

# Chapter 1

# Introduction

## Multiple-Choice Questions

1) The best definition of economics is

- A) how choices are made under conditions of scarcity.
- B) how money is used.
- C) how goods and services are produced.
- D) how businesses maximize profits.

Answer: A

Level of Difficulty: Easy

2) Managerial economics is best defined as the economic study of

- A) how businesses can make the most profits.
- B) how businesses can decide on the best use of scarce resources.
- C) how businesses can operate at the lowest costs.
- D) how businesses can sell the most products.

Answer: B

Level of Difficulty: Easy

3) Managerial economics is best defined as

- A) the study of economics by managers.
- B) the study of the aggregate economic activity.
- C) the study of how managers make decisions about the use of scarce resources.
- D) All of the above are good definitions.

Answer: C

Level of Difficulty: Easy

4) Scarcity is a condition that exists when

- A) there is a fixed supply of resources.
- B) there is a large demand for a product.
- C) resources are not able to meet the entire demand for a product.
- D) All of the above.

Answer: C

Level of Difficulty: Easy

5) Which of the statements below best illustrates the use of the market process in determining the allocation of scarce resources?

- A) "Let's make this product because this is what we know how to do best."
- B) "Although we're currently making a profit on the products we make, we should consider shifting to products where we can earn even more money."
- C) "Everyone is opening video stores, why don't we?"
- D) "We can't stop making this product. This product gave our company its start."

Answer: B

Level of Difficulty: Moderate

6) Which of the following is *not* considered as a factor of production?

- A) money
- B) machinery and equipment
- C) land
- D) unskilled labor

Answer: A

Level of Difficulty: Easy

7) Select the group that best represents the basic factors of production.

- A) land, labor, capital, entrepreneurship
- B) land, labor, money, management skills
- C) land, natural resources, labor, capital
- D) land, labor, capital, technology

Answer: A

Level of Difficulty: Easy

8) Which of the following is an example of how the question of "what goods and services to produce?" is answered by the command process?

- A) government subsidies for windmill energy production
- B) laws regarding equal opportunity in employment
- C) government allowance for the deduction of interest payments on private mortgages
- D) government regulations concerning the dumping of hazardous waste

Answer: A

Level of Difficulty: Moderate

- 9) Which of the following is the best example of "what goods and services should be produced?"
- A) the use of a capital intensive versus a labor intensive process of manufacturing textiles
  - B) the production of SUV's versus the production of sub-compact cars
  - C) the manufacturing of computer workstations in China or in India
  - D) the leasing versus the purchasing of new capital equipment

Answer: B

Level of Difficulty: Moderate

- 10) Which of the following is the best example of "how goods and services should be produced?"
- A) complying with the technical specifications in the production of an aircraft
  - B) the production of jet aircraft for the air force or for a commercial airline
  - C) the use of additional workers versus the use of machines in the production of goods
  - D) the production of a new manufacturing facility

Answer: C

Level of Difficulty: Moderate

- 11) From the standpoint of a soft drink company the question of "What goods and services should be produced?" is best represented by which of the following decisions?
- A) whether or not to hire additional workers
  - B) whether or not to increase its advertising
  - C) whether or not to shut down selected manufacturing facilities
  - D) All of the above are examples.
  - E) None of the above are examples.

Answer: E

Level of Difficulty: Moderate

- 12) In the text, the authors refer to "Stage II" of the process of changing economics as
- A) demand management.
  - B) cost management.
  - C) diminishing returns.
  - D) profit taking.

Answer: B

Level of Difficulty: Easy

13) In the "four-stage" model of change," Stage III is represented by

- A) deciding how much to markup costs to set a profitable product price.
- B) cost-cutting and restructuring to maintain and improve production.
- C) narrowing product lines to those offering the greatest revenue potential.
- D) focusing on markets with the greatest growth potential.

Answer: C

Level of Difficulty: Easy

15) Which of the following is the best example of the "command" process?

- A) United Airlines buys Northwest Airlines.
- B) Striking auto workers force General Motors to shut down its factories.
- C) Banks raise their fees on late payments by credit card holders.
- D) The FCC requires local telephone companies to provide access to their local networks before being able to offer long distance service.

Answer: D

Level of Difficulty: Moderate

16) A critical element of entrepreneurship (as opposed to managerial skills) is

- A) leadership skills.
- B) risk taking.
- C) technology.
- D) political skills.

Answer: B

Level of Difficulty: Easy

17) In the text, a key factor in the changing "economics of a business" is

- A) the need to grow revenues.
- B) increasing competition.
- C) rising labor costs.
- D) the need to expand market share.

Answer: B

Level of Difficulty: Easy