# *Understanding Business 12th edition Nickels Test Bank*

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*Understanding Business, 12e* **(Nickels)**
**Chapter 02 Understanding Economics and How It Affects Business**

1) America's business success is largely due to an economic and social climate that allows businesses to operate freely.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

2) Global economics and politics have significant influence on businesses in the United States.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

3) The study of how society chooses to employ resources to produce goods and services and to distribute them for consumption among various competing groups and individuals is known as demographics.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

4) Economists study how people use resources to produce and distribute goods and services for consumption among competing groups and individuals.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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5) Microeconomics is the economic perspective that looks at the operation of a nation's economy as a whole.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

6) Microeconomics focuses on the decisions and behavior of people and organizations in particular markets.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

7) Resource development is concerned with finding the best way to utilize the fixed amount of resources a society has available.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

8) Resource development is the study of how to increase resources and to create the conditions that will make better use of those resources.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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9) Peace and prosperity will flourish if we can find the one best way to divide existing resources among nations.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

10) Thomas Malthus believed that overpopulation was a major cause of poverty.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

11) In developing nations of the world, population has leveled off and is not expected to increase dramatically in the future.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

12) Economic progress can occur when business owners provide jobs and economic growth for their employees, their communities, and themselves.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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13) Economist Adam Smith's important contribution was an inquiry as to why some nations are wealthy, while others remain poor.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

15) The "invisible hand" in Adam Smith's theory turns self-directed gain into social and economic benefits for all.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

16) According to Adam Smith, the "invisible hand" refers to the government's effort to always keep a check on the wealth creation of individuals, so that no one business could control a market for a particular good or service.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
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17) Studies about the effects of population growth on the economy are part of macroeconomics.

Answer: TRUE
Explanation: Macroeconomics looks at the operation of a nation's economy as a whole. This includes population growth/decline.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

18) An economist is examining how consumers in the automobile market have responded to recent price increases by car manufacturers. He is examining a microeconomic situation.

Answer: TRUE
Explanation: Microeconomics examines the economic behavior of consumers and organizations in particular markets.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

19) Macroeconomics looks at long-run economic problems while microeconomics examines short-run economic problems.

Answer: FALSE
Explanation: The key distinction between macroeconomics and microeconomics is that macroeconomics is concerned with the performance of the economy as a whole while microeconomics is concerned with the behavior of people and organizations in particular markets.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
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20) Thomas Malthus believed that people in most countries would never be able to achieve high standards of living unless the problems of overpopulation were addressed.

Answer: TRUE
Explanation: Thomas Malthus viewed rapid population growth as a major problem that would prevent standards of living from rising above subsistence levels.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: The principle of the invisible hand says that activities directed toward self-gain actually end up helping others. For example, when entrepreneurs start up a new business in search of personal profits, they end up creating jobs for others and producing goods and services that satisfy the wants of consumers.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

22) 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.

Answer: FALSE
Explanation: Smith believed that people would only work hard and create wealth if they were rewarded for doing so. Thus, self-gain is the primary source of motivation in Smith's view of the economy. Smith also pointed out that this desire for self-gain would result in the production of goods and services and the creation of jobs that would benefit others within the economy.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
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23) The concept of the invisible hand begins with the assumption that the primary motivation of entrepreneurs is that they will prosper from their own hard work.

Answer: TRUE
Explanation: The concept of the invisible hand suggests that the primary motivation of entrepreneurs is their own individual gain. However, in seeking to earn a profit for themselves, entrepreneurs will create jobs and produce goods and services that satisfy the wants of others.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

24) Adam Smith's research focused on determining the best way to distribute a fixed amount of resources, rather than on how to create more wealth.

Answer: FALSE
Explanation: Smith's views focused on wealth creation through promoting entrepreneurship. Rather than simply dividing up existing wealth among competing groups, Smith sought to define the conditions under which more wealth could be created.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

25) Large educated populations can contribute to an economy by offering knowledge and entrepreneurship.

Answer: TRUE
Explanation: Education is an important component of innovation. Educated populations usually have a stronger desire to innovate because these people tend to use their knowledge to think critically, and to synthesize information in order to solve problems.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
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26) As indicated by the "World Population is Popping" box, the predicted population increase in some of the world's poorest countries will present economic challenges.

Answer: TRUE
Explanation: By 2050, China, India, and Nigeria are anticipated to be the three largest countries. Challenges like combatting malnutrition, providing education, and affording adequate healthcare will be difficult tasks for poor countries.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Analyze
AACSB: Ethics
Accessibility: Keyboard Navigation

27) Adam Smith believed that incentives to seek personal gain would create wealth, but that the government must then step in to make sure that this wealth is equitably distributed.

Answer: FALSE
Explanation: Smith believed the invisible hand turned self-directed behavior into benefits for all. He felt that as society in general prospered, people would naturally help the less fortunate. He did not foresee the need for active government policies to redistribute income.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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29) Capitalism is the foundation of the U.S. economic system.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

30) State capitalism is the combination of freer markets and some government control.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

31) The most fundamental of all rights in capitalism is the right to private property.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

32) Under capitalism, the government prohibits people and businesses from competing with each other.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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33) A basic right under capitalism is the right of businesses to receive government funding.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

34) Free-market capitalism has made it more difficult for individuals to gain wealth.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

35) Due to the fundamental rights afforded to us by a free-market capitalistic system, people are more willing to take calculated risks.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

36) A free-market economic system is one in which the market of buyers and sellers decides what is produced, how much is produced, and how it is distributed.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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37) Under the basic principle of supply, as the price goes down, manufacturers and suppliers of a product tend to supply less of the product to the market.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

38) Demand refers to the quantity of a good that consumers are willing and able to buy at different prices at a specific time.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

39) At the equilibrium price, the quantity consumers desire to buy equals the quantity sellers desire to sell.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

40) If the quantity supplied in a market exceeds the quantity demanded, a shortage will exist.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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41) If a shortage exists in a market for a good, the price of that good will tend to fall.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

42) The point of intersection between the supply and demand curves is called the stress point.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

43) In the long run, the market price tends to adjust toward the equilibrium point.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

44) Countries that rely on a free market system are plagued by persistent shortages or surpluses of goods and services.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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45) 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.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

47) A monopoly occurs when there is a single seller for a product or service.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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49) Product differentiation is a key to success in monopolistic competition.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

50) In the United States, laws prohibit the creation of most types of monopolies.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

52) The greed of businesspeople represents one of the greatest dangers to the operation of a free market system.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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53) In a free market economic system, the lack of government control and regulation means that businesses find it easy to take advantage of customers by offering poor-quality products at high prices.

Answer: FALSE
Explanation: One of the fundamental characteristics of free markets is competition. Because businesses compete with each other, they must provide customers with quality products at fair prices and offer good service. Firms that produce poor products, charge high prices, or provide poor service will lose business to companies that provide customers with a better deal.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: In many nations, capitalism has led to an unequal distribution of wealth. In fact, some businesspeople have sought personal gain through the exploitation of workers. Examples of this sort of exploitation include child labor, sweatshops employing immigrants for long hours at low wages under dismal working conditions, and even outright slavery.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

55) A surplus currently exists for fidget spinners. In a free-market economic system, the government must step in and buy any spinners that consumers do not buy in order to eliminate the surplus and establish equilibrium.

Answer: FALSE
Explanation: Markets for products tend to move toward equilibrium through price adjustments. If there is a surplus of fidget spinners, the price of fidget spinners will fall, and buyers and sellers will adjust until equilibrium is achieved. Thus, adjustments in market price will restore equilibrium without government intervention.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
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56) Sarah owns a candle shop. She had been charging $5 for each scented jar candle. At this price her customers bought an average of 421 jars each week. For the last few weeks, she has reduced her price to $3.95 per candle, and her customers have purchased an average of 695 jar candles each week. These results are consistent with the economic concept of demand.

Answer: TRUE
Explanation: Generally speaking, the quantity demanded tends to rise when the price of a good falls.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

57) Fatima resides in a country where the economic system is primarily based on free-market capitalism. Fatima is likely to have the freedom to buy and sell property.

Answer: TRUE
Explanation: The right to private property is the most fundamental of all rights under capitalism. This right means that people can buy, sell, and use land, buildings, machinery, inventions, and other forms of property. They can also pass the property on to their children.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

58) Meredith notices that just a few big companies produce most of the flavored teas she sees in the grocery store. She would be correct in describing the flavored tea industry as an oligopoly.

Answer: TRUE
Explanation: An oligopoly exists when a few large sellers dominate a market. Examples of oligopolistic markets include aircraft, automobiles, soft drinks, and breakfast cereals.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
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59) Shimmer Sisters, a popular nail polish and cosmetics company, is gaining popularity among teens and young professionals. Differentiating itself from the sea of companies that compete for the same business, it focuses on creating products using trending color palettes and the finest ingredients. Shimmer Sisters clearly operates in an oligopolistic environment.

Answer: FALSE
Explanation: Shimmer Sisters competes against several companies. *Monopolistic competition* refers to a large number of sellers who produce very similar products. Buyers perceive the products to be different due to the firms' ability to differentiate themselves from each other. An oligopoly is a market in which just a few sellers dominate the market.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

60) Glittering Gems is a popular fashion jewelery company. Although it is gaining in popularity among younger women, its promotional strategy continues to focus on the tarnish-free finish that is applied to every earring, necklace, and ring. Due to the fact that its industry faces monopolistic competition, the company knows that it must continue to differentiate itself from the competition.

Answer: TRUE
Explanation: Glittering Gems competes against several companies. Monopolistic competition refers to a large number of sellers who produce very similar products. Buyers perceive the products to be different due to the firms' ability to differentiate themselves from each other.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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61) As you drive to school in the morning, you will probably flip through several radio stations before deciding to settle on one for the duration of the drive. For instance: you can listen to a "fair and balanced" talk show; an "intelligent talk" program; an interactive "call-in" talk show; a "self-improvement" talk show; and, even an "all sports" talk show. With so much monopolistic competition in radio programming, radio stations focus on offering you something just a little different.

Answer: TRUE
Explanation: Monopolistic competition refers to a large number of sellers who produce very similar products. Buyers perceive the products to be different due to the firms' ability to differentiate themselves from each other.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

62) The nation of Winstone's economic system closely approximates pure capitalism. While Winstone'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.

Answer: TRUE
Explanation: A strength of capitalism is its ability to generate wealth. A weakness of capitalism is that it results in a very unequal income distribution that may not be very responsive to those who are too old or infirmed to compete in the market system.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
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63) This morning on Facebook, you clicked a link to an article about the downfall of a multinational entertainment company. The report shows that despite profits plummeting 35%, the company's CEO received a 9% raise. As you read on, you learn that the company's board of directors approved undeserved salary increases. This is an example of how inequality and greed can infiltrate the free-market economic system.

Answer: TRUE
Explanation: One of capitalism's limitations is the fact that it has brought "inequality" to many parts of the world. Without government regulation, greed can perpetuate in this type of economic system. Business owners and business executives can often negotiate higher salaries and bonuses that are not based on performance.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

64) You read the Electricity City Utility Company has problems. Its headquarters had an expansive retaining wall collapse during a flood last week. This led to toxic coal ash flows that buried homes and even caused a few fatalities. An editorial claims that the company will not be held accountable to the same standards as the asbestos companies that paid severe fines and even went out of business due to their lack of attention to environmental clean-up. You agree with the writer because you recently studied about the various competitive markets and utility companies clearly fall under monopolistic competition.

Answer: FALSE
Explanation: Utility companies are considered regional monopolies. The U.S. legal system has permitted monopolies in the markets for public utilities that sell natural gas, water, and electric power. As is often the case, when there is only one company serving a wide area, consumers do not have a choice, and the firms are not as eager to maintain their capital investments.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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65) The PowerPlus Utility Company recently built a nuclear power plant in a southern state and started competing against Electricity City Utility Company that has served customers in that region for 65 years. Due to deregulation, consumers now have a choice among utility companies in this area. Although PowerPlus has made a sizeable capital investment, if it successfully grows market share, eventually prices for electricity may stabilize or fall.

Answer: TRUE
Explanation: New legislation has ended the monopoly status of utilities in some areas of the U.S., permitting new competitors to seek customers in regions where they could not operate in the past. The purpose of *deregulation* is to increase competition among these utility companies, and to eventually lower prices for consumers.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

66) Socialists believe that the primary economic function of the government is to promote rapid economic growth.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

67) In socialist economies, the government owns some, if not most, basic businesses such as telecommunications systems and utilities.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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68) 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.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

69) 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.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

70) Socialists believe that wealth should be more evenly distributed than what actually occurs in a free-market capitalistic system.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
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72) Over the past decade, socialist economies have proven to be more successful at creating wealth and jobs than capitalist economies.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

74) Brain drain is the loss of the best and brightest people from their home countries to other countries.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

75) High tax rates in socialist countries are a major reason these nations have experienced a brain drain.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
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76) Incentive to own and operate businesses is high in nations whose governments are proponents of socialistic practices.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

78) Communism is an economic and political system in which the state makes almost all economic decisions and owns almost all the major factors of production.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

79) Most communist countries today are suffering from severe economic problems.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
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80) A major distinction between capitalism and socialism concerns the distribution of income.

Answer: TRUE
Explanation: Under capitalism, self-interest is the driving force, so people must be rewarded for what they produce. This can result in unequal distribution of income. Under socialism, the emphasis is on a more equal distribution of income, so those earning more are often expected to share their incomes with those who earn less. This is often accomplished by placing high tax rates on people with high incomes and using the tax revenues to pay for programs that benefit people with lower incomes.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

81) Countries that wish to avoid shortages and surpluses of goods should adopt a communist system.

Answer: FALSE
Explanation: In a communist system, prices do not reflect supply and demand as they do in a free market system. Thus, the government has no way of knowing what to produce to best satisfy the wants of consumers.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

82) Workers in nations who are strong proponents of communism work much harder and longer hours.

Answer: FALSE
Explanation: Communism is a political system of a command economy that favors government ownership of most property and government control over most economic decisions. Under a communist system, the government generally maintains a great deal of control over its citizen's lives. Businesspeople are not inspired to work hard because the government takes most of their earnings.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
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83) In the small nation of Evensplitalia, the government owns several of the key businesses and provides a wide range of social services. The government strongly emphasizes income equality and eliminating the great income disparities among its citizens. These features of Evensplitalia's economy are consistent with a socialist economic system.

Answer: TRUE
Explanation: Socialism is based on the premise that the government should own basic businesses in order to distribute profits more evenly. In most socialist economies, the government provides a wide range of social services and emphasizes an even distribution of income.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

84) Mariska left her home country to become a nanny for a family in a suburb of San Diego, California. One of the benefits of her new job is she can attend the community college near her family's home. However, when she arrived, she experienced the differences from a predominately socialist nation and a capitalist nation. Mariska noted that public transportation in California was limited and expensive, making it difficult to get to school. For a negligible fee, the government in her home country provided public transportation for everyone. Mariska's home country's economic system was more characteristic of socialism.

Answer: TRUE
Explanation: Socialism is an economic system based on the premise that some, if not most, basic businesses such as steel mills, coal mines, and utilities should be owned by the government so that profits can be more evenly distributed among the people. Nations that practice socialism usually collect higher taxes than those that practice capitalism, in order to pay for things such as transportation that are offered to everyone.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Apply
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85) Socialism and communism are both variations of a free-market economy.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

86) In free-market economies, the government plays a major role in deciding which goods are produced and who will get them.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

87) Governments that were predominantly capitalist are moving toward socialism, while governments that were predominantly socialist are moving toward capitalism.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

88) Like most nations, the United States has a mixed economy.

Answer: TRUE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
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89) Most countries throughout the world can be classified as either purely capitalist or purely socialist.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

90) There is general agreement in the United States on the degree to which the government should be involved in the economy.

Answer: FALSE
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

91) Subtle differences, such as the right to one's religious preference, make the command economic system known as communism more like a mixed economy than a socialistic system.

Answer: FALSE
Explanation: Mixed economies evolve when governments recognize the negative effects of purely capitalist or purely socialist or communist systems, and implement programs that capture the characteristics of the other economic systems in the hopes of creating a more balanced economy.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
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92) In the past, socialist nations have realized that some of the government-run businesses do not grow as quickly as businesses that operate for a profit.

Answer: TRUE
Explanation: Under socialism, basic industries such as telecommunications, utilities, and broadcasting are usually owned and managed by the government. Tax revenues pay for the maintenance of these industries. They often lag behind similar industries in other countries that are privately owned and operated for a profit. In socialist nations, the taxes collected to support these industries are not enough.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

93) Although mixed economies tend to improve economic conditions, moral values prevent communist nations such as North Korea and Vietnam from progressing in this direction. Overall, economic progress continues to be very slow in these nations.

Answer: FALSE
Explanation: North Korea and Vietnam recognize the economic benefits of opening their doors to new business and permitting these businesses to operate without government intervention.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

94) In a mixed economy, the government's goal is to grow the economy and maintain some measure of social equality.

Answer: TRUE
Explanation: Mixed economies exist when the market and the government are both involved in the allocation of resources. Socialist economies have adopted some elements of free-market systems in order to stimulate more growth, while free-market economies have adopted a larger role for the government to promote a more equitable distribution of income.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Apply
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95) Cashland is a nation that supports a free-market economy with private ownership of businesses. But lately, the government of Cashland has developed policies designed to help the needy and lessen the level of income inequality. These programs are funded by relatively high taxes on businesses and workers. These arrangements suggest that the economy of Cashland is trending toward pure capitalism.

Answer: FALSE
Explanation: Pure capitalism is a system that emphasizes individual freedom and the profit motive. Socialism, on the other hand, emphasizes wealth equality. To achieve that goal, socialist countries levy high taxes to provide for social programs designed to bring about a more equitable distribution of wealth. Cashland has elements of both capitalism and socialism, so it is best described as a mixed economy.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Apply
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96) Serena is a vocal critic of socialism. She often points out that governments in many socialistic countries have cut back on government services and have thusly reduced taxes. Serena believes that this trend will ultimately result in every country adopting pure capitalistic ideals. Recent evidence shows that her views are essentially correct.

Answer: FALSE
Explanation: It is true that the governments of many socialist nations have reduced their social programs and have cut taxes, which suggest a movement to become more like free-market economies. However, they have not totally abandoned the socialist approach. Also, Serena's observations ignore the increasing government involvement in many free-market economies. The result of these trends is the emergence of mixed economies rather than a move toward pure free-market or pure command economies.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
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97) Recently the government of Evensplitia announced that it is standing behind the concept of state-owned utilities and public schools in the nation. Although not all its industries are owned and managed by the government, this would lead one to believe that Evensplitia has a preference for socialism.

Answer: TRUE
Explanation: Socialism is a command economic system where the government owns and operates some of the major industries such as the transportation industry, utilities, telecommunications and broadcasting, and the school system.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

98) Most nations recognize that private enterprise is detrimental to business growth and what is best for consumers. Recently, Evensplitia had the opportunity to sell its government-owned telecommunications system to a private firm. Instead it realized that it would be better off if it raised taxes so that it could maintain the status quo.

Answer: FALSE
Explanation: Privately owned businesses tend to grow and prosper as compared to businesses that are owned by governments. Governments are often unable to financially support these businesses at much beyond a level of subsistence. Most countries that have sold or privatized their government-held businesses have found that these particular industries have expanded at a faster rate.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

99) We use indicators such as the gross domestic product (GDP), the interest rate, and the price indexes to measure the health of our economy.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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100) The total value of a country's output of final goods and services in a given year is known as the gross domestic product (GDP).

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
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101) The measurement of total sales volume at all stages of production is called the gross domestic product (GDP).

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
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102) Any output produced by U.S. firms is included in the value of U.S. GDP, even if the output was produced in a foreign country.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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103) GDP figures do not include the value of illegal activities.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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104) To be classified as unemployed, a person must be at least 16 years old and trying to find a job within the past four weeks.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

105) Frictional unemployment occurs because the economy is experiencing a recession.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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106) Structural unemployment refers to unemployment caused by the restructuring of firms or by a mismatch between the skills or location of job seekers and the requirements or location of available jobs.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
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107) Inflation refers to a general rise in the prices of goods and services over time.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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108) Inflation refers to the persistent rise in the purchasing power of money.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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Accessibility: Keyboard Navigation

109) Disinflation refers to a situation in which prices continue to rise, but not at the rate they were rising previously.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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110) Deflation means prices are declining and is an indication that economic conditions are deteriorating.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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111) The consumer price index (CPI) measures what is happening to prices at the wholesale level.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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112) The CPI measures the pace of inflation or deflation.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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113) The CPI is based on the prices of a carefully selected market basket of goods, all of which consumers can purchase at a supermarket.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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114) Some wages, tax brackets, interest rates, and government benefits are based on the CPI.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

115) Core inflation figures omit healthcare prices, but not energy prices.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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116) The producer price index measures what is happening to prices at the wholesale level.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

117) Productivity of workers in the U.S. is helped by the use of better machinery.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
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118) The higher the measurement of productivity, the higher the likely costs of production.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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120) As productivity increases, the cost of producing goods and services is likely to fall.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
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121) 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.

Answer: FALSE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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122) An economy is said to be in a recession if GDP declines for two or more consecutive quarters.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
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123) A depression is a severe recession that is often accompanied by deflation.

Answer: TRUE
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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124) A prediction that GDP will increase significantly over the next six months is bad news for most businesspeople.

Answer: FALSE
Explanation: An increase in the GDP would indicate that the output of final goods and services is rising. This indicates a healthy and growing economy, which would be good news to most businesses.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

125) 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.

Answer: FALSE
Explanation: Changes in the CPI indicate whether the economy is experiencing inflation, disinflation, or deflation. For example, a significant increase in the CPI indicates that prices of a wide variety of consumer goods are rising. Moreover, changes in the CPI can directly influence the wages some people receive (through cost of living adjustments), the interest rates some people pay, the benefits the government pays to various recipients, and the tax brackets that are used to determine the income tax rate applied to earnings.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

126) It is understandable that productivity is rising faster in the service sector because service businesses have newer technologies than the manufacturing sector and fewer laborers.

Answer: FALSE
Explanation: A problem in the service sector is that it's difficult to measure the output per worker due to the unique nature of services.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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Understanding Business 12th edition Nickels Test Bank

127) A rising GDP, rising unemployment rate, and rising inflation rate signify a healthy economy.

Answer: FALSE
Explanation: A rising GDP, declining unemployment rate, and decreasing inflation would signify a healthy economy.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

128) 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 medical care and energy.

Answer: FALSE
Explanation: The CPI is based on the prices of food, apparel, energy, healthcare, housing, transportation, education, and other services.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

129) Willow was laid off from her job 7 months ago. At first, she looked for a new job nearly every day. However, in the last 6 weeks, Willow has become depressed about not finding a job and quit looking. Based on the criteria used by the government, Willow is a civilian whose job status is included in computing the national unemployment rate.

Answer: FALSE
Explanation: The unemployment rate refers to the number of civilians at least 16 years old who are unemployed and tried to find a job within the prior four weeks. Willow has not tried to find a job in six weeks, so she would not be included in the computation of the unemployment rate.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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130) Michael and Casey are having an argument. Casey believes that over the past year, the economy is experiencing rapid inflation, while Michael says that the economy actually experienced disinflation during this period. The easiest way for Michael and Casey to settle their argument is to look at GDP figures for the past year.

Answer: FALSE
Explanation: GDP measures the market value of final goods produced in a country in a given year. An increase in GDP may be due to inflation, or it may be due to an increase in the production of final goods, or it may be due to a combination of both of these factors. Thus, looking at GDP by itself does not provide a clear answer to what has happened to prices. Michael and Casey would be better served by looking at the changes in price indexes such as the CPI. The CPI tracks movements in the average level of prices for a market basket of consumer goods over time.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

131) Aubrey is the office manager of a service company. Recently, she approved the request for new computers and office equipment for the entire office. If Aubrey's company is like most service companies, she will probably see a big jump in the productivity figures reported for workers in her office.

Answer: FALSE
Explanation: In the service sector, improvements in technology and in the number of computers and other types of machinery used by workers often improve the quality of the service, but not the output per worker. Thus, the productivity figures are unlikely to change very much.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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132) 140. The government of Ativa has made great progress in its efforts to control its rapid inflation. Although prices are still on the rise, the rate of increase has slowed considerably. This suggests that Ativa is experiencing disinflation.

Answer: TRUE
Explanation: Disinflation occurs when the rate of inflation is slowing.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

133) The nation of Forlornistan is reporting a decline in GDP for the fourth consecutive year, with no relief in sight. With unemployment at record levels and businesses failing faster than at any time in the past century, Forlornistan is likely experiencing a depression.

Answer: TRUE
Explanation: An economy is in a recession if its GDP declines for 2 consecutive quarters (six months). A depression is a severe recession. Since Forlornistan GDP has shown decline for four years and other economic conditions (the unemployment rate and the number of business failures) are described as being the worst the nation has experienced in the past century, it appears that the definition of a depression is satisfied.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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134) Sean received an ad for bundled television, phone, and Internet service that cost substantially more than he is currently paying. At the same time, he received a notice from his utility company that summer rates would be increasing. His textbooks are costing twice as much as they did last year, and yesterday, gas cost 30 cents more per gallon than it did last week. He can't help but marvel at how prices are rising when so many people have lost their jobs and are cutting back on expenditures. He is certain that this situation is an example of stagflation.

Answer: TRUE
Explanation: Stagflation is the term used to describe the situation where the economy is slowing, yet prices are still rising. In the situation described here, Sean is experiencing rising prices and a rising unemployment rate.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
AACSB: Knowledge Application
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135) Brianne graduated from college and is looking for her first job. She received a degree in nursing from a well-regarded local university. Brianne has several leads and has heard the nursing market is still strong, so she is convinced that she will locate a good job in the near future. Brianne's current situation is an example of structural unemployment.

Answer: FALSE
Explanation: Structural unemployment is caused by problems such as mismatches between the skills workers have and the skills employers need or due to restructuring within an industry. The description of Brianne situation is not consistent with this type of unemployment. Her situation is really an example of frictional unemployment. This type of unemployment refers to workers who have quit their job for personal reasons or those who are entering the labor market after being out of it to go to school or to raise a family.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
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136) Fiscal policy refers to the federal government's efforts to keep the economy stable by controlling the amount of money in circulation.

Answer: FALSE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

137) Fiscal policy involves the federal government's efforts to stabilize the economy by increasing or decreasing taxes and/or government spending.

Answer: TRUE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

138) When the government attempts to stabilize the economy by changing taxes or government expenditures, it is using fiscal policy.

Answer: FALSE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

139) The national deficit is the difference between our nation's exports and its imports.

Answer: FALSE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
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Accessibility: Keyboard Navigation


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140) The size of the national debt increases when the federal government runs a deficit.

Answer: TRUE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

141) The U.S. national debt equals the sum of government deficits over time,.

Answer: TRUE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

142) The Federal Reserve Bank is responsible for controlling the money supply.

Answer: TRUE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

143) Monetary policy is directly under the control of the U.S. Department of the Treasury.

Answer: FALSE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
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144) One of the major ways the Fed influences economic conditions is through its control of interest rates.

Answer: TRUE
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

145) High tax rates that put money into the government's funds tend to slow spending, and ultimately slow the economy.

Answer: TRUE
Explanation: Fiscal policy refers to the federal government's efforts to keep the economy stable by increasing or decreasing taxes or government spending. When the government raises taxes, the result is a tightening of consumer and business spending, which has the tendency of slowing the economy. This draws money away from the private sector.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

146) If the government wants to jump-start the economy resulting in more consumer spending, it will raise taxes.

Answer: FALSE
Explanation: Fiscal policy refers to the federal government's efforts to keep the economy stable by increasing or decreasing taxes or government spending. When the government raises taxes, the result is a tightening of consumer and business spending, which has the tendency of slowing the economy. This draws money away from the private sector.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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147) Monetary policy is implemented to ease the up and down swings of business cycles, while fiscal policy is implemented to create swings when the cycle is stalled in an economic boom.

Answer: FALSE
Explanation: Fiscal and monetary policies have the purpose of bringing stability to the nation's economy. Fiscal policy involves government spending by raising or lowering taxes; monetary policy is enacted by the Fed (Federal Reserve Board) by raising or lowering interest rates.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

148) If the national debt is $20 trillion, the national deficit will be considerably higher.

Answer: FALSE
Explanation: The national deficit is the amount of money the federal government spends beyond what it collects in taxes for a given fiscal year. The national debt is the sum of government deficits over time.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

149) Government spending on defense decreases the national deficit.

Answer: FALSE
Explanation: Any government spending, including money spent on defense increases the national deficit because it decreases the amount of revenue that the government has collected.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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150) To jump-start the economy, the Fed is likely to lower interest rates, in order to encourage individuals and businesses to spend money.

Answer: TRUE
Explanation: The Fed meets once each month to review economic growth and make decisions with respect to raising or lowering interest rates. If the Fed lowers interest rates, it is trying to encourage individuals and businesses to borrow more money and spend it in ways that improve their quality of life, as well as increase the GDP. If the Fed raises interest rates, it is trying to discourage individuals and businesses from borrowing money, so as to slow down the economy.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

151) The best way to avoid national budget deficits is to increase our exports and decrease our imports.

Answer: FALSE
Explanation: Budget deficits are not the same thing as trade deficits. A federal budget deficit arises in a given fiscal year if government spending exceeds tax revenues.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Understand
AACSB: Reflective Thinking
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152) In order to restrict spending by businesses and households, the Fed would take measures designed to lower interest rates.

Answer: FALSE
Explanation: The Fed conducts monetary policy by managing the money supply and interest rates. Lower interest rates would reduce the cost of borrowing, thus leading to more spending. If the Fed wanted to restrict spending, it would be more likely to raise interest rates.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Understand
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153) Senator Spendital recently made a speech condemning the continuous deficits in the federal budget. He is now proposing an increase in tax rates to raise more revenue for the government and thus gradually reduce the size of the national debt over a period of several years. The strategy Senator Spendital is proposing is a common type of monetary policy.

Answer: FALSE
Explanation: When the government changes the level of taxes and government expenditures, its actions are referred to as fiscal policy.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

154) Prestigious economics professor, Tom Ruland, recently urged government policy makers to cut taxes and increase government spending in order to pull the economy out of a downturn. The policy measures called for by the professor are examples of fiscal policy.

Answer: TRUE
Explanation: Fiscal policy involves changes in government spending and taxes to help stabilize the economy.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
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155) Dan and Susan Greene are purchasing their first home in Savannah, Georgia. They are seeking pre-qualification on a home loan. The unemployment rate for Georgia is 10.2% and GDP is declining. Chances are pretty good that the Fed will raise interest rates in order to loosen the supply of money, resulting in a more expensive loan for Dan and Susan.

Answer: FALSE
Explanation: A 10.2% unemployment rate, as well as declining GDP, are good indications that the economy is in a recession, and/or downward business cycle. In a recessionary climate, the Fed is likely to lower interest rates to induce spending. Dan and Susan may be able to qualify for a lower interest rate.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

156) Quinn owns a local salon. She wants to update her shop with new customer massage chairs and work stations for her nail technicians. If the Fed were to lower interest rates by 1.5 percentage points, at the same time that the government increased the tax rate by 1.5%, she could immediately conclude that updating her shop would not increase or decrease her financial position.

Answer: FALSE
Explanation: If Quinn applies and gets a loan to update her shop, she will have to pay a percentage annually on the principle of the loan. We do not know the loan amount, so we do not know the dollar amount of deductible loan expense. Taxes are paid on profits, after we deduct all applicable expenses. Since we don't know the deductible dollar amount of interest expense, nor do we know the dollar amount that Quinn will pay in taxes, we are unable to determine if the percentage increase or decrease in taxes would be a wash.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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157) The Fed is concerned that the economy is growing too rapidly. Given these concerns, it is likely to pursue policies to restrict the supply of money and raise interest rates.

Answer: TRUE
Explanation: The Fed is in charge of monetary policy. This involves controlling the supply of money and interest rates. When the Fed wants to slow down the economy it will restrict the money supply and increase interest rates to reduce the amount of borrowing.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

158) Kyle O'Donnell needs a new car and he is planning to borrow the money from a nearby bank. The other day, he read online that the Federal Reserve is likely to implement policies in the next few weeks that are designed to stimulate the economy. If he waits until after the Fed implements its new policies, Kyle would probably get a lower interest rate on his car loan.

Answer: TRUE
Explanation: The Fed usually pursues policies to decrease interest rates when it wants to stimulate the economy. If Kyle wants a low interest rate on his car loan, he should wait until the Fed acts to stimulate the economy.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
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159) Economics is the study of how a society _____.
A) invests wisely in the stock market.
B) employs resources to produce goods and services and distribute them among competing groups and individuals.
C) employs statistical techniques to make predictions about the evolution of society over the long run.
D) governs itself for the good of its citizens.

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

160) _____ is the study of how a society employs its limited resources to produce goods and services and how it distributes them among competing groups and individuals.
A) Economics
B) Capitalism
C) Marketing
D) Socialism

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: D
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
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162) _____ looks at the behavior of individual people and organizations in specific markets.
A) Macroeconomics
B) Finite economics
C) Microeconomics
D) Nanoeconomics

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

163) Resource development is
A) the study of how society chooses to employ resources to produce goods and services and distribute them for consumption among various competing groups and individuals.
B) the study of how to increase the amount of available resources and create conditions that will make better use of these resources.
C) the part of economics that looks at the operation of a nation's economy as a whole.
D) the part of economics that looks at particular markets.

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

164) The study of how to increase the amount of available resources and create conditions that will make better use of these resources is known as
A) human resource management.
B) microeconomics.
C) econology.
D) resource development.

Answer: D
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
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165) Economist Thomas Malthus believed that _____ would limit economic progress.
A) depletion of gold reserves
B) overpopulation
C) the tendency of governments to levy high tax rates
D) the inability of workers in developed nations to compete against cheap foreign labor

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

166) A key to economic growth and development is to
A) locate more deposits of gold and other precious metals.
B) emphasize a fair and equitable distribution of income.
C) provide people with better education.
D) allow government planning to guide the allocation of resources.

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

167) _____ is considered by some to be the father of modern economics.
A) John Maynard Keynes
B) Adam Smith
C) Thomas Piketty
D) Thomas Malthus

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Remember
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168) Which of the following is an important premise of Adam Smith's conclusions about economic prosperity?
A) Individual freedom is necessary if a society is to prosper.
B) Understanding the concept of survival of the fittest will lead to prosperity.
C) Determining what motivates people will lead to prosperity.
D) Command economies and structured markets must be in place before we can work toward prosperity.

Answer: A
Explanation: Adam Smith believed that freedom was vital to the survival of any economy, especially the freedom to own land or property and to keep the profits from working the land or running a business.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

169) Which of the following would be a topic emphasized in a macroeconomics course?
A) The factors that determine how fast a nation's economy is growing
B) How a company decides the amount it will charge for one of its products
C) How a consumer chooses which goods to buy
D) The factors that determine the wages for labor in the mining industry

Answer: A
Explanation: Macroeconomics is concerned with the performance of a nation's economy as a whole.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
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170) Which of the following would be a topic emphasized in a microeconomics class?
A) How a nation's GDP is computed
B) The nation's unemployment rate
C) How market conditions determine the price of a specific product
D) How the government can provide adequate healthcare

Answer: C
Explanation: Microeconomics is concerned with the behavior and performance of people and organizations in particular markets.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

171) The main goal of resource development is to find ways to
A) increase the amount of resources and create conditions that will make better use of those resources.
B) allocate existing resources more efficiently among competing uses.
C) find the right balance between policies that promote economic growth and policies designed to promote other goals such as a fair distribution of income.
D) promote the central planning of resource utilization so that resources can be allocated to the uses that will benefit society the most.

Answer: A
Explanation: Resource development is the study of how to increase resources and to create the conditions that will make better use of those resources.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
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Understanding Business 12th edition Nickels Test Bank

172) Thomas Malthus was pessimistic about the ability of a society to achieve high standards of living for most of its citizens because he believed that
A) government has a natural tendency to run deficits that would eventually bankrupt a nation.
B) significant population growth would result in shortages of food and resources.
C) owners of businesses would deliberately exploit their employees in an attempt to earn greater profits, and this would ultimately lead to a worker's revolt.
D) high tax rates would eventually undermine people's incentives to work hard and create wealth.

Answer: B
Explanation: Thomas Malthus believed that human population would continue to grow until the economy was unable to support any more people. This would result in a situation where the standard of living of most people would be at a subsistence level.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
AACSB: Reflective Thinking
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173) Economics was called the "Dismal Science" by Thomas Carlyle because
A) too many people would result in food shortages and shortages of other resources.
B) it was a very complex area of study based on mathematics.
C) the world population was growing slower than expected in the 1700s, leading economists to call it a dismal period of time.
D) there were too many old people and not enough young people to care for them.

Answer: A
Explanation: Thomas Carlyle called economics the "dismal science" because of the argument made by Thomas Malthus in the late 1700s and early 1800s that there would soon be too many people and not enough food and other resources to support them.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
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Understanding Business 12th edition Nickels Test Bank

174) How is it that people working in their own self-interest produce goods, services, and wealth for others?
A) By taking advantage of a vast supply of labor, people working in their own self-interest could hire others at very low wages.
B) In order to earn money and produce goods that improve lives, self-directed gain would provide jobs, and subsequently wages for others.
C) The government pays entrepreneurs in the U.S. to produce goods, services, and wealth for others.
D) Entrepreneurs tend to include themselves in a group of people who need charitable support. A portion of the entrepreneur's profit (as required by law) goes to the charity of one's choice to support the less fortunate.

Answer: B
Explanation: The way people can become wealthy by their own efforts is to sell what they produce to others. As the business grows, labor is hired to produce more. This is the "invisible hand" concept that turns self-directed gain into social and economic benefits for all.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
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175) Adam Smith believed that countries would prosper if businesspeople were free to start and run their own businesses. Businesspeople would make a profit by providing the goods, services, and ideas that others in the economy wanted, and they would hire others to help increase those profits, leading to social and economics benefits for many. This idea was called the
A) kinked demand theory.
B) invisible hand.
C) spending multiplier.
D) demand accelerator.

Answer: B
Explanation: Adam Smith believed that self-interest would lead profit-seeking entrepreneurs to produce goods and services wanted by consumers, and to hire others to grow their businesses. This would prove to be social and economic gain for the entrepreneur and for others.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
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176) In the box "World Population is Popping," the textbook describes how the world's population is growing at an incredible rate and discusses the challenges that will face different countries. Which of the following statements best illustrates the challenges that can arise?
A) Europe's population is expected to grow by 12% in 2050. With so many children, there will not be enough schools or teachers to provide an adequate education.
B) North American growth will slow down and there will be fewer businesspeople to provide the services we have become accustomed to.
C) China and India will remain the two most populated countries and will not need to make any changes.
D) Nigeria will experience the world's fastest growth and though its continent has the world's fastest growing middle class, combating hunger and poverty, providing healthcare, and expanding education will pose a challenge.

Answer: D
Explanation: Population forecasts estimate the global population will increase to 9.7 billion by 2050. With that, Nigeria is anticipated to overtake the United States as the third largest country in the world. For some of the world's poorest countries, the increase in population poses large challenges in poverty, healthcare, nutrition, and education.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Understand
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177) Louisa is a gifted baker. She plans to open a small café in which she will be the head pastry chef. Louisa is willing to work the long hours because she believes that hard work will allow her business to succeed and earn her sizeable profits. Louisa's efforts are most consistent with the economic theory developed by
A) Thomas Malthus.
B) Karl Marx.
C) Adam Smith.
D) Thomas Piketty.

Answer: C
Explanation: In Smith's view, if businesspeople are allowed to follow their own self-interest they will be motivated to work hard and provide needed products that increase the wealth of society as a whole.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
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178) Brendan considers himself to be a follower of Thomas Malthus. Which of the following statements would he be most likely to make?
A) The key to economic growth is to keep taxes and government regulations to a minimum.
B) Command economies are more likely to encourage economic growth than free-market economies.
C) Allowing people to follow their self-interest is the best way to generate economic growth and prosperity.
D) A society will not experience sustainable economic progress unless it accepts the need to limit population growth.

Answer: D
Explanation: Thomas Malthus worried that overpopulation would make long-term economic prosperity impossible.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

179) Which of the following statements would a follower of Adam Smith most likely make?
A) The federal government should use its ability to spend and tax to guide the decisions of businesses and consumers.
B) The federal government puts too much emphasis on economic growth instead of aiding in social issues.
C) The federal government should help in alleviating overpopulation.
D) The federal government should give people the freedom to follow their own interests; theoretically their efforts will lead to economic growth that benefits society as a whole.

Answer: D
Explanation: Adam Smith believed that self-interest could motivate people to work hard and start businesses that created jobs and wealth that benefited society as a whole. This was a basic message of Smith's famous invisible hand principle.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
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180) Marco has noticed that as older adults purchase tablets, they do not know much about how to use them and are frequently aggravated. He decided he could earn a nice profit by developing courses and offering one-on-one help to aid his customers in overcoming their deficiencies. Although the business struggled at first, he is experiencing a good deal of success now. Marco has many satisfied customers, and the business has grown to the point where he now employs several workers, some of whom were previous clients. Marco's experience is an example of
A) socialism at work.
B) the principle of comparative advantage.
C) the invisible hand concept.
D) the multiplier principle.

Answer: C
Explanation: The invisible hand concept suggests that people who seek to serve their own interests can produce products and create jobs that benefit others in society.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Apply
AACSB: Knowledge Application
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181) For many years, Senator Juliana Higdon has called for more government regulation of business. "After all," the senator said recently, "businesses are out to make a profit, not to create jobs or serve their customers. The government needs to pass more laws to require businesses to take the interests of consumers and workers into account." From these comments, it is clear that Senator Higdon
A) agrees with the ideas of Thomas Malthus.
B) does not accept the "invisible hand" idea brought forth by Adam Smith.
C) is unaware of the fact that most businesses in the United States are owned by the government.
D) does not realize that government regulation is already the main determinant of business decisions in capitalist economies.

Answer: B
Explanation: The concept of the invisible hand, developed by Adam Smith in his famous book, *The Nature and Causes of the Wealth of Nations*, says that in an effort to earn a profit, entrepreneurs produce goods that satisfy the wants of consumers and create jobs for workers. It is clear from her statements that Senator Higdon does not accept this philosophy.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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182) According to the invisible hand concept, the best way for a society to encourage the creation of jobs and the production of the products most wanted by consumers would be to
A) permit government-owned industries, such as telecommunications, transportation, and energy, and operate these firms as nonprofit organizations.
B) allow private ownership of businesses, but use extensive regulations to force businesses to behave as the government wishes.
C) allow entrepreneurs personal freedom to follow their own self-interest.
D) impose high taxes on individuals, and use the revenue to subsidize businesses to encourage them to produce the maximum rate of output.

Answer: C
Explanation: Personal freedom is an important premise of wealth creation. Entrepreneurs, acting in their own self-interest need the personal freedom to own property and keep the earning from their hard work.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Apply
AACSB: Knowledge Application
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183) A young couple living in rural west-central Missouri heard about the closing of a local grocery store. Although a small operation, it served a small community that would now have to travel another 20 miles to the nearest grocery store. With help from a local realtor and banker, the couple purchased the store, remodeled it, and reopened it. As new storeowners, they had to carefully watch cash flow. As their customer base began to grow, they began offering hot food, and hired others to help with the operation. The economic benefit created in this story is called:
A) an economic intervention.
B) an economic crisis control.
C) the invisible hand.
D) the deliberate process.

Answer: C
Explanation: Personal freedom is an important premise of wealth creation. Entrepreneurs, acting in their own self-interest need the personal freedom to own property and keep the earning from their hard work.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Analyze
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184) _____ is the name of a free-market economic system in which most of the factors of production and distribution -- such as land, factories, railroads, and stores -- are owned by individuals.
A) Socialism
B) Capitalism
C) Communism
D) Marginalism

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
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185) 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 important services are operated by the government.
D) markets operate to carry out the decisions made by central planners.

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
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186) The foundation of the U.S. economic system is based on
A) capitalism.
B) the ideas of Thomas Malthus.
C) equality.
D) the saying, "from each according to ability, to each according to need."

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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187) Which of the following is a basic right under capitalism?
A) Freedom of collusion
B) Freedom from taxation
C) The right to vote
D) The right to compete

Answer: D
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
AACSB: Reflective Thinking
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188) The freedom of people to decide where they want to work and live, and what they want to buy or sell are basic capitalist rights under
A) eminent domain.
B) freedom of expression.
C) freedom of choice.
D) freedom of competition.

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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189) The freedom for people to buy, sell, and use land, buildings, machinery, and inventions are basic capitalist rights under
A) the right to own private property.
B) freedom of expression.
C) freedom of choice.
D) freedom of competition.

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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190) A free market is one in which decisions about what to produce and in what quantities are made by
A) the Fed.
B) the president.
C) the market.
D) Congress.

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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191) In a free-market economic system, _____ is the key determinant used to signal to producers what to produce and how much to produce.
A) the market curve
B) trend
C) price
D) quantity

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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192) The quantity of a good or service that producers are willing to sell at different prices during a specific time period is known as the
A) supply of that product or service.
B) demand for that product or service.
C) elasticity of that product or service.
D) utility of that product or service.

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
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193) A simple 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.

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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194) A simple supply curve shows a relationship between the
A) amount of labor 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 of that good sellers are willing to offer for sale at a specific point in time.
D) amount of a good a firm produces and the amount demanded by consumers.

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
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195) A(n) _____ 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) equilibrium

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
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196) A typical demand curve shows that
A) as people earn higher wages, they buy more of a specific 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.

Answer: D
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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197) When the supply curve and demand curve for a particular good are shown together on a single graph, the point at which the two curves intersect identifies the
A) total profit earned by producers.
B) total amount of labor 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.

Answer: D
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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198) When prices are free to adjust over time, in the long run, the market price of a good tends to
A) rise above the equilibrium price in the long run.
B) equal the equilibrium price.
C) fall below the equilibrium price in the long run.
D) have no specific relationship to the equilibrium price.

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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199) 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.

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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200) _____ is the market situation in which there are many sellers in a market and no seller is large enough to dictate the price of a product.
A) Oligopoly
B) Monopolistic competition
C) Perfect competition
D) Microeconomic competition

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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201) _____ exists when a large number of firms produce goods that are similar but customers believe there is a difference.
A) Perfect competition
B) Monopolistic competition
C) Oligopoly
D) A monopoly

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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202) _____ exists when the entire supply of a good is controlled by a single seller.
A) Perfect competition
B) Oligopoly
C) Pure capitalism
D) A monopoly

Answer: D
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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203) An oligopoly is a market that is characterized by
A) one seller that totally dominates the supply of the product.
B) a large number of small companies all producing very similar products.
C) a few large sellers who dominate the market.
D) several small firms that compete primarily by differentiating their products.

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Remember
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204) Which of the following statements about capitalism is the most accurate?
A) In capitalist economies, most resources are owned by the government.
B) A strength of capitalism is its ability to deal with environmental problems.
C) Capitalism is characterized by unequal distribution of wealth and income.
D) A drawback of capitalism is that people have little freedom to pursue their own goals.

Answer: C
Explanation: One of the criticisms of capitalism is that it tends to result in unequal distribution of income and wealth.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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205) When the market price of a good is below the equilibrium price, and all other determinants are unchanged
A) the quantity demanded will be greater than the quantity supplied.
B) the supply curve will be to the right of the demand curve.
C) a surplus will exist in the market.
D) the government will regulate the price of the good to ensure equilibrium is attained.

Answer: A
Explanation: At the equilibrium price, quantity supplied equals quantity demanded. However, as price falls the quantity demanded of a product tends to increase, while the quantity supplied decreases. The result is that quantity demanded will exceed the quantity supplied when the market price is below the equilibrium price, so eventually a shortage will exist. Of course, the presence of a shortage will put upward pressure on prices, so that the market price will move toward the equilibrium price.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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206) When the market price of a good is *above* its equilibrium value, and all other determinants are unchanged
A) a shortage will exist in the market.
B) the quantity demanded will be greater than the quantity supplied.
C) the government will regulate the price of the good to ensure equilibrium is attained.
D) a surplus will exist in the market.

Answer: D
Explanation: At equilibrium, the quantity demanded is equal to the quantity supplied. At higher prices, the quantity supplied is greater than the equilibrium quantity, while the quantity demanded is lower than the equilibrium quantity. Thus, a surplus will exist. Of course, this is a temporary situation. The presence of a surplus will put downward pressure on the market price and move it toward the equilibrium price.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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207) Just a few sellers dominate the markets for laundry detergents, soft drinks, and automobiles. Economists would classify these markets as
A) monopolistic competition.
B) perfect competition.
C) oligopolies.
D) monopolies.

Answer: C
Explanation: An oligopoly is a form of competition in which just a few sellers dominate a market. High initial investment tends to create a barrier to new competitors.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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208) There's a large number of bakeries in the United States and each of these bakeries produces similar, but not identical, products. Some bakeries will claim to have the best cupcakes in town, while others will brag about other items like cookies or specialty breads. The bakery market is an example of
A) monopolistic competition.
B) perfect competition.
C) an oligopoly.
D) a monopoly.

Answer: A
Explanation: Monopolistic competition is a market structure that is characterized by a large number of firms selling products that are very similar but are perceived by buyers as different.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
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209) The presence of competition in free markets
A) is undesirable because it results in unnecessary duplication of efforts.
B) usually 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.

Answer: B
Explanation: In competitive markets, consumers have a choice of many firms. Competition puts pressure on each firm to provide a good quality product and to charge a fair price. Firms that fail to do so will lose their customers.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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210) A benefit of a free market can be that
A) businesses provide customers with quality products at fair prices.
B) businesses all make the same amount of profit.
C) all businesses do better with more government regulation.
D) the government dictates the number of competitors there are in each industry.

Answer: A
Explanation: One benefit of the free market is that it allows open competition between companies. Businesses must provide customers with quality products at fair prices with good service; otherwise, they will lose customers to those businesses that do provide good products, good prices, and good service.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
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211) One of the greatest concerns associated with capitalism is that
A) it rarely creates wealth.
B) some people may let greed guide their behavior.
C) there is very little economic freedom for consumers.
D) producers are unlikely to supply the goods and services that consumers value the most.

Answer: B
Explanation: One of the dangers of free markets is that businesspeople and others may let greed dictate how they act. Some businesspeople have deceived the public about their products, and others have deceived their stockholders about the value of their stock. All this was done in order to increase the executives' personal assets.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Understand
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212) Which of the following statements most accurately identifies a 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 are generally plagued by shortages of needed consumer goods.
D) Free-market economies tend to result in unequal distribution of wealth.

Answer: D
Explanation: Free-market economies have been a major factor in the creation of wealth enjoyed by many of the world's nations. This type of system gives people opportunities to work their way out of poverty. And, the ability of market prices to adjust will help eliminate shortages (and surpluses) of goods and services. However, the incentive structure in a free-market economy naturally leads to inequality in the distribution of income and wealth.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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Understanding Business 12th edition Nickels Test Bank

213) According to the box, "Bad Medicine for Consumers?" the hypothetical pharmaceutical firm you work for recently increased the price of a chemotherapy drug from $300 to $3,000! What concern associated with capitalism best illustrates this ethical dilemma?
A) Some businesspeople may let greed guide guide their behavior.
B) Through the lack of quality healthcare, the number of cancer patients has increased and the demand for chemotherapy drugs is greater than the supply.
C) Thanks to many different kinds of chemotherapy drugs, there is now a surplus and prices need to increase to make a profit.
D) The government regulates pharmaceutical costs and can raise or lower the price as it sees fit.

Answer: A
Explanation: One of the dangers of free markets is that businesspeople and others may let greed dictate how they act.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Understand
AACSB: Ethics
Accessibility: Keyboard Navigation

214) Colin lives in a nation whose government embraces capitalism. He owns his own home and car, as well as his own business and building. Colin maintains ownership due to
A) eminent domain.
B) the freedom of choice.
C) the right to own private property.
D) the freedom of competition.

Answer: C
Explanation: One of the four basic rights enjoyed by people in a capitalist economy is the right to private property, which means that people are free to buy, sell, and use land, machinery, and other property.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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215) The market price of corn is falling. 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 firms competing in the market make an adequate profit.
B) there is a surplus in the market for apples.
C) the supply of money has decreased.
D) the equilibrium price is lower than the market price.

Answer: B
Explanation: In a free market, prices are the result of the interaction of supply and demand. Market prices tend to rise when there is a shortage (i.e. when the quantity demanded exceeds the quantity supplied), and fall when there is a surplus (i.e. when quantity supplied exceeds quantity demanded).
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

216) An incredibly rare stone known as Diamontite is used in many consumer products, including watch faces, smartphones, computer monitors, and tablets. In one year, the price of Diamontite has gone from $8/lb. to $107/lb. Under these circumstances and the fact that more companies are looking to use Diamontite in their products, a graph of the supply and demand for this product would show
A) the current price of Diamontite to be below the equilibrium price for this rare gem.
B) the price of Diamontite to be above the equilibrium price for this rare gem.
C) the price of Diamontite to reflect the adjustment of quantity demanded and quantity supplied.
D) consumer demand for any products using Diamontite to shift to the right indicating the desire to purchase the rare gem at any price.

Answer: B
Explanation: When there is a shortage of a natural resource, it becomes scarce. The continued demand for the product will cause the price to increase, at least temporarily, above the equilibrium point where the quantity supplied and the quantity demanded constitute the market price: the price that sellers are willing to sell the product for, and buyers are willing to buy.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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217) The price of the Samsung Galaxy Tablet is falling. In a free-market economic system where everything else is equal, the most likely explanation is
A) there is a Galaxy Tablet shortage in the United States.
B) sellers cannot keep up with market demand.
C) the government determined that the product was not worth the price tag that the producer was asking.
D) the product has competition at the equilibrium price.

Answer: D
Explanation: If producers (sellers) are able to supply the amount of Samsung Galaxy Tablets needed at the market price, but in the short run, the price is falling, everything else being equal, the likely problem is added competition in the marketplace.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

218) Reality, Inc. is a major producer of reality television shows. The company faces fierce competition from three other major producers of similar shows. Together, Reality, Inc. and its three rivals control almost all of reality television. Their market environment is called
A) an oligopoly.
B) a duopoly.
C) monopolistic competition.
D) a quasi-monopoly.

Answer: A
Explanation: An oligopoly is a market structure in which a few sellers dominate the market.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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219) On its website, Papa John's Pizza compares itself to the competition with the following message: "better ingredients, better pizza." The company is looking to achieve
A) product differentiation.
B) an equilibrium price.
C) a monopoly.
D) a perfectly competitive market.

Answer: A
Explanation: Through tactics such as advertising, branding, and packaging, sellers try to convince buyers that similar products are different in some way. In a monopolistic competition market, successful product differentiation gives a seller a competitive advantage over others offering similar products.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

220) A major premise of a socialist system is
A) to make sure that the people who create wealth are allowed to keep that wealth.
B) to reduce the inequality in the distribution of wealth.
C) to create incentives to encourage entrepreneurs to create jobs and economic growth.
D) to keep tax rates extremely low so that businesses do not need to support government projects.

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
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221) A major benefit of socialism is the
A) ability to stimulate rapid economic growth.
B) ability to keep taxes low.
C) emphasis on social equality.
D) emphasis on private enterprise instead of public ownership.

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

222) Under the _____ system there is very little incentive to work hard or to produce quality goods or services.
A) capitalist
B) socialist
C) communist
D) mixed economy

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

223) Brain drain has occurred in many socialistic nations because
A) socialism encourages an unequal distribution of income, leaving many without medical and social services.
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 well-respected professionals such as doctors tend to be very high.

Answer: D
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
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Accessibility: Keyboard Navigation


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

Answer: C
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

225) In recent years, countries with communist economic and political systems have
A) enjoyed periods of great prosperity.
B) experienced economic depression.
C) placed even more importance on individual ownership of businesses.
D) grown very slowly, but have avoided the severe problems that have plagued some capitalist economies in Asia and Europe.

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

226) The economic and political system in which the government owns almost all the major factors of production is called
A) communism.
B) capitalism.
C) ethnocentrism.
D) socialism.

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Remember
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Accessibility: Keyboard Navigation


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227) Communist values are disappearing because
A) people in communist nations are tired of the strong religious teachings of the system.
B) communist businesses have grown too quickly and they cannot keep up with demand.
C) communist leaders are all militaristic.
D) food and other product shortages overwhelm citizens since the government must guess what citizens need.

Answer: D
Explanation: Under a communist system, the government must guess about what people need. The economy does not have a mechanism such as price to help determine consumer demand for goods and services. People get more of some things, and often less of things that they want and need. There is no choice.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

228) 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 strive to achieve a more equal distribution of income and wealth, but under communism, the government takes greater control.
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.

Answer: B
Explanation: Both socialism and communism share the goal of achieving a more equal distribution of income. However, communism relies even more heavily on the government to achieve this goal than socialism. Under communism the government makes almost all major economic decisions, and is more intrusive in the lives of its citizens than is government in a socialist economy.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
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229) Which of the following people would tend to favor a socialist economy?
A) Fred prefers to live in a country with low marginal tax rates.
B) Lizzie prefers to live in a country that encourages rapid economic growth.
C) Kara prefers to live in a country with limited government regulation.
D) Bryan prefers to live in a country that promotes social equality.

Answer: D
Explanation: One benefit of socialism is its emphasis on social equality.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

230) Which of the following people would tend to favor a communist economy?
A) Fred prefers to live in a country with low marginal tax rates.
B) Lizzie prefers to live in a country that encourages rapid economic growth.
C) Kara prefers to live in a country where the government makes almost all of the economic decisions.
D) Bryan prefers to live in a country with limited government regulation.

Answer: C
Explanation: Communism is an economic and political system in which the state makes almost all economic decisions and owns almost all the major factors of production.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Understand
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231) One of the most significant problems faced by communist nations is
A) 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.

Answer: D
Explanation: The problem with a system where all economic decisions are made by the state is that the government has no way of knowing what to produce. As a result, shortages of many items regularly develop.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

232) Javier left his home country to become a gardener for a family in a suburb of San Francisco, California. One of the benefits of his new job is he can attend the community college near the family's home. However, when he arrived, he experienced the differences from a predominately socialist nation and a capitalist nation. Javier was dismayed to learn that public transportation in California was limited and expensive, making it difficult to get to school. For a negligible fee, the government in his home country provided public transportation for everyone. Javier's home country's economic system was more characteristic of _____.
A) pure capitalism.
B) socialism.
C) mercantilism.
D) communism.

Answer: B
Explanation: Under socialism, businesses produce most of the wealth, but the government owns key businesses such as steel mills, coalmines and utilities. Socialism places a great deal of emphasis on social equality, and the governments of socialist countries generally implement a wide range of social programs designed to promote this equality.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Apply
AACSB: Knowledge Application
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233) Sasha is a well-educated entrepreneur who operated a small business in her home country of Evensplitia. At the encouragement of American relatives, Sasha recently immigrated to the United States and applied for citizenship. "In Evensplitia, tax rates were very high," Sasha complained. "The government used my taxes to finance all sorts of social programs to help the less fortunate. While I want to help, it has really undermined the profit incentive of individuals such as me. I feel those high taxes have stunted economic growth." Sasha's comments illustrate the reason many socialist countries are experiencing a(n)
A) antitrust problem.
B) depression.
C) brain drain.
D) budget surplus.

Answer: C
Explanation: Socialist economies tend to be characterized by high marginal tax rates on bright and talented individuals such as doctors, engineers, lawyers, business owners, and gifted artists and performers. This has encouraged many of these individuals to immigrate to other countries, such as the United States, which have lower marginal tax rates. This problem is called the *brain drain*.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Analyze
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

234) Recently, the government of Evensplitia announced that it is standing behind the concept of state-owned utilities, public schools, and the communications industry of the nation. Although not all industry is owned and managed by the government, these ideas would lead one to believe that the nation has a preference for a _____ state.
A) capitalist
B) socialist
C) communist
D) nationalist

Answer: B
Explanation: A nation whose government owns several but not all important industries is operating under the political system known as socialism. Usually the utility companies, telecommunications companies, and broadcasting companies are among those owned by the government.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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235) 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.

Answer: D
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

237) A major trend around 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.

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
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238) A command economic 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.

Answer: B
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

239) The social and economic goals of _____ include private ownership of land and business.
A) capitalism
B) socialism
C) communism
D) a mixed economy

Answer: A
Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Remember
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240) During the a recession, the government of Cashland flooded several banking, financial services, and insurance firms with government funds in exchange (at least temporarily) for government ownership rights. This move signaled the government's concern that the global banking system might collapse if these firms ended up in bankruptcy. This decision for government involvement in these firms demonstrates
A) the unforgiving nature of capitalism.
B) the desire for more individuals in the Cashland to live under a socialist system.
C) the trend of mostly capitalist nations to move toward socialism.
D) the freedoms the Cashland government has under capitalism.

Answer: C
Explanation: The trend is clearly toward more mixed economies; even in the United States. Socialist nations are taking on more capitalist perspectives and capitalist nations are adapting some socialist principles.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

241) As "global" trends become "local," and as we see more opportunities to compete in the global market,
A) the long-term trend is for most nations to operate as mixed economies.
B) disagreements about the best economic system to embrace will cause many nations to close their doors to outside commerce.
C) the only industries that governments will want to own are the ones that are profitable.
D) the forecast is for socialist nations to trend toward communism and for capitalist nations to trend toward socialism.

Answer: A
Explanation: The trend in the global economy is toward mixed economies since neither free-market nor command economies have resulted in optimal economic conditions.
Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Understand
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242) Over the years, the government of Evensplitia has focused on implementing programs that promote equality. In the short term, though, Evensplitia's legislators are concerned about the very slow rate of growth that has plagued its national economy. 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.

Answer: B
Explanation: The government of Evensplitia has emphasized achieving equality, but now wants to encourage more growth. In order to encourage faster growth, countries typically adopt a more market-oriented approach by cutting back on social programs and reducing taxes.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

243) In an effort to promote rapid growth, the government of Cashland has kept taxes low, offered little regulation of business activities, and implemented only modest social programs. The government is now facing political pressure to do more to clean up the environment and to reduce the inequalities of income and wealth. Cashland'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) purely socialist approach to achieve its economics goals, and is likely to continue doing so in the future.
C) 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) 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.

Answer: D
Explanation: Cashland's low taxes and limited government regulation are consistent with capitalism. However, the political pressures to implement policies that will deal with environmental problems and promote social equality suggest that the government may adopt a more socialist approach in the future. This movement toward mixed economic systems is a major trend in the world economy.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Apply
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244) The prime minister of Equalia has called for the nation's legislators to enact new legislation designed to shift the country away from socialism toward a more capitalistic system. The prime minister acknowledges that some citizens will be unhappy with the radical changes. The most likely source of dissatisfaction with a move toward capitalism is
A) decrease in wealth.
B) people will have less economic freedom.
C) tax rates will have to increase.
D) a trend toward unequal distribution of wealth.

Answer: D
Explanation: Capitalism tends to encourage the creation of wealth, and allows people a great deal of economic freedom. Moreover, tax rates tend to be lower in capitalist economies than in socialist economies. However, capitalism does tend to result in a more unequal distribution of income and wealth.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

245) If nearly 28% of Cashland's citizens under the age of 65 are without healthcare and an advocacy group convinces its current administration to vote for basic healthcare for everyone, which of the following is likely to occur?
A) More rapid economic growth
B) Higher taxes than in past years
C) Increasing reliance on markets to determine economic outcomes
D) An increase in the number of insurance companies

Answer: B
Explanation: Socialism attempts to create more equality—in part by relying on government programs financed by high taxes to help the less fortunate—in this case, the reportedly 28% of Cashland's citizens who are going without adequate healthcare because they cannot afford it. In order for the government to subsidize their healthcare, it will most likely have to increase taxes to pay for it.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
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246) Several years ago, the nation of Equalia had a government-owned telecommunication system that lagged far behind other nations. In several rural areas, there was only a single landline phone for an entire village. The taxes collected for the purpose of maintaining the telephone system were very meager, so the notion of expanding service was almost impossible. The government of Equalia decided to sell the phone company to a private firm. The private firm expanded rapidly. It reported that even poor consumers were willing to pay for a private landline. This government decision and subsequent sale demonstrates move toward
A) nationalism.
B) communism.
C) socialism.
D) capitalism.

Answer: D
Explanation: In order to generate business growth, countries that were predominantly under a socialist system have trended toward capitalism, while countries that were predominantly capitalistic have added social and government sponsored programs.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

247) The U.S. economic system relies on
A) the private sector to measure its economic well-being.
B) industries that produce capital equipment to determine how well things are going.
C) frictional unemployment statistics as the sole measure of economic health.
D) key economic indicators such as GDP, to measure economic progress.

Answer: D
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
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248) 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.

Answer: D
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

249) Three important economic indicators of the United States are the unemployment rate, the price indices, and the
A) debt to equity ratio (DER).
B) gross resource utilization index (GRUI).
C) gross domestic product (GDP).
D) gross output (GO).

Answer: C
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: A
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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251) _____ unemployment refers to persons who purposefully quit their jobs and have not yet found a new job.
A) Frictional
B) Structural
C) Cyclical
D) Seasonal

Answer: A
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

252) _____ unemployment refers to unemployment caused by the restructuring of firms or by a mismatch between the skills of job seekers and the requirements of available jobs.
A) Frictional
B) Structural
C) Cyclical
D) Seasonal

Answer: B
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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253) _____ unemployment refers to loss of jobs due to a recession or a similar downturn in the economy.
A) Frictional
B) Structural
C) Cyclical
D) Seasonal

Answer: C
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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254) _____ unemployment results when the demand for labor varies during the year.
A) Frictional
B) Structural
C) Cyclical
D) Seasonal

Answer: D
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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255) The _____ is a statistic used to measure the pace of inflation or deflation.
A) consumer price index
B) gross domestic product
C) index of leading indicators
D) index of inflationary trends

Answer: A
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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256) The measure used to report price changes at the wholesale level is the
A) gross domestic product (GDP).
B) consumer price index (CPI).
C) gross output (GO).
D) producer price index (PPI).

Answer: D
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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257) _____ refers to a general rise in the price level of goods and services over time.
A) Acceleration
B) Recession
C) Inflation
D) Escalation

Answer: C
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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258) _____ is a condition characterized by slowing price increases.
A) Deflation
B) Disinflation
C) Stagflation
D) Uniflation

Answer: B
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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259) _____ is a condition in which the average level of prices is actually falling.
A) Deflation
B) Disinflation
C) Stagflation
D) Uniflation

Answer: A
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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260) A _____ is a severe recession that is usually accompanied by deflation.
A) stagflation
B) retraction
C) depression
D) dissolution

Answer: C
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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261) In recent years, U.S. manufacturing sector has experienced _____ productivity.
A) rising
B) relatively stable
C) falling slowly
D) falling very rapidly

Answer: A
Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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262) There are innovations involving new ways to produce and conserve energy. If we can turn this new technology into marketable products and services that produce energy to run our businesses and homes, the U.S. could see a surge in output of goods and services. What would be measured to document this surge?
A) Gross domestic product
B) Consumer price index
C) Consumer marginal index
D) Number of workers who are frictionally employed

Answer: A
Explanation: GDP is the measure of the value of a nation's total output of final goods and services over a given year.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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263) One reason the CPI is monitored very closely by 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 domestic product is computed from the reported increases in the CPI.

Answer: B
Explanation: As a measure of inflation, the CPI is an index which is often used to determine cost of living increases in wages, salaries, interest rates, and other payments. Income tax brackets and some government benefits, such as Social Security payments, are also adjusted when the CPI changes.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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264) The U.S. strongly relies on GDP data. However, it is only the total value of finished goods produced by the country. Officials are looking to measure total sales volume at all stages of production. What statistic would be most useful to them?
A) Consumer price index
B) Producer price index
C) Gross output
D) Productivity

Answer: C
Explanation: Gross output (GO) is a measure of total sales volume at all stages of production. GO is almost twice the size of GDP and is more consistent with economic growth theory.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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265) Which of the following indicators provides the clearest indication that an economy is 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

Answer: D
Explanation: Deflation refers to a situation where the average level of prices is actually declining. The CPI is an index of consumer prices. Thus a decline in the CPI is a clear indication that prices are declining.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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266) Which of the following statements about business cycles in the U.S. is most accurate?
A) Business cycles occur precisely every 5 years.
B) Long-term business cycles have only two phases—boom and bust.
C) Seasonal business cycles occur within a year.
D) Business cycles are based on theories.

Answer: C
Explanation: Business cycles are the periodic rises and falls that occur in economies over time. 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, and recovery. Finally, business cycles are based on facts, but what those facts describe can be explained only by using theories.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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267) Which of the following statements about productivity in the service sector of the U.S. economy is most accurate?
A) Productivity in the service sector has increased much more rapidly than productivity in the manufacturing sector.
B) Improving productivity in the service sector is much less important than improving productivity in the manufacturing sector, because the service sector does not really produce anything.
C) Productivity in the service sector is easier to measure than productivity in agriculture.
D) Measures of productivity in the service sector do a poor job of taking quality improvements into account.

Answer: D
Explanation: The text cites many examples to illustrate that the quality of output in the service sector has improved dramatically. However, current measures of productivity concentrate on quantity rather than quality. Thus, these current measures understate how improvements in the service sector are contributing to rising standards of living.
Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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268) Cashland's banking system recently crashed. This eventually led to companies being unable to borrow money to run their businesses and employees needed to be terminated. These circumstances cut into consumer's purchasing power, causing a severe decline in the prices of goods and services, better known as _____.
A) disinflation.
B) deflation.
C) contra inflation.
D) overproduction.

Answer: B
Explanation: Deflation means that prices are actually declining. Disinflation occurs when the rate of increase in prices is slowing down, i.e. the inflation rate is declining.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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269) Which of the following strategies may have a net effect on inflation?
A) Decreasing interest rates and decreasing taxes
B) Proportionately increasing wages and increasing prices
C) Decreasing prices and decreasing taxes
D) Proportionately increasing prices and decreasing wages

Answer: B
Explanation: Inflation refers to rising prices. Inevitably this occurs with time. If we increase wages in the same proportion that we increase prices of goods and services, it will have a net effect because even though the cost of goods and services is rising, this is offset by the increase in wages.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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270) Forlornistan is a country in the midst of a serious economic downturn. Forlornistan's GDP has declined steadily for over three years and is now at its lowest level in over sixty years. Forlornistan's unemployment rate is at an all-time high and the nation's CPI is falling. Forlornistan's economic condition is referred to as a
A) period of stagflation.
B) balance of trade deficit.
C) depression.
D) retraction.

Answer: C
Explanation: A recession exists when GDP falls for two consecutive quarters (six months). A depression is a severe recession. Since GDP has fallen for more than three years, the unemployment is near an all-time high, and the average level of prices is falling, it is clear that the economy is experiencing a depression.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
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271) Over dinner with his friend Nathan, Dominic complained about how prices have increased a great deal over the past year. Nathan disagreed and said that the prices of some goods have gone up a bit, but other prices have declined, noting that you can get some good buys on houses right now. Nathan feels that the average price of consumer goods hasn't changed. Nathan and Dominic can refer to the _____ to learn how government economists currently view the price situation.
A) GDP
B) CPI
C) PPI
D) MEW

Answer: B
Explanation: The consumer price index, or CPI, provides information on changes in consumer prices.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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272) Olivia recently left her job at a large corporation because she saw little chance for advancement. Although she is still searching for a new position, she believes the economy is healthy and she hears that several firms are hiring people with her qualifications. Which of the following statements about Olivia's current situation is most accurate?
A) Olivia is not considered unemployed because she voluntarily quit her job.
B) Olivia is an example of cyclical unemployment.
C) Olivia is an example of frictional unemployment.
D) Olivia is likely to find employment quickly if she seeks training in a different field.

Answer: C
Explanation: Frictional unemployment refers to jobseekers entering the labor market for the first time (or after a long absence) or are temporarily between jobs. Workers who are frictionally unemployed typically have skills that are in demand, but are in the process of job search and have not yet accepted employment. This appears to be the case for Olivia.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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273) Shelly's company produces computers, phones, and tablets. About six months ago, Shelly began to keep track of number of hours worked at the company, and the resulting output. When she compared the results, she found that the number of workers (and the hours they worked) remained relatively steady over the past six months; however, the work site's output improved considerably. This indicates that
A) productivity at the work site has increased.
B) the work site sold off some of its excess inventory.
C) the company's prices have increased faster than the wages paid to workers.
D) the company should hire more workers.

Answer: A
Explanation: Productivity measures the amount of output a given amount of labor can produce in a given time period. If output is increasing, while work hours are unchanged, that means that productivity is increasing.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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274) Colby is a new college graduate who just started a job as an engineering trainee for a sizeable defense company. Now that he is earning good money, he hopes to start saving for his first house and also make contributions to his retirement plan. As he looks over his monthly bills, Colby is concerned that he'll never get ahead of the game. His grocery bill, car payment, and mounting gas payments keep him in the "just making ends meet" group. As his mind wonders back to his college days, he reflects on a time when gas and food seemed a lot more reasonable. Chase is experiencing the effects of
A) inflation.
B) conditions of low demand.
C) involuntary CPI.
D) cyclical unemployment.

Answer: A
Explanation: Chase is experiencing the effects of inflation, or rising prices. When prices rise, but salaries stay the same, we cannot purchase the same amount of those goods and services that we did in the past.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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275) Gabby and Gus Malloy recently got preapproved on a loan for their first house purchase. They are speculating on how much they should bid on their number one choice—a small, three-bedroom bungalow near a major college town. Which of the following indicators may be an important factor in whether they are able to successfully put in a low bid?
A) The federal tax rate in that area
B) The unemployment rate in that area
C) The producer's price index in that area
D) The CMI - consumer's marginal index

Answer: B
Explanation: When people are trying to determine the market value of a large investment such as a house, it is important to review key economic indicators in the area—indicators such as the unemployment rate that would cause housing prices to increase or decrease. If the area has a high unemployment rate, there will not be as many persons interested in buying houses. In fact, the recent recession resulted in significant home foreclosures, where banks could not collect on previous loans. With fewer people interested in purchasing homes due to high unemployment, the market value will decrease. The opposite also holds true: when business is booming and people are relocating to hot spots to work, the market value of homes rises.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
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276) Patrick just landed a job working for an up and coming online gaming company in Palo Alto, California. In a lot of ways, this is his dream job come true—the chance to work for a company that makes gaming software and live in California at the same time. As his plane lands at San Jose International, he pictures a snazzy apartment with a palm tree right outside the front door. A few hours later, as he meets a property manager of a large apartment complex, his heart sinks. The price of apartments is outrageous! Back at the hotel, he checks the Bureau of Labor Statistics site to try to get a better picture of why the cost of housing is so high in this region of the country. Which factors may be causing the rise in the price of housing?
A) A low unemployment rate and increasing GDP
B) A high consumer's marginal index and low PPI
C) A low CPI and high state tax rate
D) A decreasing Disruptive Technologies Index and high unemployment

Answer: A
Explanation: An increase in gross domestic product (GDP) signifies a higher demand for goods and services. When firms are producing, they usually have a need for more workers. If more workers move into the area, the demand for additional housing becomes greater. This will often result in a housing shortage because workers desire to live close to where they work. These circumstances will increase the price of available housing.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
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277) _____ policy refers to the efforts of the federal government to keep the economy stable by increasing or decreasing taxes and/or government spending.
A) Monetary
B) Incomes
C) Fiscal
D) Cyclical

Answer: C
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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278) Fiscal policy involves increases or decreases in
A) the money supply.
B) interest rates.
C) government spending and taxes.
D) exports and imports.

Answer: C
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
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279) When the federal government's collection of tax revenues is less than what it spends in a given year, it results in a
A) Federal Reserve allowance.
B) GDP deflator.
C) balance of payments deficit.
D) national deficit.

Answer: D
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
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280) When the government runs a continual budget deficit, it increases the
A) national debt.
B) balance of payments deficit.
C) federal capital account.
D) money supply.

Answer: A
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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281) In the U.S., the _____ has the role of managing the money supply and interest rates.
A) United States Treasury
B) Federal Reserve Bank
C) State Department
D) Federal Deposit Insurance Corporation

Answer: B
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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282) One way to lessen the U.S. government budget deficit is to
A) cut spending.
B) increase spending.
C) call in government savings bonds.
D) increase government social programs such as welfare, food stamps, and Medicare.

Answer: A
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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283) Efforts by the Federal Reserve Bank (the Fed) to control the money supply and interest rates are known as _____ policy.
A) fiscal
B) income
C) monetary
D) securities

Answer: C
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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284) The Federal Reserve Bank operates
A) as a semi-private organization not under the direct control of the government.
B) under the direct control of the executive branch of the government.
C) under the direction of the Banking Oversight Committee of Congress.
D) as a special agency of the U.S. Treasury.

Answer: A
Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Remember
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285) Which of the following statements about government deficit spending is most accurate?
A) The federal government violates the law by running deficits because the U.S. Constitution requires the government to balance its budget each year.
B) Although the government used to run big deficits, it has consistently run surpluses since the late 1980s.
C) The government has used deficit spending to lower the national debt.
D) One reason the government has a hard time reducing deficits is that there is a great deal of pressure on the government to expand its spending each year.

Answer: D
Explanation: The national deficit is the difference between the government's tax revenues and its expenditures. Every year there are calls for new social programs (or increases in allocation for existing programs) and additional needs for military spending. This continuous pressure to increase spending makes it difficult to reduce the level of deficit spending.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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286) As you're checking out the online edition of your local newspaper, you quickly scan a report in the business section that says government spending will again exceed tax revenues in the current year. What does this mean for the economy?
A) The total national debt is likely to increase.
B) The national deficit is likely to decrease.
C) The rate of inflation is likely to fall.
D) The monetary policies pursued by the Fed need tightening.

Answer: A
Explanation: When its tax revenues fall short of its expenditures, the federal government runs a deficit. Since the national debt is the sum of all deficits, running another deficit will increase the debt.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Understand
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287) Which of the following statements about the Federal Reserve Bank (the Fed) is most accurate?
A) The Fed is an agency of the U.S. Treasury Department that has the responsibility of collecting tax receipts for the IRS.
B) The Fed manages the U.S. money supply and interest rates.
C) The Fed is the primary government agency involved in carrying out our nation's fiscal policies.
D) The Fed is the agency of the government that ensures the U.S. maintains enough gold reserves to pay any foreign debts that result from international trade.

Answer: B
Explanation: The Fed operates as a semi-private organization that has the goal of keeping the economy growing without causing inflation. It does this by managing the supply of money and interest rates.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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288) Keynesian economic theory suggests
A) reducing government involvement in the free-market economy.
B) proposing long-term solutions in order to create wider swings in the business cycle.
C) a more permanent government involvement in the banking system, even creating a national banking system that owns and operates most of the global and regional banks.
D) short-term increases in government spending to stimulate the economy.

Answer: D
Explanation: Keynesian economic theory and later adaptations suggest that government policy could be effective in helping manage the economy. By increasing government spending on infrastructure such as the building and repair of roads, bridges, schools, and utilities, the government could help stimulate the economy.
Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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289) Senator Shulei Lee is alarmed at the state of the economy. Unemployment is high and GDP is low. Senator Lee has called for Congress to take action to increase government spending and cut taxes in order to stimulate the economy. The actions called for by Senator Lee are examples of
A) monetary policy.
B) fiscal policy.
C) discretionary income policy.
D) social investment policy.

Answer: B
Explanation: Changes in the level of government spending and taxes to help stabilize the economy are known as fiscal policies.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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290) The chair of the Federal Reserve Bank spoke to the American public. The message she conveyed is that Fed economists are worried about inflation and believe the best course of action would be to slow the economy. Which of the following policies is the Fed most likely to pursue?
A) Increase taxes
B) Decrease interest rates
C) Restrict the money supply and increase interest rates
D) Devalue the dollar on international currency exchanges

Answer: C
Explanation: When the Fed is concerned about inflation it is likely to try to slow down the economy by increasing interest rates and restricting the money supply.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

291) Ben recently lost his job at a major U.S. auto plant in one of the rust belt states. After looking unsuccessfully for work in a similar industry for several months, he plans to start interviewing with road and bridge repair companies. He speculates that if the government begins to contract with companies that repair highways and bridges, he may find steady work, at least in the short term. Which of the following statements best describes the strategy behind his thoughts?
A) The best way for the government to reign in on too much money floating around the system is to hire people and pay them wages.
B) Ben doesn't understand the causes of unemployment. We obviously don't need any more autos on the roads if the plant has closed. Repairs will slow down rather than increase.
C) If the current administration asks the Fed to raise interest rates, it will do more than if the current administration begins contracting with road repair companies.
D) By increasing government spending through road and bridge repair and construction, the government will intervene in the free-market economic system to help jump-start a weak economy.

Answer: D
Explanation: Keynesian economic theory believes that government intervention is sometimes necessary in the short term in order to jump-start an ailing economy. By employing citizens and paying them wages, workers would start spending again, which would help stabilize wide swings in the business cycle.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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292) In one of her weekly live videos, the Federal Reserve Chairman remarked that inflation had begun to tick upward. However, unemployment in the U.S was still quite high and economic growth had slowed. With short-term interest rates close to 0 (zero), the Chair did not visualize that _____ policy would be able to do anything for the high unemployment problem. She felt that _____ policy would be more useful for bolstering employment, but that would require local and state governments and the federal government to provide tax breaks for corporations.
A) federal; state
B) fiscal; monetary
C) monetary; fiscal
D) fiscal; federal

Answer: C
Explanation: Monetary policy is the responsibility of the Federal Reserve Bank and the open market committee. Fiscal policy involves raising and lowering taxes. It is the responsibility of Congress to pass legislation, which affects the amount of taxes businesses pay.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

293) The nation of Forlornia is in the middle of a severe financial crisis. The prime minister has increased government spending by trillions, in order to revive the ailing economy. Her strategy followed the economic theory known as
A) Malfusian.
B) Bernankeism.
C) Keynesian.
D) Greenspanian.

Answer: C
Explanation: Keynesian economic theory and later adaptations suggest that government policy could be effective in helping manage the economy. By increasing government spending on infrastructure such as the building and repair of roads, bridges, schools, and utilities, the government will purchase goods and services and put people to work.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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294) If businesses are producing at capacity, and the nation is experiencing almost full employment (a very low rate of unemployment—less than 2%), the Fed may decide to
A) lower interest rates.
B) raise taxes.
C) lower taxes.
D) increase interest rates.

Answer: D
Explanation: When the business cycle is experiencing a boom, businesses begin producing close to capacity, most people who want to be employed are employed, and spending is robust, the government may decide to curb inflation (rising prices) by raising interest rates to make borrowing less attractive. If borrowing is less attractive, the demand for goods and services will go down, and subsequently prices will remain stable.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

295) Discuss the views of economist Adam Smith. How does the "invisible hand" philosophy suggested by Smith benefit society as a whole?

Answer: Adam Smith believed in a free-market system (also called capitalism). Smith favored a system characterized by economic freedom: the right to private ownership of property, the freedom of choice, and the freedom to compete. In his view, self-interest would lead profit-seeking entrepreneurs to produce those goods most desired by consumers, and subsequently create jobs for others. Thus, self-interested behavior would also serve the best interests of society as a whole. This is the central idea of the invisible hand concept. He also assumed that as people became wealthier, they would naturally seek to help the less fortunate. Smith's views suggested that the role of government in the economy would be quite limited.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Analyze
AACSB: Analytic Thinking
Accessibility: Keyboard Navigation


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296) Explain the significance of "price" in a free-market economic system.

Answer: In a free-market economy, the mechanism of price determines what gets produced, how much gets produced, and to whom it is distributed. Price (the market value placed on a good or service) is determined by the interaction of buyers and sellers.

Supply is the relationship between the price of a good and the quantity sellers 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. Generally, the supply graph is demonstrated by a positively sloping curve.

Demand is the relationship between the price of a good and the quantity buyers 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. Generally, the demand graph is demonstrated by a negatively sloping curve.

The equilibrium price of a good is the price where the quantity supplied at a certain price is equal to the quantity demanded at a certain price. 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).
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Analyze
AACSB: Analytic Thinking
Accessibility: Keyboard Navigation


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297) Identify and describe the 4 basic rights that form the foundation of capitalism.

Answer: The four basic rights are the right to private property, the right to own and operate a business and earn a profit, the right to freedom of competition, and the right to freedom of choice.

The right to private property means that individuals can buy, sell, and use land, buildings, machinery, and other forms of property, and can pass on their property to their children.

The right to own a business and keep all of its profits means that in capitalism businesses are privately owned and operated to further the interests of the owner. People who start businesses thus have a strong incentive to work hard and produce goods and services that are in demand. This is a key element of the invisible hand principle described by Adam Smith.

The right to freedom of competition means that individuals are free to start businesses and compete with other businesses. This competition creates incentives for businesses to innovate, produce quality products, and charge fair prices.

The right to freedom of choice means that people are free to choose where they work, what career to pursue, where to live, and what to buy and sell.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Bloom's: Analyze
AACSB: Analytic Thinking
Accessibility: Keyboard Navigation


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298) When describing the state of the U.S. economy, reporters often refer to the nation's GDP, its unemployment rate, and the CPI. Explain what each of these terms means and why each measure is significant.

Answer: GDP is the acronym 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 nation's economy is growing, staying the same, or decreasing. 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 numbers of civilians 16 or older that do not have a job, but are also actively seeking to find work. 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 unemployment rate is significant because when people are unemployed they generally stop spending. If too many people and businesses stop spending, firms stop producing.

The CPI is the consumer price index. The CPI consists of monthly statistics that measure the pace of inflation or deflation. The prices of goods and services—including food, energy, housing, apparel, and medical care—are measured to determine if there are significant changes. The CPI is an important figure because some wages and salaries, rents and leases, tax brackets, government benefits, and interest rates are based on it. If the CPI index rises too quickly, it will affect the standard of living of most persons.

Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Analyze
AACSB: Analytic Thinking
Accessibility: Keyboard Navigation


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299) Compare and contrast fiscal policy and monetary policy. Discuss how each of these approaches can be used to influence the state of the economy.

Answer: Fiscal policy refers to changes in the level of government spending and/or taxation that are intended to help keep the economy more stable. For example, during a recession, the government might try to stimulate the economy by encouraging additional spending. One way to do this would be to cut taxes on individuals or businesses, thus giving them more income to spend. Another approach would be for the government to increase its own level of spending on social programs, defense programs, or in other areas. On the other hand, when the economy is overheated and experiencing inflationary pressures, the government might try to use fiscal policies to reduce the overall demand for goods and services. This could be done by increasing taxes or by cutting government spending on social programs, defense programs, or in other areas.

Monetary policy refers to actions by the Federal Reserve Bank (the Fed) to control the supply of money and interest rates. When the level of economic activity is declining, the Fed normally will reduce interest rates, thus making it more attractive for businesses and households to borrow. This will encourage more spending on goods and services, thus stimulating the economy. When the economy is growing too rapidly (and thus creating inflationary pressures) the Fed may pursue policies designed to increase interest rates, thus reducing attractiveness to borrowing and subsequently reducing the demand for goods and services. When spending is curbed, demand goes down, which also has the effect of stabilizing inflation.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
Bloom's: Analyze
AACSB: Analytic Thinking
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**Mini-Case**

Cooper Collins is a bright, hard-working engineer who once owned a successful engineering consulting firm in his native country of Evensplitia. Cooper was discouraged by the high tax rates in Evensplitia, so he immigrated to the United States seven years ago. Soon after moving to the U.S., Cooper again tried his hand at entrepreneurship and opened Coop's Consulting. The company struggled at first, and almost went bankrupt midway through its second year. However, Cooper never lost faith, the company survived, and eventually developed a great reputation in the community. Coop's Consulting began experiencing sustained growth early in its fourth year. In fact, Cooper hired additional employees to keep up with the increasing workload. His company, which started with only Cooper and two other full-time workers, now provides jobs for 43 full-time employees as well as many part-time workers and interns.

Despite these past successes, business ownership is not without complications. The company suffered its first drop in business since its very early years. Cooper is convinced that the problem is not with his company, but rather due to a downturn in the U.S. economy. He heard a national broadcast last week reporting that the value of the total output of final goods and services in the U.S. declined over the last quarter. The anchor went on to state that many economists believe that this downward trend is likely to continue for several more months. Cooper is concerned that he will have to lay off some of his employees if the economy doesn't improve. He hopes that the government does something soon to put the economy back on track.

300) Cooper created Coop's Consulting to earn a profit, but by working hard and increasing his market share, he was able to create jobs for others. This is an example of the _____ concept.
A) circular flow
B) invisible hand
C) equitable income
D) social dividend

Answer: B
Explanation: The invisible hand concept says that self-interest (the desire to earn a profit) leads entrepreneurs to create jobs and produce goods and services that satisfy wants, thus benefiting society as a whole.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-01 Explain basic economics.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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301) Cooper's native country of Evensplitia was much different from the United States. In addition to its higher tax rates, the government offered more extensive social programs that were designed to redistribute income and reduce inequality. Although small businesses were privately owned and operated in Evensplitia, many basic industries were owned and operated by the government. From this information, you would classify Evensplitia's economic system as _____.
A) capitalism.
B) socialism.
C) communism.
D) pluralism.

Answer: B
Explanation: The existence of relatively high tax rates and the emphasis on government programs to redistribute income are hallmarks of socialism. Under socialism, governments frequently own some, if not most, basic businesses. However, socialism, unlike communism, does allow at least some private ownership of businesses as well.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-03 Compare socialism and communism.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

302) The broadcast that reported a decline in total output for the United States probably got some of its information from the government's measurement of _____.
A) GDP
B) CPI
C) federal deficit
D) balance of payments

Answer: A
Explanation: GDP is the total value of output produced by a nation's economy.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
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303) The newscast cited forecasts that national output might continue to fall in the future. If total output shows decline for two consecutive quarters, economists would classify this as a _____.
A) depression
B) retraction.
C) period of stagflation.
D) recession.

Answer: D
Explanation: A recession occurs when GDP (the nation's total output) declines for two consecutive quarters.
Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business
Learning Objective: 02-05 Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

304) Cooper recently saw a report online that the Fed will try to help get the U.S. economy back on track. If the Fed takes action, Cooper would likely see
A) lower interest rates.
B) an increase in the size of the government's budget deficit.
C) lower government spending.
D) an increase in the minimum wage.

Answer: A
Explanation: The Fed is concerned with monetary policy. The Fed achieves its goals by bringing about changes in the supply of money and interest rates. During recessions the Fed normally pursues policies to reduce interest rates in order to stimulate additional spending. The Fed is not directly involved in changing the level of government spending or taxes (and thus does not directly affect the size of the deficit). It is Congress, not the Fed, which would enact legislation needed to increase in the minimum wage.
Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy
Learning Objective: 02-06 Contrast fiscal policy and monetary policy, and explain how each affects the economy.
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305) Besides a slowdown in the general economy, Coop's Consulting faces threats of competition from several other companies that provide engineering consulting services. In order to gain more business, Cooper tries to convince potential clients that his company offers better service than the competition. He has advertised heavily in professional magazines, often quoting some of his highly satisfied clients. The market Coop's Consulting operates in is an example of
A) perfect competition.
B) monopoly.
C) oligopoly.
D) monopolistic competition.

Answer: D
Explanation: Monopolistic competition is characterized by many firms competing by offering differentiated products. Coop's Consulting use of advertising indicates that it is trying to differentiate its product from the many competitors it faces in the market.
Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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