Understanding Canadian Business (Canadian) 10th edition Nickels Test Bank

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Chapter 02
How Economic Issues Affect Business

True / False Questions

1. The Canadian economy is an integral part of the world economy.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-01 How Economic Conditions Affect Business

2. Economics is the study of how people use resources to produce goods and services and distribute them for consumption among various competing groups and individuals.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

3. Macroeconomics is the economic perspective that looks at the operation of a nation's economy as a whole.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

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4. Microeconomics focuses on the decisions and behaviour of people and organizations in particular markets.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

5. Resource development is concerned with finding the best way to utilize the declining amount of resources a society has available.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

6. Economist Sue Pligh is examining how consumers in the automobile market have responded to recent price increases by car manufacturers. Sue's efforts reflect the microeconomic perspective of economics.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

7. The primary difference between macroeconomics and microeconomics is that macroeconomics looks at long run economic problems while microeconomics examines short run economic problems.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

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8. Followers of Malthus today believe that there are too many people in the world.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-03 The Secret to Creating a Wealthy Economy

9. The latest world statistics show the population increasing more rapidly than ever expected.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-03 The Secret to Creating a Wealthy Economy

10. Studies about the effects of population growth on the economy are part of macroeconomics.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-03 The Secret to Creating a Wealthy Economy

11. Adam Smith believed that the key to creating rising standards of living was to limit population growth.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-04 Growth Economics and Adam Smith

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12. Adam Smith believed the self-interest of businesspeople would lead them to create needed goods, services, and jobs.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-04 Growth Economics and Adam Smith

13. The "invisible hand" in Adam Smith's theory refers to the efforts of the government to control the operation of markets.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

14. Adam Smith believed that since businesspeople are motivated to improve their own prosperity, their actions are unlikely to benefit society as a whole.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

15. Adam Smith believed that an economic system couldn't truly prosper unless people were taught to value the welfare of others above their own personal gain.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

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16. The concept of the invisible hand is based on the assumption that the primary motivation of entrepreneurs is to enjoy the financial rewards of their hard work.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

17. Adam Smith felt that incentives to seek personal gain would insure the creation of wealth, but that the government must step in to make sure that this wealth was equitably distributed.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

18. Adam Smith's theories focused on explaining the best way to divide the fixed resources we have available, rather than on how to create more wealth.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

19. Adam Smith the author of *The Wealth of Nations*, said that all companies would function best with more government involvement.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-05 How Businesses Benefit the Community

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20. Fatima is a citizen of a country that has an economic system that is primarily based on free-market capitalism. Fatima is likely to have the freedom to buy and sell property.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-06 Understanding Free-Market Capitalism

21. Resource development is the system that has led to wealth creation in much of the world.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-06 Understanding Free-Market Capitalism

22. In capitalist countries, the government decides what to produce and how the goods and services will be produced.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-06 Understanding Free-Market Capitalism

23. Capitalism is the foundation of the Canadian economic system.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-06 Understanding Free-Market Capitalism

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24. In a free-market system, decisions about what to produce and in what quantities are made by the market.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-07 How Free Markets Work

25. In capitalism, the government prohibits people and businesses from competing with each other.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-07 How Free Markets Work

26. A basic right under capitalism is the right of business to receive funding provided by the government.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-07 How Free Markets Work

27. Just as no country is purely capitalist, no market is truly free.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-07 How Free Markets Work

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28. Prices are determined by sellers in a free market.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-08 How Prices Are Determined

29. Under the basic principle of supply, as the price goes down, manufacturers and suppliers of a product are less willing or able to bring that product to the market.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-09 The Economic Concept of Supply

30. Market price is determined solely by supply.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-09 The Economic Concept of Supply

31. Jill owns a bakery that specializes in cheesecakes. Until recently, Jill charged a price of $12 for each cheesecake. At this price, Jill's customers bought an average of 84 cheesecakes each week. For the last few weeks, she has reduced her price to $10.50 per cheesecake, and her customers have purchased an average of 96 cheesecakes each week. These results are consistent with the law of demand.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-10 The Economic Concept of Demand

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32. Demand refers to the quantity of products that people are willing and able to buy at different prices at a specific time.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-10 The Economic Concept of Demand

33. Price is the key factor that determines both quantity supplied, and quantity demanded.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

34. One of the drawbacks of free markets is the fact that competition in such markets undermines the ability of price to adjust to its equilibrium value in the long run.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

35. Supporters of a free market would argue that because supply and demand interactions determine prices, there is no need for government involvement or planning.
TRUE

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Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

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36. At the equilibrium point the quantity consumers desire to buy equals the quantity sellers desire to sell.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

37. If the quantity supplied in a market exceeds the quantity demanded, a shortage will exist.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

38. If a shortage exists in a market for a good, the price of that good will tend to fall.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

39. If we graph the supply and demand curves for a product at a specific time, the point on the graph where the two curves intersect is called the stress point.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

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40. In the long run, the actual market price tends to adjust toward the equilibrium price.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

41. Countries that rely on a free-market system often are plagued by persistent shortages or surpluses of goods and services.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

42. In perfect competition, each firm produces a product that is clearly differentiated from the products of other firms in the same market.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

43. A monopoly occurs when there is a single seller for a product or service.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

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44. Economists refer to a market in which a few sellers dominate the supply side as monopolistic competition.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

45. Product differentiation is a key to success in monopolistic competition.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

46. Legislation has ended the monopoly status of utilities in some areas.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

47. Under monopolistic competition, product differentiation is a key to success.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

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48. Monica notices that just a few big companies produce the vast majority of soft drinks. She would be correct in describing the soft drink industry as an oligopoly.
TRUE

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Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

49. Harry Cutter is the owner of Harry's Hairy Business, one of a large number of barbershops that compete against each other in the city where Harry lives. Harry has tried to attract more customers by staying open longer hours than most barbershops, and by advertising heavily on local radio to convince people that he offers the best haircuts in town. Harry appears to be operating in an oligopolistic market.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

50. Under perfect competition, sellers' products appear to be identical.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

51. A strength of a free-market economic system is that it emphasizes the fair and humane treatment of the less fortunate in society.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

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52. Permany is a nation with an economic system that closely approximates pure capitalism. While Permany's economy is likely to generate a great deal of wealth, it may do a poor job of providing an acceptable level of income for the elderly or disabled.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

53. History shows that free-market capitalism leads to a fair and equitable distribution of wealth.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

54. The greed of businesspeople represents the greatest danger to the operation of a free-market system.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

55. Socialists believe that the primary economic function of the government is to promote rapid economic growth.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-14 Understanding Socialism

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56. In socialist economies, the government owns some, if not most, basic businesses such as coal mines and utilities.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-14 Understanding Socialism

57. The top tax rate on personal income in most socialist economies is usually lower than the top tax rate on personal income in capitalist economies.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-14 Understanding Socialism

58. The major benefit of socialism is that it creates strong incentives to work hard and take the risks associated with starting and operating a business.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-15 The Benefits of Socialism

59. Workers in socialist countries often get longer vacations and more social benefits than workers in free- market economies.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-15 The Benefits of Socialism

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60. Over the past decade, socialist economies have proven to be more successful at innovation and inventions than capitalist economies.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-16 The Negative Consequences of Socialism

61. One drawback of socialism is that it may result in a reduction in the individual's incentive to work hard.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-16 The Negative Consequences of Socialism

62. Skeeden is a nation with an economic system that features free markets with private ownership of businesses. It still relies on those businesses to create most wealth. However, over time the government of Skeeden has developed some programs and policies designed to help the needy and reduce the level of income inequality. It pays for these programs by levying relatively high taxes on businesses and workers. These arrangements suggest that the economy of Skeeden is moving closer to the adoption of pure capitalism.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-16 The Negative Consequences of Socialism

63. Communism is an economic system where the state makes almost all economic decisions.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

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64. One of the benefits of communism is that it allows individuals a great deal of freedom to make their own economic decisions.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

65. Some communist countries have not allowed their citizens to practice certain religions or change jobs.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

66. Most communist countries today are suffering from severe economic problems.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

67. Socialism and communism are both variations of a free-market economy.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

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68. In the small nation of Equalia, the government owns all of the key businesses. There are severe shortages of many key items, such as food. These features of Equalia's economy are consistent with a communist economic system.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

69. Socialism and capitalism are examples of command economies.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

70. An important economic trend has been for free-market economies to move more toward socialism while command economies move more toward free markets.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

71. In command economies, the government plays a major role in deciding which goods will be produced and who will get them.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

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72. Like many nations, Canada has a mixed economy.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-04 Describe the mixed economy of Canada.
Topic: 02-19 Canada's Mixed Economy

73. In Canada, massive government support was needed to build our first national rail line.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-04 Describe the mixed economy of Canada.
Topic: 02-19 Canada's Mixed Economy

74. In a mixed economy, some allocation of resources is made by government, and some by the market.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-04 Describe the mixed economy of Canada.
Topic: 02-19 Canada's Mixed Economy

75. In recent years, government leaders in Canada have reached broad agreement on the need for the government to continue expanding its role in health care and the regulation of banks and airlines.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-04 Describe the mixed economy of Canada.
Topic: 02-19 Canada's Mixed Economy

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76. The strength of the economy has a large effect on businesses.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-04 Describe the mixed economy of Canada.
Topic: 02-20 Understanding Canada's Economic System

77. The total value of a country's output of final goods and services in a given year is known as the nation's gross domestic product (GDP).
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

78. The Canadian economy is a service economy.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

79. The higher the productivity is, the higher the costs of production are likely to be.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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80. An increase in productivity means that a worker is now able to produce more goods and services in the same amount of time.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

81. As productivity increases, the cost of producing goods and services is likely to fall.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

82. In the service sector of the economy, the influx of machinery such as computers increases output per worker but does little to improve the quality of services.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

83. Current measures of productivity in the service sector provide an accurate measure of changes in the quality of output.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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84. Maureen is the office manager of a service company. She has recently spent a lot of money installing new computers and office equipment that will be used by the workers in her office as they provide services to clients. If Maureen's company is like most service companies, she will probably see a big jump in the productivity figures reported for workers in her office.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

85. According to Statistics Canada, to be classified as frictionally unemployed, a person must have tried to find a job within the past four weeks.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

86. Frictional unemployment occurs because the economy is experiencing a recession.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

87. The consumer price index (CPI) measures what is happening to prices at the wholesale level.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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88. The CPI is based on what is happening to the prices of a "basket" of goods and services for an average family.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

89. The CPI is based on the prices of a carefully selected basket of goods, all of which consumers can purchase at a typical supermarket.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

90. Inflation refers to a general rise in the prices of goods and services over time.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

91. Disinflation refers to a situation in which the overall level of prices in an economy is steadily falling.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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92. Some wages, tax brackets, interest rates, and government benefits are based on the CPI.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

93. Deflation is a situation where the average level of prices is actually declining.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

94. Stagflation occurs when the economy is slowing but prices are rising.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

95. People are unemployed in Canada for many reasons.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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96. Although changes in the CPI provide interesting insights into the overall performance of the economy, these changes have little practical impact on the lives of ordinary people.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

97. A problem with the CPI is that it measures the price changes of only food and clothing, while ignoring what happens to the prices of such important items as shelter and transportation.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

98. The government of Nexico has made progress in its efforts to bring Nexico's rapid inflation under control. Although prices are still rising, the rate of increase has slowed considerably. This suggests that Nexico currently is experiencing disinflation.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

99. The nation of Woland has seen its GDP decline severely for four years in a row, with no relief in sight. Unemployment has risen to record levels, prices are falling, and businesses are failing faster than at any time in the past century. The economy of Woland is experiencing a depression.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-22 The Business Cycle

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100. A depression is a severe recession typically accompanied by inflation.
FALSE

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-22 The Business Cycle

101. An economy is said to be in a recession if GDP declines for two or more consecutive quarters.
TRUE

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-22 The Business Cycle

Multiple Choice Questions

102. Economics is the study of how:
A. to invest wisely in the stock market.
B. to employ resources to produce goods and services and distribute them among competing groups and individuals.
C. sophisticated statistical techniques can be used to make predictions about the evolution of society over the long run.
D. people govern themselves in a democratic society.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

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103. _____ studies the operation of a nation's economy as a whole.
A. Microeconomics
B. Socioeconomics
C. Econometrics
D. Macroeconomics

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

104. _____ looks at the behaviour of individual people and organizations in specific markets.
A. Macroeconomics
B. Finite economics
C. Microeconomics
D. Nanoeconomics

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

105. The study of how society employs resources to produce goods and services and distribute them for consumption among various competing groups and individuals is known as:
A. human resource management
B. finance
C. marketing
D. economics

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

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106. The challenge for macroeconomists concerns which of the following?
A. How to lower unemployment rates.
B. Why some countries are wealthy, and others are poor.
C. Why resources affect the behaviour of people.
D. How to increase individual productivity.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-03 The Secret to Creating a Wealthy Economy

107. The study of how to increase resources is called:
A. Macroeconomics
B. Microeconomics
C. Resource development
D. Resource economics

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-03 The Secret to Creating a Wealthy Economy

108. Which of the following would be a topic emphasized in a macroeconomics course?
A. Factors that determine how fast a nation's economy is growing.
B. How a firm decides the price it will charge for one of its products.
C. How a consumer chooses which goods to buy.
D. The determinants of the wage rate for a certain type of labour.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-03 The Secret to Creating a Wealthy Economy

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109. Which of the following would be a topic emphasized in a microeconomics class?
A. How a nation's GDP is computed.
B. The reasons why the unemployment rate for the economy is rising or falling.
C. How market conditions determine the price of a specific product.
D. How the government can use fiscal and monetary policies to stabilize the economy.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-03 The Secret to Creating a Wealthy Economy

110. Which of the following statements would a follower of Adam Smith be most likely to make?
A. The federal government should use its ability to spend and tax to guide the decisions of businesses and consumers.
B. Market economies are flawed because they put too much emphasis on economic growth and not enough on environmental problems.
C. Overpopulation is the main danger confronting modern economies.
D. If people are given the freedom to follow their own interests, they will end up promoting economic growth that benefits society as a whole.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-04 Growth Economics and Adam Smith

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111. Fourteen years ago, Murray noticed that a lot of people who bought personal computers really did not know much about how to use them and frequently suffered system crashes and other aggravations. He decided he could earn a nice profit by starting a consulting business to help other people overcome their computer woes. Although the business struggled at first, it has been quite successful for the last five years. Murray has many satisfied customers, and the business has grown to the point where he now employs several workers. According to Adam Smith, Murray's experience is an example of:
A. socialism at work.
B. the principle of comparative advantage.
C. freedom.
D. the multiplier principle.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-04 Growth Economics and Adam Smith

112. Samir, a friend of yours, has called for more government regulation of business. "After all," he says, "businesspeople are out to make a profit, not to create jobs or serve their customers. The government must pass more laws to require businesses to take the interests of consumers and workers into account". From these comments, it is clear that Samir:
A. agrees with the ideas of Adam Smith.
B. does not accept the philosophy behind Adam Smith.
C. is unaware of the fact that most businesses in Canada are actually owned by the government.
D. does not realize that government regulation is already the main determinant of business decisions in capitalist economies.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-04 Growth Economics and Adam Smith

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113. According to Adam Smith, the best way for the government to encourage the creation of jobs and the production of the products most wanted by consumers would be to:
A. take over the operation of all firms in major industries, such as telecommunications, transportation, and energy, and operate these firms as non-profit organizations.
B. allow private ownership of businesses but make use of extensive regulation to force businesses to behave in a socially desirable way.
C. allow entrepreneurs a great deal of personal freedom.
D. impose high taxes on individuals and use the revenue to subsidize businesses to encourage them to produce the maximum rate of output.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-04 Growth Economics and Adam Smith

114. Adam Smith believed that countries would prosper if businesspeople were free to start and run their own businesses, because business people would make a profit by providing the goods, services and ideas that others in the economy wanted. This was called the:
A. kinked demand theory.
B. invisible hand.
C. spending multiplier.
D. demand accelerator.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

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115. Sue is a gifted cook. She is about to open her own business, a restaurant in which she will be the head chef. Sue is willing to work long hours because she believes that her culinary talents and hard work will allow her business to succeed and earn her a great deal of money. Sue's efforts appear most consistent with the economic theory developed by:
A. Thomas Malthus.
B. Karl Marx.
C. Adam Smith.
D. David Ricardo.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

116. The economic system that has led to wealth creation in most of the world is known as:
A. capitalism
B. communism
C. free-trade
D. socialism

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-06 Understanding Free-Market Capitalism

117. _____ is the popular name for a free-market economy in which business people make most of the decisions about what products to produce, how many workers to hire, and what prices to charge for goods and services.
A. Socialism
B. Capitalism
C. Communism
D. Marginalism

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-06 Understanding Free-Market Capitalism

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118. Under capitalism:
A. most of the means of production and distribution are privately owned and operated for profit.
B. the primary function of the government is to distribute wealth more evenly.
C. utilities, health care, education, and other services are controlled by the government.
D. markets operate to carry out the decisions made by central planners.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-06 Understanding Free-Market Capitalism

119. In capitalism, most decisions about what goods and services to produce are made by:
A. a variety of government agencies.
B. business people.
C. a central planning board that consists of consumers, business executives, and employees.
D. majority rule, with everyone receiving an equal vote.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-07 How Free Markets Work

120. The market price of apples is currently rising. In a free-market economy, the most likely explanation of this price change is that:
A. the government has decided to set a higher price so that the firms in the market make an adequate profit.
B. there is a shortage in the market for apples.
C. the supply of money has decreased.
D. the equilibrium price is lower than the market price.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-08 How Prices Are Determined

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121. The quantity of a good or service that manufacturers or owners are willing to sell at different prices during a specific time period is known as the:
A. supply of that product.
B. demand for that product.
C. elasticity of that product.
D. utility of that product.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-09 The Economic Concept of Supply

122. A supply curve typically:
A. rises from left to right.
B. rises from right to left.
C. decreases from left to right.
D. decreases from right to left.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-09 The Economic Concept of Supply

123. A supply curve indicates the relationship between _____ and the quantity supplied.
A. demand
B. price
C. supply
D. utility

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-09 The Economic Concept of Supply

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124. A typical supply curve shows that an increase in the price of a good will cause the quantity supplied to:
A. decrease.
B. increase.
C. remain constant.
D. fluctuate randomly around its equilibrium value.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-09 The Economic Concept of Supply

125. A typical supply curve shows a relationship between the:
A. amount of labour a firm hires and the amount of output it can produce.
B. amount of time required to produce a good and the relevant production costs.
C. price of a good and the quantity sellers would be willing to offer for sale.
D. amount of a good a firm produces and the total profit it earns.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-09 The Economic Concept of Supply

126. A _____ curve shows the relationship between the price of a good and the quantity of that good people are willing and able to buy in a given time period.
A. demand
B. supply
C. utility
D. Laffer

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-10 The Economic Concept of Demand

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127. A typical demand curve shows that:
A. as people earn more income, they buy more of a good.
B. as supply increases, the amount purchased decreases.
C. people tend to buy more of a good than they really want.
D. people tend to buy more of a good when its price decreases.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-10 The Economic Concept of Demand

128. When the supply curve and demand curve for a particular good are on a single graph, the point at which the two curves intersect identifies the:
A. total profit earned by producers.
B. total amount of labour that will be employed in that market.
C. amount of time it takes to bring together the buyers and sellers of the good.
D. equilibrium price of the good.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

129. When prices are free to adjust over time, the market price of a good tends to:
A. rise above the equilibrium price in the long run.
B. equal the equilibrium price in the long run.
C. fall below the equilibrium price in the long run.
D. have no specific relationship to the equilibrium price.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

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130. If a shortage exists for a good in a free-market economy, the:
A. price of the good will rise.
B. price of the good will fall.
C. government will order suppliers to increase the production of that good.
D. government must establish a rationing system to make sure that the good is fairly distributed.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-11 The Equilibrium Point and the Market Price

131. _____ is characterized by a large number of firms selling products that appear to be identical.
A. Oligopoly
B. Monopolistic competition
C. Perfect competition
D. Microeconomic competition

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

132. A(n) _____ exists when a large number of firms produce goods that are similar but are perceived by buyers as being different.
A. perfect competition
B. monopolistic competition
C. oligopoly
D. monopoly

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

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133. A(n) _____ exists when the entire supply of a good is controlled by a single seller.
A. perfect competition
B. oligopoly
C. pure capitalism
D. monopoly

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

134. An oligopoly is a market that is characterized by:
A. one firm that totally dominates the supply of the product.
B. a large number of small firms all producing very similar products.
C. a few large sellers who dominate the market supply.
D. several small firms that compete primarily by differentiating their products.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

135. The markets for laundry detergents, soft drinks, and automobiles are all dominated by just a few sellers. Economists would classify these markets as:
A. monopolistic competition.
B. perfect competition.
C. an oligopoly.
D. a monopoly.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

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136. In most large cities there are a large number of bakeries. These bakeries produce similar, but not identical, products. Some bakeries claim to have the best cheesecakes in town, while others brag about their cookies or specialty breads. The bakery market in a large city is an example of:
A. monopolistic competition.
B. perfect competition.
C. an oligopoly.
D. a monopoly.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

137. The presence of competition in free markets:
A. is undesirable because it results in unnecessary duplication of efforts.
B. typically results in better quality and lower prices.
C. is rare, since most markets eventually evolve into monopolies.
D. is undesirable, because one big firm can usually produce goods more efficiently than a large number of small firms.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

138. The system that has provided more opportunities for poor people to work their way out of poverty is known as what?
A. Free-market capitalism
B. Monopolistic competition
C. Socialism
D. Communism

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

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139. Which of the following statements most accurately identifies a serious limitation of the free-market economic system?
A. Free-market economies offer little opportunity for the poor to work their way out of poverty.
B. Free-market economies have been unable to create wealth as rapidly as other types of economic systems.
C. Free-market economies often are plagued by shortages of needed consumer goods.
D. Free-market economies result in a very unequal distribution of wealth.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

140. Peter Principal is the Prime Minister of the nation of Urbania. Peter has called for Urbania's legislature to enact new legislation designed to shift his economy away from socialism toward a more capitalistic system. Peter has acknowledged that such a radical change will entail some hardships, and that some citizens will be unhappy with the changes in the economy. The most likely source of unhappiness associated with a move toward capitalism is:
A. less wealth will be created.
B. people will have less economic freedom.
C. tax rates will have to increase.
D. the distribution of wealth will become less equal.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

141. Free-market capitalism has brought prosperity as well as:
A. monopolies
B. higher prices
C. lower demand
D. inequality

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

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142. One of the dangers of free markets is that some people will let _____ dictate how they act.
A. prices
B. supply
C. greed
D. demand

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

143. One of the greatest concerns associated with capitalism is that:
A. it is not very successful at creating wealth.
B. some businesspeople may let greed guide their behaviour.
C. the amount of economic freedom enjoyed by consumers is very limited.
D. producers are unlikely to supply the goods and services that consumers value the most.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-13 Benefits and Limitations of Free Markets

144. Under socialism:
A. the basic goal is to make sure that those that create wealth are allowed to keep that wealth.
B. a major goal of the government is to reduce the inequality in the distribution of wealth.
C. a major goal of the government is to create incentives to encourage entrepreneurs to create jobs and economic growth.
D. the most important goal of the government is to keep tax rates extremely low.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-14 Understanding Socialism

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145. A major benefit of socialism is assumed to be its:
A. ability to stimulate rapid economic growth.
B. emphasis on low tax rates.
C. emphasis on social equality.
D. ability to create strong incentives to work hard.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-15 The Benefits of Socialism

146. A key assumption of socialism is that:
A. government ownership of some basic businesses is desirable because it helps achieve a more equal distribution of profits among the people.
B. the most important economic function of government is to promote rapid economic growth.
C. economic growth requires strict government control over population growth.
D. tax rates should be kept as low as possible in order to give consumers the maximum possible purchasing power.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-15 The Benefits of Socialism

147. The reason why many socialist countries have experienced brain drain is that:
A. socialism encourages a very unequal distribution of income.
B. the government does little to protect the natural environment.
C. workers tend to have to work longer hours and receive fewer benefits under socialism.
D. tax rates on talented individuals tend to be very high.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-16 The Negative Consequences of Socialism

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148. In the nation of Equalia, many businesses are privately owned, but the government owns some of the basic businesses and has developed many social programs designed to promote social equality. Tax rates are high, and many educated people have left the country. The economy of Equalia would be considered an example of:
A. pure capitalism.
B. socialism.
C. mercantilism.
D. communism.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-16 The Negative Consequences of Socialism

149. Jorge Martinez is a hard-working entrepreneur who operated a successful business in his home country of Margintina for many years. Recently, however, he immigrated to Canada and applied for Canadian citizenship. "In Margintina, tax rates were very high," Jorge complained. "The government used the taxes I paid to finance all sorts of social programs to help the less fortunate. While this is a noble goal, it has really undermined the profit incentive of individuals such as myself. I really feel that these high taxes have stifled economic growth." Jorge's comments illustrate the reason many socialist countries are experiencing a(n):
A. antitrust problem.
B. depression.
C. brain drain.
D. budget surplus.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-16 The Negative Consequences of Socialism

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150. Which of the following people would favour a socialist economy?
A. Dann wants to live in a country with low marginal tax rates.
B. Robin wants to live in a country that encourages rapid economic growth.
C. Liz wants to live in a country with limited government regulation.
D. Dwayne prefers to live in a country that promotes social equality.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-16 The Negative Consequences of Socialism

151. Although it has been considered a capitalist economy in the past, for the past several years the economy of the nation of Subania has become more socialist in its characteristics. Which of the following trends is most likely to be associated with Subania's movement toward socialism?
A. Lower tax rates
B. More rapid economic growth
C. A more equal distribution of wealth
D. Increasing reliance on markets to determine economic outcomes

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-16 The Negative Consequences of Socialism

152. Communism is an economic system in which:
A. the government and private citizens own equal shares of the economic resources.
B. all or most of the productive resources are owned by private businesses.
C. the government makes most of the major economic decisions.
D. individual consumers make all economic decisions.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

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153. In recent years, countries with communist economic systems have:
A. enjoyed a period of great prosperity.
B. experienced severe economic depression.
C. produced goods sufficient for their own people and for export.
D. grown very slowly but have avoided the severe problems that have plagued some capitalist economies in Asia and Europe.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

154. One of the most significant problems faced by communist economies is:
A. a great inequality in the distribution of wealth and income.
B. severe inflationary pressures due to rapid economic growth.
C. too little government regulation of economic activity.
D. persistent shortages of basic goods such as food and clothing.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

155. Which of the following statements provides the most accurate comparison of socialism and communism?
A. Under socialism the government owns most businesses, while under communism the church owns most businesses.
B. Both socialism and communism want to achieve a more equal distribution of income and wealth, but under communism the government takes more control over people's lives.
C. Socialism strives for an equal distribution of income, but communism wants income to go primarily to those who own and operate private businesses.
D. Communism believes that the government should always strive to balance its budget, while socialism accepts deficit spending as the price of achieving true equality.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

Understanding Canadian Business (Canadian) 10th edition Nickels Test Bank

156. Some regions of China do not allow their citizens to practise certain religions, change jobs, or move to another town. This is an example of:
A. socialism
B. free-market
C. capitalism
D. communism

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-17 Understanding Communism

157. The Canadian economic system can be described as a:
A. mixed economy.
B. capitalist economy.
C. socialist economy.
D. communist economy.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

158. Today, the economic systems of most nations could most accurately be classified as:
A. pure capitalism.
B. pure socialism.
C. command economies.
D. mixed economies.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

Understanding Canadian Business (Canadian) 10th edition Nickels Test Bank

159. Both socialism and communism are variations of:
A. command economies.
B. competitive economies.
C. free-market economies.
D. plutocratic systems.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

160. A major trend in the world today is that:
A. free-market economies are moving more toward socialism and socialist economies are moving more toward capitalism.
B. productivity in the service sector is increasing much more rapidly than productivity in agriculture and manufacturing.
C. governments in socialist economies are increasing their use of social programs and relying on higher tax rates to finance these programs.
D. governments in countries with capitalist economies are paying less attention to environmental concerns and issues involving social equality.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

161. A command system is characterized by:
A. reliance on the forces of supply and demand to determine what is produced.
B. reliance on the government to determine what is produced and who gets the output.
C. an extremely rapid rate of economic growth.
D. freedom of choice and freedom of competition.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

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162. The government of Ruritania has implemented many programs that promote equality but has become concerned about the very slow rate of growth that has plagued the national economy for many years. In order to address this problem, the government is likely to:
A. take control of more major industries.
B. reduce taxes and cut back on some social programs.
C. make sure to balance its budget.
D. avoid the use of fiscal policies and reduce the supply of money in circulation.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

163. In an effort to promote rapid growth, the government of Goldinia has kept taxes low, done little to regulate business activities, and implemented only modest social programs. The government is now facing political pressure to do more to clean up the environment and reduce the inequalities of income and wealth. Which of the following statements is most accurate? Goldinia's government is currently taking:
A. a purely capitalist approach to achieve its economic goals, and is likely to continue doing so in the future.
B. a purely socialist approach to achieve its economics goals and is likely to continue doing so in the future.
C. a predominately socialist approach to achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more capitalist approach in the future.
D. a predominately capitalist approach toward achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more socialist approach in the future.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

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164. Over the recent past, Canadian governments have been privatizing a number of businesses, as growing public sentiment is that governments are not effective as business operators. This trend is an example of the growth of:
A. command economies
B. free-market economies
C. free trade
D. mixed economies

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-04 Describe the mixed economy of Canada.
Topic: 02-19 Canada's Mixed Economy

165. When the economy is weak, government revenues in Canada:
A. increase
B. stabilize
C. slowly rise
D. decline

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-04 Describe the mixed economy of Canada.
Topic: 02-20 Understanding Canada's Economic System

166. The total value of final goods and services produced within a nation's borders in a given year is known as that nation's:
A. aggregate production quota.
B. aggregate domestic output.
C. index of aggregate economic output.
D. gross domestic product.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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167. In recent years, productivity in the goods-producing sector of the Canadian economy has been:
A. rising.
B. relatively stable.
C. falling slowly.
D. falling very rapidly.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

168. The nation of Tryland has seen the total value of the goods and services it produces increase rapidly over the past year. This would show up most clearly as a(n):
A. increase in Tryland's GDP.
B. increase in Tryland's CPI.
C. increase in Tryland's unemployment rate.
D. decline in structural unemployment.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

169. Almost every discussion about a country's economy is based on gross domestic product. GDP is the:
A. total output of goods and services in a given period divided by the total hours of labour required to provide them
B. amount of goods and services people can buy with the money they have
C. general well-being of a society in terms of political freedom
D. total value of goods and services produced in a country in a given year

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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170. An increase in _____ means that a given number of workers can produce more output than before.
A. CPI
B. structural unemployment
C. productivity
D. GDP

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

171. Kathleen manages a manufacturing plant for ScanRite, Inc., a producer of scanners and other input devices connected to computers. About six months ago, Kathleen asked an assistant to keep track of both work hours and output at her plant. She has compared these figures and has found that even though the number of workers (and the hours they worked) remained relatively steady over the past six months, the plant's output increased significantly. This indicates that:
A. the productivity of workers at the ScanRite plant has increased.
B. the ScanRite plant must have sold off some of its excess inventory.
C. ScanRite prices have increased faster than the wages it pays to its workers.
D. Kathleen should hire more workers.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

172. Three of the major indicators of the economic condition of Canada are the gross domestic product (GDP), the price indices, and the:
A. debt-to-equity ratio (DER).
B. gross resource utilization index (GRUI).
C. unemployment rate.
D. index of capital formation.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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173. The four basic types of unemployment are frictional, structural, seasonal, and:
A. cyclical.
B. procedural.
C. industrial.
D. traditional.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

174. The _____ index measures changes in the prices of goods and services such as food, housing, and apparel.
A. market price
B. producer price
C. wholesale price
D. consumer price

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

175. The _____ is a statistic that is used to compute the pace of inflation or deflation.
A. consumer price index
B. gross domestic product
C. index of leading indicators
D. index of inflationary trends

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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176. _____ refers to a general rise in the price level of goods and services over time.
A. Acceleration
B. Recession
C. Inflation
D. Escalation

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

177. _____ is a condition in which the rate of inflation is declining.
A. Deflation
B. Disinflation
C. Stagflation
D. De-inflation

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

178. _____ is a condition in which the average level of prices is actually falling.
A. Deflation
B. Disinflation
C. Stagflation
D. De-inflation

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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179. A _____ is a very severe recession that is usually accompanied by a decline in the average level of prices.
A. stagflation
B. retraction
C. depression
D. dissolution

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

180. One reason the CPI is followed very closely by the government, businesses, and workers is that:
A. it indicates whether we are running a budget surplus or a deficit.
B. some wages, interest rates, tax rates, and government benefits are tied to changes in the value of the CPI.
C. it is the best measure of worker productivity in the service sector.
D. the gross national product is computed from the reported increases in the CPI.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

181. A collapse in the national banking system of Lasia has resulted in a condition where prices are declining. This condition is known as:
A. disinflation.
B. deflation.
C. contra inflation.
D. overproduction.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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182. Which of the following results would be the clearest indication that an economy was experiencing deflation?
A. A decrease in the unemployment rate
B. A decrease in GDP
C. An increase in the PPI
D. A decrease in the CPI

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

183. The nation of Nadiria is in the midst of a terrible economic downturn. The nation's GDP has been declining steadily for over five years and is now at its lowest level in over fifty years. Nadiria's unemployment rate is at an all-time high and the nation's CPI is falling. Nadiria is experiencing:
A. stagflation.
B. a balance of trade deficit.
C. an economic depression.
D. economic regression.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

184. John complained to his buddy, Frank, that the prices of all the goods he and his family buy have increased a lot over the past year. Frank disagreed, saying that the prices of some goods have gone up a bit, but other prices have declined. Frank feels that the average price of consumer goods hasn't changed very much. In order to resolve their disagreement, John and Frank should look at recent figures for the:
A. GDP
B. CPI
C. PPI
D. MEW

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Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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185. Francine is a bright and talented woman. She recently quit her job at a major corporation because she and her boss didn't get along and she saw little chance for advancement. Francine has not yet found another job, but the economy appears healthy and lots of firms are hiring people with her qualifications. Francine is confident that she will find a job in the near future. Which of the following statements about Francine's current situation is most accurate?
Francine is:
A. not considered unemployed because she voluntarily quit her job.
B. an example of cyclical unemployment.
C. an example of frictional unemployment.
D. most likely to find employment quickly if she seeks training in a different field.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

186. Two or more consecutive quarters of decline in GDP is known as a:
A. seasonal recession
B. frictional retraction
C. depression
D. recession

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-22 The Business Cycle

187. The periodic rise and fall of the economy overtime is referred to as:
A. depression cycles
B. recession cycles
C. business cycles
D. recovery cycles

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-22 The Business Cycle

Short Answer Questions

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188. What is the difference between macroeconomics and microeconomics?

Macroeconomics looks at the operation of a nation's economy as a whole, and microeconomics looks at the behaviour of people and organizations in particular markets. For example, while macroeconomics looks at how many jobs exist in the whole economy, microeconomics examines how many people will be hired in a particular industry or a particular region of the country.

Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 02-01 Describe basic economics.
Topic: 02-02 What Is Economics?

189. Summarize Thomas Malthus' major contribution to economics. Is his argument embraced today?

Economist Thomas Malthus argued that because of the large size of families it seemed a natural conclusion that there would soon be too many people and not enough food and other resources. Called neo-Malthusians, these people still believe there are too many people in the world and that the solution to poverty is radical birth control, including forced abortions and sterilization

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-03 The Secret to Creating a Wealthy Economy

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190. What was the basic premise of Adam Smith's book, *The Wealth of Nations?*

Smith believed that freedom was vital to the survival of any economy, especially the freedom to own land or property and the freedom to keep profits from working the land or owning a business. He believed that people will work hard if they have incentives for doing so—that is, if they know that they will be rewarded.
Rather than believing that fixed resources had to be divided among competing groups and individuals, Scottish economist Adam Smith envisioned creating more resources so that everyone could become wealthier.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-01 Describe basic economics.
Topic: 02-04 Growth Economics and Adam Smith

191. Explain the concept of the invisible hand?

The invisible hand was a phrase coined by Adam Smith to describe the process that turns self-directed gain into social and economic benefits for all.
In Adam Smith's view, business people do not necessarily deliberately set out to help others. They work primarily for their own prosperity and growth. Yet as people try to improve their own situation in life, Smith said, their efforts serve as an "invisible hand" that helps the economy grow and prosper through the production of needed goods, services, and ideas.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-01 Describe basic economics.
Topic: 02-05 How Businesses Benefit the Community

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192. Explain how prices are determined in a free-market economy.

In a free-market economy prices are determined by the interaction of supply and demand. Supply is the relationship between the price of a good and the quantity producers are willing to sell in a given time period. The supply relationship can be illustrated with a graph. This graph will show that the higher the price, the more producers are willing to sell.
Demand is the relationship between the price of a good and the quantity people are willing to buy in a given time period. This relationship can also be illustrated with a graph. The graph will show that the higher the price, the less people are willing to buy.
The equilibrium price of a good is the price where the quantity supplied is equal to the quantity demanded. On a graph, it is found where the supply curve intersects the demand curve. The market price of a good tends to move toward this equilibrium price. If the market price is higher than the equilibrium price, quantity supplied will exceed quantity demanded, and this surplus will put downward pressure on price, moving the market toward equilibrium. If the market price is lower than the equilibrium price, the quantity demanded will be greater than the quantity supplied. Thus, a shortage will exist which will put upward pressure on the market price. The upward movement of price will move the market toward equilibrium. Once the equilibrium price is achieved, there is neither a shortage nor a surplus. Thus, at the equilibrium price there is no further pressure for price to rise or fall (unless something happens to cause the supply or demand relationships to change).

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-08 How Prices Are Determined

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193. Identify the four different degrees of competition and provide examples of each type

Perfect competition exists when there are many sellers in a market and no seller is large enough to dictate the price of a product. Under perfect competition, sellers produce products that appear to be identical. Agricultural products (e.g., apples, corn, potatoes) are often considered to be the closest examples of such products.
Monopolistic competition exists when a large number of sellers produce products that are very similar but are perceived by buyers as different (e.g., hot dogs, candy, and T-shirts). Under monopolistic competition, product differentiation (the creation of real or perceived product differences) is a key to success.
An **oligopoly** occurs when a few sellers dominate a market. Oligopolies exist in industries that produce products in the areas of oil and gas, tobacco, automobiles, aluminum, and aircraft. One reason some industries remain in the hands of a few sellers is that the initial investment required to enter the business is tremendous. In an oligopoly, prices for products from different companies tend to be close to the same. As in monopolistic competition, product differentiation, rather than price, is usually the major factor in market success.
A **monopoly** occurs when there is only one seller for a good or service, and that one seller controls the total supply of a product and the price. Traditionally, monopolies were common in areas such as water, electricity, and telephone services that were considered to be essential to a community. Legislation has ended many monopolies.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

194. Canada has a mixed economy, like most other countries in the world. Explain what the term mixed economy means and list the main benefits of this type of economic organization.

A mixed economy is one that is part capitalist and part socialist. Some businesses are privately owned, but taxes tend to be high to distribute income more evenly among the population.
A mixed economy has most of the benefits of wealth creation that free markets bring, plus the benefits of social equality and concern for the environment that socialism offers.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-03 Compare the benefits and negative consequences of socialism and communism.
Topic: 02-18 The Trend Toward Mixed Economies

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195. No country is solely capitalist. What issues does the Canadian government get involved in?

The text notes that Canadian governments have passed many laws and regulations to ensure that significant economic and cultural institutions, such as banks, insurance companies, radio and TV stations remain under Canadian control. In the past, this has also included rail and airlines. The book also notes the Canada Health Act, which covers public health care.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-04 Describe the mixed economy of Canada.
Topic: 02-20 Understanding Canada's Economic System

196. What kind of competitive environment do the North American professional sport leagues operate in? Support your answer.

The North American professional sport leagues operate as a monopoly and as a result the market fails to be competitive
Consider the profit generated by these four leagues - revenues sources include sponsorship, merchandise, gate receipts (tickets), and broadcast/media rights. One would believe that these profits are distributed through perfect competition among businesses that operate within each of the professional sports, but that is not the case.
The National Hockey League (NHL) is the only seller of premiere professional hockey in North America. The league, through its owners who sit on the Board of Governors, and its Commissioner, control the supply of the product through decisions about franchise expansion. This is why few Canadian franchises exist.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Topic: 02-12 Competition within Free Markets

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197. When describing the state of the Canadian economy, reporters and commentators often refer to figures for the nation's GDP, its unemployment rate, and the CPI. Explain what each of these terms means and why each measure is significant.

GDP stands for **gross domestic product**, which is the total value of a nation's output of final goods and services for a specific year. It is a broad indicator of the overall performance of the economy. Increases and decreases in GDP indicate whether the economy is growing or stagnating. For example, when GDP falls for two or more consecutive quarters the economy is said to be in a recession.
The **unemployment rate** measures the number of civilians 15 or older that are actively seeking work but do not have a job. A high unemployment rate indicates that a lot of people who are able to work and want a job are without jobs. This is obviously undesirable, leading to less output and lower incomes in the economy.
The **CPI** is the consumer price index. This is an index of how the prices of consumer goods are changing over time. The CPI is based on a market basket of consumer goods. When the CPI rises, the economy is experiencing inflation. The CPI is used by the government and many businesses to determine how to adjust their wages and other payments for inflation.

Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-21 Key Economic Indicators

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198. Characterize the four phases of the business cycle.

The Business cycle (also known as the economic cycles) is the periodic rise and fall that occurs in economies over time. 30 these fluctuations are often measured using the real gross domestic product. Economists look at a number of types of cycles, from seasonal cycles that occur within a year to cycles that occur every 48 to 60 years. Economist Joseph Schumpeter identified the four phases of long-term business cycles as boom, recession, depression, recovery:

1. An economic **boom** brings jobs, growth, and economic prosperity.
2. **Recession** is two or more consecutive quarters of decline in the GDP. In a recession, prices fall, people purchase fewer products, and businesses fail. A recession has many negative consequences for an economy: high unemployment, increased business failures, and an overall drop in living standards.
3. A **depression** is a severe recession usually accompanied by deflation. Business cycles rarely go through a depression phase. In fact, while there were many business cycles during the twentieth century, there was only one severe depression (in the 1930s).
4. A **recovery** occurs when the economy stabilizes and starts to grow. This eventually leads to an economic boom, starting the cycle all over again.

Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 02-05 Illustrate the significance of key economic indicators and the business cycle.
Topic: 02-22 The Business Cycle

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