Business Essentials 13th edition Ebert Test Bank

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***Business Essentials, 13e* (Ebert/Griffin)**
Chapter 1 The U.S. Business Environment

1) Which of the following best describes profit?
A) Total money taken in by a corporation
B) Increases in income from year to year
C) Increases in a corporation's stock price
D) Revenue generated by goods and services
E) Difference between revenues and expenses
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

2) Which of the following is defined as the environment where a firm conducts its operations and derives its revenues known as?
A) Global business environment
B) Economic environment
C) Domestic business environment
D) Technological environment
E) Political-legal environment
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

3) Factors such as international trade agreements, economic conditions, and political unrest will have the greatest impact on which type of business environment?
A) Global business environment
B) Economic environment
C) Domestic business environment
D) Technological environment
E) Political-legal environment
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

4) Changes in which type of business environment can reduce or replace the need for traditional working methods, physical equipment, and other platforms needed to conduct business?
A) Global business environment
B) Economic environment
C) Domestic business environment
D) Technological environment
E) Political-legal environment
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

5) As a teenager, Melinda started cutting grass for her neighbor. She did a good job, and more and more neighbors began to hire her. After saving money and investing in additional equipment, Melinda began to earn an even greater profit. Which of the following did Melinda create when she began cutting her neighbor's yard and earning income?
A) Nonprofit
B) Corporate culture
C) Market economy
D) Monopolistic competition
E) Business
Answer: E
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

6) In which way does consumer choice and demand affect the way a business operates?
A) Businesses must take into account what consumers want or need.
B) Businesses must produce most of the goods and services we consume.
C) Businesses must find opportunity and develop a plan to capitalize on it.
D) Business must prepare to compete in the global marketplace.
E) Business must use technology to track changing demographics in the community.
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

7) Which of the following consists of everything outside an organization's boundaries that might affect how the business operates?
A) Opportunities and enterprise
B) Corporate culture
C) External environment
D) Domestic business environment
E) Political-legal environment
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

8) Aimee wants to open her retail shop in her local community so that she can establish strong relationships with suppliers and customers, and distinguish herself and her shop from the competition. In which environment does Aimee wish to do business?
A) Global
B) Political-legal
C) Domestic
D) Economic
E) Technological
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

9) The Basic Broom Company orders much of its raw material from overseas markets, even though the product is made locally. Which of the following business environments might prevent The Basic Broom Company from being able to get its supply of raw material when they need it?
A) Changes in the global business environment
B) Changes in the technological environment
C) Changes in the economic environment
D) Changes in the factors of production
E) Changes in the labor force
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

10) Which of the following includes all the ways a firm creates value for their customers?
A) Technological environment
B) Profitability
C) Economic environment
D) Creation of a market economy
E) Law of supply and demand
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

11) Sally's Supply shop has recently had to change her process for shipping supplies because of changes in government regulations. She now also has to change how she reports profit and loss, and when those reports are processed. Which of the following is forcing these changes for Sally's Supply shop
A) The laws of supply and demand
B) Political-legal environment
C) The establishment of perfect competition
D) Changes in the market economy
E) Economic environment
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

12) A new restaurant recently opened in the local community. It serves a variety of ethnic foods, and plays background music in keeping with the customers and values of the local demographics make up of the community. Which external environment of business is this restaurant considering when they support the customs, values, and demographics of the local community?
A) Monopoly
B) Sociocultural
C) Freedom of choice
D) Perfect competition
E) Global
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

13) Which of the following include relevant conditions that exist such as wage rates, number of people looking for jobs, and competition?
A) Global business environment
B) Technological environment
C) Political-legal environment
D) Sociocultural environment
E) Economic environment
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

14) Which of the following business environments includes the customers, mores, values, and demographic characteristics of the society where the organization functions?
A) Sociocultural
B) Technological
C) Political-legal
D) Fiscal
E) Economic
Answer: A
Difficulty: Difficult
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

15) The pursuit of profits is how a business differs from organizations such as public universities, public hospitals, and government agencies.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

16) An organization's external environment consists of everything outside of the organization that might affect it.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

17) Businesses improve society by improving the quality of life in a society.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

18) The environment, not economic forces, play a major role in the success and failure of businesses everywhere.
Answer: FALSE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

19) The customs, values, and demographic characteristics of the society in which an organization functions are the principal elements of the political-legal environment.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

20) The technological environment includes only electronics and telecommunications used to perform business activities.
Answer: FALSE
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Application
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

21) Compare a sociocultural environment to an economic environment.
Answer: The sociocultural environment includes the customs, mores, values, and demographic characteristics of the society in which an organization functions. Sociocultural processes also determine the goods and services, as well as the standards of business conduct, that a society is likely to value and accept. The economic environment refers to relevant conditions that exist in the economic system in which a company operates. For example, if an economy is doing well enough that most people have jobs and wages are high, a growing company may find it necessary to pay even higher wages and offer more benefits to attract workers from other companies. But if many people in an economy are looking for jobs, a firm may be able to pay less and offer fewer benefits.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

22) Describe the domestic business environment.
Answer: The domestic business environment refers to the environment in which a firm conducts its operations and derives its revenues. In general, businesses seek to be close to their customers, to establish strong relationships with their suppliers, and to distinguish themselves from their competitors.
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

23) How do consumer choice and demand affect a capitalistic system?
Answer: In a capitalistic system, such as that in the United States, businesses exist to earn profits for owners. Within certain broad constraints, an owner is free to set up a new business, grow that business, sell it, or even shut it down. But consumers also have freedom of choice. In choosing how to pursue profits, businesses must take into account what consumers want or need. No matter how efficient a business is, it won't survive if there is no demand for its goods or services.
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

24) What are the benefits of business for society?
Answer: Businesses produce most of the goods and services we consume, and they employ most working people. They create most innovations and provide a vast range of opportunities for new businesses, which serve as their suppliers. A healthy business climate also contributes to the quality of life and standard of living of people in a society. Business profits enhance the personal incomes of millions of owners and stockholders, and business taxes help to support governments at all levels. Many businesses support charities and provide community leadership.
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

25) What is the general term for resources used by a business to produce a good or service referred to as?
A) Labor
B) Human Resources
C) Human capital
D) Factors of production
E) Economic systems
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

26) Which of the following denotes a nation's basis for allocating its resources among its citizens?
A) Capital structure
B) Economic system
C) Ownership processes
D) Distribution network
E) National regulations
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

27) Which of the following is the process for converting government enterprises into individually owned firms?
A) Production allocation
B) Privatization
C) Entrepreneurship
D) Demand assessment
E) Profit maximization
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

28) Which is the term for the physical and intellectual contributions of people while engaged in the production of goods and services?
A) Human resources
B) Working capital
C) Physical resources
D) Planned resources
E) Market resources
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

29) Who is described as the person who accepts the risks and opportunities inherent in a new business opportunity?
A) Capital managers
B) Entrepreneurs
C) Human resources
D) Home country economic systems managers
E) Information technology managers
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

30) What factor of production is used to generate forecasts based on specialized knowledge and economic data?
A) Economic resources
B) Labor
C) Information resources
D) Entrepreneurs
E) Physical resources
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

31) When making decisions about production and allocation, which type of system depends on individual producers and consumers to create a combination of supply and demand?
A) Planned economy
B) Communism
C) Private economy
D) Market economy
E) Socialism
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Analytical
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

32) The idea that individuals would contribute according to their abilities and receive benefits according to their needs supports which type of economy?
A) Market economy
B) Socialist based economy
C) Mixed market economy
D) Capitalist market economy
E) Communist based economy
Answer: E
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

33) Which type of economy is the United States reflective of?
A) Planned
B) Mixed
C) Market
D) Private
E) Socialist
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical Thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

34) What does a planned economy rely on a centralized government to do?
A) Support free enterprise in every way possible
B) Determine how to allocate all or most factors of production
C) Encourage citizens to buy shares of stock in small companies
D) Keep its control activities to a minimum
E) Direct workers to start their own small businesses
Answer: B
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical Thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

35) Which economic system emphasizes the private ownership of most factors of production?
A) Socialism
B) Communism
C) Capitalism
D) Marxism
E) Federalism
Answer: C
Difficulty: Easy
AACSB: Analytical thinking
Question Category: Critical Thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

36) In which type of economy do the individual producer and consumer control production through supply and demand?
A) Planned
B) Communist
C) Market
D) Socialist
E) Mixed
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical Thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

37) Which of the following marks the key difference between economic systems?
A) The way the factors of production are managed
B) The way goods are transported within their borders
C) The way rules and regulations are legislated
D) The way workers are relocated to different regions
E) The way basic necessities are determined
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Analytical
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

38) Which of the following represents the financial resources needed to operate a business?
A) Factors of production
B) Savings
C) Economy
D) Supply and demand
E) Capital
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

39) Kathleen has ordered new computers and office equipment of her tax preparation business. She is also considered renting a larger office for next year? Which of the following refer to the tangible things that Kathleen needs and uses to operate her business.
A) Technological environment
B) Private property
C) Business cycle
D) Physical resources
E) Capital
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

40) Which of the following refers to a reliance on a centralized government to allocate most factors of production?
A) Market economy
B) Global business environment
C) Information resources
D) Planned economy
E) Sociocultural environment
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

41) Which of the following do most countries rely on in terms of economic systems?
A) Mixed market economy
B) Privatization
C) Market economies
D) Capitalism
E) Communism
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

42) Which of the following is a mechanism for exchange between buyers and sellers of specific goods or services?
A) Market
B) Entrepreneurship
C) Communism
D) Capitalism
E) Free enterprise
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

43) Which of the following does a market economy depend on?
A) Profits
B) Freedom of choice
C) Economic restrictions
D) Competition
E) Privatization
Answer: B
Difficulty: Difficult
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

44) Which of the following is the economic basis of the market process?
A) Profit and loss
B) Supply and demand
C) Planned and market economies
D) Labor and capital
E) Physical and technological resources
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

45) Which of the following is the underlying premise of a market economy?
A) A matured society
B) Direct ownership of factors of production
C) Creation of shared value
D) Centralized government
E) A political basis of the market process
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

46) Which of the following is the political basis of the market economy process?
A) Communism
B) Socialism
C) Capitalism
D) Planned economic support
E) Centralized governments
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

47) In which planned economic systems does the government own and operate selected major industries and sources of production?
A) Mixed
B) Privatization
C) Socialism
D) Communism
E) Capitalism
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

48) Physical resources include the data and other information used by businesses.
Answer: FALSE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

49) One major difference between economic systems is the way in which a system manages its factor of production.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

50) In a market system, individuals free to choose what they buy and how they can spend their money.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

51) China functions as a communistic economy and political system.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

52) In a market economy, there is a centralized government that controls factors of production and decision making.
Answer: FALSE
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Application
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

53) Discuss the two forms of planned economies and give examples of each.
Answer: There are two basic forms of planned economies: communism and socialism. Communism is a system in which the government owns and operates all factors of production. Under such a system, the government would assign people to jobs. It would also own all business and control business decisions–what to make, how much to charge, and so forth. Marx proposed that individuals would contribute according to their abilities and receive benefits according to their needs. He also expected government ownership of production factors to be temporary. Once society had matured, government would wither away, and workers would take direct ownership of the factors of production. Today, North Korea, Vietnam, Laos, Cuba and the People's Republic of China are the only nations remaining that are controlled with openly communist systems parties. In the partially planned system called socialism, the government owns and operates selected major industries. In such mixed market economies, the government may control banking, transportation, or industries producing basic goods such as oil and steel. Smaller businesses, such as clothing stores and restaurants are privately owned. Many Western European countries, including England and France, allow free market operations in most economic areas but keep government control of others, such as health care.
Difficulty: Difficult
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

54) Describe the role of information resources in business.
Answer: The production of tangible goods once dominated most economic systems. Today, information resources, data and other information used by businesses play a major role. Information resources that businesses rely on include market forecasts, the specialized knowledge of people, and economic data. In turn, much of what businesses do with the information results either in the creation of new information or the repackaging of existing information for new users.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

55) Compare a planned economy to a market economy.
Answer: Economic systems also differ in the ways decisions are made about production and allocation. A planned economy relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions. In a market economy, individual producers and consumers control production and allocation by creating combinations of supply and demand.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

56) Identify the five factors of production and their role in economic systems.
Answer: An economic system is a nation's system for allocating its resources among its citizens, both individuals and organizations. A basic difference between economic systems is the way in which a system manages its factors of production, the resources that a country's businesses use to produce goods and services. Economists have long focused on four factors of production: labor, capital, entrepreneurs, and physical resources. In addition to these traditional four factors, many economists now include information resources. People who work for businesses provide labor. Labor, sometimes called human resources or human capital, includes the physical and intellectual contributions people make while engaged in economic production. Capital includes the financial resources needed to operate a business. An entrepreneur is a person who accepts the risks and opportunities entailed in creating and operating a new business. Physical resources are the tangible things that organizations use to conduct their business. They include natural resources and raw materials, offices, storage and production facilities, parts and supplies, computers and peripherals, and a variety of other equipment.
Difficulty: Difficult
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

57) What is the point at which the supply curve and the demand curve intersect on a graph?
A) Equilibrium price
B) Decision point
C) Surplus price
D) Perfect price
E) Parity point
Answer: A
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

58) When demand and supply curves are plotted on the same graph, at which point will they intersect?
A) The going rate
B) The margin rate
C) The market price
D) The optimum price
E) The cost price
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

59) Which of the following occurs when the quantity demanded exceeds the quantity supplied?
A) Demand deficit
B) Surplus
C) Equilibrium point
D) Shortage
E) Price drop
Answer: D
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

60) On an economic level, what are the primary force that determines what a firm buys and sells?
A) Laws of supply and demand
B) The demand and supply schedule
C) Economic resources
D) Equilibrium price
E) The private enterprise system
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

61) Which of the following is the willingness and ability of producers to offer a good for sale referred to as?
A) Competition
B) Supply
C) Planned economy
D) Equilibrium
E) Demand
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

62) Which of the following is proven when buyers purchase more of a product when the price drops and less when the price increases?
A) Equilibrium
B) Law of supply
C) Law of demand
D) Degree of competition
E) Free market economy
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

63) What can be used to determine relationships among different levels of demand and supply, based on price?
A) Market economies
B) Degrees of competition
C) Surplus to shortage relationships
D) Demand and supply curves
E) Private enterprise competition
Answer: D
Difficulty: Easy
AACSB: Analytical thinking, Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

64) What is the basis for a market economy?
A) The ability to pursue an interest with minimal government restriction
B) The ability to limit profits on competitors based on government restriction
C) The ability to offer a good or service at a variety of price points
D) A limitation on the number of competitors the government will allow within a specific geographic region
E) The ability of a large number of smaller firms in an industry will limit influence
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

65) Which of the following represents the ownership of resources used in a private enterprise system?
A) Freedom of choice
B) Private property rights
C) Increased profits
D) Limited competition
E) Perfect competition
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

66) Which of the following would lead some to become an entrepreneur and influence the choice of goods or services to produce?
A) Competition
B) Profit
C) Degrees of competition
D) Government regulation
E) Monopolistic competition
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Analytical
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

67) What is needed to gain a competitive advantage over competitors?
A) The ability to produce goods and services and sell those at a fixed profit
B) The ability to produce goods and services and sell those at a small profit
C) The ability to produce goods or services efficiently and sell those at a reasonable profit
D) The ability to leverage the internet to sell in a global marketplace
E) The ability to have a good or service that can be easily duplicated by competitors
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

68) When there are many small firms in a specific industry, what is likely to occur?
A) Competitive advantage
B) An oligopoly
C) Private enterprise
D) Perfect competition
E) Market force reliability
Answer: D
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Analytical
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

69) What is created when one company can most efficiently supply all the goods or services needed by the marketplace?
A) Communism
B) Natural monopolies
C) Marketplace shifts
D) Monopolistic competition
E) Oligopolies
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

70) Which of the following is one of the elements required in private enterprise?
A) Adequate representation in the government
B) Freedom from foreign competition
C) The opportunity for market leadership
D) The right to ownership of property
E) Numerous regulatory agencies
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

71) In perfect competition, which of the following conditions must prevail?
A) All firms must adhere to cost and pricing standards.
B) The number of firms in the industry must be limited.
C) A single firm is able to influence the price of its product.
D) It is relatively difficult to enter the industry.
E) All firms in a given industry must be small.
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

72) In an oligopoly, when one firm reduces its prices, how do other sellers react?
A) There is no reaction from other firms to change their prices.
B) Other firms reduce their prices also, usually quite quickly.
C) Other firms may reduce their prices, but usually gradually.
D) Other firms are not usually aware that price has changed.
E) There is a combined response from other firms to stabilize prices.
Answer: B
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical Thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

73) What is the term used to describe a market condition where buyers are able to satisfy the demand of the consumer, yet have some product remain unsold?
A) Surplus
B) Stoppage
C) Shortage
D) Demand deficit
E) Equilibrium price
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

74) When a new product has high demand in the market, how should a company react?
A) Increase the supply of the product
B) Decrease the supply of the product
C) Reduce the price of the product
D) Maintain the current supply until demand falls
E) Create an artificial shortage of the product
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

75) Mario's Pizza is a very successful pizza shop just off campus. Mario has noticed that as soon as the fall semester starts, he sells twice as many pizzas as he does during summer months. Which aspect of a market economy is Mario experiencing?
A) Demand
B) Choice
C) Supply
D) Competition
E) Private enterprise
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

76) Tommey started his own t-shirt shop, and sold his shirts for low, very competitive prices. As his products became well-known he began selling them out of the local area, and on-line. Based on the Law of supply, what will likely happen to the prices that Tommey charges for his t-shirts?
A) Prices will rise
B) Prices will fall
C) Prices will stay the same
D) Prices will fluctuate depending on where the shirts are sold
E) Prices will decrease only on those sold online
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

77) The principle that says producers will offer more of a product for sale as its price rises, and less as its price drops is referred to as ________.
A) the law of demand
B) equilibrium
C) market pricing
D) freedom of choice
E) the law of supply
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

78) In which way can a producer of a product assess the relationship among different levels of demand and supply, at different price levels?
A) Demand curves
B) Competition in the market
C) Aggregate output
D) Demand and supply schedules
E) Gross domestic product
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

79) Which of the following will show how many units of a product should be supplied at different prices?
A) Demand curve
B) Parity
C) Supply curve
D) Productivity
E) Aggregate output
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

80) Which of the following occurs when two or more business compete for the same resources or customers?
A) Shortage
B) Competition
C) Demand fluctuation
D) Perfect competition
E) Decreased aggregate output
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

81) In which form of competition are prices set exclusively by supply and demand, and accepted by both sellers and buyers?
A) Monopolistic competition
B) Balance of trade
C) Economic stability
D) Purchasing power parity
E) Perfect competition
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

82) In an effort to distinguish themselves from competitors, Healthy Gym began offering fitness classes designed for retirees in the morning, and high energy cycling classes during evening hours. Which degree of competition, which includes a large number of buyers and sellers, does Healthy Gym compete in?
A) Monopolistic competition
B) Perfect
C) Oligopoly
D) Monopoly
E) Natural monopoly
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

83) Which type of competition includes relatively few but large sellers who have the power to influence the prices of their products and significantly affect the sales of every other firm in the industry?
A) Perfect competition
B) Parity
C) Balance of trade
D) Natural monopoly
E) Oligopoly
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

84) The laws of supply and demand determine decisions about what to buy and sell.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Analytical
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

85) Economic systems differ in how factors of production are used.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Analytical
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

86) The point at which the supply curve and the demand curve intersect is the market price.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

87) One of the four elements that are necessary for private enterprise to be carried out is reasonable prices.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

88) Product differentiation is common in a market characterized by monopolistic competition.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

89) In a natural monopoly, prices tend to be government regulated.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

90) What is function of the laws of demand and supply?
Answer: On all economic levels, decisions about what to buy and what to sell are determined primarily by the forces of demand and supply. Demand is the willingness and ability of buyers to purchase a product (a good or a service). The law of Demand says buyers will purchase (demand) more of a product as its price drops and less as its price increases Supply is the willingness and ability of producers to offer a good or service for sale.
The law of supply says producers will offer (supply) more of a product for sale as its price rises and less of a product as its price drops.
Difficulty: Difficult
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

91) What is required for perfect competition to exist, and what principles must be in place to achieve those conditions?
Answer: For perfect competition to exist, two conditions must prevail: (1) all firms in an industry must be small, and (2) the number of firms in the industry must be large. Under these conditions, no single firm is powerful enough to influence the price of its product. Prices are, therefore, determined by such market forces as supply and demand. There are four principles that support the two conditions. The products of each firm are so similar that buyers view them as identical to those of other firms. Both buyers and sellers know the prices that others are paying and receiving in the marketplace. Because each firm is small, it is easy for firms to enter or leave the market. Going prices are set exclusively by supply and demand and accepted by both sellers and buyers.
Difficulty: Difficult
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

92) Discuss each of the four principles of private enterprise systems.
Answer: Market economies rely on a private enterprise system–one that allows individuals to pursue their own interests with minimal government restriction. In turn, private enterprise requires the presence of four elements: private property rights, freedom of choice, profits, and competition. Ownership of the resources used to create wealth is in the hands of individuals. You can sell your labor to any employer you choose. You can also choose which products to buy, and producers can choose whom to hire and what to produce. The lure of profits (and freedom) leads some people to abandon the security of working for someone else and to assume the risks of entrepreneurship. Anticipated profits also influence individuals' choices of which goods or services to produce. If profits motivate individuals to start a business, competition motivates them to operate those businesses efficiently. Competition occurs when two or more businesses vie for the same resources or customers.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

93) How can price be best determined?
Answer: The demand and supply schedule can be used to construct demand and supply curves. A demand curve shows how many products will be demanded at different prices. A supply curve shows how many of the items will be supplied at different prices. Demand increases as price decreases; supply increases as price increases. When demand and supply curves are plotted on the same graph, the point at which they intersect is the market price (also called the equilibrium price), the price at which the quantity of goods demanded and the quantity of goods supplied are equal.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Analytical
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

94) Explain the concept of mixed market economies and how they support pure planned and pure market economies.
Answer: In reality, there are really no "pure" planned or "pure" market economies. Most countries rely on some form of mixed market economy that features characteristics of both planned and market economies. Even a market economy that strives to be as free and open as possible, such as the U.S. economy, restricts certain activities. Some products can't be sold legally, others can be sold only to people of a certain age, advertising must be truthful, and so forth. The People's Republic of China, the world's most important planned economy, is increasingly allowing private ownership and entrepreneurship (although with government oversight). When a government is making a change from a planned economy to a market economy, it usually begins to adopt market mechanisms through privatization, the process of converting government enterprises into privately owned companies.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

95) Which of the following offers expert statistical information on the strength and performance of an economy?
A) Market price reports
B) Supply curves
C) Economic indicators
D) Demand Curves
E) Degrees of competition reports
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

96) The total value of all goods and services produced by a country within a given period is measured through what?
A) Standard of living
B) Aggregate output
C) Gross national product
D) Output per capita
E) Inflation rates
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

97) What term do economists use for the pattern of short-term expansions and contractions in the economy?
A) Business cycle
B) Aggregate output
C) Standard of living
D) Consumer price index
E) Purchasing power parity
Answer: A
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

98) Which indicator refers to the total quantity of goods and services produced by an economic system during a given period?
A) The business cycle
B) Aggregate output
C) Gross domestic product
D) The consumer price index
E) Gross national product
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

99) Which type of government based economic policy includes both fiscal and monetary policy?
A) Trade
B) Employment
C) Stabilization
D) Tax
E) Foreign
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

100) How would supply affect the aggregate output of an economy?
A) Supply would decrease aggregate output
B) Increases in both would cause inflation
C) Aggregate output would grow as supply grows
D) Supply would have no direct effect on aggregate output
E) Aggregate output would increase the money supply
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Analytical
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

101) Which of the following BEST describes what the consumer price index is used to indicate?
A) The average wage rate for a given region
B) The economic performance of key consumer product companies
C) The changes in the cost of consumer products over time
D) The percentage of consumers in the total population looking for work
E) The number of price increases within a given period of time
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical Thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

102) Which of the following is a likely cause of increased prices for products, decreased purchasing power, and decreased profit margins?
A) Low unemployment
B) Stagnant wages
C) Declining living standards
D) Cyclical inflation
E) Limited credit
Answer: A
Difficulty: Difficult
AACSB: Reflective thinking
Question Category: Analytical
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

103) Which term refers to the pattern of short-term ups and downs in an economy?
A) Aggregate output
B) Business cycle
C) Standard of living
D) Balance of payments
E) Demand and supply schedule
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

104) Which term refers to the total quantity and quality of goods and services that people living in an economic system can purchase?
A) Business cycle supply
B) Demand and supply schedule
C) Standard of living
D) Aggregate output
E) Consumer price index
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

105) Which term refers to the total value of all goods and services produced within a given period by a national economy through domestic factors of production?
A) Output per capita
B) Aggregate output
C) Gross domestic product
D) Gross national product
E) Purchasing power parity
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

106) Which of the following is measured by productivity?
A) The total value of all goods and services produced by a national economy
B) How much a system produces with the resources needed to produce it
C) How much output is necessary to produce a certain level of demand
D) The standard of living relative to purchasing power parity
E) How much gross national product results from inputs of labor
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

107) What is the economic condition characterized by widespread increased prices without increased purchasing power?
A) Unemployment
B) Inflation
C) Expansion
D) Deflation
E) Recession
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

108) What is the condition in an economic system in which the amount of money available, and the number of goods and services produced, are growing at about the same rate?
A) Unemployment
B) Stability
C) Deflation
D) Inflation
E) Oversupply
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

109) Which of the following BEST describes *nominal GDP*?
A) Total quantity of goods and services produced by an economic system.
B) Total value of all goods and services produced within a given period by a national economy, measured in current dollars or with all components valued at current prices.
C) Total value of all goods and services produced within a given period by a national economy regardless of where the factors of production are located.
D) Total value of all goods and services produced within a given period by a national economy, adjusted to account for changes in currency values and price changes.
E) Total quantity of goods and services that are imported within a given period of time.
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

110) Which is the BEST explanation for why standard of living only increases through productivity?
A) The more goods that are available, the lower prices will be.
B) More goods are available without having to come by additional resources.
C) Productivity increases the money supply in an economy.
D) Purchasing power increases when there is more consumer choice.
E) Prices are determined by the standard of living.
Answer: A
Difficulty: Difficult
AACSB: Reflective thinking
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

111) Why would a government MOST likely be concerned about its country carrying a trade deficit?
A) A trade deficit means that the country's productivity is low.
B) A trade deficit means local companies do not have enough competition.
C) A trade deficit ties up money that could be used for economic growth.
D) A trade deficit decreases demand for goods overall.
E) A trade deficit means that consumers do not have enough purchasing power.
Answer: C
Difficulty: Moderate
AACSB: Reflective thinking
Question Category: Analytical
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

112) Which of the following is an indication of national economic growth, shown by measuring aggregate output?
A) Gross domestic product
B) Standard of living
C) Economic indicators
D) Gross national product
E) Real growth rate
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

113) When gross domestic product increases, what is the outcome for economic growth?
A) National growth will increase
B) The nation will experience a slowdown in growth
C) Aggregate output will decrease
D) Growth will remain steady when compared to developing nations
E) Growth will decline based on the value of the national currency
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

114) When economists measure gross national product, what is being measured within a specific time period, regardless of location?
A) The aggregate output
B) The economic growth of the nation
C) The growth of domestic factors of production
D) The growth rate adjusted for inflation
E) The total value of all goods and services
Answer: E
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

115) Why is gross national product (GNP) considered to be a less valuable indicator of domestic economic performance than gross domestic product (GDP)?
A) GNP does not consider where the economic performance was located.
B) GNP only considers economic performance within the United States.
C) GNP is not adjusted for inflation.
D) GNP does not consider currency fluctuations at the time of product purchase.
E) GNP does not compare output to population rates.
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Analytical
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

116) The amount of money that a government owes its creditors is referred to as that country's
A) GDP.
B) national debt.
C) consumer price index.
D) inflation rate.
E) GNP.
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

117) Which of the following supports the idea that the prices of similar products in different countries should be about the same?
A) Standard of living
B) Real growth rate
C) Purchasing power parity
D) Trade deficit
E) Balance of trade
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

118) Why is it important to calculate purchasing power parity in the global market?
A) It indicates how much consumers will pay for goods and services.
B) It determines interest rates on short-term debt.
C) It identifies how much the nominal GDP should be adjusted.
D) It helps companies determine standards of living across the globe.
E) It indicates the level of disposable income in developed nations.
Answer: D
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Analytical
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

119) Which of the following is calculated by dividing the total gross domestic product by the total population?
A) GDP per Capita
B) Real growth rate
C) Real GDP
D) Purchasing power parity
E) Standard of living
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

120) Why do companies consider purchasing power parity when pricing goods and services for international markets?
A) It measures economic performance for international workers
B) It indicates what people can actually buy in their respective economic system
C) It shapes the balance of trade between nations
D) It prevents inflation
E) It enforces compliance with monetary policies in the home country
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

121) Which of the following is the economic value of all products that a country exports minus the economic value of all the products it imports?
A) National debt
B) Gross domestic product
C) Balance of trade
D) GDP per capital
E) Gross national product
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

122) Which of the following occurs when a country exports more than it imports?
A) Recession
B) Negative balance of trade
C) Economic stability
D) Positive balance of trade
E) Inflations
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

123) Why is the United States considered to be a debtor nation?
A) It has a positive balance of trade
B) It imposes tariffs on some trade
C) The GDP is higher than that of trade partners
D) It exports more than it imports
E) It has a negative balance of trade
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

124) Which of the following is an outcome of deflation?
A) Instability
B) Economic growth
C) Decreasing unemployment
D) Positive balance of trade
E) Shrinking economy
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

125) Which of the following indicated the level of joblessness among people who are actively seeking work in an economic system?
A) Parity
B) Deflations
C) Balance of trade
D) Unemployment
E) Inflation
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

126) Which of the following is a period during which aggregate output, as measured by real GDP, declines
A) Stagflation
B) System-wide economic disorder
C) Recession
D) Deflation
E) Inflation
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

127) Which of the following is used by a government to determine how it collects and spends revenue?
A) Deflation
B) Fiscal policies
C) National debt
D) Monetary policy
E) Stabilization policy
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

128) Which of the following is used by a government to control the size of its money supply?
A) Monetary policy
B) Inflation
C) Stabilization policy
D) Trade deficits
E) Gross domestic product
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

129) Aggregate output refers to a company's annual production of goods or services.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

130) The United States government manages the collection and spending of its revenues through monetary policy.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

131) The primary measure of growth in the business cycle is inflation.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

132) Inflation results in increased purchasing power for the consumer.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

133) Tax increases and decreases are a form of fiscal policy.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

134) The government can influence the availability of capital through the use of the Federal Reserve System.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

135) Stabilization policy is made up of both monetary and fiscal policy.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

136) The main measure of growth in the business cycle is aggregate output.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

137) Deflation, an indication that the economy is contracting, is characterized by price stabilization of goods.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

138) If productivity increases, prices charged to consumers will tend to increase as well.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical Thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

139) In the United States, the Federal Reserve System, which is the nation's central bank, can influence the ability and willingness of banks to lend money.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

140) Discuss the fiscal and monetary goals of a stabilization policy.
Answer: Fiscal policy and monetary policy make up stabilization policy–government economic policy in which the goal is to smooth out fluctuations in output and unemployment and to stabilize prices. The various government interventions, such as financial bailouts, represent strategies to restore economic stability.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

141) Explain the types of policies used by the U.S. government to manage the U.S. economy.
Answer: The government acts to manage the U.S. economic system through two sets of policies: fiscal and monetary. It manages the collection and spending of its revenues through fiscal policies. Tax rates, for example, can play an important role in fiscal policies helping to manage the economy. Monetary policies focus on controlling the size of the nation's money supply. Working primarily through the Federal Reserve System (the nation's central bank, often referred to simply as "the Fed"), the government can influence the ability and willingness of banks throughout the country to lend money.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

142) What is the difference between an economic recession and an economic depression?
Answer: To determine whether an economy is going through a recession, start by measuring aggregate output. This is the function of real GDP which is found by making necessary adjustments to the total value of all goods and services produced within a given period by a national economy through domestic factors of production. A recession is more precisely defined as a period during which aggregate output, as measured by real GDP, declines. Most economists agree that the U.S. economy went into recession in 2008. Most also agree that we were gradually emerging from that recession in 2011. A prolonged and deep recession is a depression.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

143) How does unemployment affect economic stability?
Answer: Unemployment is the level of joblessness among people actively seeking work in an economic system. When unemployment is low, there is a shortage of labor available for businesses to hire. As businesses compete with one another for the available supply of labor, they raise the wages they are willing to pay. Higher labor costs eat into profit margins; they raise the prices of their products. Although consumers have more money to inject into the economy, this increase is often undone by higher prices, so purchasing power declines.
Difficulty: Difficult
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

144) Discuss the balance of trade in the United States and how it affects debt.
Answer: A country's balance of trade is the economic value of all the products that it exports minus the economic value of its imported products. A positive balance of trade results when a country exports (sells to other countries) more than it imports (buys from other countries). A negative balance of trade results when a country imports more than it exports. A negative balance of trade is commonly called a trade deficit. The United States is a debtor nation rather than a creditor nation. Trade deficit affects economic growth because the amount of money spent on foreign products has not been paid in full. Therefore, it is borrowed money and borrowed money costs more in the form of interest. The money that flows out of the country to pay off the deficit can't be used to invest in productive enterprises, either at home or overseas.
Difficulty: Difficult
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

145) How does the amount of national debt influence the bond market in the United States?
Answer: Although taxes are the most obvious way the government raises money, it also sells bonds–securities through which it promises to pay buyers certain amounts of money by specified future dates. These bonds are attractive investments because they are extremely safe. The U.S. government is not going to default on them (that is, fail to make payments when due). Even so, they must also offer a decent return on the buyer's investment, and they do this by paying interest at a competitive rate. By selling bonds, therefore, the U.S. government competes with every other potential borrower for the available supply of loanable money. The more money the government borrows, the less money is available for the private borrowing and investment that increase productivity.
Difficulty: Difficult
AACSB: Analytical thinking
Question Category: Synthesis
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

146) How does aggregate output influence standards of living?
Answer: Experts call the pattern of short-term ups and downs (or, better, expansions and contractions) in an economy the business cycle. The primary measure of growth in the business cycle is aggregate output, the total quantity of goods and services produced by an economic system during a given period. When output grows more quickly than the population, output per capita–the quantity of goods and services per person–goes up, and the system provides more of the goods and services that people want.
When these two things occur, people living in an economic system benefit from a higher standard of living, which refers to the total quantity and quality of goods and services that they can purchase with the currency used in their economic system. To know how much your standard of living is improving, you need to know how much your nation's economic system is growing
Difficulty: Difficult
AACSB: Analytical thinking
Question Category: Synthesis
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.