# *Foundations of Business 8th edition Pride Test Bank*

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Name:_____ Class:_____ Date:_____

# Chapter 1 - Exploring the World of Business and Economics

1. What are the three basic concepts Joe Dudley recommends for success in business?
   a. What do you want? Why do you want it? Write it down!
   b. Plan carefully, execute quickly, and measure results consistently.
   c. Study business, network effectively, and maintain good credit.
   d. Work hard, save money, and invest wisely in the future.

*ANSWER:* a

2. Why is cultural diversity important in today's business environment?
   a. It helps companies avoid legal problems and government regulations.
   b. It ensures companies can hire workers at lower wage rates.
   c. It reduces employee training costs and improves profit margins.
   d. It allows businesses to work effectively with many types of people.

*ANSWER:* d

3. What are the four types of resources that must be combined to start and operate a business?
   a. Material, human, financial, and informational resources
   b. Land, labor, capital, and entrepreneurship resources only
   c. Natural, manufactured, service, and knowledge-based resources
   d. Physical, intellectual, monetary, and technological resources

*ANSWER:* a

4. A local restaurant owner invests $50,000 to open a new location but faces the possibility that customers may not frequent the establishment. What business risk does this scenario illustrate?
   a. The risk of employee theft and internal fraud
   b. The risk of government regulation and compliance issues
   c. The risk of losing the investment in the business
   d. The risk of not being paid by suppliers and vendors

*ANSWER:* c

5. How is profit calculated in a business?
   a. Assets minus liabilities equals profit for the period.
   b. Revenue minus all business expenses equals profit.
   c. Gross revenue divided by total expenses equals profit.
   d. Total sales plus investment income equals profit.

*ANSWER:* b

6. What are the four basic economic questions that every economic system must answer?
   a. What goods and services will be produced? How will they be produced? For whom will they be produced? Who owns and controls the major factors of production?
   b. What technology will be used? How will quality be maintained? What prices will be charged? How will competition be regulated?
   c. How much should be produced? When should it be produced? Where should it be produced? Why should it be produced?
   d. Who will work? What wages will be paid? How will profits be distributed? What taxes will be collected?

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*ANSWER:* a

7. A small business owner in the United States decides to manufacture organic pet food, sets the price at $25 per bag, and competes with other pet food companies. This scenario best illustrates which economic system?
   a. Communism, where collective ownership guides all economic decisions
   b. Pure socialism, where the government controls all production decisions
   c. Capitalism, where individuals make production and pricing decisions
   d. A command economy, where central planning determines all business activities

*ANSWER:* c

8. What is Adam Smith's concept of the invisible hand?
   a. How an individual's personal gain benefits others and the nation's economy
   b. The hidden costs that businesses must pay to operate in society
   c. Secret agreements between businesses to control market prices
   d. Government regulation that guides business decisions toward social benefit

*ANSWER:* a

9. What does gross domestic product (GDP) measure?
   a. The total dollar value of all goods and services produced within a country's boundaries during a specified period
   b. The average income earned by all workers in a country for one year
   c. The difference between a country's exports and imports over a specific period
   d. The total amount of money circulating in a country's financial system

*ANSWER:* a

10. A manufacturing company increases its output from 100 units per worker per hour to 120 units per worker per hour through new technology. What economic concept does this improvement represent?
   a. Increased productivity leading to economic growth
   b. Rising inflation affecting production costs
   c. Decreased unemployment in the manufacturing sector
   d. Improved balance of trade with foreign countries

*ANSWER:* a

11. Why do economists adjust GDP for inflation when comparing economic performance across different years?
   a. To measure the real purchasing power and actual economic growth
   b. To calculate the total amount of government spending each year
   c. To estimate the balance of international trade relationships
   d. To determine the unemployment rate in different economic periods

*ANSWER:* a

12. What are the four phases of the business cycle?
   a. Growth, stability, decline, and renewal
   b. Expansion, contraction, depression, and inflation
   c. Prosperity, slowdown, crisis, and improvement

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d. Peak, recession, trough, and recovery

*ANSWER:* d

13. During the COVID-19 pandemic, many nonessential businesses closed, unemployment reached 15 percent, and consumer spending declined significantly. Which business cycle phase does this scenario describe?

a. Recovery, with increasing employment and consumer confidence
b. The trough, representing the turning point toward economic recovery
c. A peak period, with maximum economic activity and low unemployment
d. A recession, with declining economic activity and rising unemployment

*ANSWER:* d

14. How can monetary policy help speed economic recovery during a recession?

a. By raising taxes to reduce the federal budget deficit
b. By increasing government spending on infrastructure projects
c. By lowering interest rates to encourage borrowing and investment
d. By implementing new regulations on business operations

*ANSWER:* c

15. What are the four types of competition recognized by economists?

a. Local competition, national competition, international competition, and global competition
b. Price competition, quality competition, service competition, and innovation competition
c. Perfect competition, monopolistic competition, oligopoly, and monopoly
d. Direct competition, indirect competition, substitute competition, and potential competition

*ANSWER:* c

16. A local utility company is the only provider of electricity in a city, and customers cannot purchase electricity from any other source. What type of competition does this situation represent?

a. A monopoly, with one seller and no close substitutes available
b. Monopolistic competition, with many sellers offering differentiated products
c. Perfect competition, with many sellers offering identical products
d. An oligopoly, with few large sellers controlling the market

*ANSWER:* a

17. Why do companies in monopolistic competition focus heavily on product differentiation?

a. To reduce their production costs and improve profit margins
b. To eliminate all competitors from the market completely
c. To gain greater control over their products' market prices
d. To comply with government regulations on fair competition

*ANSWER:* c

18. What was the domestic system of production in early American business?

a. A method in which entrepreneurs distributed raw materials to homes for processing into finished goods
b. A factory system in which all workers assembled in one location for manufacturing
c. A trading system in which families bartered goods directly with each other

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d. A government-controlled system in which officials directed all production activities

*ANSWER:* a

19. How did Henry Ford's assembly line contribute to American business development?
a. It established government control over private manufacturing companies.
b. It reduced the importance of transportation in business operations.
c. It refined specialization and enabled the mass production of consumer goods.
d. It eliminated the need for skilled workers in manufacturing processes.

*ANSWER:* c

20. What challenge does the shift to a service economy present for American businesses?
a. Service businesses require less skilled workers than manufacturing companies.
b. Service businesses generate lower profits than traditional manufacturing operations.
c. Service businesses must adapt to different productivity measures and customer expectations.
d. Service businesses cannot compete effectively in international markets.

*ANSWER:* c

21. A college graduate applies for a management position and emphasizes their ability to work with diverse teams, communicate effectively, and adapt to change. Which aspect of modern business success does this approach demonstrate?
a. Industry experience is more important than personal qualities.
b. Technical skills are the only requirements for business success.
c. Academic credentials determine all employment opportunities.
d. Personal characteristics are valued by employers in today's business environment.

*ANSWER:* d

22. Why do many corporations emphasize their social responsibility efforts alongside profit goals?
a. Government regulations require all businesses to report their social responsibility efforts.
b. Social responsibility activities always generate immediate financial returns.
c. Profit maximization conflicts with all other business objectives.
d. Stakeholders care about environmental and social impact in addition to financial performance.

*ANSWER:* d

23. Why is the U.S. economy considered a mixed economy rather than one based on pure capitalism?
a. All major industries are owned and controlled by the government.
b. Private businesses cannot make independent production decisions.
c. The government participates as more than just a rule maker and an umpire.
d. Market forces have no influence on prices and production.

*ANSWER:* c

24. A country's consumer price index increases from 150 to 165 over one year. What does this change indicate about the economy?
a. The economy is experiencing inflation, with rising prices for consumer goods.
b. The economy's unemployment rate is decreasing significantly.
c. The economy's productivity is declining in the manufacturing sector.

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d. The economy is in a deflationary spiral, with falling prices across all sectors.

*ANSWER:* a

25. How does the national debt relate to government efforts to stimulate the economy during recessions?
    a. The national debt decreases automatically during all recessionary periods.
    b. Government stimulus programs have no relationship to national debt levels.
    c. Economic stimulus spending always generates enough tax revenue to eliminate the national debt.
    d. Government stimulus spending often exceeds revenues, contributing to federal deficits and the overall national debt.

*ANSWER:* d

26. What determines the market price in perfect competition?
    a. Individual buyers negotiate prices directly with each seller.
    b. Government agencies regulate and control all pricing decisions.
    c. The interaction of supply and demand forces determines the equilibrium price.
    d. The largest seller in the market sets prices for all competitors.

*ANSWER:* c

27. A technology company uses social media to communicate with customers, automated equipment to improve productivity, and online platforms to distribute products globally. In today's business environment, which of the following factors does this scenario best illustrate?
    a. The competitive environment, which requires cost reduction strategies
    b. The global environment, which creates international trade opportunities
    c. The economic environment, which affects business investment decisions
    d. The technological environment, which changes business operations and customer interactions

*ANSWER:* d

28. What advantage does studying business provide for someone who wants to become a better consumer?
    a. Business education guarantees lower prices on all consumer purchases.
    b. Business training eliminates all risks associated with consumer spending.
    c. Business knowledge helps people understand transactions and make informed purchasing decisions.
    d. Business courses teach consumers how to avoid all business transactions.

*ANSWER:* c

29. Dollar Shave Club, an online retailer of razors and other grooming products, uses an autoship subscription program to automatically deliver goods to its customers at regular intervals (e.g., monthly). What business advantage does this approach provide?
    a. It allows companies to charge higher prices than their competitors.
    b. It creates predictable revenue streams and customer loyalty.
    c. It eliminates all competition from traditional retailers.
    d. It reduces the need for inventory management and storage.

*ANSWER:* b

30. In a socialist economy, a government decides to nationalize the steel industry while allowing private ownership of restaurants and retail stores. What does this selective approach demonstrate?

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a. Socialist economies cannot function without eliminating all private property.
b. Socialist economies always produce results that are identical to capitalist systems.
c. Socialist economies must have complete government ownership of all businesses.
d. Socialist economies can combine government control of key industries with private ownership in other sectors.

*ANSWER:* d

31. Why might the unemployment rate increase even when GDP is growing?
a. GDP growth only occurs when businesses reduce their labor costs.
b. Growing GDP always requires fewer workers due to improved efficiency.
c. Productivity improvements allow increased output with the same or fewer workers.
d. Unemployment statistics are unrelated to overall economic performance.

*ANSWER:* c

32. During an economic recovery phase, a retail company observes increasing customer traffic, rising sales revenues, and the need to hire additional employees. What business cycle characteristic does this scenario demonstrate?
a. Trough conditions representing the lowest point of economic activity
b. Recovery movement from an economic trough to improved business conditions
c. Recession conditions, with declining business activity and reduced employment
d. Peak conditions, with maximum economic activity and full employment

*ANSWER:* b

33. Three major airlines dominate the domestic market and closely monitor each other's pricing and service decisions when expanding airport lounges. What type of competition does this situation represent?
a. Perfect competition, with many sellers offering identical services
b. A monopoly, with one seller controlling the entire market
c. Monopolistic competition, with many sellers offering differentiated services
d. An oligopoly, with a few large sellers whose actions significantly affect competitors

*ANSWER:* d

34. What does sustainability mean in the context of modern business operations?
a. The requirement to follow all government regulations and compliance standards
b. The capacity to eliminate all competition from the marketplace
c. The ability to maintain profitable operations without any external financing
d. The ability to create conditions where humans and nature can exist in productive harmony

*ANSWER:* d

35. A recent business graduate uses LinkedIn to connect with industry professionals, post about their skills and interests, and respond quickly to job opportunities. What modern job search strategy does this approach represent?
a. Traditional networking through personal referrals and recommendations
b. Online networking using social media platforms for career development
c. Direct application to companies without any networking activities
d. Reliance on college career services for all job placement activities

*ANSWER:* b

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36. What distinguishes e-business from traditional business operations?
    a. E-business requires larger initial investments than traditional businesses.
    b. E-business serves fewer customers than traditional retail operations.
    c. E-business cannot generate profits like traditional business models.
    d. E-business operates exclusively through internet facilities and online platforms.

*ANSWER:* d

37. What role do households play in a mixed economy?
    a. Households operate independently from businesses and government activities.
    b. Households have no influence on business decisions or economic outcomes.
    c. Households only consume goods and services without contributing resources.
    d. Households serve as both consumers of goods and owners of factors of production.

*ANSWER:* d

38. A manufacturing plant implements new technology that allows workers to produce 25 percent more products per hour with the same workforce. How does this change affect economic performance measurement?
    a. It increases productivity by improving output per worker per hour.
    b. It reduces the unemployment rate in the manufacturing sector.
    c. It decreases the consumer price index for manufactured goods.
    d. It increases the producer price index for industrial equipment.

*ANSWER:* a

39. What distinguishes a depression from a typical recession?
    a. A depression occurs only in developing countries, while recessions affect developed nations.
    b. A depression involves government intervention, while recessions occur without policy responses.
    c. A depression is a severe recession that lasts longer and has larger declines in business activity.
    d. A depression only affects manufacturing, while recessions affect all industries.

*ANSWER:* c

40. Why are natural monopolies permitted to exist in certain industries like public utilities?
    a. These industries generate lower profits than competitive markets.
    b. These industries require huge start-up costs that deter potential competitors.
    c. These industries operate more efficiently, with multiple competing companies.
    d. These industries produce products that consumers do not really need.

*ANSWER:* b

41. After experiencing success in the U.S. market, Quaker Quackers, a snack company based in Pennsylvania, begins expanding distribution of its products into parts of Europe. Different food labeling laws and ingredient regulations in the European Union (EU) require Quaker Quackers to reformulate some of its snacks and redesign its product packaging, thereby increasing the company's production costs. Which business environment best explains the challenges Quaker Quackers faces in expanding into the EU?
    a. The global environment
    b. The competitive environment
    c. The technological environment

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d. The economic environment

*ANSWER:* a

42. How does Sara Blakely's success with Spanx demonstrate the principles Joe Dudley outlined for business success?

a. She relied entirely on external funding and investor support for business growth.

b. She focused only on short-term profits rather than long-term business building.

c. She identified what she wanted, understood her motivation, and took action to achieve her goals.

d. She avoided taking any personal risks in developing her business idea.

*ANSWER:* c

43. Sheetz, a convenience store chain, provides extensive made-to-order food options through its touchscreen ordering system, allowing customers to customize meals based on dietary preferences, portion sizes, and taste. Sheetz also offers a wide range of traditional convenience items such as fuel, beverages, groceries, and household essentials. The company enhances customer convenience through services like 24/7 store hours, mobile app ordering, loyalty rewards programs, and self-checkout options. By combining foodservice, retail goods, fuel, and technology-driven convenience, Sheetz adheres to which of the following business principles?

a. Eliminating all competition through exclusive supplier agreements

b. Satisfying diverse customer needs through comprehensive product and service offerings

c. Minimizing operational costs to maximize profit margins

d. Focusing exclusively on high-profit margin items and services

*ANSWER:* b

44. A government collects taxes from households and businesses, then uses this revenue to provide defense, education, and infrastructure services. What economic system component does this scenario illustrate?

a. A socialist economy, with collective ownership of all productive resources

b. Pure capitalism, with minimal government involvement in economic activities

c. A mixed economy, with the government providing services funded by tax revenue

d. A command economy, with the government controlling all production and distribution

*ANSWER:* c

45. How does the producer price index (PPI) relate to the consumer price index (CPI)?

a. The PPI and the CPI have no relationship to each other or to inflation measurement.

b. The PPI and the CPI measure identical price changes in the same markets.

c. The PPI measures wholesale prices and can predict future changes in the CPI.

d. The PPI measures consumer prices, while the CPI measures wholesale prices.

*ANSWER:* c

46. The Federal Reserve lowers interest rates to 2 percent while Congress approves a $2 trillion infrastructure spending package during an economic downturn. What combination of policies does this scenario represent?

a. Fiscal policy through interest rate changes and monetary policy through government spending

b. Only fiscal policy, with no monetary policy components involved

c. Monetary policy through interest rate reduction and fiscal policy through government spending

d. Only monetary policy, with no fiscal policy components involved

*ANSWER:* c

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47. Nike competes in the tough athletic footwear and apparel market, with many brands offering similar products. Instead of focusing mainly on low prices, Nike distinguishes itself through innovative technology (e.g., advanced cushioning and performance materials), strong branding, and high-profile athlete endorsements. What competitive strategy does this approach represent?

a. Price competition, by offering the lowest costs in the market
b. Perfect competition, by offering identical products to competitors
c. Market monopolization, by eliminating all competitor options
d. Product differentiation, to create unique market positioning

*ANSWER:* d

48. How does the shift to a service economy affect the way businesses measure success and productivity?

a. Service businesses cannot measure productivity or business performance.
b. Service businesses must develop new approaches to measuring performance and customer satisfaction.
c. Service businesses use the same productivity measures as manufacturing companies.
d. Service businesses only measure financial results, without considering operational efficiency.

*ANSWER:* b

49. A business student develops professionalism, excellent communication skills, and a willingness to learn while maintaining dependability and self-confidence. How do these characteristics support career success?

a. They guarantee immediate promotion to management positions.
b. They allow employees to work independently without any supervision.
c. They eliminate the need for technical skills and job-related knowledge.
d. They represent the personal qualities that employers value when hiring and promoting employees.

*ANSWER:* d

50. Why did many businesses experience dramatic increases in online sales during the COVID-19 pandemic?

a. Online products became significantly cheaper than store merchandise.
b. Online retailers offered better product quality than traditional stores.
c. Customers preferred online shopping to avoid virus exposure and access essential items.
d. Government regulations required all purchases to be made online.

*ANSWER:* c

51. What are the four factors of production that economic systems must organize?

a. Land and natural resources, labor, capital, and entrepreneurship
b. Raw materials, finished goods, services, and information systems
c. Money, technology, management, and marketing resources only
d. Domestic production, international trade, government services, and private enterprise

*ANSWER:* a

52. A country's GDP grows from $20 trillion to $22 trillion, but when adjusted for inflation, real GDP only increases from $20 trillion to $20.5 trillion. What does this comparison reveal?

a. The economy's unemployment rate decreased significantly during this period.
b. The economy experienced deflation, with falling prices across all sectors.
c. The economy experienced significant inflation that reduced real purchasing power.

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d. The economy achieved substantial real growth in production and output.

*ANSWER:* c

53. Why might government stimulus programs during recessions contribute to concerns about national debt?

a. Stimulus programs always generate immediate tax revenue that eliminates debt.

b. Stimulus programs reduce government spending on all other activities.

c. Stimulus programs have no relationship to government finances or debt levels.

d. Stimulus spending often exceeds current government revenues, creating deficits that add to national debt.

*ANSWER:* d

54. What conditions must exist for perfect competition to occur in a market?

a. Few large sellers, differentiated products, limited information, and high entry barriers

b. One dominant seller, unique products, controlled information, and exclusive market access

c. Government regulation, price controls, production quotas, and restricted competition

d. Many buyers and sellers, identical products, complete information, no entry restrictions, and no single participant affects the market

*ANSWER:* d

55. OpenAI, an artificial intelligence research company, has grown rapidly as the demand for generative AI tools has surged across industries including education, finance, healthcare, and software development. The large-scale training and operation of advanced AI models require massive computing power housed in energy-intensive data centers. Critics argue that the electricity required to train and use these systems contributes to higher carbon emissions and strains power grids. What modern business challenge does this scenario represent?

a. How to reduce the national debt and stimulate business growth

b. How to conserve natural resources and sustain the environment while maintaining business growth

c. How to create a more stable economy and generate new jobs

d. How to preserve the benefits of competition and small business

*ANSWER:* b

56. How does Suze Orman's financial success demonstrate the value of business knowledge for personal investment?

a. Investment success depends only on luck and market timing.

b. Business knowledge guarantees investment success for all individuals.

c. Understanding business principles helps people make better investment and financial planning decisions.

d. Business education eliminates all financial risks and investment losses.

*ANSWER:* c

57. When Amazon offers same-day delivery in certain locations, what business advantage does this technology-driven service provide?

a. It reduces the need for inventory management and warehousing.

b. It allows Amazon to charge higher prices than all its competitors.

c. It creates competitive advantage through superior customer service and convenience.

d. It eliminates all shipping costs for the company.

*ANSWER:* c

58. A country allows private ownership of restaurants and retail stores, but it maintains government control of steel

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production, telecommunications, and energy industries. What type of economic system does this represent?

a. A command economy, with total government control of all production
b. A socialist economy, with government ownership of key industries and private ownership in other sectors
c. A mixed economy identical to the U.S. economic system
d. Pure capitalism, with complete private ownership of all industries

*ANSWER:* b

59. Why is it important to distinguish between GDP and real GDP when evaluating economic performance over time?

a. GDP and real GDP measure completely different economic activities.
b. GDP includes government spending, while real GDP excludes all government activities.
c. Real GDP adjusts for inflation to show actual changes in production and economic output.
d. Real GDP only measures manufacturing, while GDP includes all economic sectors.

*ANSWER:* c

60. A business owner notices that customer demand is increasing, unemployment is declining, and their company needs to hire additional workers. Which business cycle phase is the economy most likely experiencing?

a. The recovery phase, with improving economic conditions and increasing employment
b. The peak phase, with maximum economic activity and lowest unemployment
c. The trough phase, representing the lowest point of economic activity
d. The recession phase, with declining economic activity and rising unemployment

*ANSWER:* a

61. A farmer sells corn in a market where many other farmers offer identical corn, buyers know all current prices, and no single farmer can influence the market price. What type of competition does this scenario represent?

a. Monopolistic competition, with differentiated agricultural products
b. A monopoly, with one farmer controlling the entire corn market
c. An oligopoly, with a few large agricultural producers controlling prices
d. Perfect competition, with many sellers offering identical products

*ANSWER:* d

62. What distinguishes the factory system from the domestic system of production?

a. The factory system eliminates the need for skilled workers.
b. The factory system produces only luxury goods for wealthy consumers.
c. The factory system assembles all materials, machinery, and workers in one location.
d. The factory system relies entirely on government funding and control.

*ANSWER:* c

63. A manager demonstrates the ability to plan projects, organize resources, lead teams effectively, and control outcomes. What business competency does this combination of skills represent?

a. Financial analysis abilities for investment decision making
b. The four basic management functions required for effective leadership
c. Customer service skills for direct client interaction
d. Technical expertise in specific industry operations

*ANSWER:* b

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64. Coca-Cola releases annual social responsibility reports that outline its efforts in water stewardship, packaging recycling, carbon footprint reduction, community development, and workplace diversity. Why do companies like Coca-Cola publish social responsibility reports highlighting environmental and community contributions?

a. Social responsibility activities always generate immediate financial returns.
b. Stakeholders increasingly evaluate companies based on their social and environmental impact beyond financial performance.
c. Government regulations require all businesses to publish these reports.
d. These reports eliminate all business risks and guarantee success.

*ANSWER:* b

65. How do businesses participate in the circular flow of a mixed economy?

a. Businesses operate independently, without interacting with households or government.
b. Businesses exchange money for resources and then exchange products for sales revenue.
c. Businesses only purchase resources, without providing any products or services.
d. Businesses only provide services to the government, without serving household consumers.

*ANSWER:* b

66. A country's unemployment rate drops from 8 percent to 5 percent, while consumer confidence increases and new housing starts rise by 15 percent. What do these indicators collectively suggest about economic performance?

a. The economy is showing signs of improvement and growth.
b. The economy is experiencing a recession, with declining business activity.
c. The economy is entering a depression, with severe economic decline.
d. The economy is experiencing deflation, with falling prices.

*ANSWER:* a

67. What characterizes the trough phase of the business cycle?

a. The turning point, when production and employment reach their lowest levels
b. A sustained period of economic growth and increasing prosperity
c. A gradual decline in economic activity and rising unemployment
d. The period of maximum economic activity, with full employment

*ANSWER:* a

68. Why do antitrust laws discourage monopolies except for natural monopolies and legal monopolies?

a. Monopolies generate more tax revenue for government than competitive businesses.
b. Monopolies always produce higher quality products than competitive markets.
c. Competitive markets always result in lower prices than monopolistic markets.
d. Competitive markets ensure customers have choices and businesses operate efficiently.

*ANSWER:* d

69. A small eyewear company like Blenders Eyewear expands internationally to Canada, Australia, and the United Kingdom after gaining celebrity endorsements. What current business environment factor does this scenario best illustrate?

a. The competitive environment, requiring differentiation strategies
b. The global environment, creating opportunities for international business expansion

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c. The economic environment, affecting domestic market conditions

d. The technological environment, enabling online business operations

*ANSWER:* b

70. How do the characteristics employers seek in employees reflect the changing nature of modern business?

a. Traditional business skills are no longer relevant in today's workplace.

b. Employers prefer employees who work independently without collaboration.

c. Personal qualities like communication, adaptability, and teamwork have become essential for business effectiveness.

d. Employers only value technical skills and ignore personal characteristics.

*ANSWER:* c

71. For its production process for items like the iPhone, Apple sources components such as chips, screens, and batteries from global suppliers. The company relies on skilled engineers and assembly workers, invests in advanced manufacturing equipment and factories, and uses detailed design plans, production schedules, and supply chain data. What business concept does Apple's production process demonstrate?

a. The organized effort to combine four types of resources for business operations

b. The elimination of competition through exclusive supplier agreements

c. The maximization of profits through cost reduction techniques

d. The reduction of business risks through diversification strategies

*ANSWER:* a

72. In North Korea, the government makes centralized plans that determine what goods are produced, how they are made, and who receives them. What type of economic system does this represent?

a. A socialist economy, with selective government ownership of key industries

b. A mixed economy, combining private and government economic participation

c. A capitalist economy, with private ownership and market decisions

d. A communist command economy, with centralized government planning

*ANSWER:* d

73. What is the relationship between productivity and economic growth?

a. Economic growth always decreases productivity by requiring more workers.

b. Productivity and economic growth are completely unrelated economic measures.

c. Increased productivity results in economic growth because more goods and services are produced by the same labor force.

d. Productivity improvements always lead to immediate unemployment increases.

*ANSWER:* c

74. During the Great Recession of 2008, unemployment rose significantly, consumer spending declined, and many businesses postponed major projects. Which business cycle phase did this period represent?

a. The recession phase, with declining economic activity and rising unemployment

b. The recovery phase, with improving economic conditions and growth

c. The peak phase, with maximum economic activity and prosperity

d. The trough phase, representing the turning point toward recovery

*ANSWER:* a

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75. A clothing retailer emphasizes unique designs, premium materials, and exclusive brand identity to distinguish itself from other fashion companies. What competitive approach does this strategy represent?

a. Monopolistic competition, through product differentiation and brand identity
b. Perfect competition, by offering identical products at market prices
c. A monopoly, by eliminating all competition in the fashion market
d. An oligopoly, by coordinating with other major fashion retailers

*ANSWER:* a

76. How does the development of social media represent a significant change in the technological environment for businesses?

a. Social media only benefits large corporations, not small businesses.
b. Social media provides new ways for businesses to communicate with customers and share information about products.
c. Social media eliminates the need for traditional advertising and marketing.
d. Social media reduces the importance of customer service and support.

*ANSWER:* b

77. A college student gains work experience through cooperative programs, summer jobs, and part-time employment while developing communication skills and professionalism. How does this approach support career success?

a. Work experience guarantees immediate employment after graduation.
b. Part-time work eliminates the need for academic achievement and education.
c. Practical experience, combined with personal development, creates competitive advantages for job applications.
d. Cooperative programs provide all the skills needed for career success.

*ANSWER:* c

78. What distinguishes service businesses from manufacturing businesses and marketing intermediaries?

a. Service businesses require larger initial investments than other business types.
b. Service businesses only serve individual consumers, not other businesses.
c. Service businesses provide intangible services rather than physical products.
d. Service businesses cannot generate profits like manufacturing companies.

*ANSWER:* c

79. How does the concept of laissez-faire capitalism differ from the mixed economy system in the United States?

a. Laissez-faire capitalism advocates minimal government intervention, while mixed economies include significant government participation in economic activities.
b. Laissez-faire capitalism involves extensive government regulation, while mixed economies have minimal government involvement.
c. Laissez-faire capitalism and mixed economies are identical economic systems.
d. Laissez-faire capitalism eliminates private ownership, while mixed economies promote it.

*ANSWER:* a

80. U.S. GDP includes the value of electronics produced by both an American-owned Apple plant and a South Korean-owned Samsung plant located within U.S. borders. What principle of GDP measurement does this example illustrate?

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a. GDP excludes foreign-owned businesses from economic measurement.
b. GDP only measures services and excludes all manufactured products.
c. GDP measures all goods and services produced within a country's boundaries, regardless of company ownership.
d. GDP only includes products made by domestically owned companies.

*ANSWER:* c

81. Cultural diversity refers to a system that recognizes and respects differences among people because of their age, race, ethnicity, gender, sexual orientation, and ability.
a. True
b. False

*ANSWER:* True

82. E-business is distinguished from traditional business by its use of internet facilities to conduct business operations.
a. True
b. False

*ANSWER:* True

83. Adam Smith's invisible hand concept describes how government regulation guides individual business decisions toward social benefit.
a. True
b. False

*ANSWER:* False

84. The producer price index (PPI) measures prices at the wholesale level and can serve as a predictor of future consumer price changes.
a. True
b. False

*ANSWER:* True

85. A depression is defined as two or more consecutive three-month periods of decline in a country's GDP.
a. True
b. False

*ANSWER:* False

86. In perfect competition, the market price is determined by the interaction of supply and demand forces rather than by individual sellers.
a. True
b. False

*ANSWER:* True

87. The factory system assembles all materials, machinery, and workers in one location, while the domestic system distributes production across multiple households.
a. True
b. False

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*ANSWER:* True

88. According to the text, college graduates typically earn higher lifetime incomes than high school graduates.
a. True
b. False
*ANSWER:* True

89. Fiscal policy involves the Federal Reserve's actions to promote employment and control interest rates.
a. True
b. False
*ANSWER:* False

90. The United States has transitioned to a service economy, with over 80 percent of its workforce employed in service businesses.
a. True
b. False
*ANSWER:* True

91. What are the four compelling reasons for studying business mentioned in the text?
*ANSWER:* The four compelling reasons for studying business are: (1) for help in choosing a career; (2) to be a successful employee; (3) to start your own business; and (4) to become a better-informed consumer and investor.

92. Explain the relationship between profit and the risks that business owners must assume.
*ANSWER:* Profit serves as the reward that business owners receive for assuming the considerable risks of business ownership, including the risk of not being paid and the risk of losing their investment in the business. Everyone else must be paid before the owners, and if the business fails, owners lose their money, effort, and time invested.

93. What are the four factors of production that economic systems must organize?
*ANSWER:* The four factors of production are: (1) land and natural resources; (2) labor (human resources); (3) capital (facilities, equipment, and tools); and (4) entrepreneurship (the activity that organizes and coordinates the other factors while taking risks).

94. Why is it important to distinguish between GDP and real GDP when measuring economic performance?
*ANSWER:* It is important to distinguish between GDP and real GDP because real GDP adjusts for inflation, allowing economists to measure actual changes in production rather than just price fluctuations. This enables accurate comparisons of economic performance across different time periods by using constant dollars that maintain the same purchasing power.

95. What is the difference between monetary policy and fiscal policy in addressing economic problems?
*ANSWER:* Monetary policy refers to the Federal Reserve's actions to promote maximum employment, stabilize prices, and increase or decrease interest rates. In contrast, fiscal policy involves the government's influence on the amount of savings and expenditures by altering the tax structure and changing levels of government spending.

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96. Explain why product differentiation is important in monopolistic competition.

*ANSWER:* Product differentiation is important in monopolistic competition because it allows companies to distinguish their products from competitors' similar offerings, giving them greater control over their products' market prices. By creating unique features, brand identity, or services, businesses can build customer loyalty and reduce price sensitivity for their specific products.

97. How did specialization contribute to the development of American manufacturing?

*ANSWER:* Specialization contributed to American manufacturing development by separating the manufacturing process into distinct tasks and assigning different tasks to different individuals. This approach improved productivity by allowing workers to focus on specific skills and tasks, leading to greater efficiency and the foundation for mass production techniques like Henry Ford's assembly line.

98. What personal characteristics do employers look for when hiring or promoting employees?

*ANSWER:* Employers look for honesty and integrity, willingness to work hard, dependability, good time management skills, self-confidence, motivation, willingness to learn, excellent communication skills, and professionalism. These characteristics reflect the interpersonal and professional qualities needed for success in modern business environments.

99. How does increased productivity affect both employers and workers?

*ANSWER:* Increased productivity benefits employers by reducing costs, increasing profits, and enabling competitive pricing. However, it can negatively affect workers by potentially leading to job losses since fewer workers are needed to produce the same output. While productivity growth helps businesses compete globally, it may result in higher unemployment rates for displaced workers.

100. What does sustainability mean in the context of modern business, and why is it important?

*ANSWER:* Sustainability in business refers to the ability to create and maintain conditions under which humans and nature can exist in productive harmony to support present and future generations. It is important because businesses must balance economic growth with environmental responsibility, addressing concerns about resource consumption, climate change, and long-term environmental impact while maintaining profitability.

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