# *BUSN 11th edition Kelly Test Bank*

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# TRUE/FALSE

1 : Fiscal strategies are closely tied to political philosophy.
A : true
B : false

Correct Answer : A

2 : Social security taxes are a source of revenue for the U.S. federal government.
A : true
B : false

Correct Answer : A

3 : In the context of federal debt, if spending is lower than revenue, the government incurs a budget deficit.
A : true
B : false

Correct Answer : B

4 : The structure of the Board of Governors of the Federal Reserve is such that no single president can appoint all of the Boards members.
A : true
B : false

Correct Answer : A

5 : In the context of monetary policy, the money supply includes credit cards.
A : true
B : false

Correct Answer : B

6 : In the context of monetary policy, when the Fed reduces the discount rate, banks will have to obtain funds at a higher cost.
A : true
B : false

Correct Answer : B

7 : In the context of monetary policy, when the economy contracts, the Fed typically decreases the money supply.
A : true
B : false

Correct Answer : B

8 : Reserve requirement is a rule of the Fed which requires that all of its member banks hold funds which are more than the stated percentage of the deposits held by their customers.
A : true
B : false

Correct Answer : B

9 : Each year, the Federal Open Market Committee holds eight regularly scheduled meetings to make decisions about open market operations.
A : true
B : false

Correct Answer : A

10 : In a capitalist economy, private-sector businesses are free to decide how much they will charge for their products.
A : true
B : false

Correct Answer : A

11 : In the context of capitalist economy, the right to free choice directly feeds competition.
A : true
B : false

Correct Answer : A

12 : Unfair business practices such as predatory pricing hinder capitalism from achieving its potential.
A : true
B : false

Correct Answer : A

13 : The clothing industry is an example of monopolistic competition.
A : true
B : false

Correct Answer : A

14 : Capitalism is an example of a planned economy.
A : true
B : false

Correct Answer : B

15 : Socialism is an economic system that encourages privatization and believes that all enterprises should be publicly owned.
A : true
B : false

Correct Answer : B

16 : Socialist economies tend to have very low taxes.
A : true
B : false

Correct Answer : B

17 : A drawback of communism, which was adopted by some countries in the 1900s, was the inability of people to make basic choices such as where to work or what to buy.
A : true
B : false

Correct Answer : A

18 : Gross Domestic Product (GDP) measures the total value of all the imports and exports of a nation on a quarterly basis.
A : true
B : false

Correct Answer : B

19 : The gross domestic product (GDP) includes output produced within households.
A : true
B : false

Correct Answer : B

20 : Gross Domestic Product (GDP) levels tend to be somewhat understated, since they dont include any illegal activities, which can represent a significant portion of some countries production.
A : true
B : false

Correct Answer : A

21 : Economists declare an official recession when gross domestic product decreases for six consecutive quarters.
A : true
B : false

Correct Answer : B

22 : Disinflation is defined as a period of slowing average price increases across an economy.
A : true
B : false

Correct Answer : A

23 : Deflation refers to a period of falling average prices across an economy, which is a sign of economic trouble that goes hand-in-hand with very high unemployment.
A : true
B : false

Correct Answer : A

24 : The consumer market basket of goods and services, in which the consumer price index (CPI) measures the change in weighted-average price over time, is created by the U.S. Bureau of Labor Statistics.

A : true
B : false

Correct Answer : A

25 : The amount of input divided by the amount of output equals productivity.
A : true
B : false

Correct Answer : B

# MULTIPLE CHOICE

26 : Macroeconomics involves the study of:
A : spatial changes in the population of a country.
B : the gross domestic product of a country.
C : the competitive aspects of identical products.
D : family incomes in a given region.

Correct Answer : B

27 : Prior to formulating its annual budget, the government of the Asian country of Florenesia employs a number of individuals to look into the overall productivity of the country. These individuals are also responsible for studying and revising some of the taxation policies and gauging the employment rate. Given this information, these individuals are studying _____.
A : heterodox economics
B : managerial economics
C : microeconomics
D : macroeconomics

Correct Answer : D

28 : Microeconomics focuses on:
A : the employment rate in a country.
B : individual businesses.
C : the gross domestic product of a country.
D : taxation policies.

Correct Answer : B

29 : Aidan is a college student. As part of his economics project, he has to collect data on the consumption patterns of the households in his locality. In this scenario, Aidan is most likely involved in the study of _____.
A : heterodox economics
B : complexity economics
C : microeconomics
D : macroeconomics

Correct Answer : C

30 : In the year 2002, Timothy wanted to purchase a house. As he did not have sufficient funds,

he decided to take a loan. Given his low credit score, it was highly unlikely that he would be able to repay the borrowed money. However, he was able to secure a loan despite his reduced ability to repay the loan. Timothy most likely applied for a _____.
A : subsidized loan
B : subprime mortgage loan
C : endowment mortgage loan
D : concessional loan

Correct Answer : B

31 : The controversial $700 billion economic bailout plan passed by Congress in early October 2008 was called the _____.
A : American Recovery and Reinvestment Act
B : Troubled Assets Relief Program
C : Clayton Antitrust Act
D : NCUA Corporate Stabilization Program

Correct Answer : B

32 : Which of the following statements is true of the Troubled Assets Relief Program (TARP)?
A : It ended up costing taxpayers far less than expected.
B : It did not offer bailout to automakers.
C : It invested heavily in green energy.
D : It was not able to save insurance companies and banks from bankruptcy.

Correct Answer : A

33 : The _____ was an $825 billion economic stimulus package, passed by Congress, designed to turn the economy by cutting taxes, building infrastructure, and investing in green energy.
A : American Recovery and Reinvestment Act
B : Troubled Assets Relief Program
C : Clayton Antitrust Act
D : NCUA Corporate Stabilization Program

Correct Answer : A

34 : In the context of fiscal policy, which of the following actions by the government helps boost the economy in the long term?
A : Providing jobs, such as mail carrier
B : Creating deflation in the market every few years
C : Investing in public assets, such as a national renewable energy grid
D : Artificially creating a budget deficit every few years by withdrawing funds from the market

Correct Answer : C

35 : The country of Ukanturk has been facing an economic downturn for two consecutive years. To revive the financial condition of the country, its government tries to influence the economy through taxation and spending decisions that are designed to encourage growth and increase employment. In this scenario, the government of Ukanturk is implementing its _____.
A : monetary policy
B : fiscal policy
C : investment policy
D : supply-side policy

Correct Answer : B

36 : Identify a true statement about the debt ceiling.
A : The decision to hike debt ceiling does not depend on the earlier borrowings by the federal government.
B : Voting on the debt ceiling happens separately from voting on taxes and spending.
C : Debt ceiling hikes are strictly decided by public voting.
D : Debt ceiling hikes are extremely rare.

Correct Answer : B

37 : A newly appointed government in the United States requests Congress to raise the amount of money that the government can borrow. This borrowed money is intended to be used to cover the costs of the major policies that the government plans to implement. In this scenario, the government has asked the Congress to hike its _____.
A : discount rate
B : fiscal cliff
C : debt ceiling
D : down payment

Correct Answer : C

38 : During an especially difficult year of weakening financial conditions, the government of Geriva, a European nation, borrows money to meet its financial obligations. However, once the borrowed amount reaches a certain limit, the government is not allowed to borrow more money. If this was to happen in the United States, it could be said that this is because the government has hit the _____.
A : fiscal cliff
B : reserve requirement
C : debt ceiling
D : price ceiling

Correct Answer : C

39 : When Congress agreed to raise the debt ceiling during the economic meltdown in the United States in 2011, it temporarily averted a shutdown crisis, but the deal they reached to do so created the _____.
A : risk-return relationship
B : fiscal cliff
C : bottom-up budgeting
D : niche barrier

Correct Answer : B

40 : During a period of grave financial crisis in the United States, Congress is pressurized to raise the limit on the maximum amount of money the government can borrow. Congress increases the limit on the condition that it will implement sharp tax hikes and across-the-board spending cuts to compensate for the raise and to ensure that the overall budget deficit decreases. In this scenario, the measures implemented by Congress will most likely create:
A : the fiscal cliff.
B : a reserve requirement.
C : the debt ceiling.

D : an earmark.

Correct Answer : A

41 : New Tapan, an African country, invested resources in the defense sector, and as a result, its budget deficit grew. To decrease the budget deficit, the government of New Tapan cut down its expenditures in several other sectors and imposed higher taxes. Similar measures implemented by the government in the United States would most likely create _____.
A : the fiscal cliff
B : a reserve requirement
C : the debt ceiling
D : an earmark

Correct Answer : A

42 : The government of Laslow, an Asian nation, earned more revenue than its total expenditure in the last fiscal year. Given this information, the government of Laslow incurred a _____.
A : revenue backlog
B : revenue deficit
C : debt brake
D : budget surplus

Correct Answer : D

43 : In 1982, the total expenditure of the government of Kargenia, a European country, exceeded its revenue by a substantial amount. This forced the government of Kargenia to borrow funds to meet its legal obligations. In this scenario, the government of Kargenia incurred a _____ in 1982.
A : fiscal drag
B : budget deficit
C : debt brake
D : revenue backlog

Correct Answer : B

44 : Ancusia, an East Asian country, was plagued by war and corruption for several years. This led to poor economic conditions, and the government was compelled to borrow funds from other nations. Because of the slow economic growth in the country, the government could repay only 15% of its debts. In this scenario, the amount that the government is yet to repay is known as _____.
A : the federal debt
B : a budget surplus
C : the debt brake
D : a revenue deficit

Correct Answer : A

45 : The repayment of the debt by the U.S. federal government is likely to result in an increase in:
A : the number of student loans.
B : housing subsidies.
C : the number of government jobs.
D : taxes.

Correct Answer : D

46 : _____ refers to Federal Reserve decisions that shape the economy by influencing interest rates and the supply of cash.
A : Fiscal policy
B : Monetary policy
C : Revenue policy
D : Deficit policy

Correct Answer : B

47 : Identify a true statement about the Federal Reserve.
A : It is headed by a 15-member Board of Governors.
B : It manages the monetary policy of the United States.
C : It is restricted from performing banking services for commercial banks.
D : It operates under immense political pressure.

Correct Answer : B

48 : The Fed:
A : decreases the money supply when the economy contracts.
B : performs banking services for commercial banks in districts where it operates.
C : calculates the expected expenditure for the federal government every year.
D : outlines expected revenue that is due from the collection of taxes and fees.

Correct Answer : B

49 : Larry is part of the Board of Governors that manages U.S. monetary policy. He has been elected by the President to serve a single 14-year term. In addition to setting the monetary policy, he is responsible for extending banking services to commercial banks. In this scenario, Larry is most likely part of the _____.
A : Federal Reserve
B : Department of Commerce
C : Bureau of Economic Analysis
D : U.S. Treasury

Correct Answer : A

50 : Which of the following is one of the core purposes of the Fed?
A : Regulating taxes
B : Providing short term jobs
C : Investing in critical public assets
D : Influencing the size of the money supply

Correct Answer : D

51 : In the context of monetary policy, which of the following statements is true of money supply?
A : The M1 money supply includes market accounts and certificates of deposit.
B : The M1 money supply includes all currency plus checking accounts and travelers checks.
C : The M2 money supply excludes all of the M1 supply except certificates of deposit.
D : The M2 money supply excludes paper bills and metal coins.

Correct Answer : B

52 : Following a contraction in the economy, the government of Geri, a South American country, decides to increase the money supply in the country. The government wants to first tally the M1 form of money supply. In this context, the government will most likely use _____ to tally the M1 form of money supply.
A : bonds and certificates of deposit
B : money market accounts
C : savings accounts
D : metal coins and paper bills

Correct Answer : D

53 : To bring inflation under control, the Fed:
A : reduces the interest rates.
B : reduces the money supply.
C : buys government securities.
D : offers loans to the commercial banks.

Correct Answer : B

54 : Which of the following tools is most frequently used by the Fed to expand and contract the money supply in the economy?
A : Open market operations
B : Credit default swaps
C : Endowment mortgages
D : Steering taxes

Correct Answer : A

55 : In the context of monetary policy, when the economy is weak, the Fed:
A : withdraws funds from banks.
B : asks banks to cut back on the loans they make.
C : helps reduce inflationary pressures in the economy.
D : buys government securities on the open market.

Correct Answer : D

56 : The Fed directly stimulates spending by:
A : limiting the M1 form of money supply.
B : increasing the interest rates.
C : encouraging inflation in the market.
D : buying government securities.

Correct Answer : D

57 : In the context of open market operations, when inflation is a concern, the Federal Reserve _____ government securities.
A : buys
B : borrows
C : sells
D : withholds

Correct Answer : C

58 : When the Fed sells securities, _____.
A : banks become flush with funds
B : banks cut back on the loans
C : credit becomes readily available
D : the money supply increases

Correct Answer : B

59 : In the context of open market operations, when inflation is a concern, the Fed sells securities to buyers who write checks to the Fed to pay for securities they bought, and the Fed withdraws these funds from banks. With fewer funds, _____.
A : credit becomes tighter
B : banks increase the number of loans they make
C : banks offer subprime mortgage loans
D : the inflationary pressures in the economy heat up

Correct Answer : A

60 : The funds of Lutsan City Bank decreased after the Federal Reserve cashed the checks that it received after selling government securities. As a result, the bank had to cut back on its loan offerings as it did not have sufficient funds to provide loans. This scenario exemplifies _____.
A : open market operations
B : market monetarism
C : reflation
D : articles of incorporation

Correct Answer : A

61 : During a period of inflation in the United States, the Federal Reserve sells treasury bonds. Buyers of these bonds write checks to the Fed, and the Fed cashes these checks from banks. Given this information, the banks will most likely:
A : increase the loan amount.
B : increase the discount rate.
C : cut back on the loans they make.
D : cut back on the discount rate.

Correct Answer : C

62 : Rolliand Bank is going through a financial crisis. Therefore, it takes a loan from the Federal Reserve. The bank has to repay the loan within a year, and it also has to pay a monthly interest of 6% to the Fed. In this case, the 6% interest rate that the Fed charges from Rolliand Bank is the _____.
A : prime rate
B : nominal rate
C : discount rate
D : exchange rate

Correct Answer : C

63 : The Board of Governors of the Federal Reserve holds a meeting to discuss its concern over

the decreasing gross domestic product of the country. All members agree that the situation can be brought under control and the economy can be stimulated if they use the discount rate as a tool. In this scenario, the Fed is most likely to:
A : reduce the discount rate.
B : maintain the existing discount rate.
C : increase the discount rate.
D : use a negative discount rate.

Correct Answer : A

64 : The United States goes through a period of recession because of the continuous decrease in the nations gross domestic product. The Fed intervenes and improves the situation by reducing the discount rate. This move by the Fed will result in:
A : banks obtaining funds at a lower cost.
B : a rise in the interest rates of bank loans.
C : individuals getting discouraged to borrow money and spend it.
D : a drop in the availability of loans to consumers.

Correct Answer : A

65 : In the context of monetary policy, which of the following statements is true of the discount rate?
A : The Fed increases it during recessions.
B : When the Fed reduces it, interest rates on bank loans tend to fall.
C : When the Fed increases it, banks can obtain funds at a lower cost.
D : It is the interest rate that the Fed charges on its loans to individuals.

Correct Answer : B

66 : In the context of monetary policy, the Fed is most likely to reduce the discount rate during:
A : inflations.
B : periods of investment recovery.
C : periods of low money supply.
D : recessions.

Correct Answer : D

67 : In response to inflation, the Fed is likely to:
A : increase the discount rate.
B : subsidize loans.
C : buy government securities.
D : increase the debt ceiling.

Correct Answer : A

68 : In the context of monetary policy, the _____ is a rule set by the Fed, which specifies the minimum amount of funds a bank must hold, expressed as a percentage of the banks deposits.
A : debt ceiling
B : statutory framework
C : reserve requirement
D : fiscal drag

Correct Answer : C

69 : The central banking system in the country of Darmos issues a notice to all its commercial banks stating that they must hold funds that are equal to 48% of the deposits held by their customers. In the given scenario, the central banking systems notice exemplifies _____.
A : full-reserve banking
B : the statutory framework
C : the reserve requirement
D : statutory liquidity ratio

Correct Answer : C

70 : Brontsky & Co., a member bank of the Fed, receives a notice from the Fed that notifies that it must hold funds equal to 15% of the deposits held by its customers. In this scenario, the 15% is the _____.
A : capital adequacy ratio
B : capital requirement
C : reserve requirement
D : debt ceiling

Correct Answer : C

71 : In the context of monetary policy, which of the following is a result of an increase in the reserve requirement?
A : Banks can no longer hold any funds.
B : Number of bank loans begin to increase.
C : Interest rates begin to rise.
D : Credit becomes readily available.

Correct Answer : C

72 : In the context of monetary policy, if the Fed decreases the reserve requirement, _____.
A : there will be more loans available
B : the availability of credit will decrease
C : banks will need to hold more funds
D : interest rates will increase

Correct Answer : A

73 : In the context of monetary policy, which of the following is a result of a decrease in the reserve requirement?
A : Interest rates begin to increase.
B : Banks make less number of loans.
C : Banks need to hold more funds.
D : The availability of credit increases.

Correct Answer : D

74 : Which of the following statements is true about the Fed?
A : It regulates financial institutions.
B : It regulates taxes.
C : It creates jobs, such as mail carrier or park ranger, during recession.
D : It can implement decisions only after they are approved by the Senate.

Correct Answer : A

75 : In its role as a regulator, the Fed:
A : maintains the federal governments checking account.
B : influences the economy through taxation and spending decisions.
C : oversees mergers and acquisitions.
D : coordinates the check-clearing process for checks on behalf of banks.

Correct Answer : C

76 : In its role as a banker for banks, the Fed:
A : regulates the total amount of money within the overall economy.
B : reduces the discount rate so that banks can obtain funds at a lower cost.
C : performs open market operations, which involve buying and selling government securities, which include treasury bonds, notes, and bills.
D : coordinates the check-clearing process for checks on behalf of any banks that are willing to pay its fees.

Correct Answer : D

77 : In its role as the governments bank, the Fed:
A : keeps the U.S. currency supply in good condition.
B : reduces the discount rate so that banks can obtain funds at a lower cost.
C : coordinates the check-clearing process for checks on behalf of banks.
D : regulates the taxes rates.

Correct Answer : A

78 : A(n) _____ is a structure for allocating limited resources.
A : dynamical system
B : credit system
C : economic system
D : accounting system

Correct Answer : C

79 : The economic system of the United States is called _____.
A : capitalism
B : communism
C : socialism
D : mercantilism

Correct Answer : A

80 : Which of the following statements states a core principle of capitalism?
A : The lot of the working class should be improved at the expense of the super-rich.
B : Individuals, innovation, and hard work should be of paramount importance.
C : The government should own and operate key enterprises that directly affect public welfare.
D : All enterprises in an economy should be publicly owned.

Correct Answer : B

81 : Which of the following is a feature of capitalism?

A : The system works toward improving the lot of the working class at the expense of the super-rich.
B : Private-sector businesses are not free to hire and fire at their discretion.
C : The government owns and operates key enterprises that directly affect public welfare.
D : Private-sector businesses are free to make their own choices regarding what they will produce.

Correct Answer : D

82 : Which of the following statements is true of a capitalist economy?
A : Individuals are free to choose how much they are willing to pay for products.
B : Economic equality in the society is of paramount importance.
C : The competition in the market is biased in favor of a few businesses.
D : Businesses are not free to decide how much they charge for their products.

Correct Answer : A

83 : Rochester, an Asian country, follows an economic system that facilitates private ownership. The countrys economy is based on economic freedom and fair competition. Given this information, the economic system followed by Rochester is _____.
A : socialism
B : totalitarianism
C : capitalism
D : communism

Correct Answer : C

84 : Danny is a citizen of Finiz, a North American country. He is able to run his handicraft business without any intervention from the government because Finiz has an economic system that encourages private ownership. He is able to make independent decisions for his business and has the freedom to decide the prices of his products. In this scenario, Finiz most likely has a _____.
A : socialist economy
B : totalitarian economy
C : capitalist economy
D : communist economy

Correct Answer : C

85 : In the context of the fundamental rights of capitalism, which of the following statements is true about capitalism?
A : It doesnt guarantee that anyone will actually earn profits.
B : It depends on government regulations to drive higher quality and lower prices.
C : Businesses are not free to buy, or not buy, according to their wishes.
D : Businesses are not free to spend after-tax profits however they want.

Correct Answer : A

86 : Which of the following factors acts as a motivator for business owners in a capitalist economy?
A : Guaranteed profits for privately owned enterprises
B : The right to spend after-tax income however one sees fit
C : Social and economic equality in society

D : Government welfare programs

Correct Answer : B

87 : In the context of the right to private property, identify a true statement about capitalist economy.
A : Individuals have the right to will property to family members.
B : The government does not impose any restrictions on the right to property.
C : Businesses are not free to buy property as they see fit.
D : Individuals are not free to sell property according to their wishes.

Correct Answer : A

88 : A capitalist system depends on fair competition among businesses to:
A : be consistent with the goals of socialism.
B : ease the buying and selling of government securities.
C : guarantee that every individual business earns profits.
D : drive higher quality and lower prices.

Correct Answer : D

89 : Which of the following statements best describes the role of the government in a capitalist economy?
A : It monitors the competition to ensure compliance to regulations.
B : It imposes restriction on the right to free choice.
C : It strives to keep tax rates high.
D : It operates key enterprises that directly affect public welfare.

Correct Answer : A

90 : In the context of the free market system, which of the following statements is true of pure competition?
A : Customers distinguish one product from another.
B : No single producer has any control over the price.
C : New producers cannot easily enter the market.
D : Competitors sell different products to get an edge.

Correct Answer : B

91 : In the context of the free market system, which of the following market structures has a low barrier to entry?
A : Natural monopolies
B : Oligopolies
C : Monopolies
D : Pure competitions

Correct Answer : D

92 : The district of Dansas in Nerito, a European country, is a major producer of walnuts. All producers in the district sell packaged walnuts. The market structure is flexible enough for producers to enter and leave the market as and when they wish, but no single producer has control over the prices of the product. Which of the following market structures exists in Dansas?

A : Pure competition
B : Monopoly
C : Monopolistic competition
D : Oligopoly

Correct Answer : A

93 : The term _____ refers to a market structure with many competitors selling differentiated products; the barriers to enter such a market structure are low.
A : monopolistic competition
B : monopoly
C : oligopoly
D : pure competition

Correct Answer : A

94 : The cosmetics industry in the district of Dunkenburg has many competing companies that sell personal care products. However, each company manufactures products that correspond to different income groups, and these products have different uses. The market structure of the cosmetics industry in Dunkenburg exemplifies _____.
A : pure competition
B : monopoly
C : monopolistic competition
D : oligopoly

Correct Answer : C

95 : _____ is a market structure with only a handful of competitors selling products that can be similar or different and has high barriers to entry.
A : Monopolistic competition
B : Monopoly
C : Oligopoly
D : Pure competition

Correct Answer : C

96 : In the context of the free market system, which of the following statements is true of oligopoly?
A : It is a market structure that has many competitors selling virtually identical products.
B : It typically avoids intense price competition.
C : The agriculture industry is an example of oligopoly.
D : It has a single producer completely dominating the industry, leaving no room for competitors.

Correct Answer : B

97 : In the context of the free market system, the computer business is an example of _____.
A : oligopoly
B : monopoly
C : a natural monopoly
D : pure competition

Correct Answer : A

98 : _____ is a market structure with just a single producer completely dominating the industry.
A : Oligopoly
B : Monopoly
C : Monopolistic competition
D : Pure competition

Correct Answer : B

99 : Normander Corp. is a large media corporation that owns all the media outlets in Liecheben and a few news agencies internationally. Any new media company that tries to establish itself in Liecheben soon runs out of business because of the overpowering presence of Normander Corp. This scenario exemplifies _____.
A : pure competition
B : monopoly
C : monopolistic competition
D : oligopoly

Correct Answer : B

100 : Denver wants to start an industrial products manufacturing company, but he finds it difficult to enter the market as it is already dominated by a single producer who controls product quality and product prices. Given this information, Denver is unable to enter the market because of the existence of _____.
A : pure competition
B : monopoly
C : monopolistic competition
D : oligopoly

Correct Answer : B

101 : _____ are market structures with one company as the supplier of a product because the nature of that product makes a single supplier more efficient than multiple, competing ones.
A : Monopolistic competitions
B : Oligopolies
C : Pure competitions
D : Natural monopolies

Correct Answer : D

102 : The government in the town of Rodenham has granted exclusive rights to a few telecommunications companies to operate in specific geographic areas. The companies have to provide their services in the areas allotted to them, and no company is allowed to extend its services to the areas allotted to its competitors. This system has been put in place because it would be inconvenient for each company to build its own infrastructure in all areas. The given scenario exemplifies:
A : pure competition.
B : a natural monopoly.
C : monopolistic competition.
D : an oligopoly.

Correct Answer : B

103 : Which of the following is an example of a natural monopoly?

A : Public utilities
B : Agriculture
C : Network television
D : The automobile industry

Correct Answer : A

104 : The term _____ refers to the quantity of products that producers are willing to offer for sale at different market prices.
A : repository
B : stockpile
C : supply
D : cache

Correct Answer : C

105 : In the context of fundamental principles of a free market system, which of the following statements is true of a supply curve?
A : It shows the relationship between price and quantity from a supplier standpoint.
B : For most goods and services, it forms a sinusoidal curve.
C : It shows the relationship between supply and quantity from a buyer standpoint.
D : For most goods and services, it slopes downward as it moves to the right.

Correct Answer : A

106 : In the context of fundamental principles of a free market system, which of the following statements is true of a demand curve?
A : It shows the relationship between price and quantity from a producer standpoint.
B : For most goods and services, it curves upward as it moves to the right.
C : It shows the relationship between price and quantity from a customer standpoint.
D : For most goods and services, it forms a sinusoidal curve.

Correct Answer : C

107 : In the context of supply and demand, which of the following statements is true of the free market system?
A : People tend to buy more products with lower prices.
B : People tend to look for products solely on the basis of quality.
C : As the supply increases, the demand also increases.
D : As the supply increases, the price also increases.

Correct Answer : A

108 : Which of the following is a difference between the supply curve and the demand curve?
A : The supply curve maps price on the y-axis, whereas the demand curve maps quantity on the y-axis.
B : Unlike the demand curve, the supply curve for most goods and services slopes downward as it moves to the right.
C : The supply curve maps quantity on the x-axis, whereas the demand curve maps price on the x-axis.
D : Unlike the supply curve, the demand curve for most goods and services slopes downward as it moves to the right.

Correct Answer : D

109 : In the context of the fundamental principles of a free market system, which of the following statements is true of the equilibrium price?
A : It refers to the price at the point where the supply curve and the demand curve intersect.
B : It is the price at which a seller breaks even.
C : It is the point at which the final cost of production equals the price of the raw materials used for a product.
D : It refers to a situation where the cost price of a product is equal to its selling price.

Correct Answer : A

110 : In the context of the fundamental principles of a free market system, the _____ is associated with the point at which the quantity demanded of a product equals the quantity supplied.
A : fiscal price
B : intermediate price
C : parity price
D : equilibrium price

Correct Answer : D

111 : The Kingsabode Daily is a community news agency that distributes newspapers to the residents of Kingsabode County. To meet the demand and to ensure that there is zero wastage of resources, the news agency prints 250 newspapers that are distributed in the 250 homes in the county. The price associated with such a demand and supply pattern is called the _____.
A : parity price
B : producer price
C : equilibrium price
D : basic price

Correct Answer : C

112 : Giovani, a baker, makes exactly 20 loaves of brown bread each day. These loaves of bread are delivered to the 20 individuals who have placed an order with him. The quantity associated with such a demand and supply pattern is called _____.
A : a vector quantity
B : the reserve requirement quantity
C : the equilibrium quantity
D : a latent quantity

Correct Answer : C

113 : The government of Bakhraan, an Asian country, owns key industries that directly affect public welfare, such as healthcare and telecommunications. To fund public welfare schemes, such as free childcare and free education, the government levies high taxes on its citizens. In the given scenario, the economic system followed by Bakhraan is _____.
A : capitalism
B : socialism
C : communism
D : distributism

Correct Answer : B

114 : Which of the following is a negative factor that interferes with the effectiveness of socialist economic systems?
A : Excessive private ownership of healthcare services
B : Absence of a tax structure
C : Inefficiencies and corruption
D : Lack of government ownership of key enterprises

Correct Answer : C

115 : Which of the following statements is true about socialist economy?
A : It is an economic system that is based on private ownership, economic freedom, and fair competition.
B : Tax revenues fund services that citizens in free enterprise systems would have to pay for themselves.
C : The dynamic interaction between buyers and sellers decides the prices in the market.
D : Enterprises are run efficiently in the best interest of the government.

Correct Answer : B

116 : Which of the following is a recent advancement in the Western European countries that developed powerful socialist economies in the decades after World War II?
A : They are experiencing phenomenal growth.
B : They are likely to see an influx of potential entrepreneurs from other countries.
C : They have imposed stiff austerity measures to control government spending.
D : They have introduced new public benefit programs.

Correct Answer : C

117 : The economic system of the East Asian nation of Xinzen calls for public ownership of all businesses. The government has complete control over the market, and individuals do not have individual rights and the freedom to make choices. In this scenario, the economic system followed by Xinzen is _____.
A : socialism
B : distributism
C : capitalism
D : communism

Correct Answer : D

118 : In the context of planned economies, countries that adopted communism in 1900s developed:
A : individualism and narcissistic values among people.
B : a plethora of choices regarding jobs and buying options.
C : transparency at every level of government.
D : crippling shortages and surpluses.

Correct Answer : D

119 : Which of the following is a similarity between socialism and communism?
A : Both allow freedom in work choices for the people.
B : Both have a strong involvement of the government.
C : Both allow free market systems.

D : Both have low taxation policies.

Correct Answer : B

120 : Identify a true statement about pure market economies.
A : They do not allow people the freedom to choose their source of livelihood.
B : They do not make sufficient provision for the old, the young, and the sick.
C : They create enough value to support the environment.
D : They stifle entrepreneurship and creative innovation.

Correct Answer : B

121 : Over the past 30 years, most economies of the world have begun moving toward the market end of a spectrum that ranges from pure planned economy at one extreme to pure market economy at the other. This has led to:
A : more investments on human services such as free healthcare and education subsidies.
B : a reduction in incentives for both domestic and foreign investment.
C : stronger centralized government control over businesses.
D : reduced red tape in socialist governments.

Correct Answer : D

122 : In the context of mixed economies, which of the following statements is true of the U.S. federal government?
A : It directly operates firms in the financial sector.
B : It does not own major enterprises.
C : It is part owner in a number of financial institutions.
D : It does not employ a significant number of people.

Correct Answer : C

123 : The government of the South Asian nation of Albana is unable to maintain the electronics business effectively because of slack in management and lack of skilled employees. It sells the business to a company called Ramington Electricals. The company has no association with the government, and it operates on its own terms. The sale of the government-owned electronics business to Ramington Electricals is an example of _____.
A : privatization
B : globalization
C : a joint venture
D : a coalition

Correct Answer : A

124 : A giant telecommunications company that was previously owned by the government of Sunzabia, a European country, is sold to an independent industrialist to ensure that the company is handled in a more efficient way. The given scenario exemplifies _____.
A : privatization
B : globalization
C : a joint venture
D : a coalition

Correct Answer : A

125 : Real gross domestic product (GDP) measures the total value of final goods and services producedwithin a nations physical boundaries over a given period of time, adjusted for:
A : a loss of workforce.
B : recession.
C : inflation.
D : a rise in unemployment.

Correct Answer : C

126 : Troboli is a North American country. The total value of all final goods and services produced in Troboli in the last fiscal year was 3.3% more than the year before that. This growth placed Troboli in a better position than most of its allies. In this scenario, the total value of all final goods and services through which the economic condition of Troboli was assessed is known as _____.
A : net present value
B : gross domestic product
C : profit margin
D : windfall profit

Correct Answer : B

127 : Denise is a hard worker, but she has always had differences with her boss, Angela. Angela has recently become more demanding and is often unwilling to provide clarification on project requirements. After many long working days with little job satisfaction, Denise submits her resignation. She knows that her résumé is strong and feels confident that she will find another job. In this scenario, Denise is facing _____.
A : seasonal unemployment
B : structural unemployment
C : frictional unemployment
D : cyclical unemployment

Correct Answer : C

128 : Anoush used to work for an investment firm. Although she liked her job, she had to resign because it took her a lot of time to commute to work. After resigning, she searched for a job, and within a month, she found a better job that was closer to her home. In the given scenario, the duration of Anoushs unemployment exemplifies _____.
A : seasonal unemployment
B : structural unemployment
C : frictional unemployment
D : cyclical unemployment

Correct Answer : C

129 : Gregory was a typist at a corporate firm. When the company adopted a special voice recognition software for the purpose of documentation, Gregorys job became redundant. Therefore, he was laid off. The increased use of technology in most companies has made Gregorys skills inessential, and he remained unemployed for a long time. In the given scenario, Gregory is facing _____.
A : seasonal unemployment
B : structural unemployment
C : frictional unemployment
D : cyclical unemployment

Correct Answer : B

130 : _____ is a form of unemployment that involves layoffs during recessions.
A : Cyclical
B : Isochronal
C : Periodical
D : Seasonal

Correct Answer : A

131 : The country of Trevanvia goes through a period of recession, which leaves a large number of people unemployed due to extensive layoffs by companies. The companies use the strategy of job termination to cut down their costs and reduce their output as the people are now more cautious with their spending. In the given scenario, the layoffs exemplify _____.
A : seasonal unemployment
B : structural unemployment
C : frictional unemployment
D : cyclical unemployment

Correct Answer : D

132 : Lefrada, a luxury watchmaker, stops production for three months and lays off 30 employees because of a sharp decline in its sales during the period of recession. In the given scenario, the laid off employees are facing _____.
A : seasonal unemployment
B : structural unemployment
C : frictional unemployment
D : cyclical unemployment

Correct Answer : D

133 : Ronnie works on a part-time basis for a company that provides home repair and maintenance services. Ronnie is specialized in handling the central heating systems in homes and is therefore needed to be at work only during the winter. He is mostly unemployed for the rest of the year. In this scenario, the form of unemployment faced by Ronnie is _____.
A : seasonal unemployment
B : structural unemployment
C : periodical unemployment
D : cyclical unemployment

Correct Answer : A

134 : Olivia is a part-time worker at a jam-producing company in her village. Her job entails picking and cleaning grapefruits. Because grapefruits grow only in winter, Olivia is unemployed for most part of the year. In the given scenario, Olivias unemployment exemplifies _____.
A : seasonal unemployment
B : frictional unemployment
C : classical unemployment
D : cyclical unemployment

Correct Answer : A

135 : In the context of economic systems, the two key phases of a business cycle are:
A : stagflation and hyperinflation.
B : depression and retrieval.
C : contraction and expansion.
D : recession and deflation.

Correct Answer : C

136 : In the context of the business cycle, which of the following statements is true of the period of economic contraction?
A : Consumers shift their buying patterns to more basic products.
B : The dropping prices increase the sales of luxury goods and services.
C : Businesses start producing more goods to support the economy.
D : The economic feel-good factor brings in a lot of investment.

Correct Answer : A

137 : Logers, a high-end apparel company in Bruslon, an Asian country, cuts back on production as consumers start turning to basic products such as food because of the economic downturn in the country. The company also lays off many of its employees to further cut down expenses. In the context of the business cycle, Bruslon is most likely going through a period of _____.
A : economic recovery
B : economic contraction
C : economic integration
D : economic expansion

Correct Answer : B

138 : The West Asian country of Quinland is experiencing an economic downturn. There has been a decrease in its gross domestic product for two consecutive quarters. In this scenario, Quinland is most likely facing an _____.
A : economic recession
B : economic expansion
C : economic stagnation
D : economic integration

Correct Answer : A

139 : The gross domestic product (GDP) of Trelinberg, a South American nation, has been decreasing for the past eight years. The long period of consecutive decreases in the GDP has led to high unemployment rates in Trelinberg. In the given scenario, the economy of Trelinberg is most likely experiencing _____.
A : disinflation
B : a depression
C : a stagflation
D : hyperinflation

Correct Answer : B

140 : In a business cycle, the _____ is the transition period between contraction and expansion.
A : recession
B : recovery

C : disinflation
D : deflation

Correct Answer : B

141 : The economy of Sutanvia is under severe financial distress. However, over the last few months, the economy has gradually picked up, and employment levels are slowly rising back to normal levels. Consumers are also beginning to engage in regular buying activities. In this scenario, the economy of Sutanvia is currently in the _____ phase of its business cycle.
A : recovery
B : relapse
C : expansion
D : contraction

Correct Answer : A

142 : The economic situation in Lanceberg, an African country, slowly picks up after a severe financial downturn. Over a period of 12 months, businesses expand and employment levels rise. Consumers begin to engage in normal buying behavior. In this scenario, the economy of Lanceberg is currently in the _____.
A : recovery phase
B : relapse phase
C : contraction phase
D : inflation phase

Correct Answer : A

143 : In a business cycle, the _____ is a period of robust economic growth and high employment.
A : expansion
B : recovery
C : disinflation
D : contraction

Correct Answer : A

144 : Keltica, a country in Asia, enjoyed a period of great economic boom in the 1980s. The country had robust economic growth, high employment, and abundant business investments during this period. In the context of the business cycle, the economy of Keltica was in _____ during the 1980s.
A : a depression
B : the contraction phase
C : a recession
D : the expansion phase

Correct Answer : D

145 : Irkholm, a South American nation, experiences an economic downturn that leads to an increase in average prices across the country. The situation becomes more serious when average prices increase more than 50% per month. In the given scenario, Irkholm is experiencing _____.
A : disinflation
B : hyperinflation

C : asset price inflation
D : deflation

Correct Answer : B

146 : Which of the following is a difference between inflation and deflation?
A : The Federal Reserve buys government securities when inflation is a concern, whereas the Federal Reserve sells government securities when deflation is a concern.
B : Inflation increases the unemployment rate, whereas deflation decreases the unemployment rate.
C : A high level of inflation is bad for the economy, whereas a high level of deflation signifies a healthy economy.
D : Inflation is a period of rising average prices across an economy, whereas deflation is a period of falling average prices across the economy.

Correct Answer : D

147 : Glasvania, a European country, experiences a period of economic downturn that results in high unemployment. Almost all businesses are compelled to reduce their prices by a large margin because most consumers have limited money to spend. The given scenario exemplifies _____.
A : stagflation
B : inflation
C : deflation
D : disinflation

Correct Answer : C

148 : In the context of price levels, which of the following is used by the government to evaluate inflation?
A : The seller pricing rank
B : The consumer price index
C : The price-weighted activity index
D : The knowledge pricing rank

Correct Answer : B

149 : The U.S. government uses the consumer price index (CPI) and the producer price index (PPI) to evaluate:
A : budget surplus.
B : discount rates.
C : productivity.
D : inflation.

Correct Answer : D

150 : Which of the following statements best defines the producer price index (PPI)?
A : It measures the change over time in the prices that businesses pay each other for goods and services.
B : It refers to the quantity of products that consumers are willing to buy at different market prices.
C : It measures the change in weighted-average price over time in a consumer market basket of goods.

D : It refers to a standard equation that is used to determine the resources needed to produce a certain quantity of goods.

Correct Answer : A

151 : The government of Lenzerbia, a country in South Asia, monitors its inflation rate using an index that measures change over time in the prices that businesses pay to each other for goods and services. In this scenario, the Lenzerbian government most likely uses the _____ to evaluate inflation.
A : prices received index
B : consumer price index
C : cost-of-living index
D : producer price index

Correct Answer : D

152 : _____ refers to the relationship between the goods and services that an economy generates and the resources needed to generate them.
A : Productivity
B : Reserve requirement
C : Equilibrium quantity
D : Supply curve

Correct Answer : A

153 : Which of the following statements is true of productivity?
A : Increase in productivity usually gives rise to increase in quality.
B : A high level of productivity typically correlates with healthy gross domestic product growth.
C : It refers to the quantity of products that consumers are willing to buy at different market prices.
D : A low level of productivity tends to correlate with economic expansion.

Correct Answer : B

# ESSAY

154 : In the context of capitalism, describe the four degrees of competition with examples of each.

Correct Answer : Answers will vary. The four degrees of competition are pure competition, monopolistic competition, oligopoly, and monopoly.Pure Competition: It is a market structure with many competitors selling virtually identical products. In today's U.S. economy, examples of pure competition have virtually disappeared. Agriculture probably comes closest—corn is basically corn, for example—but with the dramatic growth of huge corporate farms and the success of major agricultural cooperatives such as Sunkist and Sun-Maid, the number of competitors in agriculture has dwindled, and new farmers have trouble entering the market.Monopolistic Competition: It is a market structure with many competitors selling differentiated products. Producers have some control over the price of their wares, depending on the value that they offer their customers. And new producers can fairly easily enter categories marked by monopolistic competition. Examples of monopolistic competition include the clothing industry and the restaurant business.Oligopoly: It is a market structure with only a

handful of competitors selling products that are either similar or different. The retail gasoline business and the car manufacturing industry, for instance, are both oligopolies, even though gas stations offer very similar products, and car companies offer quite different models and features. Other examples of oligopoly include the soft drink industry, the computer business, and network television.Monopoly: It is a market structure with just a single producer completely dominating the industry, leaving no room for any significant competitors. Monopolies are usually not good for anyone except for the company that has control since without competition there isn't any incentive to hold down prices or increase quality and choices. Because monopolies can harm the economy, most are illegal according to federal legislation, such as the Sherman Antitrust Act of 1890 and the Clayton Antitrust Act of 1914. Microsoft is the latest example of an industry giant that ran afoul of antimonopoly laws due to its position and policies in the software business.

155 : Describe the two key categories of planned economies and illustrate the features of each.

Correct Answer : Answers will vary. The two key categories of planned economies are socialism and communism.Socialism is an economic system based on the principle that the government should own and operate key enterprises that directly affect public welfare, such as utilities, telecommunications, and healthcare. Although the official government goal is to run these enterprises in the best interest of the overall public, inefficiencies and corruption often interfere with effectiveness. Socialist economies also tend to have higher taxes, which are designed to distribute wealth more evenly through society. Tax revenues typically fund services that citizens in free enterprise systems would have to pay for themselves in countries with lower tax rates.Most Western European countries—from Sweden, to Germany, to the United Kingdom—developed powerful socialist economies in the decades after World War II. But more recently, growth in these countries has languished. Although many factors have contributed to the slowdown, the impact of high taxes on the profit incentive and lavish social programs on the work incentive has clearly played a role. Potential entrepreneurs may migrate to countries that let them keep more of their profits, and workers with abundant benefits may find themselves losing motivation.Communism is an economic and political system that calls for public ownership of virtually all enterprises, under the direction of a strong central government. The communist concept was the brainchild of political philosopher Karl Marx, who outlined its core principles in his 1848 Communist Manifesto. The communism that Marx envisioned was supposed to dramatically improve the lot of the worker at the expense of the super-rich.But countries that adopted communism in the 1900s—most notably the former Soviet Union, China, Cuba, North Korea, and Vietnam—did not thrive. Most imposed authoritarian governments that suspended individual rights and choices. People were unable to make even basic choices such as where to work or what to buy. Without the free market to establish what to produce, crippling shortages and surpluses developed. Corruption infected every level of government. Under enormous pressure from their own people and the rest of the world, communism began to collapse across the Soviet Union and its satellite nations.

156 : Briefly discuss mixed economies.

Correct Answer : Answers will vary. A pure planned economy would not create enough value to support its people over the long term. Instead, most of today's nations have mixed economies, falling somewhere along a spectrum that ranges from pure planned at one extreme to pure market at the other. Over the past 30 years, most economies of the world have begun moving toward the market end of the spectrum. Government-owned businesses have converted to private ownership via a process called privatization. Socialist governments have reduced red tape, cracked down on corruption, and created new laws to protect economic rights. Extravagant human services—from free healthcare to education subsidies—have shrunk. And far-reaching tax reform has created new incentives for both domestic and foreign investment in

once-stagnant planned economies.

157 : What is a business cycle? Describe the key phases of a business cycle in a changing economy.

Correct Answer : Answers will vary. The business cycle is the periodic contraction and expansion that occur over time in virtually every economy. The two key phases of the business cycle are contraction and expansion.Contraction is a period of economic downturn marked by rising unemployment. Businesses cut back on production, and consumers shift their buying patterns to more basic products and fewer luxuries.Expansion is a period of robust economic growth and high employment. Businesses expand to capitalize on emerging opportunities. Consumers are optimistic and confident, which fuels purchasing, which fuels production, which fuels further hiring.

158 : Explain the various changes in the rate of price in an economy.

Correct Answer : Answers will vary. The rate of price changes across an economy is a basic measure of economic well-being. Inflation means that prices, on average, are rising. Similar to unemployment, a low level of inflation is not so bad. It reflects a healthy economy—people have money, and they are willing to spend it. But when the Federal Reserve—the nation's central bank—manages the economy poorly, inflation can spiral out of control, which can lead to hyperinflation, when average prices increase more than 50% per month.When the rate of price increases slows down, the economy is experiencing disinflation, which was the situation in the United States in the mid-1990s and more recently in the second half of 2008. But when prices actually decrease, the economy is experiencing deflation, typically a sign of economic trouble that goes hand-in-hand with very high unemployment. People do not have money and simply will not spend unless prices drop. During the Great Depression in the 1930s, the U.S. economy experienced deflation, with prices dropping 9% in 1931 and nearly 10% in 1932.

159 : In the context of evaluating economic performance, describe productivity.

Correct Answer : Answers will vary. Productivity refers to the relationship between the goods and services that an economy produces and the resources needed to produce them. The amount of output—goods and services—divided by the amount of input equals productivity. The goal is to produce more goods and services, using fewer hours and other inputs. A high level of productivity typically correlates with healthy GDP growth, while low productivity tends to correlate with a more stagnant economy.Over the past couple of decades, the United States has experienced strong productivity growth, due largely to infusions of technology that help workers produce more output, more quickly. However, it must be kept in mind that productivity does not measure quality. That's why it is so important to examine multiple measures of economic health rather than relying on simply one or two dimensions.