

Business Essentials, 11e (Ebert/Griffin)
Chapter 1 The U.S. Business Environment

1) Which environment is NOT an important dimension of a business organization's external environment?

- A) The political-legal environment
- B) The sociocultural environment
- C) The technological environment
- D) The corporate cultural environment
- E) The global business environment

Answer: D

Explanation: D) The external environment consists of everything outside an organization's boundaries that might affect it. The corporate cultural environment is internal to the organization.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 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) What is 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

Explanation: E) Profits represent the difference between an organization's revenues and its expenses and profits are the goal of most businesses and allow people to open and expand businesses.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) What is the environment where a firm conducts business known as?

- A) Global business environment
- B) Economic environment
- C) Domestic business environment
- D) Technological environment
- E) Political-legal environment

Answer: C

Explanation: C) The domestic business environment is where a firm conducts its operations. A firm positions themselves close to customers, suppliers, and similar type firms.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) Factors such as international trade agreements, economic conditions, and political unrest will have the greatest impact on what type of business environment?

- A) Global business environment
- B) Economic environment
- C) Domestic business environment
- D) Technological environment
- E) Political-legal environment

Answer: A

Explanation: A) The global business environment refers to the international forces, such as governmental agreements, exchange rates, and political unrest, which will affect how an organization does business in its local market.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) 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

Explanation: D) Advances in the technological environment have greatly changed how organizations operate, including the need for traditional brick-and-mortar facilities used to reach customers.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) The pursuit of profits is how a business differs from organizations such as public universities, public hospitals, and government agencies.

Answer: TRUE

Explanation: The pursuit of profits distinguishes a business from those organizations-such as most universities, hospitals, and government agencies-that run in much the same way but that generally don't seek profits.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 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) An organizations external environment consists of everything that might affect it.

Answer: TRUE

Explanation: All businesses, regardless of size, location, mission, or what they produce, consists of everything outside the organizations boundaries that might affect it.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 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) 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

Objective: 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) 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

Objective: 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) 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

Objective: 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) 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

Explanation: D) Factors of production represent those things needed to produce goods and services and include things like labor, physical resources, capital, and entrepreneurs willing to take the risks.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

12) What term 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

Explanation: B) An economic system is a nation's system for allocating its resources among its citizens, both individuals and organizations.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

13) What is the process for converting government enterprises into individually owned firms known as?

- A) Production allocation
- B) Privatization
- C) Entrepreneurship
- D) Demand assessment
- E) Profit maximization

Answer: B

Explanation: B) Privatization is the process of converting government enterprises into privately owned companies, which will then have the right to run such a business for profit.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

14) What 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

Explanation: A) Human resources, often referred to as labor or human capital, is comprised of those who contribute physically or intellectually to the production of a good or service for economic production.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

15) Who is 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) Managers

Answer: B

Explanation: B) Entrepreneurs are those who create and operate new businesses, thereby accepting the risks, and rewards generated by those businesses.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

16) 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

Explanation: C) Once dominated by tangible goods, today's economic systems are dominated by information systems, allowing businesses to forecast, plan and sell to new users in an international environment.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

17) 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

Explanation: D) 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

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

18) 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

Explanation: E) In a communist-based economy, the government owns and operates all production facilities and assigns people to jobs. They also determine what to charge consumers and how much to pay employees.

Difficulty: Moderate

AACSB: Diverse and multicultural work environments

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

19) Which of the following best explains the difference between a market economy and a planned economy?

- A) In a planned economy, consumers have little choice in where they work or what they purchase or pay.
- B) In a market economy, consumers must pay what the market demands.
- C) Capitalism is the root of a planned economy.
- D) Market economies are also known as mixed market economies.
- E) Planned economies promote the use of privatization to increase market share.

Answer: A

Explanation: A) Market economies contrast sharply with planned economies where individuals are told where they can work, companies are told what they can make, and consumers have little choice in what they purchase.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

20) What type of economy is the United States reflective of?

- A) Planned
- B) Mixed
- C) Market
- D) Private
- E) Socialist

Answer: B

Explanation: B) There are very few pure market economies today. The United States has features of both planned and market economies and is therefore considered to be a mixed market economy.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

21) What does a planned economy rely on a centralized government to do?

- A) Support free enterprise in every way possible
- B) 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

Explanation: B) A centralized government controls all or most of the factors of production.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

22) Which economic system emphasizes the private ownership of most factors of production?

- A) Socialism
- B) Communism
- C) Capitalism
- D) Marxism
- E) Federalism

Answer: C

Explanation: C) Capitalism makes use of the profit incentive for private ownership of the factors of production and encourages entrepreneurship by offering profits as an incentive.

Difficulty: Easy

AACSB: Analytical thinking

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

23) 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

Explanation: C) In a market economy, individual producers and consumers control production and allocation by creating combinations of supply and demand.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

24) 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

Explanation: These are the main considerations of the sociocultural environment. The political-legal environment reflects the relationship between business and government, usually in the form of government regulation of business.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

25) Physical resources include the data and other information used by businesses.

Answer: FALSE

Explanation: Physical resources are the tangible resources that organizations use to conduct their business such as natural resources, raw materials, offices, storage and production facilities, parts and supplies, computers and peripherals, and a variety of other equipment.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

26) The technological environment includes only electronics and telecommunications used to perform business activities.

Answer: FALSE

Explanation: Technology includes human knowledge, work methods, physical equipment, electronics and telecommunications, and various processing systems that are used to perform business activities.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

27) In a market system, individuals are limited as to what they can buy and in how they can spend their money.

Answer: FALSE

Explanation: In a market system, individuals are free to buy what they choose and free in how they can save, invest, and spend their money.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

28) China functions as a communistic economy and political system.

Answer: FALSE

Explanation: China is controlled by the communist party but functions much more like a mixed market economy.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

29) In a market economy, there is a centralized government that controls factors of production and decision making.

Answer: FALSE

Explanation: A planned economy relies on a centralized government to control factors of production and make decisions. In a market economy, individuals—producers and consumers—control production and allocation decisions through supply and demand.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

30) 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

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

31) 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

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

32) Identify the four 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

Objective: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

33) 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

Explanation: A) The equilibrium price is determined by the shape of the supply curve and the demand curve when plotted by amount available and price. The equilibrium price is set at the point at which the supply curve and the demand curve intersect.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 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.

34) What is the price at which the quantity of goods demanded and the quantity of goods supplied are equal?

- A) The going rate
- B) The margin rate
- C) The market price
- D) The optimum price
- E) The cost price

Answer: C

Explanation: C) The market price, also known as equilibrium price, is set by the demand and supply for a given good. It is defined as the price at which the quantity of goods demanded and the quantity of goods supplied are equal.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

35) What occurs when the quantity demanded exceeds the quantity supplied?

- A) Demand deficit
- B) Surplus
- C) Equilibrium point
- D) Shortage
- E) Supply schedule

Answer: D

Explanation: D) When demand exceeds supply, there will not be enough goods available to meet the demand for them. This is known as a shortage.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 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.

36) What 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

Explanation: A) Economic systems manage the factors of production differently. Management of these factors often revolves around the degree of government control of them.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 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.

37) What is 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

Explanation: A) On all economic levels, decisions about what to buy and what to sell are determined primarily by the forces of demand and supply.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 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.

38) What is the willingness and ability of producers to offer a good for sale referred to as?

- A) Private enterprise
- B) Supply
- C) Free market economy
- D) Law of supply
- E) Degrees of competition

Answer: B

Explanation: B) Supply represents the willingness and ability of producers to offer a good or service for sale.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

39) What takes place when buyers purchase more of a product when the price drops, and less when the price increases?

- A) Demand
- B) Laws of supply
- C) Laws of demand
- D) Degree of competition
- E) Free market economy

Answer: C

Explanation: C) The premise of the Laws of demand is that buyers will purchase (demand) more of a product as its price drops and less of a product as its price increases.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 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.

40) 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

Explanation: D) A demand and supply schedule is obtained from marketing research, historical data, and other studies of the market. Properly applied, they reveal the relationships among different levels of demand and supply at different price levels.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 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.

41) Graphically, what has been achieved when price of goods demanded is equal to the quantity of goods supplied?

- A) Supply curve optimization
- B) Potential for surplus
- C) Price reductions
- D) Freedom of choice opportunities
- E) Equilibrium price

Answer: E

Explanation: E) 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

Objective: 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.

42) 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) A large number of smaller firms in an industry will limit influence.

Answer: A

Explanation: A) Market economies rely on a private enterprise system—one that allows individuals to pursue their own interests with minimal government restriction.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

43) 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: A

Explanation: A) Private property rights support keeping the ownership of the resources used to create wealth in the hands of individuals.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

44) 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) Freedom of choice
- D) Government regulation
- E) Monopolistic competition

Answer: B

Explanation: B) 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.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

45) 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 high profit
- C) The ability to produce goods or services efficiently and at a reasonable profit
- D) The ability to leverage the internet to sell in a global marketplace
- E) The ability to have a unique good or service that cannot be easily duplicated by competitors

Answer: C

Explanation: C) Competition occurs when two or more businesses vie for the same resources or customers. To gain an advantage over competitors, a business must produce its goods or services efficiently and be able to sell at a reasonable profit.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

46) Which of the following does NOT fall into the degrees of competition continuum?

- A) Perfect competition
- B) Monopolistic competition
- C) Competitive advantage
- D) Oligopoly
- E) Monopoly

Answer: C

Explanation: C) Competitive advantage occurs when a business produces goods or services efficiently and sells at a reasonable profit and is not a degree on the competition continuum.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

47) 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

Explanation: D) Perfect competition occurs only when all firms in the industry are small and the number of firms in the industry is large, limiting the opportunity for any one firm to influence the price of the products.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 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.

48) What is created when one company is able to 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

Explanation: B) Natural monopolies occur when one firm can supply all needed goods or services and are often found in areas such as utilities.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

49) 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

Explanation: D) Necessary elements of capitalism include private property rights, freedom of choice, profits, and competition.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

50) 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

Explanation: E) In perfect competition, all firms in a given industry must be small, the number of firms in the industry must be large, and no single firm is powerful enough to influence the price of its product. Therefore, prices are determined completely by supply and demand.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

51) How does monopolistic competition differ from perfect competition?

- A) There are more sellers in a market characterized by monopolistic competition.
- B) It is easier for sellers to enter a market or industry characterized by monopolistic competition.
- C) In a perfectly competitive market, products are more dissimilar.
- D) In a market characterized by monopolistic competition, individual firms have some control over price.
- E) In a perfectly competitive market, the size of the firms must be large.

Answer: D

Explanation: D) Individual firms have some control over price in monopolistic competition; in perfect competition, price is determined by supply and demand.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 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.

52) 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

Explanation: B) Because there are few firms competing in an oligopoly, competition between firms tends to be close, and firms thus respond quickly to price reductions by one firm. Therefore, other firms will likely quickly reduce their prices as well.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 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.

53) Which of the following is the MOST likely pricing approach for a monopoly?

- A) Charge customers whatever you please.
- B) Give customers a real bargain on price.
- C) Charge a price that will not cause consumer demand to drop.
- D) Undercut the prices of the competition.
- E) Give customers a fair price that cannot be matched by competitors.

Answer: C

Explanation: C) A monopoly happens when one firm dominates the market. The monopolizing firm does not have to factor competitors' prices when determining its own prices, so it only needs to charge a price that will not be so high that it causes demand to drop.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

54) 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

Explanation: A) A surplus is defined as a situation in which quantity supplied exceeds quantity demanded.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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.

55) Economic systems differ in how factors of production are used.

Answer: TRUE

Explanation: Different types of economic systems manage the factors of production differently. For instance, in capitalism they are managed by private individuals with capital resources, while in a command economy the government manages the factors of production.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 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.

56) The point at which the supply curve and the demand curve intersect is the market price.

Answer: TRUE

Explanation: When demand and supply curves are plotted on the same graph, the point at which they intersect is the point at which demand matches supply, and determines the market price.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 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.

57) One of the four elements that are necessary for private enterprise to be carried out is reasonable prices.

Answer: FALSE

Explanation: The four elements that must be present in private enterprise are private property rights, freedom of choice, profits, and competition.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 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) Product differentiation is common in a market characterized by monopolistic competition.

Answer: TRUE

Explanation: Product differentiation also gives sellers some control over prices.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) In a natural monopoly, prices tend to be government regulated.

Answer: TRUE

Explanation: Natural monopolies occur in industries in which one company can efficiently supply all needed goods or services. Since they have little or no competition, their prices have to be regulated so that consumers do not have to pay overly high prices.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) 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

Objective: 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) 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

Objective: 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) 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

Objective: 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) 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

Objective: 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) Where can a firm find statistical information on the strength and performance of an economy?

- A) Aggregate output
- B) Business cycle reports
- C) Economic indicators
- D) Standard of living indexes
- E) Gross domestic product

Answer: C

Explanation: C) Statistics can be used to show the strengths, weaknesses, or other changes in an economy and can help a firm to assess the performance of an economy before committing resources.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

65) National economies, regardless of industry, are measured through what?

- A) Standard of living
- B) Aggregate output
- C) Gross domestic product
- D) Output per capita
- E) Inflation rates

Answer: C

Explanation: C) Gross domestic product measures the value of all goods and services in a national economy for a specific period of time, regardless of the location of the output.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

66) 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

Explanation: A) A firm will want to have more products available when demand is high.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

67) 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

Explanation: A) Short-term ups and downs are referred to as the *business cycle*.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

68) 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

Explanation: B) Aggregate output is the primary measure of growth in the business cycle.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

69) What type of policy is made up of fiscal and monetary policy?

- A) Trade
- B) Employment
- C) Stabilization
- D) Tax
- E) Foreign

Answer: C

Explanation: C) A stabilization policy is a government goal to smooth out fluctuations in output and unemployment and to even out prices.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

70) 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

Explanation: C) Supply is the amount of goods available, and aggregate output is the production of goods, so increased supply would increase aggregate output.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

71) 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

Explanation: C) The consumer price index is a measure of the prices of typical products purchased by consumers living in urban areas. It is expressed as a percentage of prices as compared to a base period.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

72) 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

Explanation: A) Potential results of low unemployment include increased prices, decreased purchasing power, and decreased profits. Although consumers have more money to inject into the economy, this increase is soon undone by higher prices, so purchasing power declines.

Difficulty: Difficult

AACSB: Reflective thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

73) 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

Explanation: B) The business cycle is the short-term pattern of economic expansions and contractions.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

74) 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

Explanation: C) The standard of living is the total quantity and quality of goods and services that people can purchase with the currency used in their economic system. Standard of living is determined by economic conditions such as inflation and purchasing power.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

75) 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) Standard of living
- B) Aggregate output
- C) Gross domestic product
- D) Gross national product
- E) Purchasing power parity

Answer: C

Explanation: C) Gross domestic product is the total value of all goods and services produced within a given period by a national economy through domestic factors of production.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

76) Which of the following measures indicates the prices of typical products purchased by American consumers living in urban areas?

- A) GDP per capita
- B) Standard of living
- C) Consumer price index
- D) Purchasing power parity
- E) Economic indicators

Answer: C

Explanation: C) The consumer price index is a measure of the prices of typical products purchased by consumers living in urban areas. It is used as a comparative standard to tell whether inflation or deflation is occurring, for example.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

77) What does productivity measure?

- 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

Explanation: B) Productivity is a measure of economic performance that compares how much a system produces with the resources needed to produce it.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

78) 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

Explanation: B) Inflation is the condition that occurs when widespread price increases are present throughout an economic system. This happens when the amount of money in the economy grows faster than the amount of products available to buy.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

79) 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

Explanation: B) Economic stability happens when the amount of money available in an economic system and the quantity of goods and services produced in it are growing at about the same rate. When this occurs, there is neither inflation nor deflation.

Difficulty: Easy

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

- 80) Which of the following BEST gives the meaning of the term *gross domestic product*?
- A) Total quantity of goods and services produced by an economic system
 - B) Total quantity of goods that a country's citizens can purchase with the currency used in their economic system
 - C) Conditions of the economic system in which an organization operates
 - D) Total value of all goods and services produced within a given period by a national economy through domestic factors of production
 - E) Indicators of available goods and services produced within a specific domestic market

Answer: D

Explanation: D) Gross domestic product (GDP) is the total value of all goods and services produced within a given period by a national economy through domestic factors of production; this figure does not include goods and services produced by domestic firms overseas.

Difficulty: Difficult

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

- 81) 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 through domestic factors of production, 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 through domestic factors of production, 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

Explanation: B) Nominal GDP is not adjusted to make up for inflation and/or changes in currency values.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

82) 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: B

Explanation: B) Productivity is the amount of goods that can be made using a given amount of resources. If it takes more resources to produce more goods, prices will not decrease as long as demand keeps pace. But if more goods can be made using the same resources, prices will go down and purchasing power will increase. If your entire economic system increases its productivity, then your overall standard of living improves. In fact, standard of living improves only through increases in productivity. Real growth in GDP reflects growth in productivity.

Difficulty: Difficult

AACSB: Reflective thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

83) 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

Explanation: C) A trade deficit implies a carrying of debt. When there is a trade deficit imports are not paid for in full.

Difficulty: Moderate

AACSB: Reflective thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

84) If, in the long run, international trade improves the standards of living in participating countries, why might some countries want to place trade barriers, such as extra taxes, on imported products?

- A) Imported products compete with domestic products and thus put pressure on local business.
- B) Imported products are usually not as good quality as domestically made products.
- C) Generating government revenue is often more economically valuable than free trade.
- D) This is necessary to keep a country's currency strong.
- E) International trade tends to lead to political tension.

Answer: A

Explanation: A) In the course of international trade, jobs are often initially lost in those industries in which a country does not have a comparative advantage. Trade barriers are used as a way to protect these industries from strenuous competition.

Difficulty: Difficult

AACSB: Reflective thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

85) 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

Explanation: A) Gross domestic product (GDP) refers to the total value of all goods and services produced within a given period by a national economy through domestic factors of production. GDP is a measure of aggregate output.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

86) When gross domestic product increases, what is the outcome for economic growth?

- A) Aggregate output 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

Explanation: A) Generally speaking, if GDP is going up, aggregate output is going up; if aggregate output is going up, the nation is experiencing economic growth.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

87) 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

Explanation: E) Economists also measure gross national product (GNP), which refers to the total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

88) 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

Explanation: A) GDP and GNP usually differ by less than 1 percent, but economists argue that GDP is a more accurate indicator of domestic economic performance because it focuses only on domestic factors of production.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

89) 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

Explanation: B) Its national debt is the amount of money that the government owes its creditors.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

90) 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

Explanation: C) Purchasing power parity is the principle that exchange rates are set so that the prices of similar products in different countries are about the same. Purchasing power parity gives us a much better idea of what people can actually buy with the financial resources allocated to them by their respective economic systems.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

91) 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 determines standards of living across the globe.
- E) It indicates the level of disposable income in developed nations.

Answer: D

Explanation: D) Purchasing power parity gives us a much better idea of what people can actually buy with the financial resources allocated to them by their respective economic systems. In other words, it gives us a better sense of standards of living across the globe.

Difficulty: Moderate

AACSB: Analytical thinking

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

92) Aggregate output refers to a company's annual production of goods or services.

Answer: FALSE

Explanation: Aggregate output is the total quantity of goods and services produced by an economic system during a given period.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

93) The United States government manages the collection and spending of its revenues through monetary policy.

Answer: FALSE

Explanation: The United States government manages the collection and spending of its revenues through fiscal policy.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

94) Economic indicators help to assess the performance of an economy.

Answer: TRUE

Explanation: Specifically, economic growth is measured via aggregate output, standard of living, gross domestic product, and productivity; stability is reflected through levels of inflation and unemployment.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

95) The primary measure of growth in the business cycle is inflation.

Answer: FALSE

Explanation: The primary measure of growth in the business cycle is aggregate output.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) Inflation results in increased purchasing power for the consumer.

Answer: FALSE

Explanation: Inflation occurs when the amount of money injected into an economy exceeds the increase in actual output. When this happens, people will have more money to spend, but there will still be the same quantity of products available for them to buy. As they compete to buy available products, prices go up.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) Tax increases and decreases are a form of fiscal policy.

Answer: TRUE

Explanation: Tax rates can play an important role in fiscal policies, helping to manage the economy.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) The government can influence the availability of capital through the use of the Federal Reserve System.

Answer: TRUE

Explanation: The interest rates set by the Federal Reserve System can influence the ability and willingness of banks throughout the country to lend money.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) Stabilization policy is made up of both monetary and fiscal policy.

Answer: TRUE

Explanation: The purpose of monetary and fiscal policy is to smooth out fluctuations in output and unemployment and to stabilize prices.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) The main measure of growth in the business cycle is aggregate output.

Answer: TRUE

Explanation: Aggregate output is the total quantity of goods and services produced by an economic system during a given period. When it increases, the economy is considered to be in a growth cycle.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) Deflation, an indication that the economy is contracting, is characterized by price stabilization of goods.

Answer: FALSE

Explanation: Deflation occurs when there are widespread price cuts. Deflation generally means that the overall economy is shrinking.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) If productivity increases, prices charged to consumers will tend to increase as well.

Answer: FALSE

Explanation: If productivity increases, it's likely that prices of products will decrease and the standard of living will increase.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) The consumer price index is expressed as a percentage of prices as compared to a base period.

Answer: TRUE

Explanation: The current base period used to measure inflation is 1982-1984.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) 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

Explanation: The U.S. Federal Reserve System works with the U.S. government to control the size of the nation's money supply, including the willingness of banks to lend money.

Difficulty: Moderate

AACSB: Application of knowledge

Objective: 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) 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

Objective: 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) 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

Objective: 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 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

Objective: 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) 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 soon undone by higher prices, so purchasing power declines.

Difficulty: Difficult

AACSB: Application of knowledge

Objective: 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) 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 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

Objective: 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) 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: Application of knowledge

Objective: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.