and gas water heaters are interchangeable, and assume the price of natural gas rises sharply relative to the price of electricity. The demand curve for electric water heaters should shift to the right.

Answer: True

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Analysis

115) The supply curve should shift to the left if the cost of producing an item declines due to improved technology.

Answer: False

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

116) Demand and supply never affect employment.

Answer: False

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

117) Assume that the number of first-time home buyers suddenly increases. The demand curve for houses is likely shift to the right.

Answer: True

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Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

118) Factors of production play a central role in determining the overall supply of goods and services.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

119) Hurricane and other such forces of nature can affect the supply curve.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

120) The equilibrium price occurs at the point of intersection between the supply and demand curves.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

121) In order to control the rising price of housing, the county council enacts rent controls. This mandated price is below the equilibrium price. Consequently, a shortage in the supply of housing may result.

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Answer: True

Difficulty: Hard
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Synthesis

122) If the actual market price differs from the equilibrium price, buyers and sellers tend to make economic choices that restore the equilibrium level.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

123) The sole underlying cause of movement along demand and supply curves is price.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

124) The supply curve is likely to shift down and to the left if the cost of the raw materials used to manufacture a product falls.

Answer: False

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
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Standard 2: Bloom's || Application

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125) A private enterprise system rewards businesses for meeting the needs and demands of consumers.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

126) Capitalism also is referred to as a private enterprise system.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

127) The government tends to have most of the control under a capitalist system.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

128) Because a monopoly market lacks the benefits of competition, many governments regulate monopolies.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

129) Under the market situation of pure competition, sellers have a significant control over price.

Answer: False

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Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

130) Monopolistic competition and pure competition are the same concept.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

131) A market situation where there are only a few sellers of a good or service is an oligopoly.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

132) An example of a pure monopoly is the market for pet food.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

133) The U.S. Postal Service's delivery of first-class mail is an example of a regulated monopoly.

Answer: True

Difficulty: Medium
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
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Standard 2: Bloom's || Application

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134) When a firm possesses unique characteristics so important to competition in its industry that they form barriers to prevent entry by would-be competitors, a pure monopoly occurs.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

135) The U.S. government is trending away from deregulation and toward regulated monopolies.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

136) People mostly work for private-owned enterprises under communism.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

137) North Korea is currently shifting toward a more market-oriented economy.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

138) Socialism is one of the four market structures found in a private enterprise system.

Answer: False

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Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

139) In a socialist economy, incentives usually are limited in state enterprises but do motivate workers in the private sector.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

140) The government of ABC country owns the railways, utilities, energy companies, and financial institutions. Ownership of small, less critical businesses is in private hands. This is an example of socialism.

Answer: True

Difficulty: Medium
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

141) In a mixed market economy, state enterprises are not expected to produce returns.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

142) The United States, since the 1930s, has not faced another "true" economic depression.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance

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143) Economic growth leads to expanded job opportunities, improved wages, and an increased standard of living.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

144) An economic recession lasts for three months or shorter.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

145) In the recovery stage of the business cycle, the economy emerges from recession.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

146) Business spending, during a recession, increases but consumer spending remains relatively unchanged.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
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147) During an economic recession, low-priced retailers like Dollar Tree and Dollar General will likely see increased sales.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

148) When a constant amount of inputs generates increased outputs, an increase in productivity occurs

Answer: True

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

149) The core inflation rate consists of an economy's inflation rate after removing energy and food prices.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

150) Inflation benefits consumers with fixed incomes.

Answer: False

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

151) The Consumer Price Index (CPI) excludes energy and food because their prices fluctuate excessively from month to month.

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Answer: False

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

152) Deflation can hurt industries like housing and auto manufacturing.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

153) Workers in high-tech industries, air travel, and manufacturing have all faced unemployment during periods of economic contraction.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

154) Ali has a construction job in Boston. During winter, he looks for other work as no construction can take place. Ali is cyclically unemployed.

Answer: False

Difficulty: Medium
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

155) Individuals who lose their jobs due to structural reasons are generally unemployed only for a short period of time.

Answer: False

Difficulty: Easy

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Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Knowledge
Difficulty: Medium

156) Restrictive monetary policy reduces the money supply and helps to reduce inflation.

Answer: True

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Knowledge

157) No country is an economic island in today's global economy

Answer: True

Difficulty: Easy
Learning Objective 1: 02-05: Describe the global economic challenges encountered by businesses today.
Section Reference 1: Global Economic Challenges
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Knowledge

Question type: Essay

158) Define economics. Why is understanding economics important in one's life?

Answer:
Economics is a social science that analyzes the choices made by individuals and organizations in allocating scarce resources. It affects each of us because everyone is involved in producing, distributing, or simply consuming goods and services. In fact, your life is affected by economics every day. Understanding how the activities of one industry affect those of other industries, and how they relate in the overall economic status of a country, is an important part of understanding economics. Businesses and not-for-profit organizations also make economic decisions when they choose how to use human and natural resources; invest in equipment, machinery, and buildings; and form partnerships with other companies.

Difficulty: Medium
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply

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Standard 1: AACSB || Analytic
Standard 2: Bloom's || Application

159) Differentiate between macroeconomics and microeconomics. What types of economic activities might be included in each category?

Answer:
Macroeconomics deals with a country's overall economic issues, whereas microeconomics is concerned with the economic activities of individual consumers, families, and businesses. Macroeconomics activities might include economic policies of individual nations and the ways in which those individual policies affect the overall world economy. Microeconomics activities might include shopping for groceries, subscribing to a cell phone service, paying college tuition, or filling your car's tank with gas.

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Learning Objective 2: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Section Reference 2: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

160) Differentiate between demand and supply.

Answer:
Demand is the willingness and ability of buyers to purchase goods and services at different prices. Factors that drive demand for a good or service include customer preferences, the number of buyers and their incomes, the prices of substitute goods, the prices of complementary goods, and consumer expectations about the future. Supply is the willingness and ability of businesses to offer products for sale at different prices. Supply is determined by the cost of inputs and technology resources, taxes, and the number of suppliers operating in the market.

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

161) List the factors that should cause a supply curve to shift to the left.

Answer:
The factors that cause a supply curve to shift to the left are an increase in the cost of inputs, an increase in the cost of technologies, an increase in taxes, and a decrease in the number of suppliers.

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Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

162) Do changes in household income affect demand? Explain.

Answer:
Changes in household income can change demand. As consumers have more money to spend, firms can sell more products at every price. This means the demand curve has shifted to the right. When income shrinks, nearly everyone suffers, and the demand curve shifts to the left.

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
Section Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

163) List the four factors of production and provide an example of each factor.

Answer:
The four factors of production are natural resources, human resources, capital, and entrepreneurship. Natural resources include land, building sites, forests, and mineral deposits. Capital refers to resources such as technology, tools, information, physical facilities, and financial capabilities. Human resources include the physical labor and intellectual inputs contributed by employees. Entrepreneurship is the willingness to take risks to create and operate a business. Factors of production play a central role in determining the overall supply of goods and services.

Difficulty: Easy
Learning Objective 1: 02-01: Discuss microeconomics and explain the forces of demand and supply.
ection Reference 1: Microeconomics: The Forces of Demand and Supply
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

164) Describe how worker incentives vary in each of the four economic systems.

Answer:
In a capitalist system, considerable incentives exist to motivate people to perform at their highest levels. In communist systems, worker incentives are beginning to emerge. In a socialist economy, incentives are limited in state enterprises but do motivate workers in the private sector.

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In a mixed market economy, capitalist-style incentives operate in the private sector. More limited incentives influence public-sector activities.

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

165) Describe oligopoly.

Answer:
An oligopoly is a market structure in which relatively few sellers compete and high start-up costs form barriers to keep out new competitors. In some oligopolistic industries, such as paper and steel, competitors offer similar products. In others, such as aircraft and automobiles, they sell different models and features. The huge investment required to enter an oligopoly market tends to discourage new competitors. The limited number of sellers also enhances the control these firms exercise over price. Competing products in an oligopoly usually sell for very similar prices because substantial price competition would reduce profits for all firms in the industry. So a price cut by one firm in an oligopoly will typically be met by its competitors. However, prices can vary from one market to another, as from one country to another.

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

166) Explain monopolistic competition.

Answer:
Monopolistic competition is a market structure, like that for retailing, in which large numbers of buyers and sellers exchange differentiated (heterogeneous) products, so each participant has some control over price. Sellers can differentiate their products from competing offerings on the basis of price, quality, or other features. In an industry that features monopolistic competition, it is relatively easy for a firm to begin or stop selling a good or service. The success of one seller often attracts new competitors to such a market. Individual firms also have some control over how their goods and services are priced.

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB || Analytic
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167) Describe the major differences between socialism and a mixed market economic system.

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Answer:
In a socialist economy, the government owns industries that are considered to be of vital importance. Socialist countries allow limited private ownership of small businesses and industries that are not considered to be as vital. In a mixed market economy, a strong private sector exists. It is much larger than the private sector in a socialist economy. In a mixed economy, some public enterprises operate as well. The rights to profits are stronger in a mixed economy and even public enterprises are expected to produce returns. Worker incentives also are stronger in a mixed economy than they are in a socialist economy.

Difficulty: Easy
Learning Objective 1: 02-02: Describe macroeconomics and the issues for the entire economy.
Section Reference 1: Macroeconomics: Issues for the Entire Economy
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Comprehension

168) Briefly describe each of the four stages of the business cycle.

Answer:
The four stages of a business cycle are: prosperity, recession, depression, and recovery. In periods of economic prosperity, unemployment remains low, consumer confidence about the future leads to more purchases, and businesses expand—by hiring more employees, investing in new technology, and making similar purchases—to take advantage of new opportunities. A recession is a cyclical economic contraction that lasts for six months or longer where consumers frequently postpone major purchases and shift buying patterns toward basic, functional products carrying low prices. Businesses mirror these changes in the marketplace by slowing production, postponing expansion plans, reducing inventories, and often cutting the size of their workforces. If an economic slowdown continues in a downward spiral during an extended period of time, the economy falls into depression. In the recovery stage, the economy emerges from recession and consumer spending picks up steam. The economy experiences high levels of growth in gross domestic product, employment, output levels, and corporate profits.

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB ‖ Analytic
Standard 2: Bloom's || Comprehension

169) Explain how the Consumer Price Index helps measure the changes in consumer prices.

Answer:
In the United States, the government tracks changes in price levels with the Consumer Price Index (CPI), which measures the monthly average change in prices of goods and services. The U.S. Bureau of Labor Statistics (BLS) calculates the CPI monthly based on prices of a "market basket," a compilation of the goods and services most commonly purchased by urban consumers. Each month, BLS representatives collect prices in 75 urban areas across the country from about

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5,000 housing units and approximately 22,000 retail establishments—department stores, supermarkets, hospitals, filling stations, and other types of stores and service establishments. They compile the data to create the CPI. Thus, the CPI provides a running measurement of changes in consumer prices.

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

170) Identify and describe the four categories of unemployment.

Answer:
The four categories of unemployment are a) Frictional unemployment is experienced by members of the workforce who are temporarily not working but are looking for jobs. b) Seasonal unemployment is the joblessness of people in a seasonal industry. c) Cyclical unemployment includes people who are out of work because of a cyclical contraction in the economy. d) Structural unemployment applies to people who remain unemployed for long periods of time, often with little hope of finding new jobs like their old ones.

Difficulty: Easy
Learning Objective 1: 02-03: Identify how to evaluate economic performance.
Section Reference 1: Evaluating Economic Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

171) Explain the difference between expansionary monetary policy and restrictive monetary policy.

Answer:
An expansionary monetary policy increases the money supply in an effort to cut the cost of borrowing, which encourages business decision makers to make new investments, in turn stimulating employment and economic growth. By contrast, a restrictive monetary policy reduces the money supply to curb rising prices, overexpansion, and concerns about overly rapid economic growth.

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Comprehension

172) What is a federal budget? Explain how a federal budget is framed.

Answer:

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Each year, the president proposes a budget for the federal government, a plan for how it will raise and spend money during the coming year, and presents it to Congress for approval. A typical federal budget proposal undergoes months of deliberation and many modifications before receiving approval. The federal budget includes a number of different spending categories, ranging from defense and Social Security to interest payments on the national debt. The decisions about what to include in the budget have a direct effect on various sectors of the economy. During a recession, the federal government may approve increased spending on interstate highway repairs to improve transportation and increase employment in the construction industry. During prosperity, the government may allocate more money for scientific research toward medical breakthroughs.

Difficulty: Easy
Learning Objective 1: 02-04: Discuss managing the economy's performance.
Section Reference 1: Managing the Economy's Performance
Standard 1: AACSB || Analytic
Standard 2: Bloom's || Knowledge

173) What are the economic challenges in today's world?

Answer:
The major economic challenges in the world today are: (1) Asset bubbles in a major economy, (2) Deflation in a major economy, (3) Failure of a major financial mechanism or institution, (4) Failure/shortfall of critical infrastructure, (5) Fiscal crises in key economies, (6) High structural unemployment or underemployment (7) Illicit trade (8) Trade tensions (9) Energy price shock, and (10) Unmanageable Inflation.

Difficulty: Easy
Learning Objective 1: 02-05: Describe the global economic challenges encountered by businesses today.
Section Reference 1: Global Economic Challenges
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